

# Municipal Secondary Market Disclosure Information Cover Sheet

This cover sheet should be sent with all submissions made to the Municipal Securities Rulemaking Board, Nationally Recognized Municipal Securities Information Repositories, and any applicable State Information Depository, whether the filing is voluntary or made pursuant to Securities and Exchange Commission rule 15c2-12 or any analogous state statute.

See [www.sec.gov/info/municipal/nrmsir.htm](http://www.sec.gov/info/municipal/nrmsir.htm) for list of current NRMSIRs and SIDs

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IF THIS FILING RELATES TO ALL SECURITIES ISSUED BY THE ISSUER OR ALL SECURITIES OF A SPECIFIC CREDIT OR ISSUED UNDER A SINGLE INDENTURE:

Issuer's Name (please include name of state where Issuer is located):

**PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO, CALIFORNIA**  
**(STATE: CALIFORNIA)**

**SEWER REVENUE BONDS, SERIES 1995**

**SEWER REVENUE BONDS, SERIES 1997A AND SERIES 1997B**

**SEWER REVENUE BONDS, SERIES 1999A AND SERIES 1999B**

Other Obligated Person's Name (if any): \_\_\_\_\_  
(Exactly as it appears on the Official Statement Cover)

Provide six-digit CUSIP\* number(s), if available, of Issuer:

**PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO, CALIFORNIA related CUSIP: 79730A**

\*(Contact CUSIP's Municipal Disclosure Assistance Line at 212.438.6518 for assistance with obtaining the proper CUSIP numbers.)

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TYPE OF FILING:

**X** Electronic: **26 pages plus attachment**

Paper (no. of pages attached) \_\_\_\_\_

If information is also available on the Internet, give URL: **NOT AVAILABLE**

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**WHAT TYPE OF INFORMATION ARE YOU PROVIDING? (Check all that apply)**

**A. Annual Financial Information and Operating Data pursuant to Rule 15c2-12**

(Financial information and operating data should not be filed with the MSRB.)

**Annual Report for the Fiscal Year Ended June 30, 2006**

**B. Financial Statements or CAFR pursuant to Rule 15c2-12**

**See the Annual Report**

**C. Notice of a Material Event pursuant to Rule 15c2-12** (Check as appropriate)

- |   |   |
|---|---|
| 1. Principal and interest payment delinquencies                                 | 6. Adverse tax opinions or events affecting the tax-exempt status of the security   |
| 2. Non-payment related defaults   | 7. Modifications to the rights of security holders                                  |
| 3. Unscheduled draws on debt service reserves reflecting financial difficulties | 8. Bond calls   |
| 4. Unscheduled draws on credit enhancements reflecting financial difficulties   | 9. Defeasances  |
| 5. Substitution of credit or liquidity providers, or their failure to perform   | 10. Release, substitution, or sale of property securing repayment of the securities |
|   | 11. Rating changes  |

**D. Notice of Failure to Provide Annual Financial Information as Required.**

**E. Other Secondary Market Information** (Specify): \_\_\_\_\_

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**I hereby represent that I am authorized by the issuer or obligor or its agent to distribute this information publicly:**

**Issuer Contact:**

Name MARY LEWIS Title CHIEF FINANCIAL OFFICER  
Employer CITY OF SAN DIEGO  
Address 202 C STREET, MAIL STATION 9A City SAN DIEGO State: CA Zip Code 92101

**Dissemination Agent Contact, if any:**

Name: MARY LEWIS Title: CHIEF FINANCIAL OFFICER  
Employer: CITY OF SAN DIEGO  
Address: 202 C STREET, MAIL STATION 9A City: SAN DIEGO State: CA Zip Code: 92101  
Relationship to Issuer: DISCLOSURE REPRESENTATIVE

**Investor Relations Contact, if any:**

Name \_\_\_\_\_ Title \_\_\_\_\_  
Telephone \_\_\_\_\_ Email Address \_\_\_\_\_

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NEW ISSUE

BOOK-ENTRY-ONLY

\$350,000,000

**PUBLIC FACILITIES FINANCING AUTHORITY  
OF THE CITY OF SAN DIEGO**

**SEWER REVENUE BONDS, SERIES 1995**

*(Payable Solely From Installment Payments Secured By Wastewater System Net Revenues)*

*Dated, priced, due and bearing interest as set forth on the inside cover page.*

*This cover page contains certain information for general reference only. It is not a summary of the issue. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed decision.*

*The Series 1995 Bonds are issuable as fully registered bonds and when initially issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Purchases of the Series 1995 Bonds will be made in book-entry form only, in the denominations as set forth in the inside cover of this Official Statement, through brokers and dealers who are, or who act through, DTC Participants. Beneficial Owners of the Series 1995 Bonds will not be entitled to receive physical delivery of bond certificates so long as DTC or a successor securities depository acts as the securities depository with respect to the Series 1995 Bonds. So long as DTC or its nominee is the registered owner of the Series 1995 Bonds reference herein to Bondholders or registered owners shall mean Cede & Co., as aforesaid, and payments of principal of and interest on the Series 1995 Bonds will be made directly to DTC by State Street Bank and Trust Company of California, N.A., as Trustee and Paying Agent. Disbursement of such payments to DTC participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of DTC participants. See "DESCRIPTION OF THE SERIES 1995 BONDS — Book-Entry-Only System."*

*Proceeds of the Series 1995 Bonds are to be applied (i) to pay design, engineering, land acquisition and construction costs of certain capital improvements to the Metropolitan System of the City of San Diego (the "City"), (ii) to fund a debt service reserve fund and (iii) to pay certain costs of issuance.*

*The payment of principal of and interest on the Series 1995 Bonds when due will be insured by municipal bond insurance policy to be issued simultaneously with the delivery of the Series 1995 Bonds by Financial Guaranty Insurance Company. See "SECURITY FOR THE SERIES 1995 BONDS — Bond Insurance" and "APPENDIX G — SPECIMEN MUNICIPAL BOND INSURANCE POLICY."*



**Financial Guaranty Insurance  
Company**

Service mark used by Financial Guaranty Insurance Company, a private company not affiliated with any U.S. Government agency.

*The Series 1995 Bonds are special, limited obligations of the Authority payable solely from and secured by Installment Payments to be made by the City to the Public Facilities Financing Authority of the City of San Diego (the "Authority") from Net System Revenues pledged and assigned pursuant to an Installment Purchase Agreement, as amended and supplemented by the 1995-1 Supplement to the Master Installment Purchase Agreement, between the Authority and the City. The Series 1995 Bonds are issued on a parity with the Authority's Sewer Revenue Bonds, Series 1993. So long as certain conditions are met, the City has the right to transfer the Metropolitan System facilities to a successor entity. Upon such transfer, the City's obligation to make Installment Payments relating to the Metropolitan System will be assumed by such successor entity and the City will no longer be responsible for such obligations. See "POSSIBLE TRANSFER OF OWNERSHIP OF METROPOLITAN SYSTEM."*

**THE OBLIGATION OF THE CITY TO MAKE INSTALLMENT PAYMENTS DOES NOT CONSTITUTE AN OBLIGATION OF THE CITY FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE PLEDGE MADE BY THE AUTHORITY, NOR THE OBLIGATION OF THE CITY TO MAKE INSTALLMENT PAYMENTS, CREATES A LEGAL OR EQUITABLE PLEDGE, CHARGE, LIEN OR ENCUMBRANCE UPON ANY OF THE CITY'S PROPERTY, OR UPON ITS INCOME, RECEIPTS OR REVENUES OTHER THAN NET SYSTEM REVENUES. THE AUTHORITY HAS NO TAXING POWER.**

*The Series 1995 Bonds are subject to optional and mandatory redemption prior to maturity as described herein.*

*In the opinion of Orrick, Herrington & Sutcliffe, Los Angeles, California and Lofton, De Lancie & Nelson, San Francisco, California, Co-Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions and assuming, among other matters, compliance with certain covenants, interest on the Series 1995 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Co-Bond Counsel, interest on the Series 1995 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Co-Bond Counsel observe that such interest is included in adjusted current earnings in calculating corporate alternative minimum taxable income. Co-Bond Counsel express no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 1995 Bonds. See "TAX MATTERS."*

*The Series 1995 Bonds will be offered when, as and if issued and received by the Underwriters, subject to the approval of validity by Orrick, Herrington & Sutcliffe, Los Angeles, California and Lofton, De Lancie & Nelson, San Francisco, California, Co-Bond Counsel, and to certain other conditions. Certain legal matters in connection with the Series 1995 Bonds will be passed upon by John W. Witt, Esq., City Attorney of the City of San Diego and General Counsel to the Authority and Orrick, Herrington & Sutcliffe, Los Angeles, California, Disclosure Counsel. It is expected that the Series 1995 Bonds will be available for delivery through DTC in New York, New York, on or about December 13, 1995.*

**MORGAN STANLEY & CO.**

*Incorporated*

**EVEREN SECURITIES, INC.**

**CHARLES A. BELL SECURITIES CORP.**

**RENGE SECURITIES & CO., INC.**

**December 6, 1995**

**RAUSCHER PIERCE REFSNES, INC.**

**MURIEL SIEBERT & CO., INC.**

**NEW ISSUES – BOOK ENTRY ONLY**

*In the opinion of Orrick, Herrington & Sutcliffe LLP, Los Angeles, California and Lofton, De Lancie & Nelson, San Francisco, California, Co-Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions and assuming, among other matters, compliance with certain covenants, interest on the Series 1997 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Co-Bond Counsel, interest on the Series 1997 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Co-Bond Counsel observe that such interest is included in adjusted current earnings in calculating corporate alternative minimum taxable income. Co-Bond Counsel express no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 1997 Bonds. See "TAX MATTERS."*

**\$250,000,000**

**PUBLIC FACILITIES FINANCING AUTHORITY  
OF THE CITY OF SAN DIEGO**

**SEWER REVENUE BONDS, SERIES 1997A AND SERIES 1997B**  
(Payable Solely From Installment Payments Secured By Wastewater System Net Revenues)

**Dated: February 1, 1997**

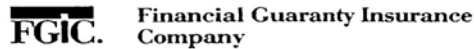
**Due: May 15, as shown below**

The Series 1997A Bonds and the Series 1997B Bonds (collectively, the "Series 1997 Bonds") are issuable by the Public Facilities Financing Authority of the City of San Diego (the "Authority") as fully registered bonds and when initially issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Purchases of the Series 1997 Bonds will be made in book-entry form only, in denominations of \$5,000 or any integral multiple thereof, through brokers and dealers who are, or who act through, DTC Participants. Beneficial Owners of the Series 1997 Bonds will not be entitled to receive physical delivery of bond certificates so long as DTC or a successor securities depository acts as the securities depository with respect to the Series 1997 Bonds. So long as DTC or its nominee is the registered owner of the Series 1997 Bonds, reference herein to Bondholders are registered owners shall mean Cede & Co., as aforesaid, and payments of principal of and interest on the Series 1997 Bonds will be made directly to DTC by State Street Bank and Trust Company of California, N.A., as Trustee. Disbursement of such payments to DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of DTC Participants. See "DESCRIPTION OF THE SERIES 1997 BONDS — Book-Entry-Only System."

Proceeds of the Series 1997A Bonds are to be applied to (i) pay design, engineering, land acquisition and construction costs of certain capital improvements to the Metropolitan System of the City of San Diego (the "City"), (ii) to fund a portion of the debt service reserve fund securing the Series 1997 Bonds and the Outstanding Parity Bonds (defined below) and (iii) to pay certain costs of issuance. So long as certain conditions are met, the City has the right to transfer the Metropolitan System facilities to a successor entity. Upon such transfer, the City's obligation to make Installment Payments relating to the Metropolitan System will be assumed by such successor entity and the City will no longer be responsible for such obligations. See "POSSIBLE TRANSFER OF OWNERSHIP OF METROPOLITAN SYSTEM."

Proceeds of the Series 1997B Bonds are to be applied to (i) pay design, engineering, land acquisition and construction costs of certain capital improvements to the Municipal System of the City, (ii) to fund a portion of the debt service reserve fund securing the Series 1997 Bonds and the outstanding Parity Bonds and (iii) to pay certain costs of issuance.

The payment of principal of and interest on the Series 1997 Bonds when due will be insured by a municipal bond insurance policy to be issued simultaneously with the delivery of the Series 1997 Bonds by Financial Guaranty Insurance Company. See "SECURITY FOR THE SERIES 1997 BONDS — Bond Insurance" and "APPENDIX F — SPECIMEN MUNICIPAL BOND INSURANCE POLICY."



FGIC is a registered service mark used by Financial Guaranty Insurance Company, a private company not affiliated with any U.S. Government agency.

The Series 1997 Bonds are special, limited obligations of the Authority payable solely from and secured by Installment Payments to be made by the City to the Authority from Net System Revenues pledged and assigned pursuant to a Master Installment Purchase Agreement, as amended and supplemented by the 1993-1 Supplement, the 1995-1 Supplement and the 1997-1 Supplement to the Master Installment Purchase Agreement, each between the Authority and the City. The Series 1997 Bonds are issued on a parity with the Authority's Sewer Revenue Bonds, Series 1995 and Series 1993 (collectively, the "Outstanding Parity Bonds").

**The obligation of the City to make Installment Payments does not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. Neither the pledge made by the Authority, nor the obligation of the City to make Installment Payments, creates a legal or equitable pledge, charge, lien or encumbrance upon any of the City's property, or upon its income, receipts or revenues other than Net System Revenues. The Authority has no taxing power.**

The Series 1997 Bonds are subject to optional and mandatory redemption prior to maturity as described herein.

This cover page contains certain information for general reference only. It is not a summary of the issue. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed decision.

*The Series 1997 Bonds will be offered when, as and if issued and received by the Underwriters, subject to the approval of validity by Orrick, Herrington & Sutcliffe LLP, Los Angeles, California and Lofton, De Lancie & Nelson, San Francisco, California, Co-Bond Counsel, and to certain other conditions. Certain legal matters in connection with the Series 1997 Bonds will be passed upon by Curls, Brown & Roushon, Los Angeles, California. Underwriters' Counsel, Casey Gwinn, Esq., City Attorney of the City of San Diego and General Counsel to the Authority and Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Disclosure Counsel. It is expected that the Series 1997 Bonds will be available for delivery through DTC in New York, New York on or about March 6, 1997.*

**SMITH BARNEY INC.**

**PAINWEBBER INCORPORATED**

**BANCAMERICA SECURITIES, INC.**

**ARTEMIS CAPITAL GROUP, INC.**

February 26, 1997

**NEW ISSUE - BOOK ENTRY ONLY**

*In the opinion of Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, and Webster & Anderson, Oakland, California, Co-Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Series 1999 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Co-Bond Counsel, interest on the Series 1999 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Co-Bond Counsel observe that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Co-Bond Counsel express no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 1999 Bonds. See "TAX MATTERS."*

**\$315,410,000**

**PUBLIC FACILITIES FINANCING AUTHORITY**

**OF THE CITY OF SAN DIEGO**

**Sewer Revenue Bonds, Series 1999A and Series 1999B**

**(Payable Solely From Installment Payments Secured By Wastewater System Net Revenues)**

**Dated: March 1, 1999**

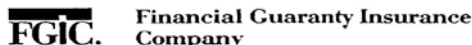
**Due: May 15, as shown on the inside cover page**

The Series 1999A Bonds and the Series 1999B Bonds (collectively, the "Series 1999 Bonds") are issuable as fully registered bonds and when initially issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Purchases of the Series 1999 Bonds will be made in book-entry form only, in denominations of \$5,000 or any integral multiple thereof, through brokers and dealers who are, or who act through, DTC Participants. Beneficial Owners of the Series 1999 Bonds will not be entitled to receive physical delivery of bond certificates so long as DTC or a successor securities depository acts as the securities depository with respect to the Series 1999 Bonds. So long as DTC or its nominee is the registered owner of the Series 1999 Bonds, reference herein to Bondholders or registered owners shall mean Cede & Co., as aforesaid, and payments of principal of and interest on the Series 1999 Bonds will be made directly to DTC by State Street Bank and Trust Company of California, N.A., as Trustee. Disbursement of such payments to DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of DTC Participants. See "DESCRIPTION OF THE SERIES 1999 BONDS — Book-Entry-Only System." Interest on the Series 1999 Bonds is payable on May 15 and November 15 of each year, commencing November 15, 1999.

The Series 1999 Bonds are subject to optional and mandatory redemption prior to maturity as described herein.

Proceeds of the Series 1999A Bonds are to be applied to (i) pay for certain capital improvements to the Metropolitan System of the City of San Diego (the "City"), (ii) to fund a portion of the debt service reserve fund securing the Series 1999 Bonds and the Outstanding Parity Bonds (defined below) and (iii) to pay certain costs of issuance. Proceeds of the Series 1999B Bonds are to be applied to (i) pay for certain capital improvements to the Municipal System of the City, (ii) to fund a portion of the debt service reserve fund securing the Series 1999 Bonds and the Outstanding Parity Bonds and (iii) to pay certain costs of issuance.

The payment of principal of and interest on the Series 1999 Bonds, excluding the Series 1999 Bonds maturing on May 15, 2000 and May 15, 2001 (collectively, the "Insured Series 1999 Bonds"), when due will be guaranteed by a municipal bond insurance policy issued simultaneously with the delivery of the Insured Series 1999 Bonds. **The Series 1999 Bonds maturing on May 15, 2000 and May 15, 2001 are not insured.**



FGIC is a registered service mark used by Financial Guaranty Insurance Company, a private company not affiliated with any U.S. Government agency.

The Series 1999 Bonds are limited obligations of the Public Facilities Financing Authority of the City of San Diego (the "Authority") payable solely from Revenues, which Revenues include Installment Payments to be made by the City to the Authority from Net System Revenues pursuant to an Installment Purchase Agreement, as amended and supplemented, including as supplemented by the 1999-1 Supplement to the Master Installment Purchase Agreement, each between the Authority and the City, and amounts on deposit in the funds and accounts established under the Indenture (other than amounts on deposit in the Rebate Fund). The City has pledged Net System Revenues pursuant to the Installment Purchase Agreement to the payment of the Installment Payments. The Series 1999 Bonds are issued on a parity with the Authority's Sewer Revenue Bonds, Series 1993, Series 1995 and Series 1997 (collectively, the "Outstanding Parity Bonds").

**The obligation of the City to make Installment Payments does not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. Neither the pledge made by the Authority, nor the obligation of the City to make Installment Payments, creates a legal or equitable pledge, charge, lien or encumbrance upon any of the City's property, or upon its income, receipts or revenues other than Net System Revenues. The Authority has no taxing power.**

This cover page contains certain information for general reference only. It is not a summary of the issue. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed decision.

**SEE MATURITY SCHEDULES ON INSIDE FRONT COVER**

*The Series 1999 Bonds will be offered when, as and if issued and received by the Underwriters, subject to the approval of validity by Orrick, Herrington & Sutcliffe LLP, Los Angeles, California and Webster & Anderson, Oakland, California, Co-Bond Counsel, and to certain other conditions. Certain legal matters in connection with the Series 1999 Bonds will be passed upon by Casey Gwinn, Esq., City Attorney of the City of San Diego and General Counsel to the Authority and Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Disclosure Counsel. O'Melveny & Myers LLP has acted as counsel to the Underwriters for specified purposes. See "CERTAIN LEGAL MATTERS." It is expected that the Series 1999 Bonds will be available for delivery through DTC in New York, New York, on or about March 17, 1999.*

**Bear, Stearns & Co. Inc.**

**NationsBanc Montgomery Securities LLC**

**The Chapman Company**

**First Albany Corporation**

**Prudential Securities**

March 2, 1999

**ANNUAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
RELATING TO**

**\$350,000,000  
PUBLIC FACILITIES FINANCING AUTHORITY  
OF THE CITY OF SAN DIEGO  
SEWER REVENUE BONDS, SERIES 1995**

**\$250,000,000  
PUBLIC FACILITIES FINANCING AUTHORITY  
OF THE CITY OF SAN DIEGO  
SEWER REVENUE BONDS, SERIES 1997A AND SERIES 1997B**

**\$315,410,000  
PUBLIC FACILITIES FINANCING AUTHORITY  
OF THE CITY OF SAN DIEGO  
SEWER REVENUE BONDS, SERIES 1999A AND SERIES 1999B**

**(CUSIP Number 79730A)**

**Introduction**

This Annual Report is being provided by the City of San Diego (the “City”), on behalf of itself and the Public Facilities Financing Authority of the City of San Diego (the “Authority”), pursuant to the Continuing Disclosure Agreements (the “Agreement”) between the City and Wells Fargo Bank, National Association, as Trustee (the “Trustee”), relating to the Public Facilities Financing Authority of The City of San Diego Sewer Revenue Bonds, Series 1995 (the “1995 Bonds”), the Public Facilities Financing Authority of The City of San Diego Sewer Revenue Bonds, Series 1997A and Series 1997B (the “1997A Bonds” and the “1997B Bonds”), and the Public Facilities Financing Authority of The City of San Diego Sewer Revenue Bonds, Series 1999A and Series 1999B (the “1999A Bonds” and the “1999B Bonds”), entered into to allow the respective underwriters to comply with Securities and Exchange Commission Rule 15c2-12 for the Fiscal Year ended June 30, 2006.

On March 21, 2008, Macias Gini and O’Connell LLP, the outside auditor, issued an unqualified opinion of the City’s Financial Statements related to the Fiscal Year 2006 CAFR. The City Council reviewed and filed the 2006 Comprehensive Annual Financial Report (“CAFR”) on April 22, 2008. To the extent the City previously submitted financial information and operating data for the Fiscal Year ended June 30, 2006, this submission replaces that information and data in its entirety.

The City’s audited financial statements for the Fiscal Year ended June 30, 2003, contained substantial restatements of entries included in the City’s audited financial statements for the Fiscal Year ended June 30, 2002. Accordingly, the City has determined in this Annual Report, with respect to those tables and text derived from the financial statements, not to include information prior to the Fiscal Year ended June 30, 2003.

This Annual Report including any amendment or supplement hereto, is being transmitted electronically by the City to DisclosureUSA, which in turn will transmit this filing to each of the Nationally Recognized Municipal Securities Information Repositories (the “NRMSIRs”), approved by the Securities and Exchange Commission, set forth in Exhibit A.

This Annual Report is provided in accordance with the terms of the Continuing Disclosure Agreements and does not purport to provide full and complete information on the terms of the above stated issuances. The filing of this Annual Report does not constitute or imply any representation that no changes, circumstances or events have occurred since the end of the Fiscal Years to which this

Annual Reports relates (other than as contained in this Annual Report), or that no other information exists, which may have a bearing on the security for the above stated issuances or an investor's decision to buy, sell or hold the above-stated issuances. Certain information and data provided herein was obtained from sources other than the City ("Outside Information"), as indicated by the source citations. Although the information contained in this Annual Report has been obtained from sources that are believed to be reliable, the City has not independently verified such Outside Information, and the City cannot guarantee its completion or accuracy. No statement in this Annual Report should be construed as a prediction or representation about future financial performance of the City, the Authority, the Wastewater System or the 1995 Bonds, the 1997A Bonds or the 1997B Bonds, the 1999A Bonds or 1999B Bonds.

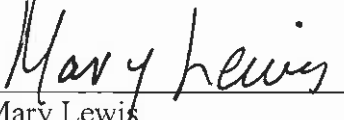
The City is acting as the Dissemination Agent for each of the above stated issuances. The City does not have any obligation to update this report other than as expressly provided in the Continuing Disclosure Agreement for each of the above stated issuances.

Any statements regarding the above stated issuances, other than a statement made by the City in an official release or subsequent notice or annual report that is filed with the NRMSIRs, are not authorized by the City. The City shall not be responsible for the accuracy, completeness or fairness of any such unauthorized statement.

DATED: 9/12, 2008

CITY OF SAN DIEGO

By:

  
Mary Lewis  
Chief Financial Officer

Distribution: Nationally Recognized Municipal Securities Information Repositories  
Wells Fargo Bank, National Association (Trustee)

## **EXHIBIT A**

Nationally Recognized Municipal Securities Information Repositories approved by the Securities and Exchange Commission:

### **Bloomberg Municipal Repository**

100 Business Park Drive

Skillman, NJ 08558

Phone: (609) 279-3225

Fax: (609) 279-5962

Email: [Munis@Bloomberg.com](mailto:Munis@Bloomberg.com)

### **Interactive Data Pricing and Reference Data, Inc.**

Attn: NRMSIR

100 William Street, 15<sup>th</sup> Floor

New York, NY 10038

Phone: (212) 771-6999

Fax: (212) 771-7390

Email: [NRMSIR@interactivedata.com](mailto:NRMSIR@interactivedata.com)

### **Standard & Poor's Securities Evaluations, Inc.**

55 Water Street, 45<sup>th</sup> Floor

New York, NY 10041

Phone: (212) 438-4595

Fax: (212) 438-3975

Email: [nrmsir\\_repository@sandp.com](mailto:nrmsir_repository@sandp.com)

### **DPC Data, Inc.**

One Executive Drive

Fort Lee, NJ 07024

Phone: (201) 346-0701

Fax: (201) 947-0107

Email: [nrmsir@dpccdata.com](mailto:nrmsir@dpccdata.com)



## FINANCIAL AND OPERATING DATA

As required by the Continuing Disclosure Agreements for the Public Facilities Financing Authority of the City of San Diego Sewer Revenue Bonds, Series 1995, the Public Facilities Financing Authority of the City of San Diego Sewer Revenue Bonds, Series 1997A and Series 1997B, and the Public Facilities Financing Authority of the City of San Diego Sewer Revenue Bonds, Series 1999A and Series 1999B, below are updates of Tables 2-16 of the Official Statements and updates of information under the captions “Public Liability Insurance”, “Labor Relations”, “Pension Plan”, and “Investment of Funds”.

**Table 2**  
**TOTAL ANNUAL WASTEWATER SYSTEM FLOW IN MILLION GALLONS**  
**(Unaudited)**

<b>Fiscal Year Ended June 30</b>	<b>City Flow Through Point Loma Plant</b>	<b>Participating Agency Flow Through Point Loma Plant</b>	<b>City Flow Through Escondido Plant</b>	<b>City Flow Through Solana Beach Plant</b>	<b>Reclaimed Water Through North City Plant</b>	<b>City Flow Through South Bay Reclamation Plant</b>	<b>Total System Flow</b>	<b>Average MGD For The Year</b>
1996	46,848	19,115	1,325	0	0	0	67,288	184
1997	47,326	20,048	1,252	0	0	0	68,626	188
1998	50,619	21,109	1,509	0	100	0	73,337	201
1999	45,117	20,934	1,319	0	745	0	68,115	187
2000	44,771	21,489	1,401	0	1,267	0	68,928	189
2001	44,735	21,437	1,412	0	879	0	68,463	188
2002	43,395	21,326	1,316	0	958	0	66,995	184
2003	42,567	22,188	1,353	0	1,201	1,637	68,946	189
2004	40,665	21,688	1,342	32	1,182	1,702	66,611	182
2005	43,817	23,124	1,439	32	522	1,726	70,660	194
2006	42,240	22,270	1,279	32	1,259	1,632	68,712	188

Source: Metropolitan Wastewater Department, City of San Diego

**Table 3**  
**METROPOLITAN SYSTEM**  
**CITY AND PARTICIPATING AGENCIES FLOW AND CAPACITY RIGHTS**  
**Fiscal Year Ended June 30, 2006**  
**(Unaudited)**

<b>Participating Agencies</b>	<b>Estimated Population<sup>(1)</sup></b>	<b>Capacity Rights (in mgd)</b>	<b>% of Total Capacity</b>	<b>Average Flow (mgd)</b>	<b>% of Total Average Flow</b>
City of Chula Vista	232,478	19.843	8.268%	16.979	9.370%
City of Coronado	16,485	3.078	1.283%	2.244	1.238%
City of Del Mar	5,000	0.821	0.342%	0.675	0.372%
City of El Cajon	97,000	10.260	4.275%	8.509	4.696%
City of Imperial Beach	30,000	3.591	1.496%	2.399	1.324%
City of La Mesa	56,258	6.634	2.764%	5.136	2.834%
City of National City	57,600	7.141	2.975%	5.499	3.035%
City of Poway	45,715	5.630	2.346%	3.392	1.872%
East Otay Mesa Sewer Maintenance District	125	1.000	0.417%	0	0.0%
Lakeside/Alpine Sanitation District <sup>(2)</sup>	40,000	4.586	1.911%	3.338	1.842%
Lemon Grove Sanitation District	26,000	2.873	1.197%	2.221	1.226%
Otay Water District	4,300	1.231	0.513%	0.347	0.191%
Padre Dam Municipal Water District	74,700	5.882	2.451%	2.812	1.552%
Spring Valley Sanitation District	81,250	9.808	4.087%	6.563	3.622%
Wintergardens Sewer Maintenance District	<u>11,563</u>	<u>1.241</u>	<u>0.517%</u>	<u>0.901</u>	<u>0.497%</u>
<b>SUBTOTAL</b>	778,474	83.619	34.841%	61.015	33.670%
City of San Diego	<u>1,286,000</u>	<u>156.381</u>	<u>65.159%</u>	<u>120.198</u>	<u>66.330%</u>
<b>TOTAL:</b>	2,064,474	240.000	100.000%	181.213	100.000%

(1) Sources: Participating Agencies. Population served by Metropolitan System according to the latest SANDAG information for the relevant year.

(2) A single meter serves the sanitation districts of Lakeside and Alpine.

Sources: Participating Agencies and Metropolitan Wastewater Department

**Table 4**  
**WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM**  
**Fiscal Years Ending June 30, 2006 through June 30, 2012**  
**(Unaudited)**

<u>Expected Projects</u>	<b>FY2006 - FY2012 Total Budget (In Millions) (1)</b>	<b>FY2006 – FY 2007 Expended (In Millions)</b>	<b>Remaining Cost (In Millions)</b>	<b>Percent Completed</b>
<b>Metropolitan System Projects</b>				
Point Loma Plant Upgrade	\$ 22.0	\$ 1.3	\$ 20.7	5.9%
Annual Allocation Projects	\$ 31.4	\$ 1.9	29.5	6.1%
Metro Biosolids Center Projects	\$ 15.0	\$ 0.0	15.0	0.0%
Environmental Monitoring & Technical Services Lab	\$ 0.4	\$ 0.0	0.4	7.5%
Other Metropolitan System Projects	<u>\$ 36.6</u>	<u>\$ 0.1</u>	<u>36.5</u>	<u>0.2%</u>
<b>Subtotal Metropolitan System Projects</b>	<b>\$ 105.4</b>	<b>\$ 3.3</b>	<b>\$ 102.1</b>	<b>3.2%</b>
<b>Municipal System Projects</b>				
Annual Allocation Projects <sup>(2)</sup>	\$ 51.1	\$ 22.7	\$ 28.4	44.4%
Pipeline, Trunk, and Interceptor Sewer Projects <sup>(2)</sup>	\$ 176.2	\$ 6.1	170.1	3.5%
Sewer Pump Station Projects <sup>(2)</sup>	\$ 6.4	\$ 1.1	5.3	17.2%
Other Municipal System Projects	<u>\$ 386.0</u>	<u>\$ 0.1</u>	<u>\$ 385.9</u>	<u>0.0%</u>
<b>Subtotal Municipal System Projects</b>	<b>\$ 619.7</b>	<b>\$ 30.0</b>	<b>\$ 589.7</b>	<b>4.8%</b>
<b>TOTAL</b>	<b>\$ 725.2</b>	<b>\$ 33.3</b>	<b>\$ 691.8</b>	<b>4.6%</b>

(1) Reflects amounts expected to be appropriated during the period indicated without regard to the timing of expenditure of such amounts. Fiscal years 2008 through 2012 are projected and dependent on City Council's and Mayor's approvals. Projections assume a 4% annual inflation for the construction component of capital improvement projects.

(2) Includes EPA Proposed Consent Decree Projects

Source: Metropolitan Wastewater Department, City of San Diego

**Table 5**  
**SOURCES AND USES OF FUNDS FOR CAPITAL EXPENDITURES**  
**WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM**  
**Fiscal Years Ending June 30, 2006 through June 30, 2011**  
**(UNAUDITED) (IN THOUSANDS)**

	2006	2007	2008	2009	2010	2011	Total <sup>(3)</sup>
<b>SOURCE OF FUNDS</b>							
Beginning Balance of Construction Fund	\$ -	\$ -	\$ 57,692	\$ 8,442	\$ 152,387	\$ 4,007	\$ 241,246
New Bond Issue	-	80,100	-	210,000		147,534	589,853
Grant Receipts	-	64	168	375	-	-	3,605
SRF Loan	-	14,926	-	-	-	-	28,249
Contributions in Aid	11,278	-	-	-	-	-	8,573
Pay-as-You Go	26,486	8,631	9,910	11,200	37,095	48,072	478,993
<b>TOTAL SOURCES</b>	<b>\$ 37,764</b>	<b>\$ 103,721</b>	<b>\$ 67,770</b>	<b>\$ 230,017</b>	<b>\$ 189,482</b>	<b>\$ 199,613</b>	<b>\$ 1,350,519</b>
<b>USES OF FUNDS</b>							
Issue Costs	\$ -	\$ 334	\$ -	\$ 6,300		\$ 4,426	\$ 11,060
Debt Service Reserve Fund	-	-	-	15,330		10,770	26,100
Contribution to Construction Fund	-	57,692	8,442	152,387	4,007		241,246
Reimbursement of Prior Capital Expenditures	-	12,328	29,528	-	-	-	166,851
Capital Expenditures (1) (2) (3)	37,764	33,367	29,800	56,000	185,475	184,417	905,262
<b>TOTAL USES</b>	<b>\$ 37,764</b>	<b>\$ 103,721</b>	<b>\$ 67,770</b>	<b>\$ 230,017</b>	<b>\$ 189,482</b>	<b>\$ 199,613</b>	<b>\$ 1,350,519</b>
<hr/>							
<sup>(1)</sup> Capital Expenditures by System	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>Total</b>
Municipal System	32,300	26,694	23,840	43,120	157,352	151,307	731,053
Metropolitan System	5,464	6,673	5,960	12,880	28,123	33,110	174,209
 Total System	 \$ 37,764	 \$ 33,367	 \$ 29,800	 \$ 56,000	 \$ 185,475	 \$ 184,417	 \$ 905,262

(1) Expenditures may include continuing appropriations from previous years.

(2) Projected cash expenditures for the Wastewater System Capital Improvement Program rather than expected appropriations as shown in Table 4.

(3) Reflects total of actual sources and uses for fiscal year ending June 30, 2006 and projected from June 30, 2007 through June 30, 2011.

Sources: Metropolitan Wastewater Department and Comptroller's Office, City of San Diego

**Table 6**  
**HISTORICAL SOURCES OF SEWER SERVICE REVENUES <sup>(1)</sup>**  
**(IN THOUSANDS)**  
**Fiscal Years Ending June 30, 2003 through June 30, 2006 <sup>(2)</sup>**

<u>Sources</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Single Family Domestic	\$87,289	\$93,061	\$90,708	\$94,086
Other Domestic	56,078	58,277	65,788	70,578
Commercial	46,593	53,537	59,424	61,501
Industrial	4,008	4,743	6,774	6,991
Outside City	9	12	3	0
Treatment Plant Service for Others <sup>(3)</sup>	<u>59,460</u>	<u>53,043</u>	<u>60,726</u>	<u>53,260</u>
TOTAL <sup>(4)</sup>	\$253,437	\$262,673	\$283,423	\$286,416

(1) Does not include capacity charges or other operating revenues which are included in calculating Net System Revenues.

(2) The information called for by this table for the fiscal year ended June 30, 2002, has not been provided. See page "4" hereof, under the caption "Introduction" for information regarding financial information prior to Fiscal Year 2003.

(3) Includes revenues from Participating Agencies, the United States Navy and other agencies

(4) Audited data from FY 2003 – 2006 Comprehensive Annual Financial Statements ("CAFR")

Source: Comptroller's Office, City of San Diego

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**Table 7**  
**TEN LARGEST CUSTOMERS WITHIN MUNICIPAL SYSTEM <sup>(1)</sup>**  
**Fiscal Year Ended June 30, 2006**  
**(Unaudited)**

	<b><u>Sewer Billings</u></b>	<b><u>Percent of Total Sewer Operating Revenues <sup>(3)</sup></u></b>
U.S. Navy	\$6,730,458	2.34%
CP Kelco	3,517,835	1.23%
University of California, San Diego	2,747,341	0.96%
Federal Government (excluding U.S. Navy)	2,003,547	0.70%
ISP Alginates <sup>(2)</sup>	1,480,988	0.52%
R.J. Donovan Correctional Facility	1,390,113	0.48%
City of San Diego	1,132,107	0.39%
SDSU	895,203	0.31%
Marine Park Corp.	756,001	0.26%
San Diego Unified School	<u>721,271</u>	<u>0.25%</u>
<b>TOTAL</b>	<b>\$21,374,864</b>	<b>7.44%</b>

(1) Does not include Participating Agencies or customers served by Participating Agencies

(2) No longer in the City as of December, 2006

(3) Total Sewer Fund Revenues include receipts from Participating Agencies

Sources: Metropolitan Wastewater Department, Water Department and the Comptroller's Office, City of San Diego

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**Table 8**  
**RATE HISTORY AND APPROVED RATE INCREASES**  
**FOR SINGLE FAMILY DOMESTIC AND OTHER DOMESTIC,**  
**COMMERCIAL & INDUSTRIAL**  
**(Unaudited)**

<u>Effective Date</u>	<u>Single Family Domestic <sup>(1)</sup></u>	<u>All Classes % Rate Increase</u>	<u>Uniform Base Fee</u>	<u>Single Family Domestic Usage Fee \$/HCF water</u>	<u>Other Domestic Usage Fee \$/HCF water</u>	<u>Commercial &amp; Industrial Customer Class <sup>(2)</sup></u>		
						<u>\$/HCF Monthly Wastewater Flow</u>	<u>\$/LB Total Suspended Solids (TSS)</u>	<u>\$/LB Chemical Oxygen Demand (COD)</u>
October 1, 2004 <sup>(3)</sup>	\$32.72	N/A	\$10.53	\$2.563	\$3.461	\$2.5613	\$0.3994	\$0.1436
March 1, 2005	\$35.17	7.50%	\$11.32	\$2.755	\$3.721	\$2.7534	\$0.4294	\$0.1544
May 1, 2007	\$38.32	8.75%	\$12.31	\$2.890	\$4.038	\$3.0257	\$0.4431	\$0.1801
November 1, 2007 - Shames <sup>(4)</sup>	\$39.49	3.05%	\$12.69	\$2.978	\$4.161	\$3.1180	\$0.4566	\$0.1856
May 1, 2008	\$42.94	8.75%	\$13.80	\$3.239	\$4.525	\$3.3908	\$0.4966	\$0.2018
May 1, 2008 – Shames <sup>(4)</sup>	\$44.25	3.05%	\$14.22	\$3.338	\$4.663	\$3.4942	\$0.5117	\$0.2080
May 1, 2009	\$47.35	7.00%	\$15.21	\$3.571	\$4.990	\$3.7388	\$0.5475	\$0.2225
May 1, 2010	\$50.67	7.00%	\$16.28	\$3.821	\$5.339	\$4.0005	\$0.5859	\$0.2381

(1) Represents the average monthly amount and new customer amount.

(2) Commercial and industrial monthly charges are based upon volume of flow, total suspended solids (TSS), and chemical oxygen demand (COD) included effective October 1, 2004.

(3) Reflects restructuring of sewer service charges which adds COD as a cost parameter, and a uniform base fee for all single family, multi-family and commercial/industrial customers.

(4) In 2005, a class action lawsuit, Shames v. City of San Diego, was filed against the City alleging that until October 2004 (when the city revised its sewer rate structure - footnote (3) above), single family residential customers were overcharged for sewer service, while other customers were undercharged. On May 18, 2007, the Superior Court for the County of San Diego approved an agreement to settle the lawsuit. This requires the City to reimburse "eligible" single family residential customers a total of \$40 million (less \$5 million and other costs) over the next four years. To satisfy the terms of the settlement, the City must temporarily adjust rates for all City sewer customers. The City increased existing sewer rates by 3.05% on November 1, 2007 and will increase by another 3.05% on May 1, 2008. For "eligible" single family residential sewer customers, the City will reverse the two 3.05% rate increases applicable to all City sewer customers, and distribute a share of the settlement in the form of a monthly credit which is estimated to be \$3.25 per month. After the \$40 million settlement amount has been raised and distributed, the rate reversal and monthly credit for single family residential customers will stop and the two 3.05% rate increases will end. This is expected to happen on or about October 30, 2011. Per the settlement - "eligible" single family residential customers are those who received sewer service to their property in the ten year period prior to October 1, 2004. More than 97% of current City sewer service customers are considered "eligible" under the terms of the settlement.

Source: Metropolitan Wastewater Department, City of San Diego. More than 5 years provided for historical purposes.

**Table 9**  
**SEWER CUSTOMER ACCOUNTS RECEIVABLE**  
**AND SHUT-OFFS BY FISCAL YEAR**  
**(IN THOUSANDS)**  
**Fiscal Years Ending June 30, 2003 through June 30, 2006 <sup>(1)</sup>**

	<u><b>2003</b></u>	<u><b>2004</b></u>	<u><b>2005</b></u>	<u><b>2006</b></u>
Sewer Service Revenue*	\$253,437	\$262,673,	\$283,423	\$286,416
Accounts Receivable <sup>(2)*</sup>	\$15,196	\$17,071	\$21,157	\$18,881
Accounts Receivable <sup>(2), (3)</sup> Over 120 Days **	\$1,598	\$1,685	\$1,639	\$2,557
No. of Shut-offs ** <sup>(4)</sup>	20,792	21,689	24,459	21,230

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- (1) The information called for by this table for the fiscal year ended June 30, 2002, has not been provided. See page "4" hereof, under the caption "Introduction" for information regarding financial information prior to Fiscal Year 2003.
- (2) Excludes amounts payable by Participating Agencies
- (3) Estimated
- (4) The numbers provided are from the Customer Information System which does not differentiate between water and sewer shut-offs and may not reflect the actual number for sewer shut-offs.

Sources: \* Audited data from FY 2003 – 2006 Comprehensive Annual Financial Reports  
\*\* Metropolitan Wastewater Department and the Water Department

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**Table 10**  
**SEWER REVENUE FUND**  
**HISTORICAL CAPACITY CHARGE REVENUES**  
**Fiscal Years Ending June 30, 2003 through June 30, 2006 <sup>(1)</sup>**

<b>Fiscal Year Ended <u>June 30</u></b>	<b>Equivalent Dwelling Units <u>(EDU) <sup>(2)</sup></u></b>	<b>Capacity Charge Revenues <sup>(3)</sup></b>
2003	6,603	\$17,191,009
2004	6,508	\$14,684,073
2005	4,772	\$14,665,174
2006	5,150	\$16,565,011

(1) The information called for by this table for the fiscal year ended June 30, 2002 has not been provided. See page "4" hereof, under the caption "Introduction" for information regarding financial information prior to Fiscal Year 2003.

(2) Unaudited

(3) Audited and included with Capital Contributions on Statement of Revenues, Expenses and Changes in Net Assets in FY 2003 – FY 2006 CAFRs.

Sources: Metropolitan Wastewater Department, Water Department and the Comptroller's Office, City of San Diego

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**Table 11**  
**RATE HISTORY**  
**FOR SEWER CAPACITY CHARGES**  
**(Unaudited)**

<b><u>Effective Date</u></b>	<b><u>Sewer Capacity Charges (Per EDU)</u></b>	<b><u>% Increase (Decrease)</u></b>
July 1, 1991	\$4,484	16%
July 1, 1992	\$5,201	16%
July 1, 1993	\$6,033	16%
July 1, 1994	\$6,998	16%
April 22, 1996 <sup>(1)</sup>	\$2,500	(64%)
July 1, 2004 <sup>(2)</sup>	\$3,710	48%
May 1, 2007 <sup>(3)</sup>	\$4,124	11%

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(1) Capacity charge decreases to \$2,500 pursuant to Resolution No. R-287543 to encourage building activity.

(2) Capacity charge increases to \$3,710 pursuant to Resolution No. R-299321 based on results of the Cost of Service Study.

(3) Capacity charge increases to \$4,124 pursuant to Resolution No. R-302378 based on results of the Cost of Service Study.

Source: Metropolitan Wastewater Department, City of San Diego. More than 5 years provided for historical purposes.

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**Table 12**  
**WASTEWATER SYSTEM STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS <sup>(1)</sup>**  
**(In Thousands)**  
**Fiscal Years Ending June 30, 2003 through June 30, 2006**

	<u><b>2003</b></u>	<u><b>2004</b></u>	<u><b>2005</b></u>	<u><b>2006</b></u>
<b>OPERATING REVENUES</b>				
Sewer Service Charges:				
Inside City:				
Domestic	\$ 143,367	\$ 151,338	\$ 156,496	\$164,664
Commercial and Industrial	50,601	58,280	66,198	68,492
Outside City:				
Domestic, Commercial and Industrial	9	12	3	0
Treatment Plant Service for Others	<u>59,460</u>	<u>53,043</u>	<u>60,726</u>	<u>53,260</u>
Total Sewer Service Charges	\$ <u>253,437</u>	\$ <u>262,673</u>	\$ <u>283,423</u>	\$286,416
Other Operating Revenues, Net	3,510	4,621	5,549	4,152
<b>TOTAL OPERATING REVENUES</b>	<u>\$ 256,947</u>	<u>\$ 267,294</u>	<u>\$ 288,972</u>	<u>\$ 290,568</u>
<b>OPERATING EXPENSES</b>				
Benefit and Claim Payments	-	-	-	
Maintenance and Operations	\$ 154,053	\$ 110,024	\$ 112,548	\$ 109,257
Cost of Materials Issued	-	-	-	
Cost of Purchased Water Used				
Taxes				
Administration	84,152	84,785	89,634	90,749
Depreciation	<u>62,072</u>	<u>62,162</u>	<u>74,863</u>	<u>64,922</u>
<b>TOTAL OPERATING EXPENSES</b>	\$ <u>300,277</u>	\$ <u>256,971</u>	\$ <u>277,045</u>	\$ <u>264,928</u>
<b>OPERATING INCOME (LOSS)</b>	\$ <u>(43,330)</u>	\$ <u>10,323</u>	\$ <u>11,927</u>	\$ <u>25,640</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Earnings on Investments	16,322	2,291	7,015	6,578
Federal Grant Assistance	864	45	3	325
Other Agency Grant Assistance	308	642	-	136
Gain (Loss) on Sale / Retirement of Capital Assets	(475)	(2,692)	(13,297)	(443)
Debt Service Interest Expense	(51,712)	(51,322)	(57,668)	(54,132)
Other	<u>5,389</u>	<u>2,885</u>	<u>7,394</u>	<u>4,313</u>
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	\$ <u>(29,304)</u>	\$ <u>(48,151)</u>	\$ <u>(56,553)</u>	\$ <u>(43,223)</u>
<b>INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS</b>	\$ (72,634)	\$ (37,828)	\$ (44,626)	(17,583)
Capital Contributions	55,604	60,759	21,426	31,976
Transfers In	565	285	504	481
Transfers from Governmental Funds	264	-	-	-
Transfers Out	(1,856)	(439)	(598)	(147)
Transfers to Governmental Funds	<u>(1,762)</u>	<u>(1,574)</u>	<u>(1,383)</u>	<u>(1,958)</u>
<b>CHANGE IN NET ASSETS</b>	\$ (19,819)	\$ 21,203	\$ (24,677)	12,769
Net Assets at Beginning of Year	<u>\$ 1,832,154</u>	<u>\$ 1,812,335</u>	<u>\$ 1,833,538</u>	<u>\$1,808,861</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 1,812,335</u>	<u>\$ 1,833,538</u>	<u>\$1,808,861</u>	<u>\$1,821,630</u>

(1) The information called for by this table for the fiscal year ended June 30, 2002, has not been provided. See pages "4" hereof, under the caption "Introduction" for information regarding financial information prior to Fiscal Year 2003.

**Table 13**  
**Metropolitan Wastewater Utility**  
**CALCULATION OF PARITY DEBT SERVICE COVERAGE**  
**Fiscal Years Ending June 30, 2003 through June 30, 2006 <sup>(1)</sup>**  
**(Unaudited)<sup>(2)</sup>**

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<b>TOTAL OPERATING REVENUES</b>	<b><u>\$ 256,945,835</u></b>	<b><u>\$ 267,294,105</u></b>	<b><u>\$ 288,971,829</u></b>	<b><u>\$290,568,008</u></b>
<b>OTHER INCOME:</b>				
Contributions in Aid	\$ 2,200,505	\$ 887,805	\$ 4,163,488	\$1,321,154
Transfers in	829,393	285,107	503,424	481,101
Capacity Charge Municipal System	17,191,009	14,684,073	14,665,174	16,565,011
Earnings on Investments	16,322,180	2,291,460	7,014,346	6,578,189
Federal and Other Agency Grant Assistance	1,172,469	686,870	2,959	461,583
Other Nonoperating Revenues	5,389,254	2,885,490	7,394,227	4,312,605
Rate Stabilization Transfer	<u>34,500,000</u>	<u>7,200,000</u>	<u>0</u>	<u>0</u>
<b>TOTAL SYSTEM REVENUES</b>	<b><u>\$334,550,645</u></b>	<b><u>\$296,214,910</u></b>	<b><u>\$322,715,447</u></b>	<b><u>\$320,287,651</u></b>
<b>OPERATING EXPENSES:</b>				
Maintenance and Operations	\$154,053,153	\$110,024,259	\$112,548,192	\$109,256,730
Administration	<u>\$84,151,530</u>	<u>\$84,785,586</u>	<u>\$89,634,286</u>	<u>\$90,748,990</u>
<b>TOTAL OPERATING EXPENSES</b>	<b><u>\$238,204,683</u></b>	<b><u>\$194,809,845</u></b>	<b><u>\$202,182,478</u></b>	<b><u>\$200,005,720</u></b>
<b>OTHER CHARGES:</b>				
Transfers Out	<u>\$3,617,762</u>	<u>\$2,013,227</u>	<u>\$1,980,308</u>	<u>\$2,105,624</u>
<b>TOTAL MAINTENANCE AND OPERATION COSTS</b>	<b><u>\$ 241,822,445</u></b>	<b><u>\$ 196,823,072</u></b>	<b><u>\$ 204,162,786</u></b>	<b><u>\$202,111,344</u></b>
<b>NET SYSTEM REVENUES</b>	<b><u>\$ 92,728,200</u></b>	<b><u>\$ 99,391,838</u></b>	<b><u>\$ 118,552,661</u></b>	<b><u>\$118,176,307</u></b>
<b>DEBT SERVICE COVERAGE</b>				
Principal and Interest Due in Fiscal Year	\$ 77,045,935	\$ 77,050,423	\$ 77,054,623	\$77,051,963
Debt Service Coverage	1.20	1.29	1.54	1.53

(1) The information called for by this table for the fiscal year ended June 30, 2002, has not been provided. See pages "4" hereof, under the caption "Introduction" for information regarding financial information prior to Fiscal Year 2003.

(2) Data compiled for this schedule based on Table 10 – Fiscal Year 2003 – 2005 and Table 13-2 Fiscal Year 2006 Comprehensive Annual Financial Statements, Unaudited Statistical Section

Sources: Metropolitan Wastewater Department and Comptroller's Office, City of San Diego

**Table 14**  
**CITY OF SAN DIEGO SEWER REVENUE FUND**  
**FINANCIAL PROJECTIONS**  
**CALCULATION OF PARITY DEBT COVERAGE RATIOS**  
**Fiscal Years Ending June 30, 2007 through June 30, 2012 (In Thousands)**  
**(Unaudited)**

	<b>2007 Unaudited</b>	<b>2008 Projected Year End</b>	<b>2009 Budget</b>	<b>2010 Rate Case</b>	<b>2011 Rate Case</b>	<b>2012 Rate Case</b>
<b>ESTIMATED REVENUES</b>						
Service Charge Revenues	\$ 236,244	\$ 257,759	\$ 291,888	\$ 313,508	\$ 335,496	\$ 353,335
New Sewer Connections	198	20	50	200	200	200
Sewage Treatment Plant Services	54,008	61,147	62,000	75,378	77,914	79,721
Services Rendered to Others <sup>(1)</sup>	4,838	3,919	3,735	6,189	6,189	6,189
Sale of Power from Co-Generation	933	1,082	1,772	1,398	1,398	1,398
Other Revenue	10,164	3,544	3,074	415	431	449
<b>TOTAL ESTIMATED REVENUES</b>	<b>\$ 306,385</b>	<b>\$ 327,471</b>	<b>\$ 362,519</b>	<b>\$ 397,088</b>	<b>\$ 421,629</b>	<b>\$ 441,292</b>
<b>OPERATING EXPENSES</b>						
Operation & Maintenance Expenses <sup>(1) (2) (3)</sup>	\$ 187,079	\$ 226,756	\$ 240,592	\$ 246,599	\$ 253,414	\$ 259,904
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 187,079</b>	<b>\$ 226,756</b>	<b>\$ 240,592</b>	<b>\$ 246,599</b>	<b>\$ 253,414</b>	<b>\$ 259,904</b>
<b>OPERATING INCOME</b>	<b>\$ 119,306</b>	<b>\$ 100,715</b>	<b>\$ 121,927</b>	<b>\$ 150,489</b>	<b>\$ 168,215</b>	<b>\$ 181,388</b>
<b>OTHER INCOME &amp; (CHARGES)</b>						
Interest Earnings <sup>(4)</sup>	\$ 9,587	\$ 11,791	\$ 4,686	\$ 9,427	\$ 10,855	\$ 12,449
Capacity Charge	16,610	10,600	12,000	16,120	16,285	16,451
Grant Receipts	64	168	375	-	-	-
Contributions in Aid	1,185	-	-	-	-	-
Rate Stabilization Fund Transfer	(10,000)	(3,000)	(3,000)	(2,000)	-	-
<b>TOTAL OTHER INCOME</b>	<b>\$ 17,446</b>	<b>\$ 19,559</b>	<b>\$ 14,061</b>	<b>\$ 23,547</b>	<b>\$ 27,140</b>	<b>\$ 28,900</b>
<b>NET SYSTEM REVENUE</b>	<b>\$ 136,752</b>	<b>\$ 120,274</b>	<b>\$ 135,988</b>	<b>\$ 174,036</b>	<b>\$ 195,354</b>	<b>\$ 210,288</b>
<b>COVERAGE TESTS</b>						
Net System Revenue	\$ 136,752	\$ 120,274	\$ 135,988	\$ 174,036	\$ 195,354	\$ 210,288
Annual Parity Obligations Debt Service	77,051	77,055	77,056	106,991	115,782	127,727
<b>DEBT SERVICE COVERAGE</b>	<b>1.77</b>	<b>1.56</b>	<b>1.76</b>	<b>1.63</b>	<b>1.69</b>	<b>1.65</b>

(1) Annual inflation of 4 % for "Services Rendered to Others" and "Operations & Maintenance" non-personnel costs

(2) "Operations & Maintenance" salary and wage costs are only inflated in FY08 for the negotiated 4% salary increase

(3) Excludes State Revolving Fund Loan repayments

(4) Excludes interest on Construction Fund

Source: Metropolitan Wastewater Department, City of San Diego

## Public Liability Insurance

The City maintains an excess liability insurance policy in collaboration with a statewide joint powers authority risk pool, the California State Association of Counties-Excess Insurance Authority (CSAC-EIA). Effective July 2003, the City's excess liability insurance coverage was obtained through the California Public Entity Insurance Authority (CPEIA), a subsidiary of the joint powers authority risk pool, for amounts up to \$50,000,000 per occurrence in excess of a \$2,000,000 self-insured retention. On October 1, 2007, the City's self-insured retention increased to \$5,000,000.

The City is fully self-insured for workers' compensation and long-term disability (LTD). All operating funds of the City participate in both these programs and make payments to the Self Insurance Fund. Each fund contributes an amount equal to a specified rate multiplied by the gross salaries of the fund. These payments are treated as operating expenditures in the contributing funds and operating revenues in the Self Insurance Fund.

Public liability, workers' compensation, and long-term disability estimated liabilities as of June 30, 2005 are determined based on results of independent actuarial evaluations and include amounts for claims Incurred but Not Reported and Loss Adjustment Expenses. Claims liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. Estimated liabilities for public liability claims have been recorded in the Self Insurance Fund, Sewer Utility Fund, and Water Utility Fund.

**Table 15**  
**LIABILITY CLAIMS BUDGET AND EXPENDITURES <sup>(1)</sup>**  
**Fiscal Years Ending June 30, 2003 through June 30, 2006 <sup>(2)</sup>**  
**(Unaudited)**

<u>Fiscal Year</u>	<u>Budget</u>	<u>Expenditures</u> <sup>(3) (4)</sup>
2003	\$1,913,500	\$2,598,110
2004	\$2,589,000	\$1,718,610
2005	\$2,589,000	\$1,814,378
2006	\$2,589,000	\$500,928

- 
- (1) Table 15 reflects the budget and expenditures for liability claims of the Metropolitan Wastewater Department for Fiscal Years 2003 – 2006.  
(2) The information called for by this table for the fiscal year ended June 30, 2002 has not been provided. See page "4" hereof, under the caption "Introduction" for information regarding financial information prior to Fiscal Year 2003.  
(3) Overbudget expenditures are paid from sewer fund balance available for appropriation.  
(4) Expenditures decrease each fiscal year due to a reduction of public liability general property damage claims which is primarily the result of an active pipe cleaning program.

Sources: Metropolitan Wastewater Department, Risk Management Department and Comptroller's Office

## **Labor Relations**

Most City employees are represented by one of five labor organizations. As of February 22, 2008, the American Federation of State and County Municipal Employees Local 127 (AFSCME Local 127) represented approximately 1,873 employees; the Municipal Employees Association (MEA) represented approximately 4,833 employees; the Police Officers Association (POA) represented approximately 1,934 employees; the International Association of Firefighters Local 145 (IAFF Local 145) represented approximately 930 employees; and the Deputy City Attorneys' Association (DCAA) represents approximately 151 employees.

Contract negotiations for Fiscal Year 2009 have concluded with the following results. The City proposed one-year contracts for all bargaining units for July 1, 2008 through June 30, 2009. The City successfully completed negotiations with POA and Local 145. POA accepted a salary increase of 3% effective July 1, 2008, and a 3% increase effective December 27, 2008. The two year net impact of the negotiated salary increase is estimated to be a \$900,000 increase to the annual required contribution and a \$7.3 million increase in the unfunded actuarial accrued liability. Members of Local 145 accepted a negotiated increase of 3% effective July 1, 2008, and a 2% increase effective September 1, 2008. The two year net impact of the negotiated salary increase is estimated to have an impact of \$60,000 on the annual required contribution and an estimated \$490,000 impact on the unfunded actuarial accrued liability. The City Council has approved the terms of the contracts for POA and Local 145.

Negotiations with the remaining bargaining units did not end in agreement. Last, best, and final offers were made to the remaining three bargaining units, MEA, Local 127, and DCAA, on May 8, 2008. An impasse with the three bargaining units was declared by the Mayor on May 9, 2008. However, on May 12, 2008, the City Council failed to impose the terms of the Mayor's last, best and final offer. Therefore, the terms of the existing labor agreements carry forward into Fiscal Year 2009 with no salary increase. On May 27, 2008, the City Council approved the salary ordinance for the fiscal year beginning July 1, 2008 which sets the same pay and benefit levels as the prior fiscal year for the three bargaining units with the exception of Local 127. For Fiscal Year 2009, for employees represented by Local 127, the salary reduction of 1.9% (from the July 1, 2005 labor agreement) ended and the 1.9% of salary was reinstated as a result of contract language contained in the labor agreement.

On July 28, 2008, City Council ratified an agreement regarding the creation of new pension benefits for non-safety City employees with MEA, Local 127 and DCAA. This will impact all non-safety employees hired on or after July 1, 2009. Firefighters, police officers and lifeguards are exempt. The city expects to save on the costs of its pension plan over time as new hires are added under the new pension benefit structure.. The new plan lowers the factor at age 55 and 60 from 2.50% to 1.00% and from 2.55% to 2.00%, respectively. It also places a cap of 80% on the annual benefits that employees can receive from the defined benefit system and bases retirement pay on the highest three years average of compensation. Employees can presently retire at age 55 with 2.50% and receive up to 90% of their annual compensation in retirement based on their highest one year of pay. In addition, a retiree medical trust will be established that both the City and employees will contribute toward equally. The new plan also establishes a defined contribution portion in addition to the defined benefit component, which reduces the City's exposure to investment risks. Non-safety employees hired on or before June 30, 2009 will not be impacted by this new pension benefit.

For historical information pertaining to the labor agreements, refer to the City of San Diego Fiscal Year 2005 Sewer Utility Annual Report (Disclosure USA Filing#20080613510880), filed with the NRMSIRs on June 13, 2008.

## **Pension Plan and Other Post Employment Benefits**

The Fiscal Year 2006 actuarial report, dated January 12, 2007, prepared by SDCERS' actuary, Cheiron, shows an unfunded actuarial accrued liability ("UAAL") for the pension system of approximately \$1.210 Billion under the Entry Age Normal ("EAN") funding method. In the June 30, 2007 SDCERS actuarial valuation, dated February 4, 2008, the unfunded actuarial liability was calculated to be \$1.184 billion under the EAN funding method which assumes a 20 year amortization schedule with no negative amortization. The City had an actuarial report prepared for its other post-employment benefits, and that report, dated January 15, 2008 as revised on May 7, 2008, showed an UAAL for retiree healthcare as of June 30, 2007, of approximately \$1.03 billion, calculated using a 6.69% discount rate due to the partial prefunding of the retiree health liabilities. The challenges posed by the unfunded pension liability are significant and, together with significant costs related to the post-employment healthcare benefits, could pose a threat to the future fiscal health of the City.

Also refer to the Letter of Transmittal and Notes 11-13 to Financial Statements of the Fiscal Year 2006 CAFR for additional information on Pension Plan and Other Post Employment benefits. The unfunded actuarial liabilities and funding ratios set forth in the Fiscal Year 2006 CAFR relating to the City's pension system and other post-employment benefits are based upon numerous demographic and economic assumptions, including the investment return rates, inflation rates, salary increase rates, cost of living adjustments, post-retirement mortality, active member mortality, rates of retirement, etc. The reader is cautioned to review, and carefully assess the reasonableness of the assumptions set forth in the documents that are cited as the sources for the information in such CAFRs. In addition, the reader is cautioned that such sources and the underlying assumptions speak as of their respective dates, and are subject to changes, any of which could cause a significant impact in the unfunded actuarial accrued liabilities and funding ratios.

## **Investment of Funds**

### **Derivatives**

Since 1997, the City Pool has had no assets invested in structured notes or derivatives prohibited in California Government Code §53601. The City Treasurer defines a derivative as a financial instrument whose value is derived from an underlying asset, price, index or rate, e.g., options, futures or interest rate swaps. A structured note is an investment instrument that can contain within its structure various combinations of derivatives such as imbedded calls and interest rate swaps that will offer returns to an investor within a defined set of parameters and interest rate scenarios, e.g., step-ups, multiple-indexed notes, inverse floaters or leveraged constant maturity notes. The City Treasurer does not define fixed rate notes, debentures with call features or single index non-leveraged floating rate notes, e.g. monthly LIBOR plus or minus a spread, as structured notes. The City Treasurer limits structured notes eligible for purchase to those investments which, at the time of purchase, have no risk of principal loss if held to maturity and offer an estimated return at purchase that exceeds the return on a comparable fixed term investment in the judgment of the City's Investment Officer. The City Treasurer does not allow the purchase of securities that have a negative amortization of principal. In addition, California law prohibits the purchase by local governments of inverse floaters, range notes or interest only strips derived from pools of mortgages.

### **Reverse Repurchase Agreements**

A reverse repo is a transaction in which the City Pool sells a security and concurrently agrees to buy it back from the same party at a later date for a price that includes an interest component for the



City Pool's use of the money. Although the City is authorized to use reverse repos, since September 18, 1996, the City has had no reverse repos in the City Pool. The Investment Guidelines require that all proceeds of a reverse repo be reinvested in securities whose maturity date effectively matches the final maturity of the reverse repo. The Investment Guidelines limit the use of reverse repurchase agreements to 20% of the base value of the City Pool.

### **Pool Liquidity and Other Characteristics (As of June 30, 2006)**

The City Pool (including both the "Liquidity" and the "Core" portfolios) is highly liquid. As of June 30, 2006 (on a cumulative basis), approximately 14% of the pool investments mature within 62 days, 21% within 92 days and 30% within 184 days, 53% within 1 year, 72% within 2 years, 92% within 3 years, and 100% within 5 years. As of June 30, 2006, the Pool had a weighted average maturity of 1.38 years (502 days) and its weighted yield was 4.78%. For purposes of calculating weighted average maturity, the City Treasurer treats investments in the State-wide Local Agency Investment Fund (California State Pool) as maturing within one day. The Liquidity portfolio had a duration of 0.31 years and the Core portfolio had a duration of 1.77 years as of June 30, 2006. Duration is a measure of the price volatility of the portfolio and reflects an estimate of the projected increase or decrease in the value of the portfolio based upon a decrease or increase in interest rates. Accordingly, the Liquidity portfolio should decrease in market value by 0.31% for every 1% increase in market interest rates while the Core portfolio should decrease in market value by 1.77% for every 1% increase in market interest rates. The City Pool's composition is designed with a goal of having sufficient liquid funds available to meet disbursement requirements. The composition and value of investments under management in the City Pool will vary from time to time depending on cash flow needs of the City, maturity or sale of investments, purchase of new securities, and fluctuations in interest rates.

**Table 16A**  
**CITY OF SAN DIEGO POOLED OPERATING INVESTMENT FUND <sup>(1)</sup>**  
**at June 30, 2006**  
**(In Thousands)**

<u>Investment Instrument</u>	<u>Book Value</u>	<u>Market Value</u>	<u>Percent of Total <sup>(1)</sup></u>
U.S. Treasury Bills and Notes	\$362,572	\$357,996	25.76%
Federal Agency Securities	\$825,882	\$822,650	58.68%
Medium Term Notes (Corporate) <sup>(2)</sup>	\$71,376	\$70,040	5.07%
Money Market Instruments <sup>(3)</sup>	\$125,879	\$125,989	8.94%
Local Agency Investment Fund	<u>\$21,805</u>	<u>\$21,765</u>	<u>1.55%</u>
NET ASSETS	<u>\$1,407,514</u>	<u>\$1,398,440</u>	<u>100.00%</u>

(1) Based on Book Value.

(2) These notes consist of both fixed and floating interest rate securities. The notes with floating interest rates are reset at intervals ranging from one day to three months.

(3) These securities consist of commercial paper, negotiable certificates of deposit, term and overnight repurchase agreements, banker's acceptances, bank notes and/or thrift notes.

Source: Fiscal Year 2006 Comprehensive Annual Financial Report , Comptroller's Office, City of San Diego

## Pool Liquidity and Other Characteristics (As of June 30, 2007)

The City Pool (including both the “Liquidity” and the “Core” portfolios) is highly liquid. As of June 30, 2007, approximately 20% of the pool investments mature within 62 days, 22% within 92 days and 32% within 184 days, 51% within 1 year, 78% within 2 years, 94% within 3 years, and 100% within 5 years (on a cumulative basis). As of June 30, 2007, the Pool had a weighted average maturity of 1.27years (462 days) and its weighted yield was 5.04%. For purposes of calculating weighted average maturity, the City Treasurer treats investments in the State-wide Local Agency Investment Fund (California State Pool) as maturing within one day. The Liquidity portfolio had a duration of 0.32 years and the Core portfolio had a duration of 1.67 years as of June 30, 2007. Duration is a measure of the price volatility of the portfolio and reflects an estimate of the projected increase or decrease in the value of the portfolio based upon a decrease or increase in interest rates. Accordingly, the Liquidity portfolio should decrease in market value by 0.32% for every 1% increase in market interest rates while the Core portfolio should decrease in market value by 1.67% for every 1% increase in market interest rates. The City Pool's composition is designed with a goal of having sufficient liquid funds available to meet disbursement requirements. The composition and value of investments under management in the City Pool will vary from time to time depending on cash flow needs of the City, maturity or sale of investments, purchase of new securities, and fluctuations in interest rates.

**Table 16B**  
**CITY OF SAN DIEGO POOLED OPERATING INVESTMENT FUND <sup>(1)</sup>**  
**at June 30, 2007**  
**(In Thousands)**  
**(Unaudited)**

<u>Investment Instrument</u>	<u>Book Value</u>	<u>Market Value</u>	<u>Percent of Total <sup>(1)</sup></u>
U.S. Treasury Bills and Notes	\$462,954	\$460,993	25.46%
Federal Agency Securities	1,008,210	1,007,779	55.44%
Medium Term Notes (Corporate) <sup>(2)</sup>	155,682	155,350	8.56%
Money Market Instruments <sup>(3)</sup>	168,864	169,580	9.28%
Local Agency Investment Fund	<u>22,899</u>	<u>22,899</u>	<u>1.26%</u>
NET ASSETS	<u>\$1,818,609</u>	<u>\$1,816,601</u>	<u>100.00%</u>

(1) Based on Book Value.

(2) These notes consist of both fixed and floating interest rate securities. The notes with floating interest rates are reset at intervals ranging from one day to three months.

(3) These securities consist of commercial paper, negotiable certificates of deposit, term and overnight repurchase agreements, banker's acceptances, bank notes and/or thrift notes.

Source: Office of the City Treasurer, City of San Diego

## Pool Liquidity and Other Characteristics (As of June 30, 2008)

The City Pool (including both the “Liquidity” and the “Core” portfolios) is highly liquid. As of June 30, 2008, approximately 12% of the pool investments mature within 62 days, 18% within 92 days and 32% within 184 days, 48% within 1 year, 85% within 2 years, 99% within 3 years, and 100% within 5 years (on a cumulative basis). As of June 30, 2008, the Pool had a weighted average maturity of 1.09 years (399 days) and its weighted yield was 3.23%. For purposes of calculating weighted average maturity, the City Treasurer treats investments in the State-wide Local Agency Investment Fund (California State Pool) as maturing within one day. The Liquidity portfolio had a duration of 0.29 years and the Core portfolio had a duration of 1.60 years as of June 30, 2008. Duration is a measure of the price volatility of the portfolio and reflects an estimate of the projected increase or decrease in the value of the portfolio based upon a decrease or increase in interest rates. Accordingly, the Liquidity portfolio should decrease in market value by 0.29% for every 1% increase in market interest rates while the Core portfolio should decrease in market value by 1.60% for every 1% increase in market interest rates. The City Pool's composition is designed with a goal of having sufficient liquid funds available to meet disbursement requirements. The composition and value of investments under management in the City Pool will vary from time to time depending on cash flow needs of the City, maturity or sale of investments, purchase of new securities, and fluctuations in interest rates.

**Table 16C**  
**CITY OF SAN DIEGO POOLED OPERATING INVESTMENT FUND <sup>(1)</sup>**  
**at June 30, 2008**  
**(In Thousands)**  
**(Unaudited)**

<u>Investment Instrument</u>	<u>Book Value</u>	<u>Market Value</u>	<u>Percent of Total <sup>(1)</sup></u>
U.S. Treasury Bills and Notes	\$761,968	\$769,094	37.45%
Federal Agency Securities <sup>(2)</sup>	\$925,697	\$929,344	45.50%
Medium Term Notes (Corporate) <sup>(3)</sup>	\$81,556	\$82,076	4.01%
Money Market Instruments <sup>(4)</sup>	\$241,148	\$241,826	11.86%
Local Agency Investment Fund	<u>\$24,041</u>	<u>\$24,041</u>	<u>1.18%</u>
NET ASSETS	<u>\$2,034,410</u>	<u>\$2,046,381</u>	<u>100.00%</u>

(1) Based on book value.

(2) Federal National Mortgage Association (Fannie Mae) represents 29.06% and Federal Home Loan Mortgage Corporation (Freddie Mac) 35.33% of total Federal Agency Securities or 13.22% and 16.08% of total pool.

(3) These notes consist of both fixed and floating interest rate securities. The notes with floating interest rates are reset at intervals ranging from one day to three months.

(4) These securities consist of commercial paper, negotiable certificates of deposit, CDARS certificate of deposit, term and overnight repurchase agreements, banker's acceptances, bank notes and/or thrift notes.

Source: Office of the City Treasurer, City of San Diego

## **Other Material Information**

**See Note 18 of the 2006 CAFR which is updated by the paragraph below**

On April 7, 2008, the SEC filed securities fraud charges against five former City officials, including the former City Manager, former Auditor and Comptroller, former Assistant Auditor and Comptroller, former Deputy City Manager and former City Treasurer, for allegedly giving false and misleading statements regarding City bond offerings in 2002 and 2003. Investigations by the SEC into entities other than the City, including current and former City officials, may be ongoing. It is uncertain when any such investigations will be completed, and the City can provide no assurance as to whether any new investigations will be initiated.

# **City of San Diego**

## **State of California**

### **Comprehensive Annual Financial Report**



Fiscal Year Ended June 30, 2006

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**CITY OF SAN DIEGO  
STATE OF CALIFORNIA**

**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

**FOR FISCAL YEAR ENDED JUNE 30, 2006**



**Prepared Under the Supervision of  
Gregory Levin, CPA  
Comptroller**

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For the Fiscal Year Ended June 30, 2006

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## INTRODUCTORY SECTION

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**JERRY SANDERS**  
MAYOR

March 21, 2008

Honorable City Council Members and the Citizens of the  
City of San Diego, California

San Diego City Charter § 111 requires the City to submit an annual report, including a Statement of Net Assets, and requires that all accounts of the City be audited by an independent auditor. Pursuant to this requirement, the Comprehensive Annual Financial Report ("CAFR") of the City of San Diego ("City") for the fiscal year ended June 30, 2006, is hereby submitted. The audit firm of Macias Gini & O'Connell LLP has issued an unqualified opinion on the City of San Diego's financial statements. The independent auditor's report is located at the front of the financial section of this report.

The CAFR has been prepared in conformance with the principles and standards for reporting as set forth by the Governmental Accounting Standards Board (GASB). Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the management of the City and its related agencies. Our objective is to provide you with reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. Additionally, the City continues to construct and improve a comprehensive internal control framework in order to ensure acceptable management of taxpayer funds.

To the best of our knowledge and belief, the data as presented, is accurate in all material respects; it is presented in a manner designed to present fairly the financial position and results of operations of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining funds of the City and its related agencies; and all disclosures necessary to enable the reader to gain an understanding of the City's, as well as its related agencies', financial activities have been included.

The City wishes to bring to the attention of the reader for careful consideration Notes 12, 13, and 18 to the Financial Statements, which address, among other matters, (1) the cease-and-desist order imposed on the City by the Securities and Exchange Commission for violations of the federal securities laws that occurred in 2002 and 2003, (2) related investigative reports of Vinson & Elkins LLP, Kroll Inc. and the law offices of Willkie, Farr and Gallagher LLP, serving as the audit committee for the City of San Diego (Kroll Report), Navigant Consulting, Inc. (as it relates to San Diego City Employees Retirement System (SDCERS)), and the City Attorney of the City of San Diego, and (3) the unfunded actuarial accrued liabilities of the City's pension and retiree health obligations. These notes, along with the other financial and operational data included in the City's CAFR, must be read in their entirety to obtain a complete understanding of the City's financial position.

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

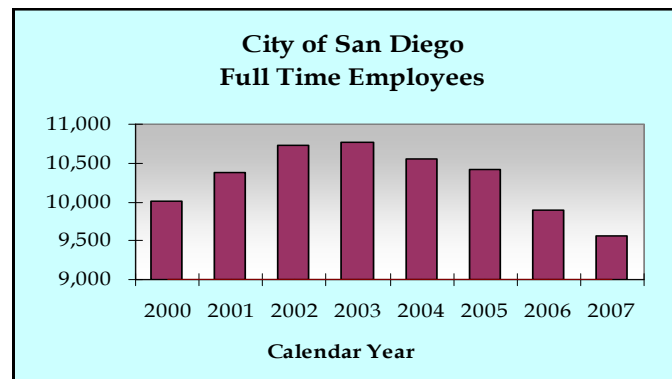
The CAFR is organized into three sections:

- **The introductory section** includes information about the organizational structure of the City, the City's economy, and selected other financial information.
- **The financial section** is prepared in accordance with Governmental Accounting Standards. It includes the MD&A, the independent auditor's report, the audited basic financial statements, notes to the basic financial statements, required supplementary information, and supporting statements and schedules.
- **The statistical section** contains historical statistical data on the City's financial data and debt statistics, as well as miscellaneous physical, demographic, economic, and social data of the City.

## PROFILE OF THE GOVERNMENT

### City Profile

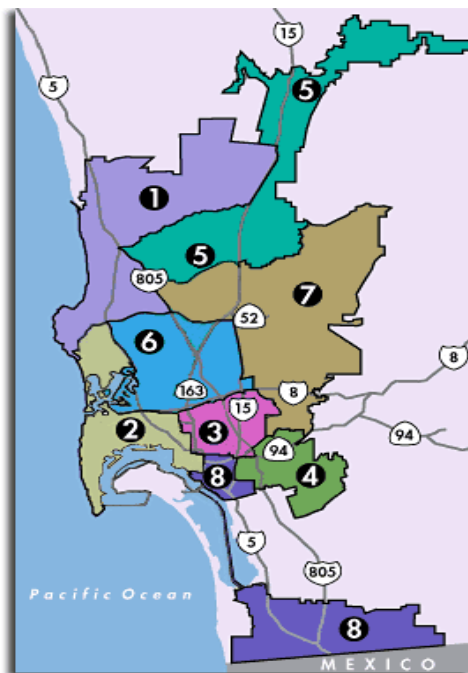
The City of San Diego was incorporated in 1850. The City is comprised of 403 square miles and, as of January 1, 2007, the California Department of Finance estimates the population to be 1,316,837. The City, with approximately 9,600 full-time employees, provides a full range of governmental services which include police and fire protection, sanitation and health services, the construction and maintenance of streets and infrastructure, recreational activities and cultural events, and the maintenance and operation of the water and sewer utilities.



### Governing Structure

The City operates and is governed by the laws of the State of California and its own Charter which was adopted by the electorate in 1931 and has been subject to periodic amendments since adoption. The City is currently operating under a strong-mayor form of government. The departure from the City's previous Council-Manager form of government was approved by a vote of the public and became effective January 1, 2006. The Mayor is elected at large to serve a four-year term.

### City of San Diego Council District Map



The charter amendment adopting the strong-mayor form of government is in effect for five years, and pending a voter approved extension or modification, sunsets on December 31, 2010. Under the strong-mayor form of government, the Mayor is the Chief Executive Officer of the City and has direct oversight over all City functions and services except for the City Council, Personnel, City Clerk, Independent Budget Analyst (IBA), and City Attorney's departments. The Office of the Independent Budget Analyst was established by the City Council to assist the Council in the conduct of budgetary analysis and in the making of budgetary, financial, and policy decisions. The City Council also established a Budget and Finance Committee to aid in the review of the annual budget, capital improvement programs, financial reports, taxes, fees, assessments, and IBA reports. Additionally, the City Council established an Audit Committee to provide independent, legislative oversight of the City's accounting and financial reporting processes, financial internal controls, internal financial audit function, and audits of the City's financial statements.

Under this form of government, the Council is composed of eight members and is presided over by the Council President, who is selected by a majority vote of the Council. The Mayor presides over Council in closed session meetings of the Council. The Council retains its legislative authority; however, all council resolutions, except for appropriations ordinances, are subject to a veto of the Mayor. The City Council may override a Mayoral veto with five votes. In addition, the City has an elected City Attorney who is the chief legal advisor of and attorney for the City and all departments. The City Attorney serves a four-year term.

Current Elected Officials  
(as of the issuance of this report)



Mayor Jerry Sanders

District 1  
Council President Scott Peters



District 5  
Councilmember Brian Maienschein

District 2  
Councilmember Kevin Faulconer



District 6  
Councilmember Donna Frye

District 3  
Councilmember Toni Atkins



District 7  
Councilmember Jim Madaffer

District 4  
Council President Pro Tem  
Tony Young

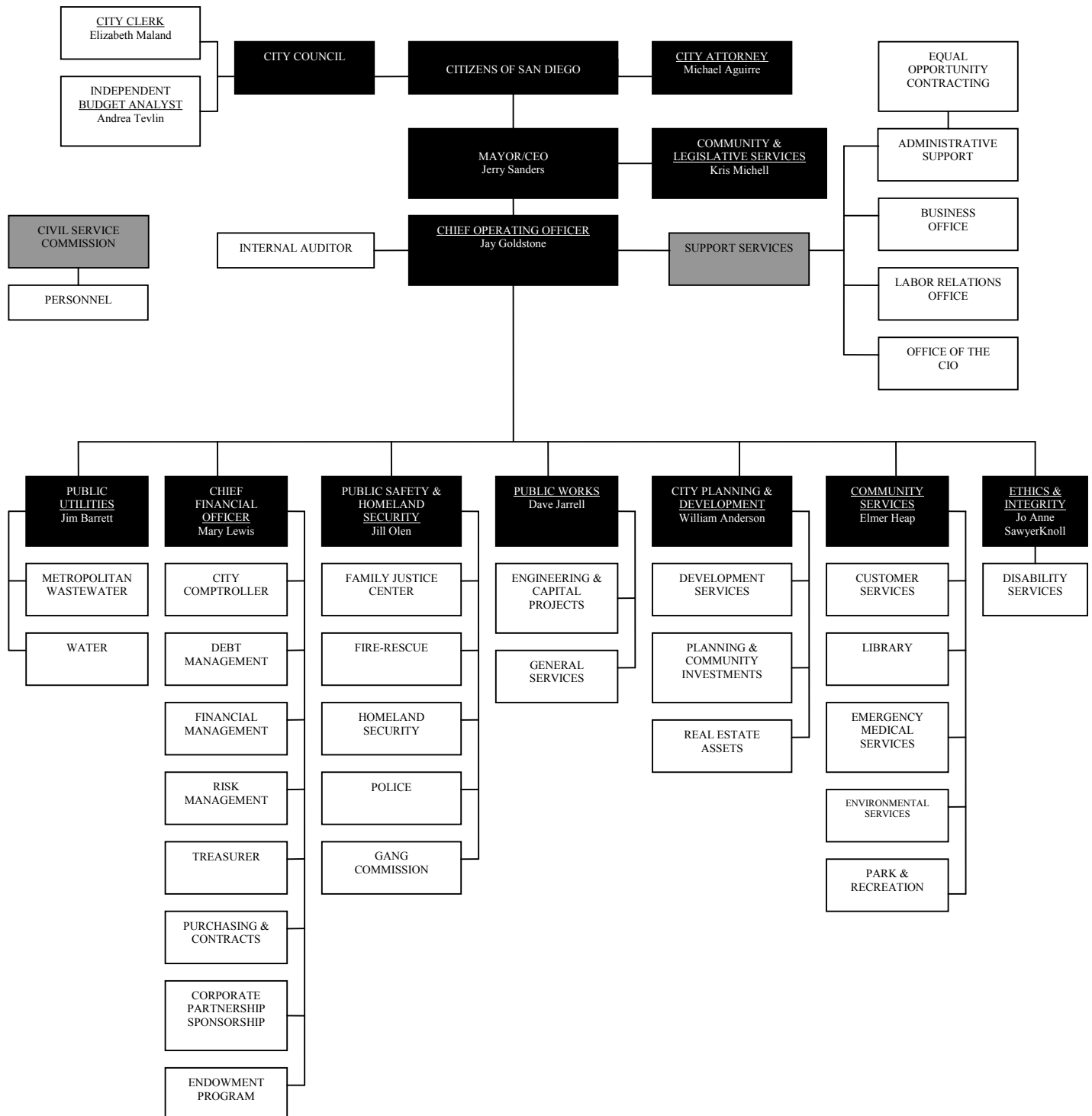


District 8  
Councilmember Ben Hueso



City Attorney  
Michael Aguirre

# City of San Diego Organization Chart (As of issuance of this report)





### Financial Reporting Entity

In accordance with Governmental Accounting Standards Board Statement 14, the following component units are incorporated into the accompanying financial statements:

- Centre City Development Corporation (CCDC)
- City of San Diego Metropolitan Transit Development Board Authority (MTDB)
- Redevelopment Agency of the City of San Diego (RDA)
- San Diego Data Processing Corporation (SDDPC)
- San Diego Housing Commission (SDHC)
- San Diego Open Space Park Facilities District #1
- Community Facility and Other Special Assessment Districts
- Convention Center Expansion Financing Authority (CCEFA)
- San Diego City Employees' Retirement System (SDCERS)
- Public Facilities Financing Authority (PFFA)
- San Diego Convention Center Corporation (SDCCC)
- San Diego Facilities and Equipment Leasing Corporation (SDFELC)
- San Diego Industrial Development Authority (SDIDA)
- Southeastern Economic Development Corporation (SEDC)
- Tobacco Settlement Revenue Funding Corporation (TSRFC)

Additionally, the City participates in a joint venture operation with a private company to provide for emergency medical and medical transportation services. This joint venture is a limited liability company named San Diego Medical Services Enterprise. The financial impact of the joint venture is displayed in the governmental funds balance sheet.

### Budgetary Process

Pursuant to the City Charter, an annual budget is presented by the Mayor to the City Council for consideration. Set forth in this budget are the anticipated revenues and expenditures of the general fund, certain special revenue funds, enterprise funds, and certain debt service funds for the ensuing fiscal year. Additionally, project-length financial plans are presented to and adopted by council for the capital projects funds. The level of budgetary control (the level at which expenditures cannot legally exceed the appropriated amount) is maintained at the fund, department, and object class level. Object classes are defined as salaries and non-personnel expense (including employee benefits). Copies of the City's Budgets are available at the Financial Management Office located at 202 C Street, MS8A, San Diego, CA 92101.

The City also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Encumbered amounts are reported as reservations of fund balances since the commitments are expected to be honored in subsequent periods.

## FACTORS AFFECTING FINANCIAL CONDITION

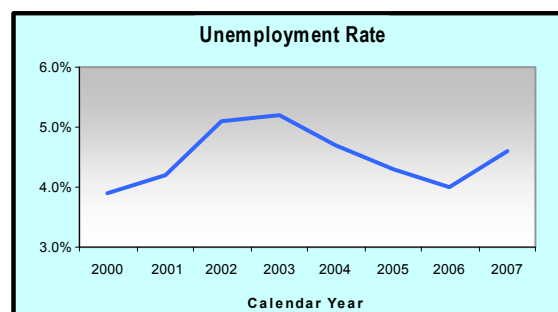
### Economic Factors

#### Income

In January 2007, the San Diego Association of Governments (SANDAG) reported that between 2000 and 2006, the median household income in the San Diego region rose by 42.4%, from \$45,826 to \$65,238.

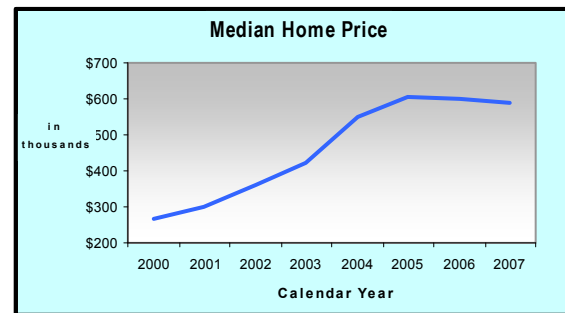
#### Unemployment

The unemployment rate is a critical indicator of the relative strength in the local economy. According to the State of California Employment Development Department, the City of San Diego's unemployment rate was 4.6% for the calendar year 2007. This reflects a .6% decrease from a 10 year high of 5.2% in the calendar year 2003, and a .6% increase from calendar year 2006. The City of San Diego's unemployment rate is even with the national average and .8% below the average for the State of California for the calendar year 2007.



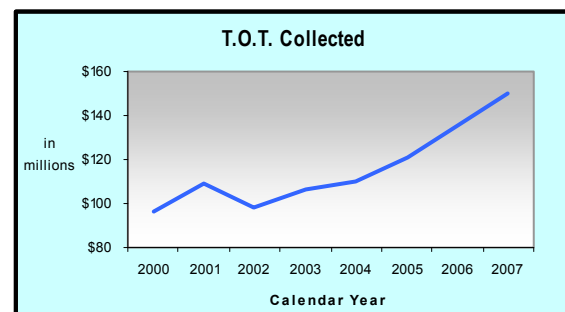
### Housing and Construction

According to a report by the National Association of Realtors, the median residential home price in the San Diego area dropped 2% from calendar year 2006 to 2007 and dropped 9.8% from the 4<sup>th</sup> quarter of 2006 to the 4<sup>th</sup> quarter of 2007. However, median residential home prices in the San Diego area increased 125% from calendar years 2000 to 2005. Home sales during this growth in median home prices have resulted in stronger than average property tax returns for the City and have fueled increased activity in the construction sector. However, there has recently been a slowing in the housing market and a softening in housing prices, and therefore, the recent growth in property tax revenues may not continue and may in fact decline.



### Tourism

The City of San Diego has continued to experience a growth in tourism during calendar year 2007, resulting in a 10.7% increase in Transient Occupancy Tax (TOT) collections from calendar year 2006, and a 38.2% increase from calendar year 2001. According to the San Diego Convention & Visitors Bureau, average occupancy rates of hotels located in the San Diego area declined during calendar year 2007 by approximately 0.2%; however, average daily room rates increased by approximately 6.0%, resulting in a net increase in TOT collections. Additionally, a total of 29.2 million visitors spent approximately \$7.3 billion at local businesses in the San Diego area during calendar year 2007.



### Water Supply

The City of San Diego is located in a semi-arid coastal climate environment and receives an average annual rainfall of 10.21 inches. San Diego has a population of approximately 1.3 million and the population is projected to increase by 26% in the next 25 years. This growth is projected to increase demand for potable water by 21%. For the Fiscal Year ended June 30, 2007, the City's average daily water use, including deliveries to the City of Del Mar and California American Water Company (Cal-Am) was approximately 221 Million Gallons per Day (MGD), with peak day demands as high as 291 MGD. The overwhelming majority of the City's water supply is imported.

The City currently receives its water supply from two sources: (1) water imported by the San Diego County Water Authority (CWA) and (2) local runoff. For the Fiscal Year ended June 30, 2007, local run off accounted for less than 10% of the City's water supply. This source is dependent upon rainfall and is seasonal and variable in nature. The balance of the City's water supply is imported from Northern California and the Colorado River and provided to the City by the CWA, of which the City of San Diego is a member agency. CWA in turn, purchases the majority of its water from the Metropolitan Water District of Southern California (MWD), which is comprised of 26 public water agencies. CWA also has rights to purchase additional supplies of water from the Imperial Irrigation District (IID), and water supplies dedicated to CWA from water-conserving canal lining projects on the All-American and Coachella Canals. The City is the largest purchaser of water from CWA. During the Fiscal Year ended June 30, 2007, the Water Department purchased approximately 229,682 AF of water from the CWA at a cost of \$113.3 million. The City's water purchases from CWA represented approximately 34% of CWA's total water deliveries and approximately 91.7% of the water produced by the City was purchased from CWA, with the balance coming from runoff collected in the City's reservoirs.

As of December 17, 2007, MWD indicated that it had sufficient water supplies in storage to sustain a supply/demand scenario similar to 2007 through calendar year 2008 with enhanced conservation efforts beginning immediately. The majority of MWD's current water supplies comes from the State Water Project (SWP) and originates from the Sacramento–

San Joaquin Bay-Delta before being pumped into the California Aqueduct for transportation to Southern California. On August 31, 2007, a federal court ordered state and federal water managers to reduce pumping out of the Delta during certain times of the year in order to protect the Delta Smelt, an endangered fish species. It is unknown how long these restrictions will be in place but they are expected to last at least one year.

MWD estimates that the court order will reduce the amount of SWP water available to MWD by up to 30% in 2008. MWD and CWA are actively pursuing spot water transfer options to offset these reductions. Colorado River deliveries to MWD and CWA remain firm in the near future, minimizing the water supply reliability impacts of the SWP reductions on San Diego. The Mayor, in coordination with CWA, has urged residents and businesses of San Diego to adopt water conservation practices at home and at their place of work. The City has also taken a leadership position in advocating a more deliberate response to water conveyance around the Delta, thereby avoiding the current judicial restrictions on the pumps. The Mayor hosted a meeting of Southern California City Mayors in San Diego as well as a "Big Ten" City Mayors' meeting in Sacramento to discuss possible solutions with input from water experts. The Water Department will continue to monitor the current and near term water supply situation, in consultation with its imported water provider, to effectively manage conservation efforts.

### **Regulatory Actions**

In November 2006, the United States Securities and Exchange Commission (SEC) entered an Order (the "Order") sanctioning the City of San Diego for committing securities fraud in connection with the 2002 and 2003 offer and sale of over \$260 million in municipal bonds and for preparing and filing information pursuant to continuing disclosure agreements under Exchange Act Rule 15c2-12 with respect to \$2.29 billion in outstanding City bonds and notes. The findings contained in the Order were made pursuant to the City's offer of settlement. To date, the SEC has not taken enforcement action against any City officials or employees; however, the SEC, in the Order, concluded that the City, through its officials, acted with scienter.

In the Order, the SEC found that at the time of these offerings, City officials knew that the City faced severe difficulty funding its future pension and health care obligations unless new revenues were obtained, pension and health care benefits were reduced, or City services were cut. The SEC found that the City's looming financial crisis resulted from (1) the City's intentional underfunding of its pension plan from fiscal year 1997; (2) the City's granting of additional retroactive pension benefits since fiscal year 1980; (3) the City's use of the pension fund's assets to pay for the additional pension and retiree health care benefits since fiscal year 1980; and (4) the pension plan's less than anticipated earnings on its investments in fiscal years 2001 through 2003. The SEC found that despite the magnitude of the problems the City faced in funding its future pension and retiree health care obligations, the City conducted five separate municipal bond offerings, raising more than \$260 million, without disclosing these problems to the investing public. The SEC found that in each of these offerings, the City prepared disclosure documents that are used with municipal securities offerings—that is, preliminary official statements and official statements—and made presentations to rating agencies. In addition, in 2003 it prepared and filed misleading information pursuant to continuing disclosure agreements under Exchange Act Rule 15c2-12 with respect to \$2.29 billion in outstanding City bonds and notes.

The SEC credited the City with having taken remedial action before the Order was issued and found that since 2005 the City has implemented several remedial measures with a view to detect and prevent securities violations. Specifically, the City has terminated certain officials in the City Manager's and Auditor and Comptroller's offices or has allowed them to resign. The City has hired full time municipal securities attorneys who are responsible for coordinating the City's public disclosure and who have conducted continuing education for the City's deputy attorneys on the City's disclosure requirements.

The SEC credited the City with hiring new outside professionals including new auditors for its fiscal year audits. The SEC also found that the City hired individuals not affiliated with the City to act as the City's audit committee to conduct an investigation of the City's prior disclosure deficiencies and make recommendations to prevent future disclosure failures. The SEC found that the City has also hired new disclosure counsel for all of its future offerings, who will have better and more continuous knowledge on the City's financial affairs. The SEC found that the disclosure counsel has conducted seminars for City employees on their responsibilities under the federal securities laws.

The SEC found that the City has also enacted ordinances designed to change the City's disclosure environment:

1. The City created a Disclosure Practices Working Group, comprised of senior City officials from across city government. The Working Group is charged with reviewing the form and content of all the City's documents and materials prepared, issued, or distributed in connection with the City's disclosure obligations relating to securities issued by the City or its related entities; and conducting a full review of the City's disclosure practices and to recommend future controls and procedures.
2. The Mayor and City Attorney must personally certify to the City Council the accuracy of the City's official statements.

3. The City Auditor & Comptroller must annually evaluate the City's internal financial controls and report the results to the City Council.

As part of the settlement with the SEC, the City agreed to cease and desist from future securities fraud violations. The City also agreed to retain an Independent Consultant acceptable to the SEC. The Independent Consultant is required to conduct annual reviews for a three-year period, following the November 2006 Order, of the City's policies, procedures, and internal controls regarding its disclosures for offerings, including disclosures made in its financial statements, pursuant to continuing disclosure agreements, and to rating agencies. The Independent Consultant is also required to review, for the three year period, the procedures and internal controls regarding the City's hiring of internal personnel and external experts for disclosure functions, and the implementation of active and ongoing training programs to educate appropriate City employees, including officials from the City Auditor and Comptroller's office, the City Attorney's office, the Mayor, and the City Council members regarding compliance with disclosure obligations.

The Independent Consultant is required to make recommendations concerning related policies, procedures, and internal controls with a view to assuring compliance with the City's disclosure obligations under the federal securities laws. The Independent Consultant is to assess, in years two and three, whether the City is complying with its policies, procedures, and internal controls, whether the City has adopted any of the Independent Consultant's recommendations from prior year(s) concerning such policies, procedures, and internal controls for disclosures for offerings, and whether the new policies, procedures, and internal controls were effective in achieving their stated purposes.

On June 7, 2007, the Initial Report of Independent Consultant to the City of San Diego (the "Independent Consultant's Report") was released. The purpose of the Independent Consultant's Report was to describe the review and assessment of the City's policies, procedures, and internal controls regarding i) its financial and other disclosures, ii) the hiring of internal personnel and external experts for disclosure functions, and iii) the implementation of active and ongoing training programs to educate appropriate City employees regarding compliance with disclosure obligations, and to provide conclusions and recommendations with respect to these matters. (See Note 18 for additional information).

Additionally, the Independent Consultant's Report recognizes the complexity of the City's issues and includes numerous actions that are planned to be addressed in the future, including:

- Ongoing analysis and observation by the Independent Consultant of the City's disclosure process, including participation in future offering disclosure processes,
- Implementation of a new Enterprise Resource Planning (ERP) system,
- Ongoing training for the City Council, City Officials, and City employees, and
- Hiring a qualified internal auditor to provide reliability of the City's internal control structure.

The Independent Consultant observed that the City had made progress with its remediation efforts, but that there is much left to be done that will require an intensive and substantial effort.

On July 23, 2007, the SEC issued a letter to the City and to the Independent Consultant recognizing the recommendations outlined in the Independent Consultant's Report and indicating its understanding that subsequent reports from the Independent Consultant would provide more complete, specific, and concrete recommendations with specific deadlines. The SEC also requested a response from the City in regards to the recommendations outlined in the Independent Consultant's Report, including an estimated timeframe for implementation of the recommendations.

On September 25, 2007, the City responded to the SEC and this response was approved by Council Resolution No. 303021. This response to the SEC is summarized as follows:

- The former CFO, along with representatives of the Audit Committee and the Independent Budget Analyst, interviewed candidates for the Internal Auditor (City Auditor). The candidate selected began work on October 22, 2007. In its 2007 Final Report dated October 4, 2007, the Charter Review Committee recommended a separation of the internal audit function from the comptroller and management duties. This revision will need to be approved by a vote of the public. (See March 3, 2008 O-19718 disclosure discussed below.)
- The City has established an Audit Committee comprised of 3 Council members and an ad hoc committee of 3 outside advisors who bring extensive technical expertise to the Committee. The ad hoc committee began serving September 10, 2007. The Charter Review Committee, in its Final Report dated October 4, 2007, has recommended a Charter change which would formally establish a five-person Audit Committee composed of two members of the City Council,

one of whom shall serve as chair, and three members of the public. (See March 3, 2008 O-19718 disclosure discussed below.)

- The City has selected a software vendor and has begun implementation of an enterprise resource system. The current schedule calls for the system to be operable, in parallel, by October 2008. Additionally, the implementation of a human resource/payroll system is expected to be completed by January 2009.
- The CFO position was established in calendar year 2006 and all financial related activities and responsibilities of the Primary Government, including Comptroller and debt issuance functions, fall under this position, with exception to the oversight of the Internal Auditor. (See March 3, 2008 O-19718 disclosure discussed below.)
- The City is evaluating the Independent Consultant's recommendation to consider moving toward a shelf-like disclosure system. The City has made many improvements to internal controls regarding the release of financial information to the public capital markets (e.g. creation of the DPWG, CFO, and Audit Committee). Accordingly, any shelf-like registration would take into consideration procedures currently in place which were designed to ensure that the City would not make misleading statements or omissions to the market place in the future.

On March 3, 2008, Council approved O-19718 for the purpose of submitting to the voters a ballot proposition amending the City Charter. The ballot measures will be proposed at a Municipal Election to be consolidated with the Statewide Primary Election on June 3, 2008, and are summarized below:

- Establish the position, roles and responsibilities of the Chief Financial Officer including the clarification that all responsibilities, authority and power conferred upon the Auditor and Comptroller in the Charter shall be transferred to, assumed and carried out by the Chief Financial Officer.
- Define the composition of the Audit Committee as an independent body consisting of five members. Two members shall be Councilmembers and are to be appointed by the Council, one of whom shall serve as Chair of the Audit Committee. The other three members shall be from the public, appointed by the Council from a pool of candidates which are recommended by a screening committee. The screening committee is comprised of a member of Council, the Chief Financial Officer, the Independent Budget Analyst and two outside financial experts appointed by the other three members of the screening committee and confirmed by the Council.
- Establish the position, roles and responsibilities of the Office of the City Auditor. The City Auditor shall be appointed by the City Manager, in consultation with the Audit Committee, and confirmed by the Council.
- Establish the position, roles and responsibilities of the Independent Budget Analyst. The Council shall appoint the Independent Budget Analyst, who shall serve at the pleasure of the Council and may be removed from office by Council at any time.
- Establish the position, roles and responsibilities of the City Treasurer. The City Treasurer shall be appointed by the City Manager, and no longer needs confirmation by a majority of the members of the Council.

### **Financial Information**

#### **Pension Benefits**

In fiscal year 1927, the City established the San Diego City Employees' Retirement System ("SDCERS"), a public employee retirement system. The pension plan ("Plan") is a defined benefit plan and is administered by the SDCERS' Board to provide retirement, disability, death, and survivor benefits for its members. The SDCERS Board contracts with an actuary to perform an annual actuarial valuation based on the assumptions adopted by the SDCERS Board. The actuarial firm, Cheiron Inc., was hired by the SDCERS board to perform the fiscal years 2005, 2006, and 2007 actuarial valuations.

Following the most widely used actuarial cost method approved in Statement No. 25 of the Governmental Accounting Standards Board, as well as a recommendation from Cheiron, SDCERS Board of Administration voted to use the Entry Age Normal (EAN) actuarial cost method to calculate future actuarial liabilities beginning with the fiscal year 2007 valuation. The actuarial valuations performed by Cheiron, using the EAN actuarial cost method, for the fiscal years ended June 30, 2007 and June 30, 2006 reported as follows:

San Diego City Employees' Retirement System (City of San Diego)

	Fiscal Year Ended		
	June 30, 2007	June 30, 2006	% Change
<u>Membership</u>			
Total Members (active, disabled, beneficiaries and retired)	17,779	17,647	0.7%
<u>Assets and Liabilities</u>			
Total Actuarial Liability	\$ 5,597,652,861	\$ 5,191,961,325	7.8%
Market Value of Assets	4,641,340,923	3,981,931,694	16.6%
Actuarial Value of Assets	4,413,410,812	3,981,931,694	10.8%
Unfunded Actuarial Liability	\$ 1,184,242,049	\$ 1,210,029,631	-2.1%
Funding Ratio	78.8%	76.7%	2.1%

The actuarial valuations performed for SDCERS for the fiscal years 1992 through 2006 calculated actuarial liabilities in accordance with the Projected Unit Credit (PUC) actuarial cost method. The change from PUC to EAN has negatively impacted the unfunded actuarial liability reported in the actuarial valuation for the fiscal year ended June 30, 2007. A comparison of the two valuation methods for the fiscal year ended June 30, 2007 was included in the June 30, 2007 actuarial valuation and is provided below for informational purposes only:

Unfunded Actuarial Liability Projected Unit Credit (PUC) vs. Entry Age Normal (EAN) For the Fiscal Year Ended June 30, 2007			
	PUC	EAN	% Change
Actuarial Value of Liability (Cheiron*)	\$ 5,345,495,550	\$ 5,597,652,861	4.7%
Actuarial Value of Assets (Cheiron*)	4,413,410,812	4,413,410,812	0.0%
Unfunded Actuarial Liability	932,084,738	1,184,242,049	27.1%
Funding Ratio	82.6%	78.8%	-3.8%

\*SDCERS Actuary

The implementation of the EAN method resulted in an increase in the UAAL of approximately \$252.2 million and an annual required contribution of \$161.7 million payable in fiscal year 2009. The following schedule shows the effect, as of June 30, 2007, of the specific components of the total change of the Unfunded Actuarial Accrued Liability between fiscal years 2006 and 2007:

SDCERS - City of San Diego Source of Changes in Unfunded Actuarial Accrued Liability (In Millions)	
<u>UAAL Change Due to Experience Factors</u>	
1. Investment experience	\$ (74.9)
2. Purchased service credits paid for during the year	1.5
3. Liability experience	38.2
<u>UAAL Change Due to Contribution Factors</u>	
4. Contributions paid in excess of expected	(20.4)
<u>UAAL Change Due to Actuarial Method Changes</u>	
5. Removal of liabilities in excess of IRC § 415 limits - Non Drop members	(3.7)
6. Removal of liabilities in excess of IRC § 415 limits - Drop members	(2.7)
7. Change in actuarial funding method to EAN	252.2
<u>Total</u>	
8. Total net overall change: sum 1 through 7	190.2
9. Expected change in UAAL	(6.7)
10. Total change in UAAL: 8 + 9	<u>\$ 183.5</u>



The benefits awarded to some plan participants exceed the amount permitted for Internal Revenue Code (IRC) 401(a) pension plans such as SDCERS. In March 2001, the San Diego City Council established a Preservation of Benefit Plan to pay for benefits in excess of those allowed under the 401(a) plan. The Preservation of Benefit Plan is a qualified governmental excess benefit arrangement (QEBA) under IRC § 415(m), which is a vehicle created by Congress to allow the payment of promised pension benefits that exceed the IRC § 415(b) limits (and therefore cannot be paid from a qualified retirement plan). The Preservation of Benefit Plan is administered by the SDCERS Board separately from the City's 401(a) pension plan. On February 16, 2007, the SDCERS Board adopted the Preservation of Benefit Plan and Trust to carry out the intent of SDMC § 24.1601 et seq.

As background, IRC § 415(b) imposes dollar limits on the benefits payable from a qualified pension plan that receive favorable tax treatment. The maximum dollar limit is \$185,000 for calendar year 2008; however, this limit is adjusted downward based upon the payee's age at retirement in addition to other factors.

The Preservation of Benefit Plan is unfunded within the meaning of the federal tax laws. Under the Internal Revenue Code the City may not pre-fund the Preservation of Benefit Plan to cover future liabilities beyond the current year, as with the 401(a) plan. Each year, SDCERS will determine the amount necessary to fund any pension benefits payable during the calendar year in excess of IRC § 415(b). This amount will include the projected amount of all excess pension benefits payable for the calendar year to existing and projected payees, as well as the projected cost of administering the Preservation of Benefit Plan. SDCERS will provide this information to the City and the City will fund this amount on an annual basis.

The estimated actuarially accrued liability related to excess benefits for eligible active members of the system, amounting to approximately \$22.8 million, has been excluded from the actuarial valuation of the 401(a) retirement plan in the fiscal year 2006 actuarial valuation. The amount related to excess benefits for eligible active members was reported to be approximately \$30.4 million in the fiscal year 2007 actuarial valuation. Additionally, the actuarial liability for retired members of the Preservation of Benefit Plan, amounting to approximately \$6.4 million, has been excluded from the fiscal year 2007 actuarial valuation of the 401(a) retirement plan (as shown in the table above). Accordingly, the actuarial liability related to retired members is reflected in the actuarial liabilities of the 401(a) plan in the actuarial valuation dated June 30, 2006 as well as in the ARC payable in fiscal year 2008.

In fiscal year 2006, activities related to the Preservation of Benefit Plan for both retired and active members are included in the actuarial liabilities presented in the Required Supplementary Information (RSI) for the City's core pension plan and are valued using the same set of assumptions. The City is in the process of implementing a plan to account for the QEBA with SDCERS.

In light of various concerns raised in investigative reports regarding practices of SDCERS that could have jeopardized its status as a qualified governmental defined benefit plan, SDCERS requested its outside tax counsel, Ice Miller LLP, to perform a comprehensive document compliance review, prepare submissions in accordance with the IRS Voluntary Correction Program (VCP), and work with the IRS to finalize a compliance statement to resolve SDCERS' compliance issues. A comprehensive settlement was reached between the IRS and SDCERS on December 20, 2007 (Settlement). The Settlement requires the City and SDCERS to take certain corrective actions regarding certain provisions of its retirement plan within 150 days of December 20, 2007. The Settlement does not require the City to pay any penalty payments or to make any additional contributions to the retirement system. In the event the City does not successfully implement certain plan document changes required by the IRS Compliance Statement, SDCERS and the City may face additional regulatory actions from the IRS including but not limited to, SDCERS plan disqualification and financial penalties against the City, the plan sponsor. Additionally, SDCERS received a favorable Determination Letter from the IRS, dated January 25, 2008, which confirms the system's tax qualified status. The Determination Letter is contingent, however, upon the San Diego City Council's adoption of an IRS-approved Technical Ordinance which would amend the Municipal Code to comply with current tax law. This ordinance must be adopted by April 25, 2008.

The VCP filings identified violations and proposed corrections regarding the City's Presidential Leave Program for presidents of certain labor organizations that represent City employees; compensation limits under IRC § 401(a)(17); minimum distribution requirements under IRC § 401(a)(9); eligible rollover distribution compliance under IRC § 401(a)(31); minimum distribution requirements from the Deferred Retirement Option Plan (DROP) program; overpayment of disability benefits; conversion of annual leave to purchased service credits; retiree healthcare benefits and health administrative expenses under IRC § 401(h); benefit and compensation limits under IRC §§ 415(b), 415(c) and 415(n); and remedial plan amendments. Readers are encouraged to review the detailed discussion of the Voluntary Compliance Program filing and the resulting settlement as contained within Note 18: Contingencies of the Basic Financial Statements.

It is the City Attorney's opinion that these excess retirement benefits require voter approval as such benefits represent a distinct

pension plan. Therefore it is also his opinion that the excess retirement benefits are illegal and that the City should discontinue payment. Other members of management believe that this issue has yet to be resolved, and as such, the City intends to continue to treat these benefits as legal obligations until instructed to do otherwise by a court. In the opinion of other management, a decision to terminate such benefits would expose the City's residents to unnecessary and costly legal fees.

Certain other methodology changes were implemented for the June 30, 2006 valuation, which are discussed in detail in the valuation report. Additional information on the City's net pension obligation and annually required contribution is discussed in Note 12 of the notes to the financial statements contained in the financial section of the CAFR and in the Required Supplementary Information section of the report.

On November 2, 2004, the public approved an amendment to Article 9, Sections 143 and 144 of the City's Charter regarding the retirement systems actuarial assumptions and the governance structure of SDCERS. Notable changes include:

- Effective fiscal year 2009, UAAL shall be amortized using a 15 year assumption (see discussion below); for the 2006 actuarial valuation, Unfunded Actuarial Accrued Liabilities were amortized over 27 years reflecting the resetting of the amortization period pursuant to the settlement of the Gleason v. City of San Diego lawsuit. (The effects of this lawsuit on the pension system are disclosed in Note 12).
- Effective fiscal year 2009, new retirement benefits shall be amortized using a schedule no longer than 5 years.
- Effective April 2005 the composition of the SDCERS Board was changed to the following:
  - 7 members appointed by the Mayor, who are not associated with the City or Retirement system as employees, union members or beneficiaries,
  - 1 member who is an active employee in the police safety group, elected by the members of that group,
  - 1 member who is an active employee in the fire safety group, elected by the members of that group,
  - 2 members who are active employees in the general member group, elected by members of that group,
  - 1 member who is a retired member of the system and is elected by the retired members of the system, and
  - 1 member who is a City management employee and serves at the pleasure of the Mayor. This member must be the Chief Operating Officer, City Treasurer, Deputy or Assistant Chief Operating Officer or a similar position that reports to the Chief Operating Officer or Mayor. As of the issuance of this report, the Deputy Chief of the Office of Ethics and Integrity is assuming the responsibility of this position.

Various concerns have been raised by City management in response to the aforementioned charter revision pertaining to the 15 year amortization assumption of the UAAL. California State Attorney General Opinion 04-710 concludes that a city charter cannot mandate a specified amortization schedule for retirement benefits or accumulated actuarial gains and losses. Furthermore, a recent legal ruling by the California Superior Court concluded that SDCERS Board has "plenary authority" over the retirement system in its administrative capacity. In March 2007, the SDCERS Board adopted a 20 year amortization assumption, with no negative amortization. The SDCERS Board did not change the amortization period to a 15 year amortization assumption for the purpose of determining the City's fiscal year 2009 Annually Required Contribution. The San Diego City Attorney's Office has opined that the voter's amendment to the Charter to establish a 15-year amortization requirement for accumulated actuarial losses simply establishes an upper boundary for the amortization of pension debt, and does not usurp or unduly interfere with the SDCERS Board's plenary authority and fiduciary responsibility in violation of the California constitution, and as a result, the 15 year amortization period is binding. Other management notes that Governmental Accounting Standards expressly state that "a plan and its employers should apply the same actuarial methods and assumptions in determining similar or related information included in their respective financial reports." However, the GASB does not assign responsibility for determining actuarial assumptions to either the plan administrator or the plan sponsor. Accordingly, the City intends to pay the full ARC as calculated by SDCERS' actuary. Given the size of the City's current Unfunded Actuarially Accrued Liability, a change to a 15-year amortization schedule could have a significant impact on future annually required contributions. In relation to the implementation of a 15-year amortization, SDCERS issued a report titled "Summary and Answers to Frequently-Asked Questions about the June 30, 2006 Actuarial Valuation for the City of San Diego." This document stated that if a 15-year amortization of the unfunded actuarial liability was implemented, the City's Annual Required Contribution for fiscal year 2008 would increase by \$29.1 million over the requested contribution of \$137.7 million. Thus, a 15-year amortization period would result in an Annual Required Contribution of \$166.8 million. Comparatively, the City's fiscal year 2008 budget included appropriations for a contribution of \$165 million to SDCERS. Additionally, SDCERS estimates that the City's ARC for fiscal year 2009 would have increased by approximately \$7 million if a 15 year amortization assumption were used.

On November 7, 2006, the public approved an amendment to Article 9, §143 of the City's Charter, requiring voter approval of certain increases in retirement system benefits for public employees. Specifically, this amendment requires voter approval of any ordinance that amends the City's retirement system by increasing the benefits of any employee. However, increases in retirement benefits due to cost of living adjustments do not require voter approval.



On August 3, 2007, the General Counsel of SDCERS issued a letter to the City stating their opinion in regards to the effective date of the fiscal year 2005 agreements between the City and the labor unions. As part of the agreements, several benefits were altered or eliminated for employees hired on or after July 1, 2005, including the Deferred Retirement Option Plan (DROP), the 13th Check, and the option to purchase years of service credits ("air-time"). According to their fiduciary counsel, "SDCERS is obligated to administer benefits in accordance with its plan documents." However, the City did not enact such ordinances until January 17, 2007, which took effect on February 16, 2007. Therefore, the General Counsel of SDCERS and their outside counsel opine that the effective date of the agreements with the labor unions is February 16, 2007, the date that the benefit changes were codified into the plan document. On October 9, 2007, the City filed a petition for declaratory relief to determine the effective date of retirement benefit changes for employees hired between July 1, 2005 and February 16, 2007.

On September 21, 2007 the President of the SDCERS Board of Administration issued a press release stating that, under the direction of the Board of Administration, SDCERS' staff, actuary, and legal counsel, he had reviewed the SDCERS purchase of service credit program, and that his review concluded the following:

- With respect to SDCERS' service credit pricing structure that was in place prior to November 2003, Cheiron, SDCERS actuary, has determined that the full cost was not reflected in the price then charged to SDCERS members.
- This pricing shortfall, which totals approximately \$146 million, has been included in the System's Unfunded Actuarial Liability since the inception of the service credit program.
- With respect to the SDCERS' service credit pricing in place since November 2003, Cheiron advised SDCERS that structure covers the full projected cost to the System when members purchased the service credits.

The pricing shortfall of approximately \$146 million, which is included in the System's Unfunded Actuarial Liability, is reported in the RSI of these financial statements.

Additionally, as a result of the City's negotiations with employee labor unions, the MOUs for the fiscal year 2006 contain agreements to either reduce the amount of individual employees' pension contributions which are paid for by the City or to impose salary reductions. The agreements explicitly state that savings to the City must be used to pay down its Unfunded Actuarial Accrued Liability (UAAL) within the timeframe of the respective contracts. The labor contract with the American Federation of State and County Municipal Employees (AFSCME) Local 127 states that "By June 30, 2008, if the City has not dedicated a total of \$600 million or more to the UAAL reduction, including the amount received by leveraging employee salary reduction and pension contribution monies, the AFSCME salary reduction monies with interest will revert to SDCERS Employee Contribution Rate Reserve for benefit of Local 127 unit members to defray employee pension contributions." The City will be excused from meeting the above obligation if the funded ratio reaches 100% by June 30, 2008.

In June 2006, the City leveraged a portion of the employee pick up savings by contributing \$90.8 million from securitization of future tobacco settlement revenues, \$9.2 million of current tobacco settlement revenues, and \$8.3 million from the remaining balance in the employee "pick-up" amount as part of meeting its negotiated commitment. In June 2007, the City contributed approximately \$7.0 million, in addition to the ARC, from the savings of the employee "pick-up" reduction. A financing option to generate \$70 to \$80 million in additional funding is currently being pursued. As of issuance of this report, it appears the City will not be able to meet the outstanding commitment by June 30, 2008 in its entirety. As such, the salary reduction monies, with interest, will likely revert to the employee contribution rate reserve as stated in the MOU with the Local 127 bargaining unit.

Additional information regarding the City's pension trust fund, including the City's NPO, can be found in Note 12 of the notes to the financial statements.

## **Other Post Employment Benefits**

### Retiree Health

The City provides certain healthcare insurance benefits to a variety of retired employees, as provided for in SDMC Sections 24.1201 through 24.1204 (the "Plan"). Currently, the benefits are primarily for employees who were actively employed on or after October 5, 1980 and were otherwise entitled to retirement allowances. Employees who retired or terminated prior to October 6, 1980, who were eligible for retirement allowances prior to that date, are also eligible for healthcare benefits, limited to a total of \$1,200 per year. Additionally, employees who were hired on or after July 1, 2005 and become eligible for retirement allowances in the future are also eligible for healthcare benefits, limited to a total of \$1,200 per year.

Historically, the City paid for post employment healthcare benefits on a pay-as-you-go basis for retirees who received either City paid insurance or were reimbursed for other health insurance costs incurred. The total annualized cost of retiree health benefits included costs incurred for dependent healthcare, which were deducted from retiree allowances. In fiscal years 2006 and 2007,

the annualized cost of retiree health benefits was approximately \$24.1 million and \$27.1 million, respectively. The City's obligation of this cost was \$17.7 million and \$20.4 million, respectively.

The following schedule details payments for retirement health benefits:

<u>Retiree Health Care Costs</u> (in thousands)					
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006<sup>1</sup></u>	<u>2007</u>
Expenditures Paid Directly from City	\$ -	\$ -	\$ 6,949	\$ 17,696	\$ 20,419
Expenditures Paid from 401(h) reserve	11,450	12,829	7,910	-	-
Expenditures Paid by Retirees	2,981	5,458	5,978	6,374	6,727
Total Retiree Health Expenditures	<u>\$ 14,431</u>	<u>\$ 18,287</u>	<u>\$ 20,837</u>	<u>\$ 24,070</u>	<u>\$ 27,146</u>

<sup>1</sup> Expenditures paid directly from City in fiscal year 2006 includes approximately \$265 of accrued expenses.

In July 2004, GASB issued Statement No. 45, "Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions" ("GASB 45"), which addresses how local governments should account for and report their costs and obligations related to other post employment benefits (OPEB). This statement is effective for the City for periods beginning after December 15, 2006 (i.e. beginning in fiscal year 2008). GASB 45 establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial statements. In response to the requirements of GASB 45, the City Council authorized the City to enter into an agreement with CalPers to pre-fund post employment healthcare benefits on January 18, 2008. As a result, the City contributed approximately \$30.1 million to CalPers, which will be reflected in the fiscal year 2008 financial statements. The City is required to annually pre-fund the plan in an amount not less than \$5,000; however, the City intends to contribute an annual amount not less than 50% of the annual Required Contribution, as calculated by an actuary of the City's choice. All future contributions for post employment healthcare benefits will be placed in this fund and credited toward the City's annually required contribution for Retiree Healthcare liabilities in accordance with GASB 45.

An actuarial valuation of the City's postretirement medical benefit program as of June 30, 2007 was performed for the purpose of determining its annual cost in accordance with GASB 45. During fiscal year 2007, the City continued a "pay as you go" approach to funding retiree health costs. Specifically, for valuation purposes, the City used a 5% earnings assumption, an inflation factor of 3%, and a 30 year amortization period. The actuarial valuation for the fiscal year 2007 uses a 7.75% earnings assumption which is applicable only if the City intends to fully fund the ARC. However, the City intends to partially fund the ARC, and therefore, the actuarial valuation also uses a lower blended earnings assumption based on the City's actual contributions. The following table presents the actuarial accrued liability for all retirees, deferred retirement participants, vested terminated and active members, and the annual required contribution for fiscal year 2009 (as reported in the actuarial valuation dated June 30, 2007), using either of the assumptions discussed above, following the implementation of GASB 45:

<u>Retiree Healthcare Liabilities</u>		
	<u>Full Funding Method (7.75%)</u>	<u>Partial Funding Method (Blended)</u>
Actuarial Accrued Liability	\$ 819,900,461	\$ 961,630,144
Annual Required Contribution	85,091,889	95,518,668

#### Defined Contribution Plan

The City has established the Supplemental Pension Savings Plan ("SPSP"), a defined contribution plan administered by Wachovia Corporation, which provides pension benefits for eligible employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Eligible employees may participate from the date of employment and contributions from employer's match vest at a rate of 20% for each year of service. The City also established a 401(k) Plan effective July 1, 1985. The plan is a defined contribution plan also administered by Wachovia Corporation, to provide pension benefits for all eligible employees. Employees participating in the 401(k) plan are immediately 100% vested.

### Deferred Compensation Plan

In addition to the defined benefit and contribution plans, the City also offers its employees a deferred compensation plan created in accordance with Internal Revenue Code §457. The plan, available to all eligible City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, disability, or an unforeseeable emergency.

Additional information on the City of San Diego's pension activity may be found in Notes 12 and 13 of the notes to the financial statements.

### **Long-Term Financial Outlook**

On January 11, 2008, the City released a Five-Year Financial Outlook covering fiscal years 2009 through 2013. This document is an examination of the City's long range fiscal condition and financial challenges. The City intends to update the Five-Year Outlook periodically to account for changed circumstances. In addition to other issues, the Financial Outlook concentrates on eight significant areas that must be addressed in order to restore and preserve the fiscal integrity and/or meet the legal obligations of the City. These eight significant areas are identified below:

1. Funding the City's Pension Plan.
2. Funding the City's General Fund reserves.
3. Funding deferred maintenance and capital improvement needs.
4. Funding the City's Post Employment Medical Program.
5. Funding the City's new obligations under Storm Water Runoff Permits.
6. Funding the City's Americans with Disabilities Act (ADA) obligations.
7. Funding the City's Workers' Compensation Fund.
8. Funding the City's Public Liability Fund.

The Financial Outlook relies on several assumptions, including revenue and expenditure growth estimates, to identify priorities to address in City Budgets over a five year period and assumes a significant financial commitment toward funding the aforementioned eight areas. As part of that commitment, the Outlook projected a \$32 million operating deficit for the fiscal year ended June 30, 2009. For fiscal years 2010-2013, the deficit is projected to be \$66 million, \$85 million, \$76 million, and \$50 million, respectively, before including the effect of a balanced budget in fiscal year 2009.

In order to address the projected operating deficits, the outlook discusses several potential corrective actions; however, these corrective actions are contingent on future events and City Council actions, and as such, the Financial Outlook does not reflect a binding commitment of the City. The extent to which these corrective actions will mitigate future operating deficits as identified in the Financial Outlook is unknown at the time of issuance of this report. However, the City Council approved the Fiscal Year 2008 Appropriation Ordinance on July 30, 2007 implementing the fiscal year 2008 budget which included several initiatives proposed by the Mayor in the Financial Outlook. Specifically, the Appropriations Ordinance reflected a balanced budget and the City's commitment to funding pension and other post employment healthcare liabilities.

The 2008 Budget also included appropriations for the City's full Annually Required Contribution of \$137.7 million to the City's Pension plan plus \$27.3 million in additional contributions. Amounts contributed in addition to the Annually Required Contribution will be credited to the City's NPO and UAAL.

In addition to the funding of pension and other post employment healthcare expenses, the City's 2008 budget included:

- An additional \$18 million for compliance with Storm Water Permits.
- An additional \$13.6 million for deferred maintenance and \$25 million for financed capital projects.
- An additional \$10 million for Americans with Disabilities Act Compliance.
- An additional \$5 million in funding for Public Liability Reserves.
- A budgeted reserve contribution of \$3.3 million.

Funding requirements for Workers' Compensation are planned to be addressed in fiscal year 2009, as discussed in the Five Year Financial Outlook, and were not addressed in the Fiscal Year 2008 Budget. In addition to the allocation of funds in the Fiscal Year 2008 Budget, the City Charter was recently amended to enable the City to contract for certain services, allowing a "Managed Competition" plan to be undertaken by the City. Managed Competition involves undertaking a review and redesign of how City services are delivered, with a goal of increasing the efficiency of City operations. Once completed and operating

segments have achieved the efficiency gains identified in the first step of the Managed Competition plan, operating segments are competed against private sector suppliers in an effort to determine the lowest cost approach to service delivery. If private sector suppliers are the lowest bidder, the services will be outsourced. The potential savings from Managed Competition and the effect on the projected deficits cannot be determined at this time.

Due to the City's restraint in hiring in Fiscal Year 2007, the City realized significant budgetary savings for personnel expenditures of approximately \$34.6 million for the year ended June 30, 2007. The Fiscal Year 2008 budget process identified and eliminated approximately 630 (629.71) budgeted positions citywide.

The City's Five-Year Financial Outlook discussed above can be obtained at the Financial Management Office, 202 C Street, MS8A, San Diego, CA 92101.

## **OTHER FINANCIAL INFORMATION**

### **Independent Audits**

The City Charter requires an annual audit by independent certified public accountants. The goal of an independent audit is to provide reasonable assurance that the financial statements are free of material misstatements. An independent audit involves 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 the City; and evaluating the overall financial statement presentation. In addition, the City is required to undergo an annual Single Audit in conformity with the U.S. Office of Management and Budget Circular A-133, "Audits of State and Local Governments and Non-Profit Organizations." As part of the City's Single Audit, tests are performed on internal control activities, including that portion related to federal award programs, to determine the City's compliance with applicable laws, regulations, contracts and grants.

The Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards for the fiscal year ended June 30, 2005, dated October 26, 2007, reported three material weaknesses to the internal control framework which require significant improvements in order to produce timely and accurate financial statements in a cost effective manner. Additionally, the Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program, Internal Control Over Compliance and the Schedules of Expenditures of Federal Awards and Governor's Office of Emergency Services Grants in Accordance With OMB Circular A-133 for the fiscal year ended June 30, 2005 reported compliance, in all material respects, with the requirements that are applicable to each of its major federal programs with the exception of four specific instances. City management is currently in the process of improving the internal controls over compliance in response to these issues. Both the CAFR and the Internal Auditor's Annual Reports on Internal Controls can be obtained at the City of San Diego Comptroller's Office, 202 C Street, MS6A, San Diego, CA 92101.

### **Cash Management**

The City Treasurer is responsible for investment of the City's cash. Eligible investments include, but are not limited to, obligations of the U.S. Treasury and U.S. Agencies, demand deposits, negotiable certificates of deposit, bankers' acceptances, medium-term corporate notes, repurchase agreements, and commercial paper in compliance with Sections 53601-53635 of the California Government Code. The City's cash is invested under a pooled money concept, with maturities planned to coincide with projected needs, and with the primary objective of preserving principal. During fiscal year 2006, the average daily pooled portfolio balance was approximately \$1.26 billion, with a weighted average maturity of 502 days. Most of these monies are held in funds that have restricted uses. The largest balances, for instance, are found in the utility funds. The average earned income yield on pooled investments was 3.40%, as compared to 2.07% in the prior year.

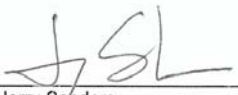
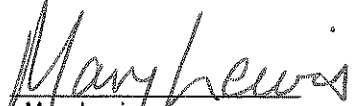
The City Treasurer's Investment Policy has an objective to minimize credit and market risks while maintaining a competitive yield on its portfolio. All non-negotiable time certificates of deposit and demand accounts in excess of the amounts insured by the Federal Deposit Insurance Corporation are required to be fully collateralized with mortgages or eligible securities in accordance with California State law. The City's investments are held by the City's custodian bank in the City's name, or the nominee name of the custodian bank, to ensure fluid and efficient processing of security trades.

Additional information on the City of San Diego's cash management activity may be found in Note 3 of the notes to the financial statements.

**Risk Management**

The City is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The City has established various self-insurance programs and maintains contracts with various insurance companies to manage excessive risk. Additional information on the City of San Diego's risk activity may be found in Notes 15 and 16 of the notes to the basic financial statements.

Sincerely,

  
Jerry Sanders  
Mayor  
Jay Goldstone  
Chief Operating Officer  
Mary Lewis  
Chief Financial Officer

City of San Diego Officials  
As of June 30, 2006

Mayor and Council Members

Jerry Sanders, Mayor

Scott Peters, Councilmember District 1

Kevin Faulconer, Councilmember District 2

Toni Atkins, Councilmember District 3

Tony Young, Councilmember District 4

Brian Maienschein, Councilmember District 5

Donna Frye, Councilmember District 6

Jim Madaffer, Councilmember District 7

Ben Hueso, Councilmember District 8

City Attorney

Michael J. Aguirre

City Officials

Ronne Froman\*, Chief Operating Officer

Jay M. Goldstone, Chief Financial Officer

John Torell\*, Auditor and Comptroller

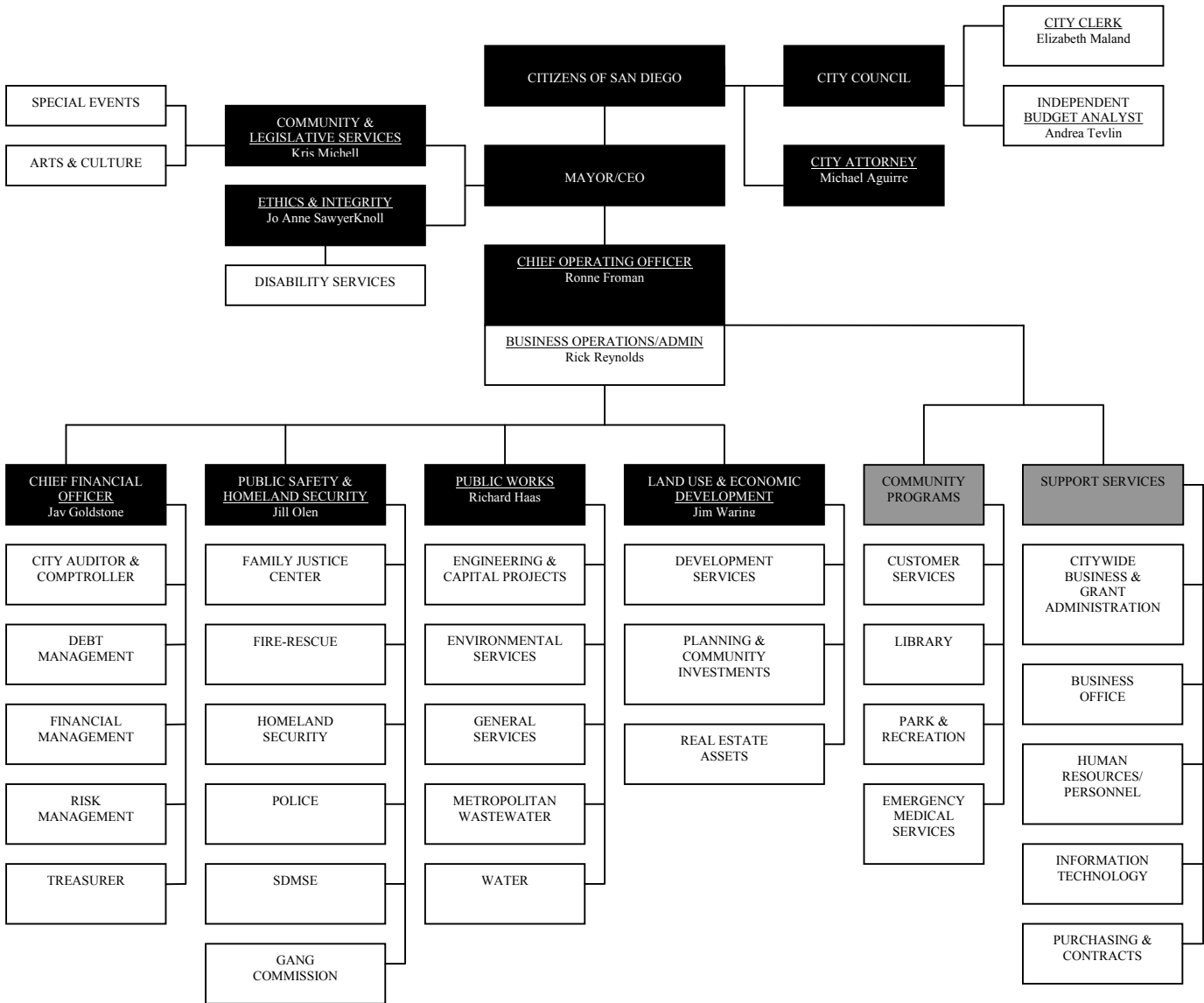
Gail Granewich, Treasurer

Elizabeth Maland, City Clerk

Andrea Tevlin, Independent Budget Analyst

\* Individual is no longer an employee of the City.

City of San Diego Organization Chart  
As of June 30, 2006



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## FINANCIAL SECTION

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CERTIFIED PUBLIC ACCOUNTANTS & MANAGEMENT CONSULTANTS

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402 West Broadway, Suite 400  
San Diego, CA 92101  
619.573.1112

## **Independent Auditor's Report**

To the Honorable Mayor and Members of the City Council  
of the City of San Diego, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of San Diego, California (City), as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the San Diego Housing Commission, a discretely presented component unit, which statements reflect 89%, 95% and 84% of total assets, total net assets and total revenues, respectively, of the aggregate discretely presented component unit totals. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the San Diego Housing Commission, is based on the report of the other auditors.

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. The financial statements of the San Diego Convention Center Corporation were not audited in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes 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, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of June 30, 2006, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2008 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The management's discussion and analysis, analysis of funding progress and general fund budgetary information on pages 33 through 45, 154 and 155 through 160, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, supplementary information, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information, except for the budgetary schedules on pages 206 through 213, 216 through 217 and 227, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Macias Jini & O'Connell LLP*

Certified Public Accountants

Los Angeles, California

March 21, 2008.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(Unaudited)**  
**(In Thousands)**  
**June 30, 2006**

As management of the City of San Diego (City), we offer readers of the City financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2006.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing changes in the City's net assets during the fiscal year 2006. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. The focus is on both gross and net costs of City functions, which are supported by general revenues. This Statement also distinguishes functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include: General Government and Support; Public Safety - Police; Public Safety - Fire and Life Safety; Parks, Recreation, Culture and Leisure; Transportation; Sanitation and Health; and Neighborhood Services. The business-type activities of the City include: Airports; City Store; Development Services; Environmental Services; Golf Course; Recycling; Sewer Utility; and Water Utility.

The government-wide financial statements include the City (known as the primary government) and the following legally separate, discretely presented component units: San Diego Convention Center Corporation (SDCCC); and San Diego Housing Commission (SDHC). Financial information for these component units is reported separately from the financial information presented for the primary government. Blended component units, also legally separate entities, are a part of the government's operations and are combined with the primary government.

Included within the primary government as blended component units:

- Centre City Development Corporation
- City of San Diego Metropolitan Transit Development Board Authority
- Community Facility and Other Special Assessment Districts
- Convention Center Expansion Financing Authority
- Public Facilities Financing Authority
- Redevelopment Agency of the City of San Diego
- San Diego City Employees' Retirement System (SDCERS)
- San Diego Data Processing Corporation
- San Diego Facilities and Equipment Leasing Corporation

- San Diego Industrial Development Authority
- San Diego Open Space Park Facilities District #1
- Southeastern Economic Development Corporation
- City of San Diego Tobacco Settlement Revenue Funding Corporation

The government-wide financial statements can be found beginning on page 50 of this report.

## **FUND FINANCIAL STATEMENTS**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

## **GOVERNMENTAL FUNDS**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund, which is a major fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget and is presented as required supplementary information.

The basic governmental funds financial statements can be found beginning on page 54 of this report.

## **PROPRIETARY FUNDS**

The City maintains two different types of proprietary funds, enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses Enterprise Funds to account for its various business-type activities. Internal Service funds, such as Central Garage and Machine Shop, Central Stores, Print Shop, and Self Insurance, are used to report activities that provide centralized supplies and services to the City. All internal service funds, except for the Special Engineering Fund, have been included within governmental activities in the government-wide financial statements since they predominantly benefit governmental functions. The Special Engineering Fund, which services exclusively Water and Sewer activities, has been included within business-type activities in the government-wide financial statements.

Proprietary fund statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary funds financial statements provide separate information for the Water and Sewer funds, which are considered to be major funds of the City. Data from other proprietary funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor business-type funds is provided in the form of combining statements elsewhere in this report. Internal service funds are combined into a single, aggregated presentation in the proprietary funds financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this

report. The basic proprietary funds financial statements can be found beginning on page 58 of this report.

**FIDUCIARY FUNDS**

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary funds financial statements can be found beginning on page 61 of this report.

**NOTES TO THE FINANCIAL STATEMENTS**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 63 of this report.

**OTHER INFORMATION**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 154 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds, nonmajor business-type funds, internal service funds, and fiduciary funds are presented immediately following the required supplementary information on pensions and the General Fund budgetary comparison statement. Combining and individual fund statements and schedules can be found beginning on page 187 of this report.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

CITY OF SAN DIEGO'S SUMMARY OF NET ASSETS  
(In Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005*	2006	2005	2006	2005*
Capital Assets	\$ 4,307,640	\$ 4,284,409	\$ 4,536,313	\$ 4,507,385	\$ 8,843,953	\$ 8,791,794
Other Assets	1,511,124	1,337,369	650,350	647,459	2,161,474	1,984,828
Total Assets	5,818,764	5,621,778	5,186,663	5,154,844	11,005,427	10,776,622
Net Long-Term Liabilities	1,876,763	1,797,521	1,866,411	1,870,766	3,743,174	3,668,287
Other Liabilities	160,423	192,679	109,123	116,070	269,546	308,749
Total Liabilities	2,037,186	1,990,200	1,975,534	1,986,836	4,012,720	3,977,036
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt	3,472,531	3,478,769	2,867,469	2,863,136	6,340,000	6,341,905
Restricted	449,173	401,486	35,085	32,929	484,258	434,415
Unrestricted	(140,126)	(248,677)	308,575	271,943	168,449	23,266
Total Net Assets	\$ 3,781,578	\$ 3,631,578	\$ 3,211,129	\$ 3,168,008	\$ 6,992,707	\$ 6,799,586

\* Certain amounts have been reclassified to conform to current year presentation

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 \$6,992,707 at June 30, 2006, an increase of \$193,121 over fiscal year 2005.

\$6,340,000, or approximately 91%, of total Net Assets represent the City's investment in capital assets (e.g., land, structures and improvements, equipment, distribution and collections systems, infrastructure, and construction-in-progress), less any outstanding debt used to acquire these assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves generally are not used to liquidate these liabilities.

\$484,258, or approximately 7%, of total Net Assets represent resources that are subject to external restrictions on how they may be used. The remaining balance of \$168,449, or approximately 2%, is available to finance ongoing services and obligations to the City's citizens and creditors.

Unrestricted Net Assets increased by \$145,183, primarily due to: a decrease of approximately \$46,000 in the amount of outstanding debt for governmental activities which is not capital or housing related; an increase in revenue accruals of approximately \$30,000 for In-Lieu Vehicle License Fees and grants receivable of governmental activities; an increase of \$23,000 in capital contributions related to land acquisition credits of the governmental activities; a decrease in liability claim accruals of approximately \$21,000 resulting from claims settled in fiscal year 2005 and fiscal year 2006 and a slightly lower actuarial valuation for public liability claims; and an increase in sales of water of approximately \$12,000 in the Water Utility due to rate increases.

The deficit balance of (\$140,126) in Unrestricted Net Assets for Governmental Activities reflects the fact that governmental activities raise resources based on when liabilities are expected to be paid, rather than when they are incurred. Most governments normally do not have sufficient current resources on hand to cover current and long-term liabilities. This deficit in and of itself should not be considered an economic or financial difficulty; however, it does measure how far the City has committed the government's future taxing power for purposes other than capital acquisition.



**CITY OF SAN DIEGO'S SUMMARY OF CHANGES IN NET ASSETS**  
(In Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program Revenues						
Charges for Current Services	\$ 278,881	\$ 268,977	\$ 705,682	\$ 697,330	\$ 984,563	\$ 966,307
Operating Grants and Contributions	101,723	109,268	1,909	2,028	103,632	111,296
Capital Grants and Contributions	100,564	134,702	77,602	63,830	178,166	198,532
General Revenues						
Property Taxes	459,777	381,874	-	-	459,777	381,874
Transient Occupancy Taxes	136,803	120,792	-	-	136,803	120,792
Other Local Taxes	148,001	152,577	-	-	148,001	152,577
Grants and Contributions not Restricted to						
Specific Programs	64,039	89,719	-	-	64,039	89,719
Sales Taxes	227,017	197,198	-	-	227,017	197,198
Investment Income	40,108	29,473	16,938	17,132	57,046	46,605
Other	75,943	52,979	6,502	8,815	82,445	61,794
Total Revenues	1,632,856	1,537,559	808,633	789,135	2,441,489	2,326,694
Expenses:						
General Government and Support	252,295	247,038	-	-	252,295	247,038
Public Safety-Police	370,990	372,230	-	-	370,990	372,230
Public Safety-Fire and Life Safety	194,074	186,203	-	-	194,074	186,203
Parks, Recreation, Culture and Leisure	237,375	218,601	-	-	237,375	218,601
Transportation	200,883	220,095	-	-	200,883	220,095
Sanitation and Health	48,774	45,088	-	-	48,774	45,088
Neighborhood Services	111,886	89,162	-	-	111,886	89,162
Interest on Long-Term Debt	71,109	73,381	-	-	71,109	73,381
Airports	-	-	4,100	3,196	4,100	3,196
City Store	-	-	810	808	810	808
Development Services	-	-	57,893	60,240	57,893	60,240
Environmental Services	-	-	44,493	43,711	44,493	43,711
Golf Course	-	-	9,563	8,585	9,563	8,585
Recycling	-	-	21,853	21,426	21,853	21,426
Sewer Utility	-	-	319,274	348,327	319,274	348,327
Water Utility	-	-	302,996	300,665	302,996	300,665
Total Expenses	1,487,386	1,451,798	760,982	786,958	2,248,368	2,238,756
Change in Net Assets Before Transfers:	145,470	85,761	47,651	2,177	193,121	87,938
Transfers	4,530	626	(4,530)	(626)	-	-
Net Change in Net Assets	150,000	86,387	43,121	1,551	193,121	87,938
Net Assets - July 1	3,631,578	3,545,191	3,168,008	3,166,457	6,799,586	6,711,648
Net Assets - June 30	\$ 3,781,578	\$ 3,631,578	\$ 3,211,129	\$ 3,168,008	\$ 6,992,707	\$ 6,799,586

## GOVERNMENTAL ACTIVITIES

Governmental activities increased the City's net assets by \$150,000 during fiscal year 2006. Variances from fiscal year 2005 of more than 10% are discussed below.

- Capital Grants and Contributions decreased by \$34,138, or approximately 25%, which was caused by several factors. Donated capital assets decreased by approximately \$55,000 from fiscal year 2005. \$40,000 of this decrease was attributed to donated land, and the remaining decrease was primarily related to facilities benefit assessment (FBA) projects completed during fiscal year 2006. The Grants funds and Capital Outlay funds experienced decreases of approximately \$4,000 and \$12,000, respectively, due to departmental delays in grant billings, as well as one time grants received for property acquisitions during fiscal year 2005. These decreases were partially offset by the Redevelopment Agency's recognition of revenue that had been advanced by the San Diego Padres in prior years for the purpose of acquiring land surrounding Petco Park. The City recorded these advances as Land Acquisition Credits to be used by the developer against the sales price of the land. In fiscal year 2006, the conveyance of these parcels was completed, which increased the Capital Grants and Contributions revenue by approximately \$36,000.
- Property Tax revenue increased by \$77,903, or approximately 20%. Approximately \$23,000 was attributed to increased assessed property valuations in the Centre City Redevelopment project area, and approximately \$18,300 was due to increased In-Lieu Vehicle License Fees (VLF) received as a result of the State of California's implementation of the VLF Swaps. The remaining \$36,603 increase was attributed to increases in assessed property valuations, both in the City (approximately \$27,000) and other Redevelopment project areas (approximately \$9,600).
- Transient Occupancy Taxes increased by \$16,011, or approximately 13%, primarily due to an increase in the average daily rate charged for hotel rooms, compared to fiscal year 2005. According to the San Diego Convention & Visitors Bureau, average occupancy rates of hotels located in the San Diego area declined during calendar year 2006 by approximately 0.2%; however, average daily room rates increased by approximately 6.0%.
- Grants and Contributions not Restricted to Specific Programs decreased by \$25,680, or approximately 29%, due to the following factors. The State of California did not budget for the transfer of Booking Fees in fiscal year 2006, which resulted in a decrease of approximately \$5,000. There was also a decrease of \$20,435, due to a one time sale of VLF receivables during fiscal year 2005, by the San Diego Open Space Park Facilities District #1, which were used for a partial refunding of Open Space bonds.
- Sales Tax revenue increased by \$29,819, or approximately 15%, primarily due to \$15,000 received from the State of California pursuant to Assembly Bill 2928, during fiscal year 2006. During fiscal years 2004 and 2005, the State did not make payments to the City, and instead, made a "catch-up" payment for 2004, 2005, and 2006 during fiscal year 2006. The remainder of the increase was due to growth in taxable sales.
- Investment Income increased by \$10,635, or approximately 36%, primarily due to changes in market values.
- Other revenue increased by \$22,964, or approximately 43%. Approximately \$17,000 of this increase represents the retirement pick up amounts paid by City employees. There was also an increase of approximately \$8,600 in developer contributions within the North University City Area, to be used for various improvements including the Nobel Athletic Area.
- Neighborhood Services expense increased by \$22,724, or approximately 25%, primarily due to Redevelopment Agency losses of approximately \$8,300 on the disposition of land held for resale, for the development of low and moderate income housing in the Barrio Logan and City Heights project areas. In addition, there were increased project improvement expenditures of approximately \$5,200 related to low and moderate income housing in the Crossroads project area.

## BUSINESS-TYPE ACTIVITIES

Business-type activities increased the City's net assets by \$43,121 during fiscal year 2006. Variances from fiscal year 2005 of more than 10% are discussed below.

- Capital Grants and Contributions increased by \$13,772, or approximately 22%, primarily due to increases in developer contributed infrastructure for Sewer and Water capital improvement projects.

- Other revenue decreased by \$2,313, or approximately 26%, primarily due to a one time claim settlement award received during fiscal year 2005 by the Sewer Utility Fund for construction defects attributed to the Rose Canyon Trunk Sewer project.
- Golf Course expense increased by \$978, or approximately 11%, primarily due to increased maintenance projects at both the Torrey Pines and Mission Bay golf courses.

## FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City uses fund accounting to ensure and 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 fiscal year 2006, the City's governmental funds reported combined ending fund balances of \$1,137,239, an increase of \$137,625 from fiscal year 2005. Approximately \$714,932 constitutes unreserved fund balance, which is available for spending at the government's direction. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed (1) to liquidate contracts and purchase orders of the period, (2) to pay debt service, (3) to generate income to pay for the perpetual funding of various programs, or (4) for a variety of other purposes.

The General Fund is the principal operating fund of the City. At the end of fiscal year 2006, undesignated fund balance of the General Fund was \$39,884, while total fund balance was \$61,641. This represents a \$593 increase from the fiscal year 2005 total fund balance.

### PROPRIETARY FUNDS

The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

As of the end of fiscal year 2006, Unrestricted Net Assets of the Sewer Utility Fund are \$115,603. Unrestricted Net Assets increased approximately \$6,340, or approximately 6%, mainly due to a decrease in maintenance and operations expenses of approximately \$2,900, combined with a \$3,500 decrease in debt service interest expense.

As of the end of fiscal year 2006, Unrestricted Net Assets of the Water Utility Fund are \$148,177. Unrestricted Net Assets increased by \$25,778, or approximately 21%, primarily due to a State Revolving Loan Fund addition of \$21,108, combined with an increase in the sales of water as a result of City Council approved rate increases of 6% for five years beginning July 1, 2002, through July 1, 2006.

## GENERAL FUND BUDGETARY HIGHLIGHTS

The original budget was \$28,265 lower than the final budget due to increases (decreases) in appropriations primarily attributed to the following:

- \$9,010 for General Government and Support. This increase was related to several departments. Facilities Maintenance had a \$2,482 budget increase, for services to other funds. The budget for Property Tax Administration was increased by \$1,261. Storm Water's budget increased by \$1,498 due to an increase in professional consultant services and project related costs. The City Manager's budget increased by \$690 due to the transition to the Strong Mayor form of government. The departments of Personnel, Financial Management, Engineering, and Human Resources-Organizational Effectiveness Program had a combined increase of \$1,914. This was due to the appropriation of over budget revenue which was generated by increased services. Council Administration had a budget increase of \$486 due to the addition of the Office of the Independent Budget Analyst.

- \$9,097 for Public Safety – Fire and Life Safety and Homeland Security. This increase was primarily due to personnel costs related to terminal leave payouts, specialty pay, and higher than anticipated overtime.
- \$3,187 for Neighborhood Services. This increase was primarily due to additional services provided to the Redevelopment Agency and other City funds.
- (\$8,864) for Transfers to Proprietary Funds. This decrease was the result of the reclassification of transfers to the Public Liability Fund as General Government and Support expenditures.
- \$14,888 for Transfers to Other Funds. This increase was primarily due to City Council directed transfers to Capital Projects Funds, including \$10,410 for State Route 56 right-of-way acquisition costs.

Actual revenues received for the General Fund were \$19,542 more than budgeted. Property Taxes were over budget by \$13,149, which was primarily due to higher than anticipated growth in assessed property valuations. Sales taxes were under budget by \$40,014, and In Lieu Sales Taxes were over budget by \$45,433. Both these variances were primarily a result of the State of California's implementation of the "Triple Flip." The City's 2006 budget accounted for these revenues within the Sales Tax category, however for CAFR purposes, the revenue is reported in the In Lieu Sales Tax category.

Actual expenditures for the General Fund were \$13,679 less than budgeted, primarily due to the Mayor's mandatory 5% savings plan enforced upon all General Fund departments.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### CITY OF SAN DIEGO'S CAPITAL ASSETS (Net of Accumulated Depreciation) (In Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Land, Easements, Rights of Way	\$ 1,711,064	\$ 1,696,804	\$ 89,769	\$ 85,618	\$ 1,800,833	\$ 1,782,422
Construction-in-Progress	223,903	223,519	399,422	496,184	623,325	719,703
Structures and Improvements	785,158	765,231	1,272,150	1,217,090	2,057,308	1,982,321
Equipment	110,971	123,672	115,865	127,388	226,836	251,060
Distribution and Collection Systems	-	-	2,659,107	2,581,105	2,659,107	2,581,105
Infrastructure	1,476,544	1,475,183	-	-	1,476,544	1,475,183
Totals	<u>\$ 4,307,640</u>	<u>\$ 4,284,409</u>	<u>\$ 4,536,313</u>	<u>\$ 4,507,385</u>	<u>\$ 8,843,953</u>	<u>\$ 8,791,794</u>

## CAPITAL ASSETS

In accordance with GASB Statement No. 34, all major infrastructure assets (such as streets, signals, bridges, and drains) are capitalized by the City in the government-wide statements. While capital assets of both governmental and proprietary funds are capitalized at the government-wide level, only proprietary assets are reported at the fund level. Governmental funds will continue to be reported on a modified accrual basis at the fund level. Differences between the fund and government-wide statements

reporting for these governmental assets will be explained in both the reconciliation and the accompanying notes to the financial statements.

The City's investment in capital assets (including infrastructure) for governmental and business-type activities as of June 30, 2006 was \$8,843,953 (net of accumulated depreciation). The total increase in the City's investment in Capital Assets over fiscal year 2005 was approximately \$52,159.

#### **HIGHLIGHTS OF FISCAL YEAR 2006 CAPITAL IMPROVEMENT ACTIVITIES**

##### Governmental Activities

- Construction began on the Northwestern Area Station. This project will provide for the land development, design, and construction of a new Police Command and Light Vehicle Maintenance Facility. The facility will serve the Northwestern area of the City in the Carmel Valley and adjacent communities. The project is fully funded by Developer Impact Fees and Facilities Benefit Assessments. The City's fiscal year 2006 capital expenditures for this project were \$6,735.
- Right-of-way acquisition continues for the State Route 56 freeway. This project will provide for an east-west four-lane freeway between the Carmel Valley and Rancho Penasquitos communities. When complete, construction will include three separate interchanges, bike paths, and sound walls, as well as grading for the ultimate six-lane freeway. The City's fiscal year 2006 capital expenditures for this project were \$10,435.
- Construction continues on the North Torrey Pines Road Bridge. This project will provide for transitionally widening both road approaches and improving the structural integrity, functionality, and safety of the bridge. The City's fiscal year 2006 capital expenditures for this project were \$1,300.
- Construction continues on the Mira Sorrento Place project. This project will provide for widening and extending Mira Sorrento Place to a four-lane collector street. Traffic flow on Scranton Road and Vista Sorrento Parkway will improve upon project completion. The City's fiscal year 2006 capital expenditures for this project were \$2,508.
- Construction continues on Judicial Drive from Golden Haven to Eastgate Mall. This project will provide a new four lane major street and under-crossing at La Jolla Village Drive. The project is funded by the North University City Facilities Benefit Assessment. The City's fiscal year 2006 capital expenditures for this project were \$5,252.
- Construction began on the Nobel Athletic Area. Upon completion this project will provide an additional twenty-four acres of developed park land. Improvements will include a 10,300 square foot recreation center, sports fields, comfort stations, an off-leash dog area, play, and parking areas in the University City area. The City's fiscal year 2006 capital expenditures for this project were \$4,131. The project is entirely funded by the North University City Facilities Benefit Assessment.
- Construction continues on the Carmel Mountain Road - Interstate 5 Interchange project. This project provides for a diamond interchange at Interstate 5 and Carmel Mountain Road. This interchange will accommodate the increase in vehicular traffic created by development in the communities of Carmel Valley and Sorrento Hills. The City's fiscal year 2006 capital expenditures for this project were \$1,287.
- Construction continues on the Lincoln Park Fire Station #12. This project will provide for the complete reconstruction of the existing facility located at 4964 Imperial Avenue. The project is part of the Fire and Life Safety Services Facility Improvements Program. The City's fiscal year 2006 capital expenditures for this project were \$964.
- Construction continues on the North University Community Branch Library. This project will provide for the construction of a 15,000 square-foot library on a City owned park site at Nobel Drive and Judicial Drive to serve the community in North University City. The City's fiscal year 2006 capital expenditures for this project were \$2,320.
- Construction was completed on the Del Cerro Fire Station #31. This project provided for the complete reconstruction of the existing facility located at 6002 Camino Rico, in the Navajo/Del Cerro Community. The project is part of the Fire and Life Safety Services Facility Improvements Program. The City's fiscal year 2006 capital expenditures for this project were \$1,295.

- Construction continues on the Serra Mesa/Kearny Mesa Branch Library. This project will provide for the construction of a new 15,000 square-foot library on the 8900 Block of Aero Drive. Upon completion the new facility will include additional meeting rooms, computer lab, separate children's area and quiet study areas. Additional parking has also been incorporated into the design of the new facility. Serra Mesa and Kearny Mesa Developer Impact fees are the primary funding sources for this project. The City's fiscal year 2006 capital expenditures for this project were \$4,248.

#### Business-Type Activities

During fiscal year 2006 the Water Utility Fund added approximately \$46,600 in capital improvement projects (CIP). Upgrades and expansion of the Miramar Water Treatment Plant and the Alvarado Water Treatment Plant continued, along with Water Main Replacements. Capital asset write-offs for fiscal year 2006 were \$9,900, and were primarily due to losses related to abandoned projects, and retirements of developer contributed assets.

During fiscal year 2006, the Sewer Utility Fund added approximately \$19,800 in CIP, of which the Metropolitan system CIP increased approximately \$2,400 and included the Point Loma Digester S1 and S2 Upgrades. Municipal system CIP increased approximately \$17,405 and included the following major projects: Sorrento Valley Trunk Sewer Relocation, Pump Station Upgrades, and the continued replacement of sewer mains and upgrades to the sewer infrastructure. Capital asset write-offs for fiscal year 2006 were \$442, and were primarily due to retirements of developer contributed assets and equipment.

#### **HIGHLIGHTS OF APPROVED FISCAL YEAR 2007 CAPITAL IMPROVEMENT PROJECTS (CIP) BUDGET**

The Annual Approved Capital Improvements Budget for Fiscal Year 2007 is \$293,700, which is a \$95,900, or 25% decrease over the fiscal year 2006 budget of \$389,600. Engineering & Capital Projects, and Library Projects comprise 47%, and 10% of the total CIP budget, respectively. Water and Sewer projects comprise over 13% of the total CIP budget. Funding for governmental projects include TransNet funds, Facilities Benefit Assessments, Developer Impact Fees, Developer Contributions, and Federal, State, local, and private contributions. Highlights of the key budgets by department are as follows:

#### Governmental Activities

- Engineering and Capital Projects: \$140,000 (47% of total CIP budget). Key projects include the undergrounding of City utilities, which provides for underground conversion projects, to augment the California Public Utilities Commission (CPUC) Rule 20A. Funding is also allocated for conversion of City-owned street lighting and resurfacing of roadways associated with the undergrounding of utilities. The \$55,000 annual allocation for these projects is entirely funded by the Underground Surcharge Fund. Other significant projects include: \$10,500 for North Harbor Drive Navy Estuary, \$8,300 for the construction of El Camino Real, \$4,900 for Palm Avenue/I-805 Improvements, and \$3,000 for the construction of Bayshore Bikeway.
- Library: \$30,300 (10% of total CIP budget), which includes anticipated State, Federal, local, and private funding. The majority of these projects are part of the 21<sup>st</sup> Century Library System/Library Department Facility Improvements Program. Projects that are beginning design or closing out in fiscal year 2007 are related to the Mission Hills-Hillcrest, Otay Mesa/Nestor, and San Carlos Libraries. Project construction activity for fiscal year 2007 includes the Serra Mesa/Kearny Mesa Library, the North University Community Library at Nobel Park, and Phase 2 construction of the Logan Heights Library.
- Parks and Recreation: \$28,700 (9% of total CIP budget). Key budgets include: \$1,500 for the Carmel Valley Neighborhood Park, \$4,256 for Gonzales Canyon Neighborhood Park, \$5,673 for McAuliffe Community Park, and \$2,230 for Joint Use Improvements at Angier Elementary School.
- San Diego Fire-Rescue: \$9,519 (3% of total CIP budget). Key budgets include: \$6,026 for the Pacific Highlands Ranch Fire Station (#47), and \$1,500 for Black Mountain Ranch North Fire Station.

Business-Type Activities

The fiscal year 2007 Water Utility CIP budget is \$31,100, plus an additional \$22,200 for phase funded projects. Significant projects include: \$8,000 for replacing water mains citywide, \$2,200 for the Rancho Bernardo Reservoir Upgrade, and \$2,000 for the Water Department Security Upgrades.

The fiscal year 2007 Metropolitan Wastewater Department CIP budget is \$39,500. There are no phase funded projects budgeted for fiscal year 2007. Significant projects include: \$8,700 for continued sewer main replacements and upgrades to sewer infrastructure, \$12,000 for pipeline rehabilitation, and \$3,700 for improvements to Miramar Road Trunk Sewer.

**CITY OF SAN DIEGO'S OUTSTANDING DEBT**  
(In Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Capital Lease Obligations	\$ 40,541	\$ 30,647	\$ 2,051	\$ 3,521	\$ 42,592	\$ 34,168
Contracts Payable	2,615	1,715	-	-	2,615	1,715
Notes Payable	7,294	7,924	-	-	7,294	7,924
Loans Payable	14,345	5,187	91,247	63,803	105,592	68,990
Section 108 Loans	42,499	42,858	-	-	42,499	42,858
SANDAG Loans	7,355	13,979	-	-	7,355	13,979
General Obligation Bonds	12,690	14,530	-	-	12,690	14,530
Revenue Bonds/COP's/ Lease Revenue Bonds	549,850	571,285	1,662,705	1,698,060	2,212,555	2,269,345
Special Assessment/ Special Tax Bonds	133,605	137,305	-	-	133,605	137,305
Tax Allocation Bonds	514,845	415,778	-	-	514,845	415,778
Tobacco Settlement Bonds	105,400	-	-	-	105,400	-
Totals	<u>\$ 1,431,039</u>	<u>\$ 1,241,208</u>	<u>\$ 1,756,003</u>	<u>\$ 1,765,384</u>	<u>\$ 3,187,042</u>	<u>\$ 3,006,592</u>

**LONG-TERM DEBT**

At the end of fiscal year 2006, the City, including blended component units, had total debt outstanding of approximately \$3,187,042. Of this amount, \$12,690 is comprised of debt backed by the full faith and credit of the City. The remainder of the City's debt represents revenue bonds, lease revenue bonds, COPs, special assessment bonds, tax allocation bonds, contracts payable, notes payable, loans payable, Section 108 loans, capital lease obligations, and San Diego Association of Governments (SANDAG) loans.

Governmental Activities

- The City established the Tobacco Settlement Revenue Funding Corporation (TSRFC), a California Nonprofit Public Benefit Corporation to acquire future Tobacco Settlement Revenues from the City. TSRFC issued \$105,400 of Tobacco Settlement Asset-Backed Bonds, series 2006, which are limited obligations of the Corporation, payable from and secured by a pledge of the first \$10,100 annually from the tobacco settlement revenues due to the City and acquired by TSRFC.



- The City (RDA) issued \$76,225 of Subordinate Tax Allocation Bonds (series 2006A) and \$33,760 of Subordinate Housing Tax Allocation Bonds (series 2006B). The 2006A Bonds were issued for the purpose of financing redevelopment activities within the Centre City Project, and to pay for the costs of the debt service reserve surety bonds and costs of issuance. The 2006B Bonds were issued for the purpose of financing certain improvements relating to increasing the development of low and moderate income housing, to pay the costs of the debt service surety bonds and costs of issuance.
- Total principal payments for long-term debt were \$59,514, which includes \$37,893 principal payments for outstanding bonds, \$10,798 payments on loans payable, \$630 payments on notes payable, and \$10,193 principal payments on capital leases.

#### Business-Type Activities

- A Sewer loan from the State Water Resources Control Board for \$10,093 and a Water loan from the Department of Health for \$21,525 were executed in order to construct capital improvement projects.
- Total principal payments for long-term debt were \$40,999, which includes \$35,355 principal payments for outstanding bonds, \$4,174 payments on loans payable and \$1,470 principal payments on capital leases.

The following are credit ratings changes that have occurred to date since July 1, 2003, pertaining to the City of San Diego's outstanding General Obligation bonds, Revenue Bonds, Lease Revenue Bonds, and COPs:

<b>Moody's Investor's Service</b>							
	July 1, 2003	Feb 2, 2004	Apr 6, 2004	Aug 12, 2004	Sept 24, 2004	Dec 3, 2004	Aug 2, 2005*
General Obligation Bonds	Aa1	Aa1	Aa1	Aa3	A1	A1	A3
General Fund Backed Lease Revenue Obligations	Aa3/A1	Aa3/A1	Aa3/A1	A2/A3	A3/Baa1	A3/Baa1	Baa2/Baa3
Outlook/Watch	Stable	Negative Outlook	Watchlist for Possible Downgrade	Stable	Negative Outlook	Negative Outlook	Negative Outlook
Wastewater System Obligations	A1	A1	A1	A1	A1	A1	A3
Water System Obligations	Aa3/A1	Aa3/A1	Aa3/A1	Aa3/A1	Aa3/A1	Aa3/A1	A2/A3
Outlook/Watch	Stable	Stable	Stable	Stable	Stable	Credit Watch Negative	Negative Outlook
* - Ratings were affirmed on February 16, 2006							

<b>Fitch Ratings</b>					
	July 1, 2003	Feb 27, 2004	Sept 23, 2004	Feb 16, 2005	May 27, 2005
General Obligation Bonds	AAA	AA	AA	A	BBB+
General Fund Backed Lease Revenue Obligations	AA+	AA-	AA-	A-	BBB-
Outlook/Watch	Stable	Negative Outlook	Rating Watch Negative	Rating Watch Negative	Rating Watch Negative
Wastewater System Obligations	AA-	AA-	AA-	A	BBB+
Water System Obligations	AA-/A+	AA-/A+	AA-/A+	A/A-	BBB+/BBB
Outlook/Watch	Stable	Stable	Stable	Rating Watch Negative	Rating Watch Negative



<b>Standard &amp; Poor's</b>			
	<b>July 1, 2003</b>	<b>Feb 23, 2004</b>	<b>Sept 20, 2004</b>
General Obligation Bonds	AA	AA-	Suspended
General Fund Backed Lease Revenue Obligations	AA-	A+	Suspended
Outlook/Watch	Stable	Negative Credit Watch	Negative Credit Watch
Wastewater System Obligations	A	A	Suspended
Water System Obligations	AA-/A+	AA-/A+	Suspended
Outlook/Watch	Stable	Negative Credit Watch	Negative Credit Watch

As of January 2008, the City of San Diego Tobacco Settlement Revenue Funding Corporation Tobacco Settlement Asset Backed Bonds, Series 2006, were upgraded by Fitch Ratings from BBB to BBB plus. AMBAC Assurance Corporation and FGIC Corporation bond insurance policies and surety debt reserve policies, which support ratings and certain of the City's debt obligations issued on a long term fixed rate basis, have been downgraded by Fitch Ratings from AAA to AA and to A, respectively. None of the underlying ratings, as shown in the tables above, have been changed as a result of such action.

Section 90 of the City Charter provides that the general obligation bonded indebtedness for the development, conservation and furnishings of water shall not exceed 15% of the last preceding assessed valuation of all real and personal property of the City subject to direct taxation, and that the bonded indebtedness for other municipal improvements shall not exceed 10% of such valuation. The City's current outstanding general obligation balances as of June 30, 2006 are significantly less than the current debt limitations for water and other purposes, which are \$4,724,374 and \$3,149,583, respectively (see Statistics Table 12).

It has been the City's practice, as provided for in Section 90.1 of the City Charter, to issue revenue bonds for the purpose of constructing water facilities. Per Section 90.1, revenue bonds do not constitute an indebtedness of the City, but an obligation payable from the revenues received by the utility. Section 90.2 authorizes the issuance of Revenue Bonds for the purpose of constructing improvements to the City's sewer system.

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

## REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the City Auditor & Comptroller, 202 C Street, San Diego, California 92101 or e-mailed to the City Auditor and Comptroller at [auditor@sandiego.gov](mailto:auditor@sandiego.gov). This financial report is also available on the City's website at [www.sandiego.gov](http://www.sandiego.gov), under the Auditor and Comptroller department.

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## BASIC FINANCIAL STATEMENTS

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**STATEMENT OF NET ASSETS**  
**June 30, 2006**  
(In Thousands)

	Primary Government			Component Units	
	Governmental Activities	Business - Type Activities	Total	San Diego Convention Center Corporation	San Diego Housing Commission
<b>ASSETS</b>					
Cash and Investments .....	\$ 1,047,310	\$ 426,134	\$ 1,473,444	\$ 15,376	\$ 68,048
Receivables:					
Taxes - Net .....	97,769	-	97,769	-	-
Accounts - Net of Allowance for Uncollectibles					
(Governmental \$8,458, Business-Type \$1,301) .....	30,547	68,319	98,866	2,687	768
Claims - Net .....	123	-	123	-	-
Contributions .....	184	-	184	-	-
Special Assessments - Net .....	1,346	-	1,346	-	-
Facilities Benefit Assessment Credits Receivable .....	13,267	-	13,267	-	-
Notes .....	52,589	-	52,589	-	117,430
Accrued Interest .....	8,530	5,146	13,676	-	12,514
Grants .....	58,708	2,321	61,029	-	-
From Other Agencies .....	-	-	-	-	7,633
Investment in Joint Venture .....	2,063	-	2,063	-	-
Advances to Other Agencies .....	3,554	-	3,554	-	-
Internal Balances .....	(2,931)	2,931	-	-	-
Inventories of Water in Storage .....	-	26,546	26,546	-	-
Inventories .....	2,770	519	3,289	8	67
Land Held for Resale .....	32,133	-	32,133	-	-
Prepaid Expenses .....	2,084	721	2,805	1,018	744
Restricted Cash and Investments .....	136,493	106,133	242,626	-	1,296
Deferred Charges .....	24,585	11,580	36,165	-	-
Capital Assets - Non-Depreciable .....	1,934,967	489,191	2,424,158	-	40,487
Capital Assets - Depreciable .....	2,372,673	4,047,122	6,419,795	16,812	40,693
<b>TOTAL ASSETS</b> .....	<u>5,818,764</u>	<u>5,186,663</u>	<u>11,005,427</u>	<u>35,901</u>	<u>289,680</u>

**STATEMENT OF NET ASSETS**  
**June 30, 2006**  
**(In Thousands)**

	Primary Government			Component Units	
	Governmental Activities	Business - Type Activities	Total	San Diego Convention Center Corporation	San Diego Housing Commission
<b>LIABILITIES</b>					
Accounts Payable .....	\$ 69,999	\$ 47,206	\$ 117,205	\$ 2,071	\$ 2,591
Accrued Wages and Benefits .....	26,977	9,168	36,145	-	38
Other Accrued Liabilities .....	21	60	81	1,879	485
Interest Accrued on Long-Term Debt .....	21,766	17,869	39,635	-	38
Long-Term Debt Due Within One Year .....	123,476	73,671	197,147	2,782	1,663
Due to Other Agencies .....	1,199	12,200	13,399	-	-
Unearned Revenue .....	35,155	9,276	44,431	8,234	96
Contract Deposits .....	-	9,465	9,465	-	-
Sundry Trust Liabilities .....	3,826	-	3,826	-	-
Liabilities Payable from Restricted Assets:					
Customer Deposits Payable .....	-	3,849	3,849	-	-
Deposits/Advances from Others .....	-	30	30	-	954
Land Acquisition Credits .....	1,480	-	1,480	-	-
Long-Term Liabilities Due After One Year:					
Arbitrage Liability .....	-	193	193	-	-
Compensated Absences .....	40,756	8,810	49,566	45	-
Liability Claims .....	170,092	46,855	216,947	-	-
Capital Lease Obligations .....	31,767	1,006	32,773	2,956	-
Contracts Payable .....	2,615	-	2,615	-	-
Notes Payable .....	7,294	-	7,294	3,500	13,619
Loans Payable .....	11,643	86,570	98,213	-	-
SANDAG Loans Payable .....	2,248	-	2,248	-	-
Section 108 Loans Payable .....	39,431	-	39,431	-	-
Net Bonds Payable .....	1,289,354	1,598,101	2,887,455	-	-
Estimated Landfill Closure and Postclosure Care .....	-	14,811	14,811	-	-
Net Pension Obligation .....	158,087	36,394	194,481	-	-
<b>TOTAL LIABILITIES .....</b>	<b>2,037,186</b>	<b>1,975,534</b>	<b>4,012,720</b>	<b>21,467</b>	<b>19,484</b>
<b>NET ASSETS</b>					
Invested in Capital Assets, Net of Related Debt .....	3,472,531	2,867,469	6,340,000	8,650	67,289
Restricted for:					
Capital Projects .....	273,575	-	273,575	2,577	-
Debt Service .....	-	2,970	2,970	-	-
Low-Moderate Income Housing .....	64,493	-	64,493	-	-
Permanent Endowments:					
Nonexpendable .....	14,568	-	14,568	-	-
Other .....	96,537	32,115	128,652	-	74,995
Unrestricted .....	(140,126)	308,575	168,449	3,207	127,912
<b>TOTAL NET ASSETS .....</b>	<b>\$ 3,781,578</b>	<b>\$ 3,211,129</b>	<b>\$ 6,992,707</b>	<b>\$ 14,434</b>	<b>\$ 270,196</b>

The accompanying notes are an integral part of the financial statements.

**STATEMENT OF ACTIVITIES**  
**Year Ended June 30, 2006**  
(In Thousands)

<u>Functions/Programs</u>	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Primary Government:</b>				
<b>Governmental Activities:</b>				
General Government and Support .....	\$ 252,295	\$ 96,345	\$ 10,581	\$ 2,874
Public Safety - Police .....	370,990	24,256	41,722	-
Public Safety - Fire and Life Safety .....	194,074	18,572	9,808	-
Parks, Recreation, Culture and Leisure .....	237,375	51,196	4,328	19,711
Transportation .....	200,883	52,375	217	22,424
Sanitation and Health .....	48,774	10,697	786	-
Neighborhood Services .....	111,886	25,440	34,281	38,449
Interest on Long-Term Debt .....	71,109	-	-	17,106
<b>TOTAL GOVERNMENTAL ACTIVITIES .....</b>	<b>1,487,386</b>	<b>278,881</b>	<b>101,723</b>	<b>100,564</b>
<b>Business-Type Activities:</b>				
Airports .....	4,100	4,385	-	1,364
City Store .....	810	837	-	-
Development Services .....	57,893	55,011	-	-
Environmental Services .....	44,493	39,850	92	-
Golf Course .....	9,563	13,119	-	-
Recycling .....	21,853	21,345	573	-
Sewer Utility .....	319,274	290,568	461	31,976
Water Utility .....	302,996	280,567	783	44,262
<b>TOTAL BUSINESS-TYPE ACTIVITIES .....</b>	<b>760,982</b>	<b>705,682</b>	<b>1,909</b>	<b>77,602</b>
<b>TOTAL PRIMARY GOVERNMENT .....</b>	<b>\$ 2,248,368</b>	<b>\$ 984,563</b>	<b>\$ 103,632</b>	<b>\$ 178,166</b>
<b>Component Units:</b>				
San Diego Convention Center Corporation .....	\$ 32,116	\$ 28,158	\$ 4,339	\$ -
San Diego Housing Commission .....	149,419	18,228	150,530	1,306
<b>TOTAL COMPONENT UNITS .....</b>	<b>\$ 181,535</b>	<b>\$ 46,386</b>	<b>\$ 154,869</b>	<b>\$ 1,306</b>
<b>General Revenues:</b>				
Property Taxes .....				
Transient Occupancy Taxes .....				
Other Local Taxes .....				
Developer Contributions and Fees .....				
Grants and Contributions not Restricted to Specific Programs .....				
Sales Taxes .....				
Investment Income .....				
Gain on Sale of Capital Assets .....				
Miscellaneous .....				
Transfers .....				
<b>TOTAL GENERAL REVENUES AND TRANSFERS .....</b>				
<b>CHANGE IN NET ASSETS .....</b>				
Net Assets at Beginning of Year .....				
<b>NET ASSETS AT END OF YEAR .....</b>				



Net Revenue/(Expense) and Changes in Net Assets				
Primary Government			Component Units	
Governmental Activities	Business-Type Activities	Total	San Diego Convention Center Corporation	San Diego Housing Commission
\$ (142,495)	\$ -	\$ (142,495)	\$ -	\$ -
(305,012)	-	(305,012)	-	-
(165,694)	-	(165,694)	-	-
(162,140)	-	(162,140)	-	-
(125,867)	-	(125,867)	-	-
(37,291)	-	(37,291)	-	-
(13,716)	-	(13,716)	-	-
(54,003)	-	(54,003)	-	-
(1,006,218)	-	(1,006,218)	-	-
-	1,649	1,649	-	-
-	27	27	-	-
-	(2,882)	(2,882)	-	-
-	(4,551)	(4,551)	-	-
-	3,556	3,556	-	-
-	65	65	-	-
-	3,731	3,731	-	-
-	22,616	22,616	-	-
-	24,211	24,211	-	-
(1,006,218)	24,211	(982,007)	-	-
-	-	-	381	-
-	-	-	-	20,645
-	-	-	381	20,645
459,777	-	459,777	-	-
136,803	-	136,803	-	-
148,001	-	148,001	-	-
53,502	-	53,502	-	-
64,039	-	64,039	-	-
227,017	-	227,017	-	-
40,108	16,938	57,046	587	5,740
1,214	-	1,214	-	12
21,227	6,502	27,729	528	-
4,530	(4,530)	-	-	-
1,156,218	18,910	1,175,128	1,115	5,752
150,000	43,121	193,121	1,496	26,397
3,631,578	3,168,008	6,799,586	12,938	243,799
\$ 3,781,578	\$ 3,211,129	\$ 6,992,707	\$ 14,434	\$ 270,196

The accompanying notes are an integral part of the financial statements.

**GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2006  
(In Thousands)**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and Investments .....	\$ 23,281	\$ 922,515	\$ 945,796
Receivables:			
Taxes - Net .....	68,568	29,201	97,769
Accounts - Net of Allowance for Uncollectibles (General Fund \$7,335, Other Governmental \$408) .....	11,239	13,964	25,203
Claims - Net .....	38	68	106
Special Assessments - Net .....	-	1,346	1,346
Notes .....	-	52,589	52,589
Accrued Interest .....	1,434	7,044	8,478
Grants .....	-	58,708	58,708
From Other Funds .....	6,060	15,364	21,424
Advances to Other Funds .....	300	4,414	4,714
Advances to Other Agencies .....	9	3,545	3,554
Land Held for Resale .....	-	32,133	32,133
Prepaid Items .....	220	232	452
Investment in Joint Venture .....	2,063	-	2,063
Restricted Cash and Investments .....	-	136,360	136,360
<b>TOTAL ASSETS</b> .....	<u>\$ 113,212</u>	<u>\$ 1,277,483</u>	<u>\$ 1,390,695</u>
<b>LIABILITIES</b>			
Accounts Payable .....	\$ 5,642	\$ 48,182	\$ 53,824
Accrued Wages and Benefits .....	22,332	1,323	23,655
Other Accrued Liabilities .....	-	21	21
Due to Other Funds .....	-	24,823	24,823
Due to Other Agencies .....	-	1,199	1,199
Unearned Revenue .....	1,032	34,018	35,050
Deferred Revenue .....	21,580	77,133	98,713
Interfund Interest Payable .....	-	773	773
Interfund Loan Payable .....	-	5,873	5,873
Advances from Other Funds .....	985	4,714	5,699
Sundry Trust Liabilities .....	-	3,826	3,826
<b>TOTAL LIABILITIES</b> .....	<u>51,571</u>	<u>201,885</u>	<u>253,456</u>

**GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2006  
(In Thousands)**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>FUND EQUITY:</b>			
Fund Balances:			
Reserved for Land Held for Resale .....	-	30,806	30,806
Reserved for Encumbrances .....	18,916	128,714	147,630
Reserved for Advances .....	309	7,959	8,268
Reserved for Low and Moderate Income Housing .....	-	96,732	96,732
Reserved for Permanent Endowments .....	-	14,568	14,568
Reserved for Debt Service .....	-	122,240	122,240
Reserved for Minority Interest in Joint Venture .....	2,063	-	2,063
Unreserved, Reported in General Fund:			
Designated for Subsequent Years' Expenditures .....	469	-	469
Undesignated .....	39,884	-	39,884
Unreserved, Reported in:			
Special Revenue Funds .....	-	267,576	267,576
Debt Service Funds .....	-	217	217
Capital Projects Funds .....	-	406,130	406,130
Permanent Funds .....	-	656	656
<b>TOTAL FUND EQUITY .....</b>	<u>61,641</u>	<u>1,075,598</u>	<u>1,137,239</u>
<b>TOTAL LIABILITIES AND FUND EQUITY .....</b>	<u>\$ 113,212</u>	<u>\$ 1,277,483</u>	

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.	4,234,929
Other assets and liabilities used in governmental activities are not financial resources, and therefore, are either deferred or not reported in the funds.	135,085
Internal Service funds are used by management to charge the costs of activities such as Central Garage and Machine Shop, Print Shop, Self Insurance, and Central Stores to individual funds. The assets and liabilities of Internal Service Funds are included in governmental activities in the Statement of Net Assets.	(50,350)
Certain liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(1,675,325)</u>
Net Assets of governmental activities	<u>\$ 3,781,578</u>

The accompanying notes are an integral part of the financial statements.

**GOVERNMENTAL FUNDS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**YEAR ENDED JUNE 30, 2006**  
(In Thousands)

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>			
Property Taxes .....	\$ 322,087	\$ 135,821	\$ 457,908
Special Assessments .....	-	36,699	36,699
Sales Taxes .....	110,556	116,461	227,017
In-Lieu Sales Taxes .....	45,433	-	45,433
Transient Occupancy Taxes .....	72,126	64,675	136,801
Other Local Taxes .....	72,102	75,899	148,001
Licenses and Permits .....	31,913	10,204	42,117
Fines, Forfeitures and Penalties .....	32,346	3,095	35,441
Revenue from Use of Money and Property .....	35,872	53,566	89,438
Revenue from Federal Agencies .....	3,755	39,815	43,570
Revenue from Other Agencies .....	12,594	45,695	58,289
Revenue from Private Sources .....	-	91,287	91,287
Charges for Current Services .....	91,514	35,607	127,121
Other Revenue .....	2,864	23,059	25,923
<b>TOTAL REVENUES</b> .....	<b>833,162</b>	<b>731,883</b>	<b>1,565,045</b>
<b>EXPENDITURES</b>			
Current:			
General Government and Support .....	183,143	107,407	290,550
Public Safety - Police .....	335,295	73,179	408,474
Public Safety - Fire and Life Safety .....	173,969	38,100	212,069
Parks, Recreation, Culture and Leisure .....	108,153	107,885	216,038
Transportation .....	23,032	124,945	147,977
Sanitation and Health .....	41,720	7,374	49,094
Neighborhood Services .....	19,702	92,378	112,080
Capital Projects .....	-	126,583	126,583
Debt Service:			
Principal Retirement .....	2,504	50,789	53,293
Interest .....	3,416	65,316	68,732
<b>TOTAL EXPENDITURES</b> .....	<b>890,934</b>	<b>793,956</b>	<b>1,684,890</b>
<b>EXCESS (DEFICIENCY) OF REVENUES</b>			
<b>OVER EXPENDITURES</b> .....	<b>(57,772)</b>	<b>(62,073)</b>	<b>(119,845)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers from Proprietary Funds .....	2,989	3,986	6,975
Transfers from Other Funds .....	71,672	340,453	412,125
Transfers to Proprietary Funds .....	(246)	(1,538)	(1,784)
Transfers to Other Funds .....	(21,946)	(390,179)	(412,125)
Net Income from Joint Venture .....	522	-	522
Capital Leases .....	5,374	14,713	20,087
Contracts/Notes Issued .....	-	900	900
Loans Issued .....	-	9,171	9,171
Section 108 Loans Issued .....	-	2,151	2,151
SANDAG Loans Issued .....	-	1,651	1,651
Tax Allocation Bonds Issued .....	-	109,985	109,985
Tobacco Settlement Bonds Issued .....	-	105,400	105,400
Discount on Bonds Issued .....	-	(97)	(97)
Premium on Bonds Issued .....	-	2,509	2,509
<b>TOTAL OTHER FINANCING SOURCES (USES)</b> .....	<b>58,365</b>	<b>199,105</b>	<b>257,470</b>
<b>NET CHANGE IN FUND BALANCES</b> .....	<b>593</b>	<b>137,032</b>	<b>137,625</b>
Fund Balances at Beginning of Year .....	61,048	938,566	999,614
<b>FUND BALANCES AT END OF YEAR</b> .....	<b>\$ 61,641</b>	<b>\$ 1,075,598</b>	<b>\$ 1,137,239</b>

The accompanying notes are an integral part of the financial statements.

**City of San Diego**  
**Reconciliation of the Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**Year Ended June 30, 2006**  
**(In Thousands)**

Net change in fund balances - total governmental funds (page 56)	\$ 137,625
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 exceeded depreciation in the current period.	40,817
The net effect of various miscellaneous transactions involving capital assets (i.e., donations, retirements, and transfers) is to decrease net assets.	(5,135)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	21,103
Revenues in the Statement of Activities for the reduction of land acquisition credits do not provide current financial resources and are not reported in the funds.	21,945
Revenues in the Statement of Activities for Facilities Benefit Assessment (FBA) credits earned do not provide a current financial resource and are not reported as revenues in the funds.	13,267
The issuance of long-term debt (i.e., 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. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(196,052)
Some expenses reported in the Statement of Activities do not require the use of current financial resources (i.e., compensated absences, net pension obligation), and therefore are not accrued as expenses in governmental funds.	98,444
Internal Service funds are used by management to charge the costs of activities such as Central Garage and Machine Shop, Print Shop, Central Stores, Self Insurance, and others to individual funds. The net expense of certain activities of internal service funds is reported with governmental activities.	<u>17,986</u>
Change in net assets of governmental activities (page 53)	<u>\$ 150,000</u>

The accompanying notes are an integral part of the financial statements.

**PROPRIETARY FUNDS  
STATEMENT OF NET ASSETS  
JUNE 30, 2006  
( In Thousands )**

	Business-Type Activities - Enterprise Funds				
	Sewer Utility	Water Utility	Other Enterprise Funds	Total	Internal Service Funds
<b>ASSETS</b>					
Current Assets:					
Cash and Investments .....	\$ 177,495	\$ 154,889	\$ 89,073	\$ 421,457	\$ 106,191
Receivables:					
Accounts - Net of Allowance for Uncollectibles (Sewer \$569, Water \$732, Internal Service \$715) .....	30,040	36,385	1,893	68,318	5,345
Claims - Net .....	-	-	-	-	17
Contributions .....	-	-	-	-	184
Accrued Interest .....	2,034	1,723	1,354	5,111	87
Grants .....	-	1,655	666	2,321	-
From Other Funds .....	-	-	3,399	3,399	-
Inventories of Water in Storage .....	-	26,546	-	26,546	-
Inventories .....	-	428	91	519	2,770
Prepaid Expenses .....	3	690	27	720	1,633
Total Current Assets .....	209,572	222,316	96,503	528,391	116,227
Non-Current Assets:					
Restricted Cash and Investments .....	21,079	53,240	31,814	106,133	133
Advances to Other Funds .....	341	644	-	985	-
Deferred Charges .....	6,788	4,792	-	11,580	-
Interfund Interest Receivable .....	-	773	-	773	-
Interfund Loan Receivable .....	3,487	2,386	-	5,873	-
Capital Assets - Non-Depreciable .....	181,206	285,466	22,519	489,191	1,984
Capital Assets - Depreciable .....	2,660,187	1,321,237	65,419	4,046,843	71,006
Total Non-Current Assets .....	2,873,088	1,668,538	119,752	4,661,378	73,123
<b>TOTAL ASSETS</b> .....	<b>3,082,660</b>	<b>1,890,854</b>	<b>216,255</b>	<b>5,189,769</b>	<b>189,350</b>
<b>LIABILITIES</b>					
Current Liabilities:					
Accounts Payable .....	11,828	32,392	2,624	46,844	16,537
Accrued Wages and Benefits .....	4,225	1,923	2,542	8,690	3,800
Other Accrued Liabilities .....	-	-	60	60	-
Interest Accrued on Long-Term Debt .....	6,716	11,133	20	17,869	138
Long-Term Debt Due Within One Year .....	52,056	17,577	3,590	73,223	40,653
Due to Other Agencies .....	8,263	3,937	-	12,200	-
Unearned Revenue .....	-	3,289	5,987	9,276	105
Contract Deposits .....	4,009	5,151	305	9,465	-
Current Liabilities Payable from Restricted Assets:					
Customer Deposits Payable .....	-	3,849	-	3,849	-
Total Current Liabilities .....	87,097	79,251	15,128	181,476	61,233
Non-Current Liabilities:					
Deposits/Advances from Others .....	-	-	30	30	-
Arbitrage Liability .....	17	176	-	193	-
Compensated Absences .....	2,973	2,359	2,958	8,290	3,715
Liability Claims .....	43,213	3,642	-	46,855	170,092
Capital Lease Obligations .....	-	-	1,006	1,006	6,040
Loans Payable .....	66,313	20,257	-	86,570	-
Net Revenue Bonds Payable .....	1,049,137	548,964	-	1,598,101	-
Estimated Landfill Closure and Postclosure Care .....	-	-	14,811	14,811	-
Net Pension Obligation .....	12,280	9,782	11,498	33,560	6,368
Total Non-Current Liabilities .....	1,173,933	585,180	30,303	1,789,416	186,215
<b>TOTAL LIABILITIES</b> .....	<b>1,261,030</b>	<b>664,431</b>	<b>45,431</b>	<b>1,970,892</b>	<b>247,448</b>
<b>NET ASSETS</b>					
Invested in Capital Assets, Net of Related Debt .....	1,705,452	1,075,851	85,887	2,867,190	62,415
Restricted for Debt Service .....	575	2,395	-	2,970	-
Restricted for Closure/Postclosure Maintenance .....	-	-	32,115	32,115	-
Unrestricted .....	115,603	148,177	52,822	316,602	(120,513)
<b>TOTAL NET ASSETS</b> .....	<b>\$ 1,821,630</b>	<b>\$ 1,226,423</b>	<b>\$ 170,824</b>	<b>3,218,877</b>	<b>\$ (58,098)</b>
Adjustment to reflect the consolidation of internal service fund activities related to Enterprise Funds				(7,748)	
Net assets of Business-Type activities				<u>\$ 3,211,129</u>	

The accompanying notes are an integral part of the financial statements.

**PROPRIETARY FUNDS**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**YEAR ENDED JUNE 30, 2006**  
(In Thousands)

	Business-Type Activities - Enterprise Funds				
	Sewer Utility	Water Utility	Other Enterprise Funds	Total	Internal Service Funds
<b>OPERATING REVENUES</b>					
Sales of Water .....	\$ -	\$ 258,900	\$ -	\$ 258,900	\$ -
Charges for Services .....	286,416	1,031	71,753	359,200	178,700
Revenue from Use of Property .....	-	4,833	-	4,833	-
Usage Fees .....	-	1,943	58,006	59,949	44,061
Other .....	4,152	13,860	4,788	22,800	2,680
<b>TOTAL OPERATING REVENUES</b> .....	<b>290,568</b>	<b>280,567</b>	<b>134,547</b>	<b>705,682</b>	<b>225,441</b>
<b>OPERATING EXPENSES</b>					
Benefit and Claim Payments .....	-	-	-	-	54,331
Maintenance and Operations .....	109,257	94,433	91,251	294,941	48,926
Cost of Materials Issued .....	-	-	322	322	25,645
Cost of Purchased Water Used .....	-	110,263	-	110,263	-
Taxes .....	-	570	-	570	-
Administration .....	90,749	35,370	37,124	163,243	58,001
Depreciation .....	64,922	29,230	9,019	103,171	21,943
<b>TOTAL OPERATING EXPENSES</b> .....	<b>264,928</b>	<b>269,866</b>	<b>137,716</b>	<b>672,510</b>	<b>208,846</b>
<b>OPERATING INCOME (LOSS)</b> .....	<b>25,640</b>	<b>10,701</b>	<b>(3,169)</b>	<b>33,172</b>	<b>16,595</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Earnings on Investments .....	6,578	6,966	3,310	16,854	2,744
Federal Grant Assistance .....	325	424	130	879	-
Other Agency Grant Assistance .....	136	359	535	1,030	-
Gain (Loss) on Sale/Retirement of Capital Assets .....	(443)	(9,819)	(996)	(11,258)	1,214
Debt Service Interest Expense .....	(54,132)	(23,935)	(117)	(78,184)	(504)
Other .....	4,313	(67)	2,253	6,499	413
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b> .....	<b>(43,223)</b>	<b>(26,072)</b>	<b>5,115</b>	<b>(64,180)</b>	<b>3,867</b>
<b>INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS</b> .....	<b>(17,583)</b>	<b>(15,371)</b>	<b>1,946</b>	<b>(31,008)</b>	<b>20,462</b>
Capital Contributions .....	31,976	44,262	1,364	77,602	-
Transfers from Other Funds .....	481	220	224	925	650
Transfers from Governmental Funds .....	-	-	962	962	822
Transfers to Other Funds .....	(147)	(158)	(101)	(406)	(1,169)
Transfers to Governmental Funds .....	(1,958)	(1,481)	(2,253)	(5,692)	(2,041)
<b>CHANGE IN NET ASSETS</b> .....	<b>12,769</b>	<b>27,472</b>	<b>2,142</b>	<b>42,383</b>	<b>18,724</b>
Net Assets at Beginning of Year .....	1,808,861	1,198,951	168,682		(76,822)
<b>NET ASSETS AT END OF YEAR</b> .....	<b>\$ 1,821,630</b>	<b>\$ 1,226,423</b>	<b>\$ 170,824</b>		<b>\$ (58,098)</b>
Adjustment to reflect the consolidation of internal service fund activities related to Enterprise Funds.				738	
Change in net assets of Business-Type activities				\$ 43,121	

The accompanying notes are an integral part of the financial statements.

**PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2006  
(In Thousands)**

	<b>Business-Type Activities - Enterprise Funds</b>				
	<b>Sewer Utility</b>	<b>Water Utility</b>	<b>Other Enterprise Funds</b>	<b>Total</b>	<b>Internal Service Funds</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from Customers and Users .....	\$ 294,307	\$ 283,877	\$ 114,891	\$ 693,075	\$ 203,559
Receipts from Interfund Services Provided .....	3,381	2,386	24,652	30,419	21,513
Payments to Suppliers .....	(114,067)	(146,921)	(37,728)	(298,716)	(95,276)
Payments to Employees .....	(64,508)	(70,518)	(80,929)	(215,955)	(103,435)
Payments for Interfund Services Used .....	(25,008)	(17,657)	(11,420)	(54,085)	(1,905)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES .....</b>	<b>94,105</b>	<b>51,167</b>	<b>9,466</b>	<b>154,738</b>	<b>24,456</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Transfers from Other Funds .....	481	220	224	925	649
Transfers from Governmental Funds .....	-	-	962	962	822
Transfers to Other Funds .....	(147)	(158)	(101)	(406)	(1,169)
Transfers to Governmental Funds .....	(1,692)	(999)	(2,243)	(4,934)	(2,041)
Operating Grants Received .....	462	1,447	85	1,994	-
Proceeds from Advances and Deposits .....	-	528	-	528	-
<b>NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES .....</b>	<b>(896)</b>	<b>1,038</b>	<b>(1,073)</b>	<b>(931)</b>	<b>(1,739)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Proceeds from Contracts, Notes and Loans .....	10,093	21,525	-	31,618	-
Proceeds from Capital Contributions .....	18,561	16,874	1,364	36,799	-
Acquisition of Capital Assets .....	(41,434)	(61,747)	(3,876)	(107,057)	(9,742)
Proceeds from the Sale of Capital Assets .....	-	71	71	142	1,622
Principal Payments on Capital Leases .....	-	-	(1,470)	(1,470)	(6,222)
Principal Payments on Contracts, Notes and Loans .....	(3,757)	(417)	-	(4,174)	-
Principal Payments on Revenue Bonds .....	(27,390)	(7,965)	-	(35,355)	-
Interest Paid on Long-Term Debt .....	(52,762)	(23,627)	(134)	(76,523)	(511)
<b>NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES .....</b>	<b>(96,689)</b>	<b>(55,286)</b>	<b>(4,116)</b>	<b>(156,091)</b>	<b>(14,853)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Sales of Investments .....	89,024	629,192	-	718,216	-
Purchases of Investments .....	(89,041)	(595,640)	-	(684,681)	-
Interest Received on Investments .....	6,229	6,905	2,903	16,037	2,717
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES .....</b>	<b>6,212</b>	<b>40,457</b>	<b>2,903</b>	<b>49,572</b>	<b>2,717</b>
Net Increase in Cash and Cash Equivalents .....	2,732	37,376	7,180	47,288	10,581
Cash and Cash Equivalents at Beginning of Year .....	174,763	121,362	113,707	409,832	95,743
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR .....</b>	<b>\$ 177,495</b>	<b>\$ 158,738</b>	<b>\$ 120,887</b>	<b>\$ 457,120</b>	<b>\$ 106,324</b>
<b>Reconciliation of Cash and Cash Equivalents at End of Year to the Statement of Net Assets:</b>					
Cash and Investments .....	\$ 177,495	\$ 154,889	\$ 89,073	\$ 421,457	\$ 106,191
Restricted Cash & Investments .....	21,079	53,240	31,814	106,133	133
Less Investments not meeting the definition of cash equivalents .....	(21,079)	(49,391)	-	(70,470)	-
<b>Total Cash and Cash Equivalents at End of Year .....</b>	<b>\$ 177,495</b>	<b>\$ 158,738</b>	<b>\$ 120,887</b>	<b>\$ 457,120</b>	<b>\$ 106,324</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used For) Operating Activities:</b>					
Operating Income (Loss) .....	\$ 25,640	\$ 10,701	\$ (3,169)	\$ 33,172	\$ 16,595
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:					
Depreciation .....	64,922	29,230	9,019	103,171	21,943
Changes in Assets and Liabilities:					
(Increase) Decrease in Receivables:					
Accounts - Net .....	1,280	6,588	1,743	9,611	(882)
Claims - Net .....	-	-	-	-	(7)
Contributions .....	-	-	-	-	66
From Other Funds .....	-	-	(235)	(235)	-
(Increase) Decrease in Inventories .....	-	2,427	(5)	2,422	(148)
(Increase) Decrease in Prepaid Expenses .....	(3)	(685)	6	(682)	(94)
Increase (Decrease) in Accounts Payable .....	(2,914)	2,597	(238)	(555)	4,680
Increase (Decrease) in Accrued Wages and Benefits .....	(2,507)	(1,912)	(2,390)	(6,809)	(2,215)
Increase (Decrease) in Liability Claims .....	1,470	1,520	-	2,990	(15,884)
Increase (Decrease) in Compensated Absences .....	(336)	(302)	(300)	(938)	(270)
Increase (Decrease) in Due to Other Agencies .....	283	1,557	(17)	1,823	-
Increase (Decrease) in Unearned Revenue .....	(4)	(329)	1,159	826	58
Increase (Decrease) in Contract Deposits .....	1,531	(496)	76	1,111	-
Increase (Decrease) in Arbitrage Liability .....	(9)	(11)	-	(20)	-
Increase (Decrease) in Net Pension Obligation .....	439	349	418	1,206	201
Increase (Decrease) in Estimated Landfill Closure and Postclosure Care .....	-	-	1,146	1,146	-
Other Nonoperating Revenue (Expenses) .....	4,313	(67)	2,253	6,499	413
<b>Total Adjustments .....</b>	<b>68,465</b>	<b>40,466</b>	<b>12,635</b>	<b>121,566</b>	<b>7,861</b>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES .....</b>	<b>\$ 94,105</b>	<b>\$ 51,167</b>	<b>\$ 9,466</b>	<b>\$ 154,738</b>	<b>\$ 24,456</b>
<b>Noncash Investing, Capital, and Financing Activities:</b>					
Developer Contributed Assets .....	\$ 13,415	\$ 26,351	\$ -	\$ 39,766	\$ -
Change in Fair Value of Investments .....	-	657	-	657	-

The accompanying notes are an integral part of the financial statements.



**FIDUCIARY FUNDS**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**June 30, 2006**  
**(In Thousands)**

	Pension & Employee Savings Trust	Investment Trust	Agency
<b>ASSETS</b>			
Cash or Equity in Pooled Cash and Investments .....	\$ 4,420	\$ 6,608	\$ 36,878
Cash with Custodian/Fiscal Agent .....	489,233	-	-
Investments at Fair Value:			
Short Term Investments .....	192,172	-	-
Domestic Fixed Income Securities (Bonds) .....	774,125	-	-
International Fixed Income Securities (Bonds) .....	166,743	-	-
Domestic Equity Securities (Stocks) .....	1,605,508	-	-
International Equity Securities (Stocks) .....	703,112	-	-
Mortgages .....	6	-	-
Real Estate Equity and Real Estate Securities .....	385,200	-	-
Defined Contribution Investments .....	647,021	-	-
Receivables:			
Accounts - Net .....	-	-	82
Contributions .....	31,999	-	-
Accrued Interest .....	13,119	63	20
Loans .....	26,008	-	-
Securities Sold .....	48,576	-	-
Prepaid Expenses .....	9	-	-
Securities Lending Collateral .....	581,290	-	-
Restricted Cash and Investments .....	-	-	14,273
Capital Assets - Depreciable .....	116	-	-
<b>TOTAL ASSETS</b> .....	<u>5,668,657</u>	<u>6,671</u>	<u>\$ 51,253</u>
<b>LIABILITIES</b>			
Accounts Payable .....	5,799	-	\$ -
Accrued Wages and Benefits .....	513	-	-
Due to Component Unit .....	-	-	3,578
Deposits/Advances from Others .....	-	-	18,224
Sundry Trust Liabilities .....	-	-	29,451
DROP Liability .....	225,570	-	-
Net Pension Obligation .....	239	-	-
Securities Lending Obligations .....	581,290	-	-
Securities Purchased .....	166,332	-	-
<b>TOTAL LIABILITIES</b> .....	<u>979,743</u>	<u>-</u>	<u>\$ 51,253</u>
<b>NET ASSETS</b>			
Held in Trust for Pension Benefits and Other Purposes .....	<u>\$ 4,688,914</u>	<u>\$ 6,671</u>	

The accompanying notes are an integral part of the financial statements.

**FIDUCIARY FUNDS**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
Year Ended June 30, 2006  
(In Thousands)

	Pension & Employee Savings Trust	Investment Trust	Total
<b>ADDITIONS</b>			
Employer Contributions .....	\$ 348,456	\$ -	\$ 348,456
Employee Contributions .....	95,003	-	95,003
Retiree Contributions .....	6,374	-	6,374
Contributions to Pooled Investments .....	-	14,411	14,411
Earnings on Investments:			
Investment Income .....	523,238	261	523,499
Investment Expense .....	(18,316)	-	(18,316)
Net Investment Income .....	504,922	261	505,183
Securities Lending Income:			
Gross Earnings .....	21,261	-	21,261
Borrow Rebates .....	(19,406)	-	(19,406)
Administrative Expenses (Lending Agent) .....	(498)	-	(498)
Net Securities Lending Income .....	1,357	-	1,357
Other Income:			
Litigation Proceeds .....	15,500	-	15,500
<b>TOTAL OPERATING ADDITIONS</b> .....	971,612	14,672	986,284
<b>DEDUCTIONS</b>			
DROP Interest Expense .....	17,749	-	17,749
Benefit and Claim Payments .....	306,242	-	306,242
Distributions from Pooled Investments .....	-	21,254	21,254
Administration .....	22,869	-	22,869
<b>TOTAL OPERATING DEDUCTIONS</b> .....	346,860	21,254	368,114
<b>CHANGE IN NET ASSETS</b> .....	624,752	(6,582)	618,170
Net Assets at Beginning of Year, as Restated .....	4,064,162	13,253	4,077,415
<b>NET ASSETS AT END OF YEAR</b> .....	<u>\$ 4,688,914</u>	<u>\$ 6,671</u>	<u>\$ 4,695,585</u>

The accompanying notes are an integral part of the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

### YEAR ENDED JUNE 30, 2006

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (In Thousands)

The City of San Diego (the "City") adopted its current charter on April 7, 1931 and operates as a municipality in accordance with State laws. Since adoption, the City Charter has been amended several times. The most recent amendments were added by vote during the November 2004 election and took effect in January 2006. One of the amendments which took effect January 1, 2006 was the strong-mayor form of government. Under the strong-mayor form of government, the Mayor is the Chief Executive Officer of the City and has direct oversight over all City functions and services except for the City Council, Personnel, City Clerk, Independent Budget Analyst (IBA), and City Attorney's departments. Under this form of government, the Council is composed of eight members and is presided over by a Council President, who is selected by a majority vote of the Council. Residents of the City are provided with a wide range of services including parks, recreation, police, fire, water and sewer services.

The accounting policies of the City conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. The following is a summary of the City's significant accounting policies:

##### a. Financial Reporting Entity

As required by GAAP, these financial statements present the primary government and its component units, entities for which the primary government is considered to be financially accountable.

Blended component units, although legally separate entities, are, in substance, part of the primary government's operations and as a result, data from these units are combined with data of the primary government (references within this document to "the City" are referring to the primary government). Component units should be included in the reporting entity financial statements using the blending method if either of the following criteria is met:

- i. The component unit's governing body is substantively the same as the governing body of the primary government (the City).
- ii. The component unit provides services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefits the primary government even though it does not provide services directly to it.

Included within the reporting entity as blended component units are the following:

- Centre City Development Corporation
- City of San Diego/Metropolitan Transit Development Board Authority
- Community Facility and Other Special Assessment Districts
- Convention Center Expansion Financing Authority
- Public Facilities Financing Authority
- Redevelopment Agency of the City of San Diego
- San Diego Data Processing Corporation
- San Diego Facilities and Equipment Leasing Corporation
- San Diego Industrial Development Authority
- San Diego Open Space Park Facilities District #1
- Southeastern Economic Development Corporation

- San Diego City Employees' Retirement System
- Tobacco Settlement Revenue Funding Corporation

A brief description of each blended component unit follows:

- Centre City Development Corporation, Inc. ("CCDC") is a not-for-profit public benefit corporation established in 1975 to administer certain redevelopment projects in downtown San Diego and to provide redevelopment advisory services to the Redevelopment Agency of the City of San Diego. CCDC's budget and governing board are approved by the City Council and services are provided exclusively to the primary government. CCDC is reported as a governmental fund. Financial statements can be requested from Centre City Development Corporation, 225 Broadway, Suite 1100, San Diego, California 92101.
- The City of San Diego/Metropolitan Transit Development Board Authority (The "MTDB Authority") is a financing authority which was established in 1988 and acquires and constructs mass transit guideways, public transit systems, and related transportation facilities primarily benefiting the residents of the City of San Diego. The City appoints two Council members to the governing board and the MTDB Authority appoints one. The MTDB Authority primarily provides services to the primary government. The MTDB Authority is reported as a governmental fund. Financial statements can be requested from the Office of the City Auditor and Comptroller, 202 C Street, San Diego, California 92101.
- The City maintains various Community Facility, Maintenance Assessment and Business Improvement Districts to pay for the construction, maintenance and improvement of community facilities and infrastructure. The governing body of Special Assessment Districts and Community Facilities Districts (special districts) is the City's governing body. Among its duties, it approves the special districts budgets, parcel fees, special assessments, and special taxes. The special districts are reported in governmental fund types.
- The Convention Center Expansion Financing Authority (The "CCEFA") was established in 1996 to acquire and construct the expansion to the existing convention center. During the period reported, the governing board was administered by the Mayor, the City Manager, the District Director and a member of the Board of District Commissioners. The CCEFA provides services which primarily benefit the primary government. The CCEFA is reported as a governmental fund. Financial statements can be requested from the Office of the City Auditor and Comptroller, 202 C Street, San Diego, California 92101.
- The Public Facilities Financing Authority (The "PFFA") was established in 1991 and currently acquires and constructs public capital improvements. PFFA is governed by a five member board appointed by the primary government. PFFA provides services exclusively to the primary government. Financing for governmental funds is reported as a governmental activity and financing for business-type funds is reported as a business-type activity. Financial statements can be requested from the Office of the City Auditor and Comptroller, 202 C Street, San Diego, California 92101.
- The Redevelopment Agency (The "RDA") of the City of San Diego was established in 1958 in order to provide a method for revitalizing deteriorating and blighted areas of the City and began functioning in 1969 under the authority granted by the community redevelopment law. The City Council is the governing board and the RDA is reported as a governmental fund. Complete stand-alone financial statements can be requested from the Office of the City Auditor and Comptroller, 202 C Street, San Diego, California 92101.
- San Diego Data Processing Corporation ("SDDPC") was formed in 1979 as a not-for-profit public benefit corporation for the purpose of providing data processing services. SDDPC's budget and governing board are approved by the City Council. SDDPC provides services almost exclusively to the primary government. SDDPC is reported as an Internal Service Fund. Financial statements can be requested from San Diego Data Processing Corporation, 5975 Santa Fe Street, San Diego, California 92109.

- The San Diego Facilities and Equipment Leasing Corporation (The “SDFELC”) is a not-for-profit public benefit corporation established in 1987 for the purpose of acquiring and leasing to the City real and personal property to be used in the municipal operations of the City. The City Council appoints two of the three members of the governing board and services are exclusively to the primary government. Financing for governmental funds is reported as a governmental activity and financing for proprietary funds is reported as a business-type activity. Financial statements can be requested from the Office of the City Auditor and Comptroller, 202 C Street, San Diego, California 92101.
- The San Diego Industrial Development Authority (The “SDIDA”) was established in 1983 by the City for the purpose of providing an alternate method of financing to participating parties for economic development purposes. The City Council is the governing board. The SDIDA is reported as a governmental fund. Financial statements can be requested from the Office of the City Auditor and Comptroller, 202 C Street, San Diego, California 92101.
- The San Diego Open Space Park Facilities District #1 (The “SDOSPF”) was established in 1978 by the City for the purpose of acquiring open space properties to implement the Open Space Element of the City's General Plan. The boundaries are contiguous with those of the City. The City Council is the governing board. The SDOSPF is reported as a governmental fund. Financial statements can be requested from the Office of the City Auditor and Comptroller, 202 C Street, San Diego, California 92101.
- Southeastern Economic Development Corporation (“SEDC”) is a not-for-profit public benefit corporation organized in 1980 by the City to administer certain redevelopment projects in southeast San Diego and to provide redevelopment advisory services to the Redevelopment Agency of the City of San Diego. SEDC's governing board is appointed by the City Council and services are provided either to the City or on behalf of the City. SEDC is reported as a governmental fund. Financial statements can be requested from the Southeastern Economic Development Corporation, 995 Gateway Center Way, Suite 300, San Diego, California 92102.
- San Diego City Employees' Retirement System (SDCERS) was established in 1927 by the City and provides retirement, health insurance, disability, and death benefits. Currently, SDCERS also administers the Unified Port District and the San Diego County Regional Airport Authority defined benefit plans.

SDCERS is a legally separate, blended component unit of the City of San Diego. It is managed by a Board of Administration, the majority of which is appointed by the City of San Diego, and a Pension Administrator who does not report to, or work under the direction of the elected officials or appointed managers of the City of San Diego. SDCERS provides services almost exclusively to the primary government. Additionally, during the period reported, SDCERS utilized legal counsel independent of the City of San Diego. As such, the City does not maintain direct operational oversight of SDCERS or its financial reports.

SDCERS is reported as a pension and employee savings trust fund. Complete stand-alone financial statements can be requested from the San Diego City Employees' Retirement System, 401 West A Street, Suite 400, San Diego, California 92101.

- The Tobacco Settlement Revenue Funding Corporation (TSRFC) is a nonprofit public benefit corporation established in 2006 for the purpose of acquiring the Tobacco Settlement Revenues allocated to the City from the State of California, pursuant to the Master Settlement Agreement. TSRFC is governed by the Board of Directors which consists of two officials of the City and one independent director. The independent director shall be appointed by the Mayor or the remaining directors. TSRFC is reported as a governmental fund. Financial statements can be requested from the Office of the City Auditor and Comptroller, 202 C Street, San Diego, California, 92101.

Discretely presented component units, which are also legally separate entities, have financial data reported in a separate column from the financial data of the primary government to demonstrate they are financially and legally separate from the primary government.

There are two entities which are discretely presented component units:

- San Diego Convention Center Corporation (“SDCCC”)

SDCCC is a not-for-profit public benefit corporation originally organized to market, operate and maintain the San Diego Convention Center. On July 1, 1993, SDCCC assumed similar responsibility for the San Diego Concourse. The City is a sole member of SDCCC and acts through the San Diego City Council in accordance with the City Charter and the City’s Municipal Code. The City appoints seven voting members out of the nine-member Board of Directors of SDCCC. The City is liable for any operating deficits and would be secondarily liable for any debt issuances of SDCCC. SDCCC is discretely presented because it provides services directly to the citizens. Complete stand-alone financial statements can be requested from San Diego Convention Center Corporation, 111 West Harbor Drive, San Diego, California 92101.

- San Diego Housing Commission (“SDHC”)

SDHC is a government agency which was formed by the City under Ordinance No. 2515 on December 5, 1978 in accordance with the Housing Authority Law of the State of California. SDHC primarily serves low-income families by providing rental assistance payments, rental housing, loans and grants to individuals and not-for-profit organizations and other services. Members of the Board of Commissioners are appointed by the Mayor and confirmed by the City Council. SDHC is discretely presented because it provides services directly to the citizens. Complete stand-alone financial statements can be requested from San Diego Housing Commission, 1122 Broadway, Suite 300, San Diego, California 92101.

Each blended and discretely presented component unit has a June 30 fiscal year-end.

b. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported discretely from certain legally separate component units for which the primary government is financially accountable.

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 as to a specific function or segment. Direct expenses reported include administrative and overhead charges. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, the latter of which are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

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

The business-type activities and proprietary funds financial statements apply all effective pronouncements of the Governmental Accounting Standards Board ("GASB"). In addition, these statements apply all Accounting Principles Board Opinions ("APBO") and Financial Accounting Standards Board ("FASB") Statements and Interpretations issued on or before November 30, 1989, except those that conflict with GASB pronouncements.

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

All internal service funds, except for the Special Engineering Fund, have been included within governmental activities in the government-wide financial statements since they predominantly benefit governmental functions. The Special Engineering Fund, which services exclusively water and sewer activities, has been included within business-type activities in the government-wide financial statements.

Amounts reported as program revenues include (1) charges to customers for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. General revenues include all taxes and investment income.

**Governmental funds financial statements** are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

Revenues which are considered susceptible to accrual include: real and personal property taxes; other local taxes; franchise fees; fines, forfeitures and penalties; motor vehicle license fees; rents and concessions; interest; and state and federal grants and subventions, provided they are received within 60 days from the end of the fiscal year.

Licenses and permits, including parking citations, charges for services, and miscellaneous revenues are recorded as revenues when received in cash because they generally are not measurable until actually received.

Expenditures are recognized when the related fund liability is incurred except for (1) principal and interest of general long-term debt which are recognized when due; and (2) employee annual leave and claims and judgments from litigation which are recorded in the period due and payable since such amounts will not currently be liquidated with expendable available financial resources.

The governmental funds financial statements do not present long-term debt, but the related debt is shown in the reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets. Bond premiums, discounts and issuance costs are recognized during the current period.

**Proprietary funds** distinguish operating revenues and expenses from non-operating 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. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**Fiduciary funds** are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, and/or other governmental units, and include pension and employee savings trust, investment trust, and agency funds. Pension and Employee Savings Trust Funds are reported using the same measurement focus and basis of accounting as Proprietary Funds. Agency funds are reported using the accrual basis of accounting.

The following is the City's major governmental fund:

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

The following are the City's major Enterprise Funds:

Sewer Utility Fund - The sewer utility fund is used to account for the operation, maintenance and development of the City's sewer system. The City's sewer utility fund includes activities related to the performance of services for Participating Agencies.

Water Utility Fund - The water utility fund is used to account for operating and maintenance costs, replacements, betterments, expansion of facilities, and payments necessary in obtaining water from the Colorado River and the State Water Project.

The following are the City's other fund types:

Internal Service Funds - These funds account for vehicle and transportation, printing, engineering, data processing, and storeroom services provided to City departments on a cost-reimbursement basis. Internal service funds also account for self-insurance activities, including workers' compensation and long-term disability programs, which derive revenues from rates charged to benefiting departments. This fund type also accounts for the public liability reserve, which was established for the purpose of paying liability claims.

Pension and Employee Savings Trust Funds - These funds account for the City Employees' Retirement System, the Supplemental Pension Savings Plan (SPSP), and the 401(k) Plan.

Investment Trust Fund - This fund was established to account for equity that legally separate entities have in the City Treasurer's investment pool. The Automated Regional Justice Information System (ARJIS), the San Diego Graphic Information Source (SanGIS), and the Abandoned Vehicle Abatement (AVA) are all legally separate entities which have cash invested in the City Treasurer's investment pool.

Agency Funds - These funds account for assets held by the City as an agent for individuals, private organizations, and other governments, including federal and state income taxes withheld from employees, parking citation revenues, and certain employee benefit plans.



d. Property Taxes

The County of San Diego (the "County") assesses, bills, and collects property taxes on behalf of numerous special districts and incorporated cities, including the City of San Diego. The City's collections of the current year's taxes are received through periodic apportionments from the County.

The County's tax calendar is from July 1 to June 30. Property taxes attach as a lien on property on January 1. Taxes are levied on July 1 and are payable in two equal installments on November 1 and February 1, and become delinquent after December 10 and April 10, respectively. Since the passage of California's Proposition 13, beginning with fiscal year ended 1979, general property taxes are based either on a flat 1% rate applied to the 1975-76 full value of the property or on 1% of the sales price of any property sold or of the cost of any new construction after the 1975-76 valuation. Taxable values of properties (exclusive of increases related to sales and new construction) can rise a maximum of 2% per year. The Proposition 13 limitation on general property taxes does not apply to taxes levied to pay the debt service on any indebtedness approved by the voters prior to June 6, 1978 (the date of passage of Proposition 13).

At the government-wide level, property tax revenue is recognized in the fiscal year for which the taxes have been levied. Property taxes received after the fiscal year in which they were levied are not considered available as a resource that can be used to finance the current year operations of the City and, therefore, are recorded as deferred revenue in the governmental funds. The City provides an allowance for uncollected property taxes of 3% of the outstanding balance which reflects historical collections.

e. Cash and Investments

The City's cash and cash equivalents for Statement of Cash Flows purposes are considered to be cash on hand, demand deposits, restricted cash, and investments held by the City Treasurer in a cash management investment pool and reported at market value. Cash equivalents reported in the Statement of Cash Flows for the Water and Sewer Utilities do not include restricted investments represented as Restricted Cash and Investments with a maturity date greater than ninety days.

The City's cash resources are combined to form a cash and investment pool managed by the City Treasurer (the pool). The pool is not registered as an investment company with the Securities and Exchange Commission (SEC) nor is it a 2a7-like pool. The investment activities of the Treasurer in managing the pool are governed by California Government Code § 53601 and the City's Investment Policy, which is reviewed by the Investment Advisory Committee and approved annually by the City Council. Interest earned on pooled investments is allocated to participating funds and entities based upon their average daily cash balance during the allocation month. Fair market value adjustments to the pool are recorded annually; however, the City Treasury reports on market values monthly. The value of the shares in the pool is equal to the fair market value of the pool.

The pool participates in the California State Treasurer's Local Agency Investment Fund (LAIF). Investments in LAIF are governed by State statutes and overseen by a five member Local Investment Advisory Board. The fair value of the City's position in LAIF may be greater or less than the value of the shares. Investments in LAIF are valued in these financial statements using a fair value factor provided by LAIF applied to the value of the City's shares in the investment pool.

It has been the City's policy to allow the General Fund to receive interest earned by certain governmental funds, internal service funds and agency funds, unless expressly stated in the resolutions creating individual funds. During the fiscal year ended June 30, 2006, approximately \$2,432 of interest was assigned from various funds to the General Fund. These transactions caused an increase to the "transfers from" amount for the General Fund and caused a like increase to the "transfer to" amount for the fund disbursing the interest. In the case of negative interest, these transactions caused an

increase to the “transfers from” amount for the fund transferring the negative interest and caused a like increase to the “transfer to” amount for the General Fund.

Certain governmental funds maintain investments outside of the City’s investment pool. These funds are supervised and controlled by a five member Funds Commission which is appointed by the Mayor and confirmed by the City Council. The Funds Commission engages money managers to direct the investments of these funds. Additionally, the City and its component units maintain individual accounts pursuant to bond issuances and major construction contracts which may or may not be related to debt issuances. The investment of these funds is governed by the policies set forth in individual indenture and trustee agreements. Certain component units of the City also participate in LAIF separately from the City Treasurer’s investment pool.

All City investments are reported at fair value in accordance with the GASB 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*. Note 3 of the notes to the financial statements contain additional information on permissible investments per the City investment policy and other policies applicable to the cash and investments reported herein.

The discharge of fiduciary duties by SDCERS’ Board is governed by Section 144 of the City Charter and Article XVI, Section 17 of the California State Constitution. Investment decisions are made on a risk versus return basis in a total portfolio context. SDCERS’ Board has the authority to delegate investment management duties to outside advisors, to seek the advice of outside investment counsel, and to provide oversight and monitoring of the investment managers it hires. Furthermore, under the California State Constitution and other relevant authorities, SDCERS’ Board may, at its discretion, and when prudent in the informed opinion of the Board, invest funds in any form or type of investment, financial instrument, or financial transaction, unless otherwise limited by the San Diego City Council. SDCERS’ agents, in SDCERS’ name, manage all investments.

SDCERS’ investments are reported at fair value in the accompanying Statement of Fiduciary Net Assets. SDCERS’ custodian, State Street Bank & Trust Company, provides the market values of exchange traded assets. In the case of debt securities acquired through private placements, SDCERS’ contract investment advisors compute fair value based on market yields and average maturity dates of comparable quoted securities. Short-term investments are reported at cost or amortized cost, which approximates fair value. Real estate equity investment fair values are based on either annual valuation estimates provided by SDCERS’ contract real estate advisors or by independent certified appraisers. Fair value of investments in commingled funds of publicly traded securities are based on the funds’ underlying asset values determined from published market prices and quotations from major investment firms.

f. Inventories

Inventories reported in the government-wide financial statements and the proprietary funds financial statements, which consist of water in storage and supplies, are valued at the lower of cost or market. Such inventories are expensed when consumed using primarily the first-in, first-out (FIFO) and weighted-average methods, respectively. Inventory supplies of governmental funds are recorded as expenditures when purchased.

g. Land Held for Resale

Land Held for Resale, purchased by the Redevelopment Agency, is reported in the government-wide and fund financial statements at the lower of cost or net realizable value. In the governmental fund financial statements, fund balances are reserved in an amount equal to the carrying value of land held for resale, with the exception of an interfund payable due to the Water Utility fund of \$1,327, because such assets are not available to finance the Redevelopment Agency’s current operations.

h. Deferred Charges

In the government-wide and proprietary funds financial statements, Deferred Charges represent the unamortized portion of bond issuance costs. These costs will be amortized over the life of the related bonds using a method which approximates the effective yield method.

i. Capital Assets

Non-depreciable Capital Assets, which include land and construction-in-progress, are reported in the applicable governmental or business-type activities column in the government-wide financial statements.

Depreciable Capital Assets, which include structures and improvements, equipment, distribution and collection systems, and infrastructure, are reported in the applicable governmental or business-type activities column in the government-wide financial statements, net of accumulated depreciation. To meet the criteria for capitalization, an asset must have a useful life in excess of one year and in the case of equipment outlay, must equal or exceed a capitalization threshold of five thousand dollars. All other capital assets such as land, structures, infrastructure, and distribution and collection systems are capitalized regardless of cost. Subsequent improvements are capitalized to the extent that they extend the initial estimated useful life of the capitalized asset, or improve the efficiency or capacity of that asset. Costs for routine maintenance are expensed as incurred. Interest expenses incurred during the construction phase of business-type capital assets are reflected in the capitalized value of the asset constructed. During fiscal year 2006, \$6,437 of interest expense incurred was capitalized.

Capital assets, when purchased or constructed, are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at the estimated fair market value on the date of donation. Depreciation of capital assets is computed using the straight-line method over the estimated useful life of the asset as follows:

Assets	Years
Structures and Improvements	
Buildings	40 - 50
Building Improvements	15 - 40
Equipment	
Automobiles and Light Trucks	5 - 10
Construction and Maintenance Vehicles	5 - 20
General Machinery and Office Equipment	3 - 25
Distribution and Collection Systems	
Sewer Pipes and Water Mains	15 - 150
Reservoirs	100 - 150
Infrastructure	
Pavement and Traffic Signals	12 - 50
Bridges	75
Hardscape	20 - 50
Flood Control Assets	40 - 75

j. Disposition and Development Agreement

The Redevelopment Agency and McMillin-NTC, LLC entered into a Disposition and Development Agreement, dated June 26, 2000, and a Third Implementation Agreement, dated May 6, 2003, which were executed for the purpose of effectuating the Redevelopment Plan at the Naval Training Center Redevelopment Project, in addition to constructing and installing additional infrastructure improvements as required by the City. The developer has agreed to advance the funds needed to pay for infrastructure costs. The Agency has consistently reimbursed for eligible costs as they are billed,

therefore, this agreement is not treated as a loan, and instead expenditures are recognized as payments are made to the developer and a corresponding capital asset is recorded in the government-wide financial statements.

On March 30, 2004 the Redevelopment Agency entered into a Disposition and Development Agreement with Western Pacific Housing for a condominium development project in the North Park Redevelopment Project Area. Under the agreement, the Agency promised to pay the maximum aggregate principal amount of \$3,000, of which \$2,100 represents the Affordability Component of the Agency Payment Obligation, and \$900 represents the Public Improvement Component of the Agency Payment Obligation. The Affordability Component is subject to an adjustment based on the actual project sales revenue proceeds received by the Developer. This adjustment amount cannot be computed until all 45 affordable units are sold. The principal amount outstanding bears simple interest at a rate equal to 5% per annum. Solely for the purposes of calculating the amount of interest payable, the developer shall be deemed to have paid an amount equal to 25% of the Agency's Payment Obligation as of the date which is 195 days after closing of escrow, 50% as of the date which is 390 days after closing of escrow, 75% as of the date which is 585 days after closing of escrow, and 100% at the completion date, which is the date on which the release of construction covenants under the agreement have been recorded in the official records of the San Diego County. For purposes of calculating the amount of interest payable, the principal amounts stated above will be reduced by a 10% per annum applied on a pro rata basis for the period of time the Developer is not in compliance with the schedule of performance dates stated in the agreement for commencement and completion of construction. All payments shall be made from the site-generated property tax increment. To date, only the \$900, representing the Public Improvement Component of the Agency Payment Obligation, has been recognized as a liability since the remaining \$2,100, representing the Affordability Component of the Agency Payment Obligation, is subject to adjustment upon final sales of all 45 affordable units, which has yet to occur.

k. Unearned/Deferred Revenue

In the government-wide and all fund level financial statements, unearned revenue represents revenues which have not been earned. The government-wide financial statements include revenues earned from developer credits, which are not reported in governmental funds because they are non-monetary transactions. In the governmental funds financial statements, deferred revenue represents revenues which have been earned but have not met the recognition criteria based on the modified accrual basis of accounting.

l. Interfund Transactions

The City has the following types of interfund transactions:

**Loans** – amounts provided with a requirement for repayment. Interfund loans are normally reported as interfund receivables (i.e. Due from Other Funds) in lender funds and interfund payables (i.e. Due to Other Funds) in borrower funds. The non-current portions of long-term interfund loans receivable are reported as advances. There is an interfund loan between the Capital Outlay Fund and the Water Utility Fund, for a land acquisition, which is reported as an Interfund Loan Receivable/Payable and included in Internal Balances. There is also an interfund loan between the FBA fund and the Sewer Utility fund, for developer fees owed for the Carmel Valley Trunk sewer project, which is also reported as an Interfund Loan Receivable/Payable and included in Internal Balances.

**Services provided and used** – sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as interfund receivables and payables in the fund balance sheets or fund statements of net assets.

**Reimbursements** – repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursement is reported as expenditures or expenses in the reimbursing fund and a reduction of expenditures or expenses in the paying fund.

**Transfers** – flows of assets (such as cash or goods) without equivalent flows of assets in return, and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers. In proprietary funds, transfers are reported after non-operating revenues and expenses.

m. Long-Term Liabilities

In the government-wide and proprietary funds financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary funds statements of net assets. Capital appreciation bond accretion, bond premiums and discounts, and bond refunding gains and losses are amortized over the life of the bonds using a method which approximates the effective yield method. Net bonds payable reflects amortized bond accretion and unamortized bond discounts, premiums and refunding gains and losses.

n. Sundry Trust Liabilities

Under approval of certain agreements, developers submit to the Redevelopment Agency an initial deposit to ensure the Developer proceeds diligently and in good faith to negotiate and perform all of the obligations under the agreement. These deposits can normally be used for administrative costs of the Redevelopment Agency. In the government-wide financial statements and in the fund financial statements, the unspent portion of these deposits, called Sundry Trust Liabilities, are reported as liabilities of the Redevelopment Agency.

o. Compensated Absences

The City provides combined annual leave to cover both vacation and sick leave. It is the City's policy to permit employees to accumulate between 8.75 weeks and 17.5 weeks of earned but unused annual leave, depending on hire date. Accumulation of these earnings will be paid to employees upon separation from service.

The liability for compensated absences reported in the government-wide, proprietary and fiduciary fund financial statements consists of unpaid, accumulated vacation and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability has been calculated based on the employees' current salary level and includes salary related costs (e.g. Social Security and Medicare Tax). A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

p. Claims and Judgments

The costs of claims and judgments are accrued when incurred and measurable in the government-wide financial statements and both proprietary and fiduciary funds financial statements. In governmental funds, the costs of claims and judgments are recorded as expenditures when payments are due and payable.

q. Non-Monetary Transactions

The City, as part of approving new development in the community planning process, requires that certain public facilities be constructed per the provisions of community financing plans. Historically, the City has agreed to pay a pro rata share of these assets. In lieu of providing direct funding for these assets, the City often provides developers with credits (also

referred to as FBA credits) for future permit fees. These credits are earned by the developer upon successful completion of construction phases and when City engineers have accepted the work. The credits are recognized as permit revenue upon issuance and a corresponding capital asset is recorded in the government-wide financial statements.

On occasion, FBA credits may be issued in advance of receiving a completed project (capital asset). In these cases a developer must have an approved reimbursement agreement in place and provide other surety or agreement. Although performance bonds are required for all large scale projects to ensure adequate funding to complete a project, a Letter of Credit is requested to secure the credits given in advance. A Fee Deferral Agreement is required for any permits issued prior to payment of fees or issuance of credits with full payment to be made prior to final inspection. The FBA credits receivable are recognized as permit revenue upon issuance and a corresponding receivable asset is recorded in the government-wide financial statements.

r. Net Assets

In the government-wide and proprietary fund financial statements, net assets are categorized as follows:

- Invested in Capital Assets, Net of Related Debt consists of capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition of these assets.
- Restricted Net Assets consist of assets with restrictions imposed on them by external creditors, grantors, contributors, laws and regulations of other governments, or law through constitutional provisions or enabling legislation. It is the City's policy to first apply restricted resources when an expense is incurred for purposes which both restricted and unrestricted net assets are available.
- Unrestricted Net Assets consist of net assets that do not meet the definition of Invested in Capital Assets, Net of Related Debt or Restricted Net Assets.

s. Fund Balance

In the fund financial statements, portions of fund equity of governmental funds have been reserved for specific purposes. Reservations are created to either (1) satisfy legal covenants that require a portion of the fund balance to be segregated, or (2) identify the portion of the fund balance that is not appropriable for future expenditures.

Designated fund balance indicates that portion of fund equity for which the City has made tentative plans.

Undesignated fund balance indicates that portion of fund equity which is available for appropriation in future periods.

t. Reserves

City Charter Section 91 titled "General Reserve Fund" was approved by the voters on November 6, 1962. This section requires Council to create and maintain a General Reserve Fund for the purpose of keeping the payment of running expenses of the City on a cash basis. Section 91 requires the reserve be maintained in an amount sufficient to meet all legal demands against the City Treasury for the first four months or other necessary period of each fiscal year prior to the collection of taxes. This fund may be expended only in the event of a public emergency by the affirmative vote of two-thirds of the City Council. The argument for this charter section given by the Citizens Charter Review Committee, commissioned in 1962, was to "strengthen the financial position of the City through the more efficient utilization of tax monies by reducing the amount of taxes collected and lying idle during a great part of the year, and through focusing responsibility for fiscal policies on the elected City Council."

On February 28, 1984, the City Attorney's Office issued Opinion No. 84-3 which addresses issues in regards to the City's

compliance with the funding requirements of Charter Section 91. In the opinion of the City Attorney, "To the extent that the legislative body approves the issuance of short term notes, commonly referred to as Tax or Revenue Anticipation Notes, pursuant to Section 92; or authorizes temporary loans to any tax-supported fund from any other funds in the treasury pursuant to Section 93, the General Reserve Fund required under section 91 can be reduced." Therefore, the funding requirements of Charter Section 91 have been satisfied through a combination of the General Fund reserve of \$39,884, reported within the General Fund column of the CAFR in Undesignated Fund Balance, and the provisions set forth in Charter Sections 92 and 93 for the fiscal year ended June 30, 2006.

In September 2007, the City Attorney's Office issued a new opinion that supersedes, in part, the opinion issued on February 28, 1984. The revised opinion states that the Charter Section 91 General Reserve must be a separate, legal fund. This fund, separate from the General Fund, must be funded if not at a "four month operating expenditure" level then at a level of such "other necessary funding." The City Attorney's Opinion referenced the guidance of the Government Finance Officer's Association, which recommends a level between 5% and 15% of operating expenditures as the benchmark for interpreting the required funding level that meets the intent of the City's voters. Per the City Attorney's opinion, the City will create a separate General Reserve Fund in fiscal year 2008, and the General Fund reserve monies will be transferred to that separate fund and reported therein in all future financial statements.

The City also has an internal reserve policy in relation to certain governmental long term liabilities which are repaid with Transient Occupancy Tax revenues. When the liabilities are incurred by the City, the City creates policy reserves equal to one half of the annually required lease payments in the form of a rate stabilization reserve for each liability. The purpose of the internal reserve is to make the lease payments when they are due, even if there are unanticipated fluctuations in the Transient Occupancy Tax receipts that could potentially impact the timely payment of lease payments for such liabilities. In addition to the internal rate stabilization reserve, the City may also maintain cash funded debt service reserve funds or surety guarantees with trustees in accordance with the bond indentures that exist for these liabilities. As of 06/30/06, the following is a schedule of all such rate stabilization reserves and their location in the CAFR:

<b>Rate Stabilization Reserve</b>	<b>CAFR Section</b>	<b>CAFR Column</b>	<b>Amount</b>
Convention Center Expansion	Special Revenue	Transient Occupancy Tax	\$ 6,850,531
Petco Park (PFFA-Ballpark)	Special Revenue	Transient Occupancy Tax	7,520,345
Balboa Park (SDFELC)	Special Revenue	Transient Occupancy Tax	3,286,878
Trolley (MTDB)	Special Revenue	Public Transportation	2,043,591
			<u>\$ 19,701,345</u>

u. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities, disclosure of contingent assets and liabilities, and the related amounts of revenues and expenses. Actual results could differ from those estimates. Management believes that the estimates are reasonable.

v. Reclassification

Certain prior year amounts have been reclassified to conform to current year presentation.



## 2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (In Thousands)

Certain adjustments are necessary to reconcile governmental funds to governmental activities (which includes all internal service funds except the Special Engineering Fund). The reconciliation of these adjustments are as follows:

- a. Explanation of certain differences between the Governmental Funds Balance Sheet and the Government-wide Statement of Net Assets:

The Governmental Funds Balance Sheet includes a reconciliation between Total Fund Balances-Governmental Funds and Total Net Assets-Governmental Activities as reported in the Government-wide Statement of Net Assets. One element of the reconciliation states, "Other assets and liabilities used in governmental activities are not financial resources (uses), and therefore, are either deferred or not reported in the funds." The details of this \$135,085 difference are as follows:

Deferred Charges, net, July 1, 2005	\$ 20,869
Issuance Costs	4,815
Amortization Expense	(1,099)
Deferred Charges, net, June 30, 2006	<u>24,585</u>
Deferred Revenue:	
Taxes Receivable	12,340
Sales Taxes Receivable	5,837
Motor Vehicle License Receivable	709
Special Assessments Receivable	1,174
Notes Receivable	12,701
Grants and Other Receivables	<u>65,952</u>
Deferred Revenue, net, June 30, 2006	<u>98,713</u>
FBA Credit Receivable	13,267
Padre Land Acquisition Credit Payable	<u>(1,480)</u>
Net Adjustment to increase Total Fund Balances - Governmental Funds to arrive at Total Net Assets of Governmental Activities	<u>\$ 135,085</u>

Another element of the reconciliation states, "Certain 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 (\$1,675,325) difference are as follows:

Interest Accrued on Long-Term Debt	\$ (21,628)
Compensated Absences	(65,345)
Capital Leases Payable	(29,966)
Contracts Payable	(2,615)
Notes Payable	(7,294)
Loans Payable	(14,345)
Section 108 Loans Payable	(42,499)
SANDAG Loans Payable	(7,355)
Net Bonds Payable	(1,320,506)
Accretion of Interest on Capital Appreciation Bonds	(9,219)
Net Pension Obligation	<u>(154,553)</u>
Net adjustment to decrease Total Fund Balances - Governmental Funds to arrive at Total Net Assets - Governmental Activities	<u>\$ (1,675,325)</u>



- b. Explanation of certain differences between the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities:

The Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances includes a reconciliation between "Net Change in Fund Balances-Total Governmental Funds" and "Changes in Net Assets of Governmental Activities" as reported in the Government-wide Statement of Activities. One element of that reconciliation explains, "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." The details of this \$40,817 difference are as follows:

Capital Projects	\$ 126,583
Other Capital Activities	31,235
Depreciation Expense	<u>(117,001)</u>
Net Adjustment to increase Net Changes in Fund Balances -	
Total Governmental Funds to arrive at Changes in Net	
Assets of Governmental Activities	<u>\$ 40,817</u>

Another element of the reconciliation states "The net effect of various miscellaneous transactions involving capital assets (i.e., donations, retirements, and transfers) is to decrease net assets." The details of this (\$5,135) are as follows:

In the Statement of Activities, only the loss on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balances by the cost of the capital assets sold.	\$ (1,615)
Donations and transfers 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.	758
The Statement of Activities reports losses arising from the retirement of existing capital assets. Conversely, governmental funds do not report any gain or loss on retirements of capital assets.	<u>(4,278)</u>
Net adjustment to decrease Net Change in Fund Balances - Total Governmental Funds to arrive at Changes in Net Assets of Governmental Activities	<u>\$ (5,135)</u>

Another element of the reconciliation states "The issuance of long-term debt (i.e., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets." The details of this (\$196,052) difference are as follows:

Debt Issued or Incurred:

Capital Leases	\$ (20,087)
Contracts Payable	(900)
Loans Payable	(9,171)
Section 108 Loans	(2,151)
SANDAG Loans	(1,651)
Tax Allocation Bonds	(109,985)
Tobacco Settlement Asset-Backed Bonds	(105,400)

Principal Repayments:

Capital Leases	3,972
Notes Payable	630
Loans Payable	13
Section 108 Loans	2,510
SANDAG Loans	8,275
G.O. Bonds	1,840
Revenue Bonds	21,435
Special Assessment Bonds/Special Tax Bonds	3,700
Tax Allocation Bonds	<u>10,918</u>

Net adjustment to decrease Net Changes in Fund Balances -

Total Governmental Funds to arrive at Changes in Net Assets of Governmental Activities	<u>\$ (196,052)</u>
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Another element of the reconciliation states that "Some expenses reported in the Statement of Activities do not require the use of current financial resources (i.e., compensated absences, net pension obligation) and therefore are not accrued as expenses in governmental funds." The details of this \$98,444 difference are as follows:

Compensated Absences	\$ 2,498
Net Pension Obligation	96,515
Accrued Interest	(24)
Current Year Premiums/Discounts and Interest Accretion	
Less Amortization of Bond Premiums	(4,261)
Issuance Costs Less Current Year Amortization	<u>3,716</u>

Net adjustment to increase Net Changes in Fund Balances -

Total Governmental Funds to arrive at Changes in Net Assets of Governmental Activities	<u>\$ 98,444</u>
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### 3. CASH AND INVESTMENTS (In Thousands)

The following is a summary of the carrying amount of cash and investments:

	Governmental Activities	Business-Type Activities	Fiduciary Statement of Net Assets other than SDCERS	Subtotal	SDCERS Fiduciary Statement of Net Assets	Grand Total
Cash & Cash or Equity in Pooled Cash & Investments	\$ 891,550	\$ 461,797	\$ 58,219	\$ 1,411,566	\$ 3,960	\$ 1,415,526
Cash & Investments with Fiscal Agent	132,413	70,470	-	202,883	489,233	692,116
Investments at Fair Value	159,840	-	647,021	806,861	3,826,866	4,633,727
Securities Lending Collateral	-	-	-	-	581,290	581,290
TOTAL	\$ 1,183,803	\$ 532,267	\$ 705,240	\$ 2,421,310	\$ 4,901,349	\$ 7,322,659

#### a. Cash & Cash or Equity in Pooled Cash & Investments

Cash & Cash or Equity in Pooled Cash & Investments represents petty cash, cash at the bank in demand deposit and/or savings accounts, and cash in escrow for contract retention payables. Furthermore, it represents equity in pooled cash and investments, which is discussed in further detail below.

As provided for by California Government Code, the cash balance of substantially all funds and certain outside entities are pooled and invested by the City Treasurer for the purpose of increasing interest earnings through investment activities. The respective funds' shares of the total pooled cash and investments are included in the table above under the caption Cash & Cash or Equity in Pooled Cash & Investments.

The following represents a summary of the items included in the Cash & Cash or Equity in Pooled Cash & Investments line item:

Cash on Hand	\$ 206
Cash Deposits	2,607
Deposits Held in Escrow Accounts	14,273
Pooled Investments in the City Treasury	1,398,440
Total Cash & Cash or Equity in Pooled Cash & Investments	<u>\$ 1,415,526</u>

A summary of the investments held by the City Treasurer's investment pool as of June 30, 2006 is as follows:

Investment	Fair Value	Cost	Coupon Rate % Range	Maturity Range
US Treasury Bills	\$ 24,642	\$ 24,489	4.705-4.785 *	10/12/06-10/19/06
US Treasury Notes & Bonds	333,354	338,083	2.625-4.75	05/15/07-02/15/10
US Agency Discount Notes	298,682	296,049	4.42-5.29 *	08/02/06-04/27/07
US Agency Notes & Bonds	523,968	529,833	2.25-6.00	08/15/06-05/15/11
Bank Notes	4,950	4,957	2.50	11/01/06
Certificate of Deposit	9,832	9,897	3.87	06/07/07
Commercial Paper	99,491	99,309	4.80-5.40 *	07/03/06-10/25/06
Corporate Notes	70,040	71,376	2.80-6.875	11/01/06-03/04/08
Local Agency Investment Fund	21,765	21,805	4.03 **	N/A
Repurchase Agreement	11,716	11,716	5.19	07/03/06
	<u>\$ 1,398,440</u>	<u>\$ 1,407,514</u>		

\* Discount Rates

\*\* LAIF - Fair Value is adjusted to account for LAIF factor

The following represents a condensed statement of net assets and changes in net assets for the City Treasurer's investment pool as of June 30, 2006:

Statement of Net Assets

Investments of Pool Participants	\$ 1,398,440
Accrued Interest Receivable of Internal Pool Participants	12,708
Accrued Interest Receivable of External Pool Participants	63
Total Investments and Interest Receivable	<u>1,411,211</u>
Equity of Internal Pool Participants	\$ 1,404,540
Equity of External Pool Participants (SanGIS, ARJIS & AVA) **	6,671
Total Equity	<u>\$ 1,411,211</u>

\*\*Voluntary Participation

Statement of Changes in Net Assets

Net Assets Held for Pool Participants at July 1, 2005	\$ 1,293,195
Net Change in Investments by Pool Participants	105,245
Accrued Interest Receivable at June 30, 2006	12,771
Total Net Assets Held for Pool Participants at June 30, 2006	<u>\$ 1,411,211</u>

b. Cash & Investments with Fiscal Agents

Cash & Investments with Fiscal Agents represents cash and investments held by fiscal agents resulting from bond issuances. More specifically, these funds represent reserves held by fiscal agents or trustees as legally required by bond issuances and liquid investments held by fiscal agents or trustees which are used to pay debt service. The San Diego City Employees' Retirement System (SDCERS) portion of Cash & Investments with Fiscal Agents represents funds held as cash collateral from market neutral portfolios (domestic fixed income investment strategy). Furthermore, it represents transaction settlements, held in each investment manager's portfolio, which is invested overnight by SDCERS' custodial bank.

c. Investments at Fair Value

Investments at Fair Value represents investments of the City's Supplemental Pension Savings Plan, 401(k) Plan, San Diego City Employees' Retirement System (SDCERS), investments managed by the City Treasurer (which are not part of the pool), and investments managed by the Funds Commission (e.g. Cemetery Perpetuity, Effie Sergeant, Gladys Edna Peters, Los Penasquitos Canyon, and the Edwin A. Benjamin Library Fund).

d. Securities Lending Collateral (SDCERS Only)

SDCERS has agreed with a fiscal agent, currently its custodial bank State Street Bank & Trust Company, to lend domestic and international equity and domestic and international fixed income securities to broker-dealers and banks in exchange for pledged collateral. A simultaneous agreement is entered into by which the fiscal agent agrees to return the collateral plus a fee to the borrower in the future for return of the same securities originally lent. All securities loans can be terminated on demand by either the lender or the borrower.

The fiscal agent managed the securities lending program and received cash (United States and foreign currency), securities issued or guaranteed by the United States government, sovereign debt rated "A" or better, Canadian provincial debt, convertible bonds, and irrevocable letters of credit as collateral. State Street did not have the ability to pledge or sell collateral securities delivered absent a borrower default. Borrowers were required to deliver collateral for each loan equal to: (i) in the case of loaned securities denominated in United States dollars or whose primary trading market was located in the United States or sovereign debt issued by foreign governments, 101.5% of the market value of the loaned securities; and (ii) in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States, 104.5% of the market value of the loaned securities.

SDCERS had limited credit risk exposure to borrowers because the amounts provided to the fiscal agent on behalf of SDCERS, in the form of collateral plus accrued interest, exceeded the amounts broker-dealers and banks owed to the fiscal agent on behalf of SDCERS for securities borrowed. State Street has indemnified SDCERS by agreeing to purchase replacement securities or return cash collateral in the event a borrower fails to return or pay distributions on a loaned security. Non-cash collateral (securities and letters of credit) cannot be pledged or sold without a borrower default and are therefore not reported as an asset of SDCERS for financial reporting purposes.

The SDCERS securities lending transactions collateralized by cash as of June 30, 2006 had a fair value of \$569,928 and a collateral value of \$581,290, which were reported in the assets and liabilities in the statements of plan net assets for the City Employees' Retirement System in accordance with GASB Statement No. 28. The securities lending transactions collateralized by securities, irrevocable letters of credit, or tri-party collateral had a fair value of \$8,700 and a collateral value of \$9,073, which were not reported in the assets or liabilities in the accompanying statements of plan net assets for the City Employees' Retirement System per GASB Statement No. 28. The total collateral pledged to SDCERS at fiscal year end for its securities lending activities was \$590,363.

The cash collateral received on lent securities was invested by State Street, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. Because the securities loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. As of June 30, 2006, the investment pool had an average duration of 49 days and an average weighted maturity of 450 days.

SDCERS may encounter various risks related to securities lending agreements. However, the fiscal agent is required to maintain its securities lending program in compliance with applicable laws of the United States and all countries in which lending activities take place, and all rules, regulations, and exemptions from time to time promulgated and issued under the authority of those laws.

e. Investment Policy**City Treasurer's Investment Policy**

In accordance with the Charter §45 of the City of San Diego and under authority annually approved by the City Council, the City Treasurer is responsible for the safekeeping and investment of the unexpended cash in the City Treasury according to the City's Investment Policy (the "Policy"). This Policy applies to all of the investment activities of the City except for the pension trust funds, the proceeds of certain debt issues which are managed and invested at the direction of the City Treasurer in accordance with the applicable indenture or by Trustees appointed under indenture agreements or by fiscal agents, and the assets of trust funds which are placed in the custody of the Funds Commission by Council ordinance.

The Policy is reviewed annually by the Investment Advisory Committee (IAC) which makes recommendations regarding the Policy to the City Treasurer. The IAC consists of two City representatives and three outside financial professionals with market and portfolio expertise not working for the City of San Diego. The City Council reviews the Policy and considers approval on an annual basis.

The IAC evaluates the horizon returns, risk parameters, security selection, and market assumptions the City's investment staff is using when explaining the City's investment returns. The IAC also meets semi-annually to review the previous two quarters' investment returns and make recommendations to the City Treasurer on proposals presented to the IAC by the Treasurer's staff.

The Policy is governed by the California Government Code (CGC), Sections 53600 et seq. The following table presents the authorized investments, requirements, and restrictions per the CGC and the City Policy:

Investment Type	Maximum Maturity (1)		Maximum % of Portfolio		Maximum % with One Issuer		Minimum Rating	
	CGC	City Policy	CGC	City Policy	CGC	City Policy	CGC	City Policy
US Treasury Obligations (bills, bonds, or notes)	5 years	5 years	None	None	None	None	None	None
US Agencies	5 years	5 years	None	(2)	None	(2)	None	None
Bankers' Acceptances (6)	180 days	180 days	40%	40%	30%	10%	None	(3)
Commercial Paper (6)	270 days	270 days	25%	25%	10%	10%	P1	P1
Negotiable Certificates (6)	5 years	5 years	30%	30%	None	10%	None	(3)
Repurchase Agreements	1 year	1 year	None	None	None	None	None	None
Reverse Repurchase Agreements (4)	92 days	92 days	20%	20%	None	None	None	None
Local Agency Investment Fund	N/A	N/A	None	None	None	None	None	None
Non-Negotiable Time Deposits (6)	5 years	5 years	None	25%	None	10%	None	(3)
Medium Term Notes/Bonds (6)	5 years	5 years	30%	30%	None	10%	A	A
Mutual Funds	N/A	N/A	20%	5%	10%	None	AAA	AAA
Notes, Bonds, or Other Obligations	5 years	5 years	None	None	None	None	None	AA
Mortgage Pass-Through Securities	5 years	5 years	20%	None	None	20%	AA	AAA
Financial Futures (5)	N/A	None	None	None	None	None	None	None

## Footnotes:

(1) In the absence of a specified maximum, the maximum is 5 years.

(2) The Prudent Investor Rule applies.

(3) Credit and maturity criteria must be in accordance per Section X of the City's Investment Policy.

(4) Maximum % of portfolio for Reverse Repurchase Agreements is 20% of base value.

(5) Financial futures transactions would be purchased only to hedge against changes in market conditions for the reinvestment of bond proceeds.

(6) Investment types with a 10% maximum with one issuer are further restricted per the City's Investment Policy: 5% per issuer and an additional 5% with authorization by City Treasurer.

According to the Policy, the City may enter into repurchase and reverse repurchase agreements only with primary dealers of the Federal Reserve Bank of New York with which the City has entered into a master repurchase agreement. Exceptions to this rule can be made only upon written authorization of the City Treasurer.

Additionally, the Policy authorizes investment in other specific types of securities. The City may invest in floating rate notes with coupon resets based upon a single fixed income index (which would be representative of an eligible investment), provided that security is not leveraged. Structured notes issued by U.S. government agencies that contain imbedded calls or options are authorized as long as those securities are not inverse floaters, range notes, or interest only strips derived from a pool of mortgages. A maximum of 8% of the "base value" of the pooled portfolio may be invested in structured notes.

The types of investments listed below are additionally restricted as to percentage of the cost value of the portfolio in any one issuer name up to a maximum of 5%. The total cost value invested in any one issuer name will not exceed 5% of an issuer's net worth. An additional 5% or a total of 10%, of the cost value of the portfolio in any one issuer name can be authorized upon written approval of the City Treasurer.

- Bankers' Acceptances
- Commercial Paper
- Medium Term Corporate Notes/Bonds
- Negotiable and Non-negotiable Certificates of Deposit

Ineligible investments include, but are not limited to, common stocks and long-term corporate notes/bonds, are prohibited from use in the portfolio. A copy of the investment Policy can be requested from the City Treasurer, 1200 3rd Avenue, Suite 1624, San Diego, CA 92101.

### **San Diego City Employees' Retirement System Investment Policy**

Investments for the pension trust fund are authorized to be made by the Board of Administration of the SDCERS (Board) in accordance with Section 144 of the City Charter and the California State Constitution Article XVI, Section 17. The Board is authorized to invest in any securities that are allowed by general law for savings banks. The Board can also invest in additional investments as approved by resolution of the San Diego City Council. These investments include, but are not limited to, bonds, notes and other obligations, real estate investments, common stock, preferred stock, and pooled vehicles. Additionally, investment policies permit the pension trust fund to invest in financial futures contracts provided the contracts do not leverage SDCERS' Trust Fund portfolio. Financial futures contracts, which are recorded at fair value each day, are not hedges of existing assets, and changes in the fair value of the contract result in recognition of a gain or loss. Investment earnings from the pension trust fund are accounted for in accordance with GASB 25.

A copy of the SDCERS investment policy and additional details on the results of the system's investment activities are available at 401 West A Street, Suite 400, San Diego, CA 92101.

### Other Investment Policies

The City currently has a Funds Commission whose role is to supervise and control all trust, perpetuity, and investment funds of the City and such pension funds as shall be placed in its custody. The statutory authority for the Funds Commission is created in the City Charter Article V, section 41(a). While the duties described in the creation document form broad authority for the Funds Commission, in practice, the Funds Commission only oversees investments related to a small number of permanent endowments. The allowable investments for these funds are different than those as prescribed in the City Treasurer's investment policy. Each permanent endowment fund has its own separate investment policy. Copies of the individual investment policies can be requested from the City Treasurer, 1200 3rd Avenue, Suite 1624, San Diego, CA 92101. Additionally, the City and its component units have funds invested in accordance with various bond indenture and trustee agreements.

f. Interest Rate Risk – City of San Diego (excluding San Diego City Employees' Retirement System)

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Market or interest-rate risk is intended to be mitigated by establishing two portfolios with target durations based upon the expected short and long-term cash needs of the City. The liquidity portfolio is structured with an adequate mix of highly liquid securities and maturities to meet major cash outflow requirements for at least six months (per CGC Section 53646). The liquidity portfolio uses the Merrill Lynch 3-6 month Treasury Index as a benchmark with a duration of plus or minus 40% of the duration of that benchmark. The core portfolio uses the Merrill Lynch 1-3 year Treasury Index as a benchmark with a duration of plus or minus 20% of the duration of that benchmark. It consists of high quality liquid securities with a maximum maturity of 5 years and is structured to meet the longer-term cash needs of the City. Information about the sensitivity of the fair value of the City's investments to market interest rate fluctuations is presented in the table on the next page.



As of June 30, 2006, the City's investments (in thousands) by maturity are as follows:

	Years				Fair Value
	Under 1	1-3	3-5	Over 5	(In Thousands)
<u>Pooled Investments with City Treasurer:</u>					
US Treasury Bills	\$ 24,642	\$ -	\$ -	\$ -	\$ 24,642
US Treasury Notes	29,497	289,649	14,208	-	333,354
US Agencies - Federal Farm Credit Bank	16,882	24,414	-	-	41,296
US Agencies - Federal Home Loan Bank	78,690	128,783	19,244	-	226,717
US Agencies - Federal Home Loan Mortgage Corporation	204,344	63,882	14,770	-	282,996
US Agencies - Federal National Mortgage Association	185,924	29,531	56,186	-	271,641
Bank Notes	4,950	-	-	-	4,950
Certificate of Deposit	9,832	-	-	-	9,832
Commercial Paper	99,491	-	-	-	99,491
Corporate Notes	60,276	9,764	-	-	70,040
Repurchase Agreement	11,716	-	-	-	11,716
State Local Agency Investment Fund	21,765	-	-	-	21,765
	<u>\$ 748,009</u>	<u>\$ 546,023</u>	<u>\$ 104,408</u>	<u>\$ -</u>	<u>\$ 1,398,440</u>
<u>Non-Pooled Investments with City Treasurer:</u>					
US Treasury Bills	\$ 6,009	\$ -	\$ -	\$ -	\$ 6,009
US Treasury Notes	3,108	9,865	-	-	12,973
US Agencies - Federal Farm Credit Bank	1,326	-	-	-	1,326
US Agencies - Federal Home Loan Bank	3,865	8,580	-	-	12,445
US Agencies - Federal Home Loan Mortgage Corporation	44,895	5,906	-	-	50,801
US Agencies - Federal Mortgage Corporation	28,747	-	-	-	28,747
US Agencies - Federal National Mortgage Association	31,803	-	-	-	31,803
Commercial Paper	1,643	-	-	-	1,643
Repurchase Agreements	666	-	-	-	666
	<u>\$ 122,062</u>	<u>\$ 24,351</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 146,413</u>
<u>Investments with Fiscal Agent, Funds Commission, and Other Investments:</u>					
US Treasury Bills	\$ 18,042	\$ -	\$ -	\$ -	\$ 18,042
US Treasury Bonds and Notes	23,980	1,080	65	397	25,522
US Agencies - Federal Farm Credit Bank	-	2,530	-	-	2,530
US Agencies - Federal Home Loan Bank	-	22,784	-	-	22,784
US Agencies - Federal Home Loan Mortgage Corporation	7,634	-	-	-	7,634
US Agencies - Federal National Mortgage Association	32,130	-	85	-	32,215
Corporate Bonds and Notes	297	391	546	1,909	3,143
Guaranteed Investment Contracts	20,507	-	-	13,741	34,248
Mortgage Backed Securities - Commercial	-	-	-	113	113
Mortgage Backed Securities - Government	-	-	-	61	61
Common Stock	3,261	-	-	-	3,261
Mutual Funds - Equity	324,071	-	-	-	324,071
Mutual Funds - Fixed Income	327,192	-	-	-	327,192
Money Market Mutual Funds	62,505	-	-	-	62,505
Cash	10	-	-	-	10
	<u>\$ 819,629</u>	<u>\$ 26,785</u>	<u>\$ 696</u>	<u>\$ 16,221</u>	<u>\$ 863,331</u>
Total Investments	<u>\$ 1,689,700</u>	<u>\$ 597,159</u>	<u>\$ 105,104</u>	<u>\$ 16,221</u>	\$ 2,408,184
Total Deposits					16,880
Total Cash on Hand					206
Total Investments, Deposits, and Cash on Hand (Includes SDCERS Pooled Cash & Investments with the City - \$3,960)					<u>\$ 2,425,270</u>

g. Interest Rate Risk – San Diego City Employees' Retirement System

SDCERS' domestic convertible bond portfolio is not subject to interest rate risk because convertible bonds are usually positively correlated to interest rate movements compared to other fixed income securities. SDCERS' fixed income portfolios use duration to measure how changes in interest rates will affect the value of the portfolios. The following tables display duration analysis for SDCERS' two-core plus domestic fixed income portfolios and single international fixed income portfolio, based on holdings as of June 30, 2006.

**Domestic Fixed Income Portfolio****(with tactical discretion to invest in non-U.S. fixed income securities)****Portfolio Duration Analysis as of June 30, 2006**

Type of Security	Fair Value (in thousands)	Percentage of Fair Value	Effective Duration (in years)	Effective Duration Contribution to Portfolio (in years)	Percent Duration of Portfolio
Credit Obligations:					
Corporate Bonds	\$ 3,551	0.9%	5.60	0.05	0.9%
High Yield	8,122	2.0%	1.86	0.04	0.7%
Municipal Bonds	4,255	1.0%	15.21	0.16	3.1%
U.S. Government & Agency Obligations:					
U.S. Treasuries	31,276	7.7%	6.32	0.49	9.4%
U.S. Agencies	9,451	2.3%	4.18	0.10	1.9%
International Government:					
Sovereign & Yankee Bonds	3,436	0.8%	(23.67)	(0.20)	-3.9%
Emerging Markets	2,704	0.7%	3.35	0.02	0.4%
Collateralized Mortgage Obligations:					
Mortgages	202,839	50.0%	4.96	2.48	48.0%
Collateralized Mortgage Obligations	19,596	4.8%	2.90	0.14	2.7%
Short-Term/Other:					
Miscellaneous	4,163	1.0%	1.88	0.02	0.4%
Cash/Cash Equivalents	116,315	28.8%	6.55	1.87	36.4%
<b>Total Portfolio</b>	<b>\$ 405,708</b>	<b>100.0%</b>		<b>5.17</b>	<b>100.0%</b>

The above portfolio is restricted to a duration of +/- 2 years from that of the effective duration of the Lehman Brothers Aggregate Index.

Due to the very small market value percentage, the sector duration for Sovereign and Yankee bonds appears inflated. The negative duration contribution from the Non-U.S. sector was an expression of the manager's view that the intermediate interest rates in Europe and Japan would rise. This exposure was put in place in the International Sector Fund via pay fixed interest rate swaps, bringing the sector fund duration to -2.52 years (while having a positive market value) and the duration contribution from that commingled vehicle to -0.08 years. The remaining -0.12 years of duration contribution came from direct investments in pay fixed interest rate sweeps.

\*Source: SDCERS' CAFR as of June 30, 2006

**Domestic Fixed Income Portfolio**  
**Portfolio Duration Analysis**  
**As of June 30, 2006**

Type of Security	Fair Value (In Thousands)	Effective Duration	Benchmark Duration	Difference
Governments	\$ 158,383	5.74	4.50	1.24
Corporates	98,204	4.56	5.82	(1.26)
Mortgage Backed Securities	159,473	3.57	4.57	(1.00)
Asset-Backed Securities	12,959	3.98	2.76	1.22
Cash Equivalents (1)	(13,556)	(0.01)	0.00	(0.01)
<b>Totals</b>	<b>\$ 415,463</b>	<b>4.76</b>	<b>4.80</b>	<b>(0.04)</b>

The above strategy is restricted to an average duration of +/- 1 year from that of the effective duration of the the Lehman Brothers Aggregate Index.

(1) Net cash expense is included on this schedule, as cash is a portfolio duration arrangement tool in fixed income investing.

\*Source: SDCERS' CAFR as of June 30, 2006

**International Fixed Income Portfolio**  
**Portfolio Duration Analysis**  
**As of June 30, 2006**

Type of Security	Fair Value (In Thousands)	Effective Duration	Benchmark Duration	Difference
Cash and Forward Foreign Exchange	\$ 5,874	0.00	0.00	0.00
Asset Backed Securities	3,322	4.48	0.00	4.48
Credit Obligations	26,236	3.70	0.00	3.70
International Government and Agency	140,350	6.57	6.12	0.45
<b>Totals</b>	<b>\$ 175,782</b>	<b>5.88</b>	<b>6.12</b>	<b>(0.24)</b>

The above strategy is restricted to an average duration of between .5 and 1.5 times that of the J.P. Morgan Non-U.S. Bond Index.

\*Source: SDCERS' CAFR as of June 30, 2006

**Investments Highly Sensitive to Interest Rate Changes (SDCERS)**

SDCERS' fixed income investment managers construct portfolios that contain fixed income and derivative securities that all have attributes of convexity and are all sensitive in varying degrees to changes in interest rates. SDCERS' managers select securities that when aggregated together create an overall investment strategy and total portfolio duration.

SDCERS' domestic fixed income portfolio (with tactical discretion to invest in non-U.S. securities) uses two methods to measure interest rate sensitivity. The first measure is "Bull" Duration, the scenario whereby interest rates decline by 50 basis points. The second measure is "Bear" Duration, the scenario whereby interest rates rise by 50 basis points. The analysis of interest rate change on duration for this portfolio as of June 30, 2006 is shown below.

**Domestic Fixed Income Portfolio**  
**(with tactical discretion to invest in non-U.S. securities)**

Total Effective Duration: 5.17 years  
 Bull Duration: 4.50 years – portfolio duration shortens by -0.67 years during a 50 basis point rally (contraction risk)  
 Bear Duration: 5.64 years - portfolio duration lengthens by +0.47 years during a 50 basis point sell off (extension risk)

Interest rate sensitivity for SDCERS' domestic fixed income portfolio is based on aggregate holdings. The composite characteristics of the portfolio represent an average sensitivity within one year of the Lehman Brothers Aggregate Index benchmark. As of June 30, 2006, the total values of securities that are more highly sensitive to interest rate changes in this portfolio are shown below.

#### **Domestic Fixed Income Portfolio**

Holdings (U.S. Treasury and Corporate securities) with greater than 10 years duration totaled \$34,451, or 8.27% of the portfolio.  
Holdings with interest only strips and inverse floating rate notes totaled \$9,845, or 2.37% of the portfolio.

The analysis of high interest rate sensitivity for the international fixed income portfolio is displayed below.

#### **International Fixed Income Portfolio**

Total effective duration: 5.88 years  
Duration with 50 basis point decrease in interest rates: -2.7138% decrease in portfolio value.

#### **Summary of Cash and Investments (In Thousands) San Diego City Employees' Retirement System**

Domestic Fixed Income Portfolio (with tactical discretion)	\$	405,708
Domestic Fixed Income Portfolio		429,019
International Fixed Income Portfolio		175,782
Securities Lending Collateral		581,290
Cash and Investments exempt from GASB 40 disclosure		3,305,590
Total Cash and Investments for SDCERS (excluding Pooled Investments with the City)	\$	<u>4,897,389</u>

h. Credit Risk – City of San Diego (excluding San Diego City Employees' Retirement System)

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. At June 30, 2006, the City's investments and corresponding credit ratings are as follows:

<u>Pooled Investments with City Treasurer:</u>	<u>Moody's</u>	<u>S&amp;P</u>	<u>Fair Value</u>	<u>Percentage</u>
US Treasury Notes	Exempt	Exempt	\$ 24,642	1.76%
US Treasury Bills	Exempt	Exempt	333,354	23.85%
US Agencies - Federal Farm Credit Bank	Aaa	N/A	41,296	2.95%
US Agencies - Federal Home Loan Bank (1)	Aaa	N/A	190,670	13.64%
US Agencies - Federal Home Loan Bank (1)	Not Rated	A-1+	36,047	2.58%
US Agencies - Federal Home Loan Mortgage Corporation (1)	Aaa	N/A	158,840	11.36%
US Agencies - Federal Home Loan Mortgage Corporation (1)	Not Rated	A-1+	124,156	8.88%
US Agencies - Federal National Mortgage Association (1)	Aaa	N/A	133,162	9.52%
US Agencies - Federal National Mortgage Association (1)	Not Rated	A-1+	138,479	9.90%
Bank Notes	Aa2	N/A	4,950	0.35%
Certificate of Deposit	Aa2	N/A	9,832	0.70%
Commercial paper	P-1	N/A	99,491	7.11%
Corporate Notes	Aaa	N/A	19,625	1.40%
Corporate Notes	Aa1	N/A	9,903	0.71%
Corporate Notes	Aa2	N/A	5,478	0.39%
Corporate Notes	Aa3	N/A	25,045	1.79%
Corporate Notes	A3	N/A	9,989	0.71%
Repurchase Agreement	Not Rated	Not Rated	11,716	0.84%
State Local Agency Investment Fund	Not Rated	Not Rated	21,765	1.56%
Subtotal - Pooled Investments			<u>\$ 1,398,440</u>	<u>100.00%</u>

Non-Pooled Investments with City Treasurer:

US Treasury Bills	Exempt	Exempt	\$ 6,009	4.10%
US Treasury Notes	Exempt	Exempt	12,973	8.86%
US Agencies - Federal Farm Credit Bank	P-1	N/A	1,326	0.91%
US Agencies - Federal Home Loan Bank (1)	Aaa	N/A	8,580	5.86%
US Agencies - Federal Home Loan Bank (1)	Not Rated	A-1+	3,865	2.64%
US Agencies - Federal Home Loan Mortgage Corporation (1)	Aaa	N/A	5,906	4.03%
US Agencies - Federal Home Loan Mortgage Corporation (1)	Not Rated	A-1+	44,895	30.67%
US Agencies - Federal Mortgage Corporation (1)	P-1	N/A	4,006	2.74%
US Agencies - Federal Mortgage Corporation (1)	Not Rated	A-1+	24,741	16.90%
US Agencies - Federal National Mortgage Association (1)	Not Rated	A-1+	31,803	21.72%
Commercial Paper	P1	N/A	1,643	1.12%
Repurchase Agreement	Not Rated	Not Rated	666	0.45%
Subtotal - Non-Pooled Investments			<u>\$ 146,413</u>	<u>100.00%</u>

"Exempt" - Per GASB 40, US Treasury Obligations do not require disclosure of credit quality.

"N/A" - S&P rating not applicable, Moody's rating provided

(1) More than 5% of total investments are with U.S. Agencies whose debt is not guaranteed by the U.S. Government.

(ratings continued on next page)

<u>Investments with Fiscal Agent, Funds Commission, and Other Investments:</u>	<u>Moody's</u>	<u>S&amp;P</u>	<u>Fair Value</u>	<u>Percentage</u>
US Treasury Bills	Exempt	Exempt	\$ 18,042	2.09%
US Treasury Notes and Bonds	Exempt	Exempt	25,522	2.96%
US Agencies - Federal Farm Credit Bank	Aaa	N/A	2,530	0.29%
US Agencies - Federal Home Loan Bank	Aaa	N/A	22,784	2.64%
US Agencies - Federal Home Loan Mortgage Corporation	Not Rated	A-1+	7,634	0.88%
US Agencies - Federal National Mortgage Association	Aaa	N/A	85	0.01%
US Agencies - Federal National Mortgage Association	Not Rated	A-1+	32,130	3.72%
Corporate Bonds and Notes	Aaa	N/A	198	0.02%
Corporate Bonds and Notes	Aa1	N/A	63	0.01%
Corporate Bonds and Notes	Aa2	N/A	396	0.05%
Corporate Bonds and Notes	Aa3	N/A	687	0.08%
Corporate Bonds and Notes	A1	N/A	896	0.10%
Corporate Bonds and Notes	A2	N/A	582	0.07%
Corporate Bonds and Notes	A3	N/A	273	0.03%
Corporate Bonds and Notes	Baa1	N/A	49	0.01%
Guaranteed Investment Contracts	Not Rated	Not Rated	34,247	3.97%
Mortgage Backed Securities - Commercial	Aaa	N/A	113	0.01%
Mortgage Backed Securities - Government	Not Rated	Not Rated	61	0.01%
Common Stock	Not Rated	Not Rated	3,261	0.38%
Mutual Funds - Equity	Not Rated	Not Rated	324,071	37.54%
Mutual Funds - Fixed Income	Not Rated	Not Rated	327,192	37.89%
Money Market Mutual Funds	Aaa	Not Rated	62,505	7.24%
Cash	Not Rated	Not Rated	10	0.00%
Subtotal - Other Investments			<u>\$ 863,331</u>	<u>100.00%</u>
Total Investments			\$ 2,408,184	
Total Deposits			16,880	
Total Cash on Hand			206	
Total Investments, Deposits, and Cash on Hand*			<u>\$ 2,425,270</u>	

\*(includes SDCERS Pooled Cash & Investments with the City - \$3,960)

"Exempt" - Per GASB 40, US Treasury Obligations do not require disclosure of credit quality.

"N/A" - S&P rating not applicable, Moody's rating provided

(1) More than 5% of total investments are with U.S. Agencies whose debt is not guaranteed by the U.S. Government.

### Concentration of Credit Risk – City of San Diego

Concentration of credit risk is the risk of loss attributed to the relative size of an investment in a single issuer. As of June 30, 2006, the City exceeded the 5% limit of total investments for issuers of various U.S. Agencies. Investments exceeding the 5% limit are referenced in the credit ratings table above. Investments issued explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are exempt.

i. Credit Risk – San Diego City Employees' Retirement System

SDCERS' fixed income portfolios are sensitive to credit risk. Unless information is available to the contrary, obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk and do not require disclosure of credit quality. "NR" represents those securities that are not rated and "NA" represents those securities that are not applicable to the rating disclosure requirements. The following tables identify the credit quality for SDCERS' two domestic fixed income portfolios, based on holdings as of June 30, 2006.

**Domestic Fixed Income Portfolio**  
 (with tactical discretion to invest in non-U.S. fixed income securities)  
 Credit Risk Analysis as of June 30, 2006

S&P Quality Rating	Moody's Quality Rating	Total Fair Value (in thousands)	Credit Obligations	U.S. Government & Agency Obligations	International Government Obligations	Collateralized Mortgage Obligations	Short-Term/ Other
AAA	Aaa	\$ 245,808	\$ -	\$ 30,606	\$ 1,308	\$ 213,894	\$ -
AAA	NA	8,541	-	-	-	8,541	-
A1	P1	20,609	-	-	-	-	20,609
A1+	P1	74,848	-	-	-	-	74,848
AA+	Aa2	361	361	-	-	-	-
AA	Aa1	12,218	586	1,149	(1,019) *	-	11,502
AA	Aa2	(1,216)	187	-	(1,403) *	-	-
AA-	Aa1	8,425	-	-	-	-	8,425
AA-	Aa3	(13,392)	-	(1)	(13,391) *	-	-
A+	A1	3,105	-	-	-	-	3,105
A+	Aa3	-	-	-	-	-	-
A	A1	6,391	563	(3)	4,743	-	1,088
A	A2	-	-	-	-	-	-
A-	A2	987	-	-	186	-	801
A-	Baa2	202	202	-	-	-	-
BBB+	A2	1,825	1,725	-	-	-	100
BBB	Baa1	2,064	186	-	1,878	-	-
BBB	A3	492	492	-	-	-	-
BBB	Baa3	2,686	2,686	-	-	-	-
BB	Ba3	1,335	695	-	640	-	-
BB	Ba1	2,598	2,598	-	-	-	-
B	B2	2,123	2,123	-	-	-	-
B	B3	11	11	-	-	-	-
B+	Caa2	2,695	2,695	-	-	-	-
NR	NR	22,176	-	8,978 **	13,198	-	-
NR	AAA	818	818	-	-	-	-
NR	Aa2	(3)	-	(3) *	-	-	-
<b>TOTALS</b>		<b>\$ 405,707</b>	<b>\$ 15,928</b>	<b>\$ 40,726</b>	<b>\$ 6,140</b>	<b>\$ 222,435</b>	<b>\$ 120,478</b>

\* Negative amounts are representative of pay fixed interest rate swaps.

\*\* This value represents swaptions that are not rated.

Concentration guidelines for this portfolio are as follows:

Maximum Exposure (except U.S. Treasury/Agency Organization for Economic Co-operation and Development Government Issues)

Issue	3% of portfolio
Issuer	5% of portfolio
Foreign Investments	30% of portfolio
Emerging Market Exposure	10% of portfolio
Foreign Currency Exposure	25% of non-U.S. dollar investments

\*Source: SDCERS' CAFR as of June 30, 2006

**Domestic Fixed Income Portfolio**  
**Credit Risk Analysis as of June 30, 2006**

S&P Quality Rating	Total Fair Value (in thousands)	Governments	Corporates	Mortgaged-Backed Securities	Asset-Backed Securities
US Treasury	\$ 158,812	\$ 158,383	\$ -	\$ 429	\$ -
AAA	112,111	-	3,005	99,803	9,303
AA+	3,364	-	-	-	3,364
A+	11,759	-	11,759	-	-
A-	15,438	-	15,438	-	-
A	4,567	-	4,567	-	-
BBB+	6,856	-	6,856	-	-
BBB	3,801	-	3,801	-	-
BBB-	20,401	-	20,401	-	-
BB+	4,195	-	4,195	-	-
BB	15,700	-	15,700	-	-
BB-	3,692	-	3,400	-	292
B+	8,743	-	8,743	-	-
B-	339	-	339	-	-
NA	3,882	-	-	3,882	-
NR (1)	55,359	-	-	55,359	-
<b>TOTALS</b>	<b>\$ 429,019</b>	<b>\$ 158,383</b>	<b>\$ 98,204</b>	<b>\$ 159,473</b>	<b>\$ 12,959</b>

Moody's Quality Rating	Total Fair Value (in thousands)	Governments	Corporates	Mortgaged-Backed Securities	Asset-Backed Securities
US Treasury	\$ 158,812	\$ 158,383	\$ -	\$ 429	\$ -
Aaa	56,797	-	3,005	44,489	9,303
Aa3	8,187	-	8,187	-	-
A1	8,139	-	8,139	-	-
A2	6,710	-	6,710	-	-
Baa1	4,914	-	4,914	-	-
Baa2	13,981	-	13,981	-	-
Baa3	16,992	-	16,992	-	-
Ba1	14,818	-	14,818	-	-
Ba2	14,894	-	14,602	-	292
Ba3	3,585	-	3,585	-	-
B3	3,271	-	3,271	-	-
NA	62,560	-	-	59,196	3,364
NR (1)	55,359	-	-	55,359	-
<b>TOTALS</b>	<b>\$ 429,019</b>	<b>\$ 158,383</b>	<b>\$ 98,204</b>	<b>\$ 159,473</b>	<b>\$ 12,959</b>

(1) Issued by governmental agencies.

Concentration guidelines for this portfolio are as follows:

Maximum Exposure (except U.S. Treasury/Agency Organization for Economic Co-operation and Development Government Issues)

Issue	3% of portfolio
Issuer	5% of portfolio
Foreign Investments	30% of portfolio
Emerging Market Exposure	10% of portfolio
Foreign Currency Exposure	25% of non-U.S. dollar investments

\*Source: SDCERS' CAFR as of June 30, 2006



SDCERS' international fixed income portfolio is limited to a minimum average portfolio quality of A (market value weighted) and a minimum credit quality at the time of purchase of Ba/BB or equivalent by at least one of the major rating services. The following table identifies the credit quality for SDCERS' international fixed income portfolio, based on holdings as of June 30, 2006. Credit ratings refer to the long-term foreign currency rating.

**International Fixed Income Portfolio**  
**Credit Risk as of June 30, 2006**

<u>S&amp;P Quality Rating</u>	<u>Total Fair Value (in thousands)</u>	<u>Cash &amp; Forward Foreign Exchange</u>	<u>Asset Backed Securities</u>	<u>Credit Obligations</u>	<u>International Government &amp; Agency Obligations</u>
AAA	\$ 145,803	\$ 5,874	\$ 3,322	\$ 25,891	\$ 110,716
AA+	7,808	-	-	-	7,808
AA-	14,321	-	-	-	14,321
A-	3,428	-	-	345	3,083
BBB	1,805	-	-	-	1,805
BB-	1,275	-	-	-	1,275
B+	537	-	-	-	537
B	396	-	-	-	396
B-	409	-	-	-	409
<b>TOTALS</b>	<u><u>\$ 175,782</u></u>	<u><u>\$ 5,874</u></u>	<u><u>\$ 3,322</u></u>	<u><u>\$ 26,236</u></u>	<u><u>\$ 140,350</u></u>

\*Source: SDCERS' CAFR as of June 30, 2006

**Subprime Market Activity**

The recent events surrounding subprime residential mortgage-backed securities and the housing real estate market have not to date materially affected investment performance of SDCERS. Future investment returns could be adversely impacted due to market liquidity issues or "credit crunch" experienced as a result of the fall out in the collateralized debt obligation markets or forecasts of an economic slow down or recession.

SDCERS invests in a diversified portfolio with allocations to equities, fixed income and real estate, both domestic and international to reduce risk. SDCERS' portfolio has a neutral market weight to equity securities classified as financial companies. SDCERS is minimally exposed to asset-backed securities that are collateralized by subprime mortgages. SDCERS' domestic fixed income managers invest in Agency pass through mortgage securities that are guaranteed by the U.S. Government. Additionally, in any collateralized mortgage obligations or asset-backed securities, SDCERS' managers invest in the most highly-rated, self-liquidating (near to maturity), senior positions.

Management of SDCERS has recently contacted all of SDCERS' publicly-traded investment managers to understand the risks to their portfolios resulting from recent market activity. Management is comfortable that SDCERS' investment managers have positioned their respective portfolios to protect against various market factors. Management will continue to monitor manager investment performance in accordance with SDCERS' Investment Policy Statement.

j. Concentration of Credit Risk - San Diego City Employees' Retirement System

Concentration of credit risk is the risk of loss attributed to the relative size of an investment in a single issuer. As of June 30, 2006, no single issuer exceeded 5% of SDCERS' total investments. Investments issued explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded.

k. Custodial Credit Risk**Deposits – City of San Diego (excluding San Diego City Employees' Retirement System)**

At June 30, 2006, the carrying amount of the City's cash deposits was approximately \$2,607, and the bank balance was approximately \$16,480, the difference of which is substantially due to deposits in transit and outstanding checks. For the balance of cash deposits in financial institutions, approximately \$492 was covered by federal depository insurance and approximately \$15,988 was uninsured. Pursuant to the California Government Code, California banks and savings and loan associations are required to secure the City's deposits not covered by Federal Depository Insurance by pledging government securities as collateral. As such, \$15,282 of the City's deposits are pledged at 110% and held by a bank acting as the City's agent, in the City's name. The remaining \$706 is uninsured and uncollateralized and includes the following: approximately \$655 in deposits relating to San Diego Data Processing Corporation and \$51 in deposits relating to Southeastern Economic Development Corporation, Inc.

The City also has deposits held in escrow accounts with a carrying amount and bank balance of approximately \$14,273. For the balance of deposits in escrow accounts, approximately \$1,327 was covered by federal depository insurance and securities insurance protection. The remaining balance of \$12,946 was uninsured. Pursuant to the California Government Code, California banks and savings and loans associations are required to secure the City's deposits in excess of insurance by pledging government securities as collateral. As such, \$12,946 of the City's deposits in escrow accounts are collateralized and pledged at 110%.

**Deposits – San Diego City Employees' Retirement System**

SDCERS' is exposed to custodial credit risk for uncollateralized cash and cash equivalents that are not covered by federal depository insurance. At June 30, 2006, the amount of cash and cash equivalents on deposit with SDCERS' custodial bank totaled \$ 92,114.

**Investments – City of San Diego (excluding San Diego City Employees' Retirement System)**

The City's investments at June 30, 2006 are categorized as described below, including required disclosures for securities lending:

Category 1:	Insured or registered, with securities held by the City or its agent in the City's name.
Category 2:	Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
Category 3:	Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the City's name.

Non-Categorized: Includes investments made directly with another party, real estate, direct investments in mortgages and other loans, open-end mutual funds, pools managed by other governments, annuity contracts and guaranteed investment contracts.

At June 30, 2006, the City's investments at fair value included Category 3 type investments, all of which are within the Cemetery Perpetuity Fund's portfolio with Northern Trust Bank. The following is a summary of the City's investments (in thousands) exposed to custodial credit risk:

<u>Investment Type</u>	<u>Fair Value</u>
US Treasury Bonds and Notes	\$ 1,656
US Agencies	85
Corporate Bonds and Notes	3,144
Mortgage Backed Securities - Commercial	113
Mortgage Backed Securities - Government	61
Common Stock	3,261
Total:	<u>\$ 8,320</u>

#### **Investments – San Diego City Employees' Retirement System**

SDCERS' is not exposed to any custodial credit risk related to any investments. As of June 30, 2006, 100% of SDCERS' investments were held in SDCERS' name.

#### **Securities Lending Collateral – San Diego City Employees' Retirement System**

SDCERS' is exposed to custodial credit risk for the securities lending collateral such that certain collateral is received in the form of letters of credit, tri-party collateral or securities collateral. The fair value of securities on loan collateralized by these non-cash vehicles totaled \$8,700 as of June 30, 2006 and are at risk as the collateral for these loaned securities is not held in SDCERS' name and cannot be sold without a borrower default. The cash collateral held by SDCERS' custodian in conjunction with the securities lending program, which totaled \$581,290 as of June 30, 2006, is also at risk as it is invested in a pooled vehicle managed by the custodian.

I. Restricted Cash and Investments – City of San Diego

Cash and investments at June 30, 2006 that are restricted by legal or contractual requirements are comprised of the following:

<u>Nonmajor Governmental Funds</u>	
Reserved for Debt Service	\$ 121,772
Permanent Endowments	14,588
Total Nonmajor Governmental Funds	<u>136,360</u>
<u>Environmental Services Enterprise Fund</u>	
Funds set aside for landfill site closure and maintenance costs	31,814
Total Environmental Services Enterprise Fund	<u>31,814</u>
<u>Water Utility Enterprise Fund</u>	
Customer deposits	3,849
Interest and redemption funds	49,391
Total Water Utility Enterprise Fund	<u>53,240</u>
<u>Sewer Utility Enterprise Fund</u>	
Interest and redemption funds	21,079
Total Sewer Utility Enterprise Fund	<u>21,079</u>
<u>Internal Service Fund</u>	
San Diego Data Processing Corporation	133
Total Internal Service Fund	<u>133</u>
<u>Miscellaneous Agency Funds</u>	
Retention held in escrow	14,273
Total Miscellaneous Agency Funds	<u>14,273</u>
Total Restricted Cash & Investments	<u>\$ 256,899</u>

Summary of Total Cash and Investments:

Total Unrestricted Cash and Investments	\$ 7,065,760
Total Restricted Cash and Investments	<u>256,899</u>
Total Cash and Investments	<u><u>7,322,659</u></u>
Total Governmental Activities	\$ 1,183,803
Total Business-Type Activities	532,267
Total Fiduciary Activities	5,606,589
Total Cash and Investments	<u><u>\$ 7,322,659</u></u>

m. Foreign Currency Risk – San Diego City Employees' Retirement System

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The following table represents SDCERS' securities (in thousands) held in a foreign currency as of June 30, 2006.

Local Currency Name	Cash	Equity	Fixed income	Other	Total
Australian Dollar	\$ 5,103	\$ 4,510	\$ -	\$ -	\$ 9,613
Brazilian Real	31	2,924	-	-	2,955
Canadian Dollar	122	24,210	10,249	-	34,581
Danish Krone	-	1,205	8,295	-	9,500
Euro Currency	5,914	228,531	66,872	-	301,317
Hong Kong Dollar	43	7,605	-	-	7,648
Hungarian Forint	-	1,099	-	-	1,099
Indonesian Rupiah	16	1,763	-	-	1,779
Israeli Shekel	-	402	-	-	402
Japanese Yen	1,700	133,700	43,483	-	178,883
Mexican Peso	-	2,375	-	-	2,375
New Zealand Dollar	-	925	-	-	925
Norwegian Krone	-	6,630	11,490	-	18,120
Philippine Peso	-	516	-	-	516
Pound Sterling	101	84,082	19,399	(79)	103,503
Singapore Dollar	-	16,083	-	-	16,083
South African Rand	404	4,896	-	-	5,300
South Korean Won	-	12,550	2,804	-	15,354
Swedish Krona	-	9,160	-	-	9,160
Swiss Franc	-	42,711	-	-	42,711
Thailand Baht	-	2,403	-	-	2,403
<b>TOTALS</b>	<b>\$ 13,434</b>	<b>\$ 588,280</b>	<b>\$ 162,592</b>	<b>\$ (79)</b>	<b>\$ 764,227</b>

The foreign exchange exposure in SDCERS' international equity small cap value portfolio (an institutional mutual fund investment) is not included in this disclosure.

The negative value on Other represents Put Options written denominated in Pound Sterling.

n. Derivative Instruments - San Diego City Employees' Retirement System

SDCERS' investment managers, as permitted by specific investment guidelines in their investment advisory agreement, may invest in or otherwise enter into transactions involving derivative financial instruments, consistent with the objectives established by the Board's investment policies. These instruments include futures, options and swaps. By Board policy these investment vehicles may not be used to leverage SDCERS' portfolio. These instruments are used primarily to enhance a portfolio's performance and to reduce its risk or volatility. SDCERS could be exposed to credit risk in the event of non-performance by counterparties; however, SDCERS enters into derivative transactions with high-quality institutions, and no losses due to counterparty non-performance on derivative financial instruments have been incurred. Credit and legal risks are also mitigated through the use of exchange traded contracts on organized exchanges. SDCERS is exposed to market risk, which is the risk that future changes in market conditions may make an instrument less valuable. Exposure to market risk is managed in accordance with investment policy guidelines, through buying or selling instruments or entering into offsetting positions.

The notional (underlying) or contractual amounts of derivatives indicate the extent of SDCERS' involvement in the various types and uses of derivative financial instruments and do not measure the exposure to credit or market risks and do not necessarily represent amounts exchanged by the parties. The amounts exchanged are determined by reference to the notional amounts and the other terms of the derivatives.

The aggregate notional or contractual amounts for SDCERS' derivative financial instruments at June 30, 2006 were as follows:

Money Market Futures	\$	542,696
Government Bond Futures		27,843
Options		(1,533)
Swaps		23
Total Derivatives	\$	<u>569,029</u>

*\*Source: SDCERS' CAFR as of June 30, 2006*

Futures contracts are contracts in which the buyer agrees to purchase and the seller agrees to make delivery on a specific financial instrument on a predetermined date and price. Gains and losses on futures contracts are settled daily based on a notional (underlying) principal value and do not involve an actual transfer of the specific instrument. Futures contracts are standardized and are traded on exchanges. The exchange assumes the risk that a counterparty will not pay and generally requires margin payments to minimize such risk.

Option contracts provide the option purchaser with the right, but not the obligation, to buy or sell the underlying security at a set price during a period or at a specified date. The option writer is obligated to buy or sell the underlying security if the option purchaser chooses to exercise the option. SDCERS uses exchange traded and over-the-counter options. Options were sold and proceeds were received to enhance fixed income portfolio performance. Option contracts sold were predominantly on money market and short term instruments of less than one-year to maturity. On call option contracts, if interest rates remained steady or declined during the option contract periods, the contracts would expire unexercised. By contrast, on put option contracts, if interest rates rose sufficiently to result in the purchase of the securities on or before the end of the option periods, this would occur at prices attractive to the portfolio manager.

Swap agreements are used to modify investment returns or interest rates on investments. Swap transactions involve the exchange of investment returns or interest rate payments without the exchange of the underlying principal amounts. These swaps could expose investors entering into these types of arrangements to credit risk in the event of non-performance by counterparties.

o. Discretely Presented Component Units

**San Diego Convention Center Corporation**

**Deposits**

On June 30, 2006, the carrying amount of the San Diego Convention Center Corporation's (SDCCC) cash on hand and deposits was \$978 and the bank balance was \$947. Of the bank balance, \$400 was covered by federal depository insurance. The remaining balance was either collateralized with the collateral held by an affiliate of the counterparty's financial institution or is uncollateralized, and therefore exposed to custodial credit risk.

### ***Investments***

At June 30, 2006, SDCCC had \$12,940 in several money market mutual fund investments. In addition, an investment balance of \$1,458 was maintained in two certificates of deposit with terms of approximately one year each. Neither the money market mutual funds nor the certificates of deposit are rated by credit rating agencies. SDCCC does not have a formal deposit and investment policy that addresses credit quality risk.

### **San Diego Housing Commission**

#### ***Deposits***

The carrying amount of the Housing Commission's deposits, which included cash and non-negotiable certificates of deposit, was \$67,566 and the bank balance was \$68,589 at June 30, 2006. The bank balances were fully insured and/or collateralized with securities held by the pledging financial institutions in the Commission's name. The California Government Code requires California banks and savings and loan associations to secure Commission's deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the Commission's name.

#### ***Investments***

#### **Policy**

In accordance with state statutes and HUD regulations, Commission has authorized the Controller/Budget Officer to invest in obligations of the U.S. Treasury and U.S. Government agencies. The Commission is empowered by HUD Notice PIH 96-33 to invest HUD funds in the following:

<b>Investment Type</b>
US Treasury Obligations (bills, bonds, or notes)
US Agencies
Local Agency Investment Fund
Demand and Savings Deposits (1)
Money Market Deposit Accounts (1)
Super NOW Accounts (1)
Negotiable Certificates of Deposit (1)
Repurchase/Reverse Repurchase Agreements (2)
Sweep Accounts (1)
Money Market Mutual Funds
Trust Indentures/Contracts
Principal Only Strips

**Footnotes:**

- (1) Deposits in excess of the insured amounts must be 100% collateralized.
- (2) Securities purchased under these agreements shall be no less than 102% of the market value.

Source: San Diego Housing Commission Investment Policy

The San Diego Housing Commission is empowered by California Government Code (CGC) Sections 5922 and 53601 et seq. to invest non-HUD funds in the following:

Investment Type
Bonds (issued by the San Diego Housing Commission)
US Treasury Obligations (bills, bonds, or notes)
Registered state warrants, treasury notes/bonds (issued by the State of California)
Local Agency Investment Fund
US Agencies
Bankers' Acceptances (not to exceed 180 days)
Prime Commercial Paper (not to exceed 180 days)
Repurchase/Reverse Repurchase Agreements (2)
Medium Term Notes (rated "A" or better and not to exceed 5 years)
Negotiable Certificates of Deposit (1)
Money Market Mutual Funds
Trust Indentures/Contracts
Collateralized Bank Deposits
Mortgage Pass-Through Securities (not to exceed 5 years)

Footnotes:

- (1) Deposits in excess of the insured amounts must be 100% collateralized.  
 (2) Securities purchased under these agreements shall be no less than 102% of the market value.

Source: San Diego Housing Commission Investment Policy

### Interest Rate and Credit Risk

As of June 30, 2006, the Housing Commission's investments (in thousands) included the following:

Investment	Maturity Under 1 Year	Moody's Credit Rating	Fair Value (In Thousands)
State Local Agency Investment Fund	\$ 478	Not Rated	\$ 478
Total Investments - San Diego Housing Commission			<u>\$ 478</u>

At June 30, 2006, the Housing Commission did not have any debt investments that are highly sensitive to changes in interest rates.

### Custodial Credit Risk

At June 30, 2006, the Housing Commission did not have any investments exposed to custodial credit risk. All investments are held by the State of California or a pledging financial institution in the name of the Commission.



**4. CAPITAL ASSETS (In Thousands)**

Capital asset activity for the year ended June 30, 2006 was as follows:

	Primary Government				
	Beginning Balance	Increases	Decreases/ Adjustments	Transfers	Ending Balance
<b>GOVERNMENTAL ACTIVITIES:</b>					
Non-Depreciable Capital Assets:					
Land, Easements, Rights of Way	\$ 1,696,804	\$ 7,126	\$ (1,615)	\$ 8,749	\$ 1,711,064
Construction in Progress	223,519	113,796	(2,676)	(110,736)	223,903
Total Non-Depreciable Capital Assets	1,920,323	120,922	(4,291)	(101,987)	1,934,967
Depreciable Capital Assets:					
Structures and Improvements	998,552	7,807	(889)	39,559	1,045,029
Equipment	375,748	18,614	(20,467)	345	374,240
Infrastructure	2,779,795	20,326	(237)	63,430	2,863,314
Total Depreciable Capital Assets	4,154,095	46,747	(21,593)	103,334	4,282,583
Less Accumulated Depreciation For:					
Structures and Improvements	(233,321)	(27,199)	889	(240)	(259,871)
Equipment	(252,076)	(29,504)	18,660	(349)	(263,269)
Infrastructure	(1,304,612)	(82,190)	32	-	(1,386,770)
Total Accumulated Depreciation	(1,790,009)	(138,893)	19,581	(589)	(1,909,910)
Total Depreciable Capital Assets - Net of Depreciation	2,364,086	(92,146)	(2,012)	102,745	2,372,673
Governmental Activities Capital Assets, Net	\$ 4,284,409	\$ 28,776	\$ (6,303)	\$ 758	\$ 4,307,640
<b>BUSINESS-TYPE ACTIVITIES:</b>					
Non-Depreciable Capital Assets:					
Land, Easements, Rights of Way	\$ 85,618	\$ 1,103	\$ (3)	\$ 3,051	\$ 89,769
Construction in Progress	496,184	68,557	(4,169)	(161,150)	399,422
Total Non-Depreciable Capital Assets	581,802	69,660	(4,172)	(158,099)	489,191
Depreciable Capital Assets:					
Structures and Improvements	1,476,971	18,497	(564)	71,069	1,565,973
Equipment	311,618	6,149	(7,727)	6,075	316,115
Distribution & Collection Systems and Other Infrastructure	3,088,329	49,928	(12,466)	79,702	3,205,493
Total Depreciable Capital Assets	4,876,918	74,574	(20,757)	156,846	5,087,581
Less Accumulated Depreciation For:					
Structures and Improvements	(259,881)	(34,500)	555	3	(293,823)
Equipment	(184,230)	(23,331)	6,760	551	(200,250)
Distribution & Collection Systems and Other Infrastructure	(507,224)	(45,390)	6,287	(59)	(546,386)
Total Accumulated Depreciation	(951,335)	(103,221)	13,602	495	(1,040,459)
Total Depreciable Capital Assets - Net of Depreciation	3,925,583	(28,647)	(7,155)	157,341	4,047,122
Business-Type Activities Capital Assets, Net	\$ 4,507,385	\$ 41,013	\$ (11,327)	\$ (758)	\$ 4,536,313

Governmental Activities capital assets net of accumulated depreciation at June 30, 2006 are comprised of the following:

General Capital Assets, Net	\$ 4,234,929
Internal Service Funds Capital Assets, Net	72,711
Total	<u>\$ 4,307,640</u>

Business-Type Activities capital assets net of accumulated depreciation at June 30, 2006 are comprised of the following:

Enterprise Funds Capital Assets, Net	\$ 4,536,034
Internal Service Funds Capital Assets, Net	279
Total	<u>\$ 4,536,313</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

**Governmental Activities:**

General Government and Support	\$ 1,640
Public Safety - Police	5,491
Public Safety - Fire and Life Safety	4,052
Parks, Recreation, Culture and Leisure	31,512
Transportation	72,599
Sanitation and Health	514
Neighborhood Services	<u>1,193</u>
Subtotal	117,001
Internal Service (Except Special Engineering)	<u>21,892</u>
Total Depreciation Expense	<u>\$ 138,893</u>

**Business-Type Activities:**

Airports	\$ 468
City Store	1
Development Services	214
Environmental Services	6,604
Golf Course	670
Recycling	1,062
Sewer Utility	64,922
Water Utility	<u>29,230</u>
Subtotal	103,171
Internal Service (Special Engineering)	<u>50</u>
Total Depreciation Expense	<u>\$ 103,221</u>

**Discretely Presented Component Units**

Capital asset activities for the City's Discretely Presented Component Units for the year ended June 30, 2006 are as follows:

Discretely Presented Component Unit - San Diego Convention Center Corp.					
	Beginning Balance	Increases	Decreases/ Adjustments	Transfers	Ending Balance
Depreciable Capital Assets:					
Structures and Improvements	\$ 19,805	\$ 5,026	\$ (2,551)	\$ (44)	\$ 22,236
Equipment	9,113	734	(1,487)	44	8,404
Total Depreciable Capital Assets	28,918	5,760	(4,038)	-	30,640
Less Accumulated Depreciation For:					
Structures and Improvements	(7,539)	(1,437)	1,358	3	(7,615)
Equipment	(7,369)	(1,002)	2,161	(3)	(6,213)
Total Accumulated Depreciation	(14,908)	(2,439)	3,519	-	(13,828)
Capital Assets, Net	\$ 14,010	\$ 3,321	\$ (519)	\$ -	\$ 16,812

Discretely Presented Component Unit - San Diego Housing Commission					
	Beginning Balance	Increases	Decreases/ Adjustments	Transfers	Ending Balance
Non-Depreciable Capital Assets:					
Land, Easements, Rights of Way	\$ 30,544	\$ -	\$ -	\$ -	\$ 30,544
Construction in Progress	8,637	1,306	-	-	9,943
Total Non-Depreciable Capital Assets	39,181	1,306	-	-	40,487
Depreciable Capital Assets:					
Structures and Improvements	83,145	-	-	-	83,145
Equipment	915	88	(17)	-	986
Total Depreciable Capital Assets	84,060	88	(17)	-	84,131
Less Accumulated Depreciation For:					
Structures and Improvements	(39,639)	(2,929)	-	-	(42,568)
Equipment	(862)	(25)	17	-	(870)
Total Accumulated Depreciation	(40,501)	(2,954)	17	-	(43,438)
Total Depreciable Capital Assets - Net of Depreciation	43,559	(2,866)	-	-	40,693
Capital Assets, Net	\$ 82,740	\$ (1,560)	\$ -	\$ -	\$ 81,180

## 5. GOVERNMENTAL ACTIVITIES LONG-TERM LIABILITIES (In Thousands)

### a. Long-Term Liabilities

Governmental long-term liabilities as of June 30, 2006 are comprised of the following:

Type of Obligation	Interest Rates	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2006
<b>Compensated Absences</b>				\$ 71,820
<b>Liability Claims</b>				202,482
<b>Capital Lease Obligations</b>				40,541
<b><u>Contracts Payable:</u></b>				
Contract Payable to SDSU Foundation, dated December 1991	variable*	---	1,598	1,598
Amendment to Contract Payable to SDSU Foundation, dated January 1995	variable*	---	117	117
Contract Payable to Western Pacific Housing, Inc. dated April 2004	5.00%	---	900	900
<b>Total Contracts Payable</b>				<u>2,615</u>
<b><u>Notes Payable:</u></b>				
Note Payable to Wal-Mart, dated June 1998	10.0%	2017	1,308	512
Notes Payable to San Diego Revitalization, dated April 2001	5.0	2032	5,115	4,682
Notes Payable to San Diego Revitalization, dated May 2005	8.0	2025	2,100	2,100
<b>Total Notes Payable</b>				<u>7,294</u>
<b><u>Loans Payable:</u></b>				
International Gateway Associates, LLC, dated October 2001	10.0	2032	1,876	1,838
North Park Theatre, LLC, dated December 2004	variable*	---	3,335	3,335
PCCP/SB Las America, LLC, dated August 2005	10.0	2036	1,247	1,247
Bud Fischer, dated March 2006	6.0	2007	2,679	2,679
Centerpoint, LLC, dated April 2006	7.0	2021	5,246	5,246
<b>Total Loans Payable</b>				<u>14,345</u>
<b>San Diego Association of Governments (SANDAG)</b>				
Loans Payable				7,355
<b>Section 108 Loans Payable</b>				42,499
<b><u>General Obligation Bonds:</u></b>				
Public Safety Communications Project, Series 1991	5.0 - 8.0**	2012	25,500	11,520
Open Space Park Refunding Bonds, Series 1994	5.0 - 6.0**	2009	64,260	1,170
<b>Total General Obligation Bonds</b>				<u>12,690</u>
<b><u>Revenue Bonds / Lease Revenue Bonds / COPs:</u></b>				
MTDB Authority Lease Revenue Refunding Bonds, Series 1994	4.25 - 5.625**	2010	66,570	10,240
Public Facilities Financing Authority Stadium Lease Revenue Bonds, Series 1996 A	6.2 - 7.45**	2027	68,425	60,490

Type of Obligation	Interest Rates	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2006
San Diego Facilities and Equipment Leasing Corp. Certificates of Participation, Series 1996 A	4.0 - 5.6**	2011	\$ 33,430	\$ 15,440
San Diego Facilities and Equipment Leasing Corp. Certificates of Participation Refunding, Series 1996 B	4.0 - 6.0**	2022	11,720	9,180
Convention Center Expansion Financing Authority Lease Revenue Bonds, Series 1998 A	3.8 - 5.25**	2028	205,000	183,300
Centre City Parking Revenue Bonds, Series 1999 A	4.5 - 6.49**	2026	12,105	10,810
Public Facilities Financing Authority Reassessment District Refunding Revenue Bonds, Series 1999 A	2.75 - 4.75**	2018	30,515	17,315
Public Facilities Financing Authority Reassessment District Refunding Revenue Bonds, Series 1999 B	3.5 - 5.10**	2018	7,630	4,295
Public Facilities Financing Authority Ballpark Lease Revenue Bonds, Series 2002	7.15 - 7.7**	2032	169,685	167,560
Public Facilities Financing Authority Fire and Life Safety Lease Revenue Bonds, Series 2002 B	3.55 - 7.0**	2032	25,070	23,780
Centre City Parking Revenue Bonds, Series 2003 B	3.0 - 5.30**	2027	20,515	19,390
MTDB Authority Lease Revenue Refunding Bonds, Series 2003	2.0 - 4.375**	2023	15,255	14,050
San Diego Facilities Equipment Leasing Corp. Certificates of Participation Refunding, Series 2003	1.0 - 4.0**	2024	17,425	14,000
<b>Total Revenue Bonds / Lease Revenue Bonds / COPs</b>				<b>549,850</b>
<b><u>Special Assessment / Special Tax Bonds:</u></b>				
Otay Mesa Industrial Park Limited Obligation Improvement Bonds, Issued May 1992	5.5 - 7.95**	2013	2,235	395
Miramar Ranch North Special Tax Refunding Bonds, Series 1998	3.75 - 5.375**	2021	59,465	46,600
Santaluz Special Tax Bonds, Improvement Area No.1, Series 2000 A	4.75 - 6.375**	2031	56,020	54,545
Santaluz Special Tax Bonds, Improvement Area No.3, Series 2000 B	4.5 - 6.2**	2031	4,350	4,210
City of San Diego Reassessment District No. 2003-1 Limited Obligation Refunding Bonds	4.25 - 5.8**	2018	8,850	7,905
Piper Ranch Limited Obligation Improvement Bonds, Issued January 2004	2.5 - 6.2**	2034	5,430	5,195
Santaluz Special TaxBonds, Improvement Area No.1, Series 2004 A	1.7 - 5.5**	2031	5,000	4,885
Santaluz Special TaxBonds, Improvement Area No.4, Series 2004 A	1.65 - 5.5**	2034	9,965	9,870
<b>Total Special Assessment / Special Tax Bonds</b>				<b>133,605</b>

(continued on next page)

Type of Obligation	Interest Rates	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2006
<b><u>Tax Allocation Bonds:</u></b>				
Gateway Center West Redevelopment Project Tax Allocation Bonds, Series 1995	7.8 - 9.75**	2014	\$ 1,400	\$ 815
Mount Hope Redevelopment Project Tax Allocation Bonds, Series 1995 A	4.4 - 6.0**	2020	1,200	880
Mount Hope Redevelopment Project Tax Allocation Bonds, Series 1995 B	6.9 - 8.2**	2021	3,955	3,200
Southcrest Redevelopment Project Tax Allocation Bonds, Series 1995	4.75 - 6.592**	2020	3,750	2,455
Horton Plaza Redevelopment Project Tax Allocation Refunding Bonds, Series 1996 A	3.8 - 6.0**	2016	12,970	8,395
Horton Plaza Redevelopment Project Tax Allocation Refunding Bonds, Series 1996 B	4.3 - 7.0**	2007	9,830	410
Centre City Redevelopment Tax Allocation Bonds, Series 1999 A	3.0 - 5.125**	2019	25,680	25,320
Centre City Redevelopment Tax Allocation Bonds, Series 1999 B	6.25**	2014	11,360	11,360
Centre City Redevelopment Tax Allocation Bonds, Series 1999 C	3.1 - 4.75**	2025	13,610	12,405
City Heights Redevelopment Tax Allocation Bonds, Series 1999 A	4.5 - 5.8**	2029	5,690	5,455
City Heights Redevelopment Tax Allocation Bonds, Series 1999 B	5.75 - 6.4***	2029	10,141	9,825
Central Imperial Redevelopment Project Tax Allocation Bonds, Series 2000	4.45 - 6.6 9**	2031	3,395	3,160
Centre City Redevelopment Project Tax Allocation Bonds, Series 2000 A	4.0 - 5.6**	2025	6,100	5,345
Centre City Redevelopment Project Tax Allocation Bonds, Series 2000 B	3.95 - 5.35**	2025	21,390	19,670
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2000	4.25 - 5.8**	2022	15,025	14,425
North Bay Redevelopment Project Tax Allocation Bonds, Series 2000	4.25 - 5.875**	2031	13,000	11,920
North Park Redevelopment Project Tax Allocation Bonds, Series 2000	4.1 - 5.9**	2031	7,000	6,425
Southcrest Redevelopment Project Tax Allocation Bonds, Series 2000	4.45 - 6.5**	2026	1,860	1,670
Centre City Redevelopment Tax Allocation Bonds, Series 2001 A	4.93 - 5.55****	2027	58,425	57,175
Mount Hope Redevelopment Project Tax Allocation Bonds, Series 2002 A	5.0**	2027	3,055	3,055
Centre City Redevelopment Project Tax Allocation Bonds, Series 2003 A	2.5 - 5.0**	2029	31,000	21,755
City Heights Redevelopment Project Tax Allocation Bonds, Series 2003 A	5.875 - 6.5**	2034	4,955	4,955
City Heights Redevelopment Project Tax Allocation Bonds, Series 2003 B	2.5 - 4.25**	2014	865	625

(continued on next page)

Type of Obligation	Interest Rates	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2006
North Park Redevelopment Project Tax Allocation Bonds, Series 2003 A	1.5 - 6.125**	2028	7,145	6,610
North Park Redevelopment Project Tax Allocation Bonds, Series 2003 B	4.75 - 5.0**	2034	5,360	5,360
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2003 A	4.65 - 5.1**	2022	6,325	6,325
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2003 B	3.25 - 5.45**	2022	4,530	4,530
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2003 C	3.49 - 7.74**	2022	8,000	7,460
Centre City Redevelopment Project Tax Allocation Bonds, Series 2004 A	3.5 - 5.25**	2030	101,180	99,670
Centre City Redevelopment Project Tax Allocation Bonds, Series 2004 B	2.26 - 4.58**	2011	9,855	8,245
Centre City Redevelopment Project Tax Allocation Bonds, Series 2004 C	2.26 - 6.18**	2030	27,785	27,230
Centre City Redevelopment Project Tax Allocation Bonds, Series 2004 D	2.26 - 6.28**	2030	8,905	8,730
Centre City Redevelopment Project Tax Allocation Bonds, Series 2006 B	4.25-5.25**	2033	76,225	76,225
Centre City Redevelopment Project Tax Allocation Bonds, Series 2006 A	5.66-6.2**	2032	33,760	33,760
<b>Total Tax Allocation Bonds</b>				<u>514,845</u>
<b><u>Tobacco Settlement Asset-Backed Bonds:</u></b>				
Tobacco Settlement Revenue Funding Corporation Asset-Backed Bonds, Series 2006	7.125**	2023	105,400	105,400
<b>Total Tobacco Settlement Asset-Backed Bonds</b>				<u>105,400</u>
<b>Total Bonds Payable</b>				<u>1,316,390</u>
<b>Net Pension Obligation</b>				<u>158,087</u>
<b>Total Governmental Activities Long-Term Liabilities</b>				<u>\$ 1,863,428</u>

\* Additional information on the variable rate contracts payable with the SDSU Foundation and loans payable with North Park Theatre, LLC are discussed further on the following page.

\*\* Interest rates are fixed, and reflect the range of rates for various maturities from the date of issuance to maturity.

\*\*\* The City Heights Redevelopment Tax Allocation Bonds, Series 1999 B, are capital appreciation bonds, which mature from fiscal year 2011 through 2029. The balance outstanding at June 30, 2006 does not include accreted interest of \$5,342.

\*\*\*\* The Centre City Redevelopment Tax Allocation Bonds, Series 2001 A, partially include capital appreciation bonds, which mature from fiscal year 2015 through 2027. The balance outstanding at June 30, 2006 does not include accreted interest of \$3,877.

Liability claims are primarily liquidated by the Self Insurance Fund and Enterprise Funds. Compensated absences are paid out of the operating funds and certain internal service funds. Pension liabilities are paid out of the operating funds based on a percentage of payroll.

Public safety general obligation bonds are secured by a pledge of the full faith and credit of the City or by a pledge of the City to levy ad valorem property taxes without limitation. Open space general obligation bonds are backed by Environmental Growth Fund 2/3 franchise fees.

Revenue bonds are secured by a pledge of specific revenue generally derived from fees or service charges related to the operation of the project being financed. Certificates of Participation (COPs) and lease revenue bonds provide long-term financing through a lease agreement, installment sales agreement, or loan agreement that does not constitute indebtedness under the state constitutional debt limitation and is not subject to other statutory requirements applicable to bonds.

Special assessment/special tax bonds are issued by the City to provide funds for public improvements in/and or serving special assessment and Mello-Roos districts created by the City. The bonds are secured by assessments and special taxes levied on the properties located within the assessment districts and the community facilities districts, and are payable solely from the assessments and special taxes collected. The assessments and the special taxes, and any bonds payable from them, are secured by a lien on the properties upon which the assessments and the special taxes are levied. Neither the faith and credit nor the taxing power of the City is pledged to the payment of the bonds.

Section 108 loans are the loan guarantee provisions of the Community Development Block Grant (CDBG) program. Section 108 loans provide the community with a source of financing for economic development, housing rehabilitation, public facilities, and capital improvement and infrastructure projects.

SANDAG loans are comprised of two components: repayment of debt service on bonds, and repayment of proceeds from commercial paper. The City receives distributions of SANDAG bond proceeds, based on the City's agreement with SANDAG. The annual debt service payments related to these bond issuances are recovered by SANDAG through reductions in TransNet allocations that would otherwise be available for payment to the City. TransNet-Proposition A, was passed in 1987 to enact a ½ percent sales tax increase to fund regional transportation projects. All expenses must first be approved by SANDAG and be included on the Regional Transportation Plan (RTP). The City recognizes repayment of the principal and interest on bonds as an increase in TransNet revenues and an offsetting debt service expenditure. The interest rates on the outstanding bonds range from 4.75 percent to 5.50 percent. In addition to financing from bond issuances, financing for TransNet related projects is made available through the issuance of commercial paper notes by SANDAG, at the request of the City. Repayment of proceeds related to the commercial paper is collected in future periods through reductions in TransNet allocations, similar to the repayment of the debt service on bonds. Interest rates on commercial paper notes during the current year have varied from 2.40 percent to 3.58 percent, with maturities from 1 day to 166 days. Interest rates on outstanding commercial paper note amounts at June 30, 2006, ranged from 3.50 percent to 3.58 percent.

San Diego State University Foundation executed an Agreement for Processing a Redevelopment Plan and Land Use Entitlements with the Redevelopment Agency of the City of San Diego which allows for reimbursement of expenses incurred by the Foundation, in assisting in the preparation and processing of the Redevelopment Plan and Land Use Entitlements in the College Area. The agreement is a variable rate obligation of the Agency. The unpaid principal bears interest at the prime rate and is fixed on a quarterly basis, using the prime rate established on the first banking day of each calendar quarter. Interest calculations are made on the quarterly weighted average of the principal balance and are made at the end of the quarter based upon the rate fixed for that quarter. The interest rate is not to exceed 12 percent per annum on funds advanced to the Agency. The effective interest rate as of June 30, 2006 is 7.75 percent.

The Redevelopment Agency of The City of San Diego and North Park Theatre, LLC entered into a Disposition and Development Agreement dated April 23, 2002, a Second Implementation Agreement dated, April 28, 2004 and a Third Implementation Agreement dated December 9, 2004. These agreements were executed for the purposes of effectuating the Redevelopment Plan for the North Park Redevelopment Project, by providing for the disposition of certain real property and a loan to the Agency from the Developer to fund the Agency's subsidy of the rehabilitation of the North Park Theatre building by the Developer. The Third Implementation Agreement converted the loan from a fixed rate to a variable rate obligation of the Agency. The interest on the loan is based on the prime rate plus 2 percent for the first two years, then will increase by a 1/2 percent per year for the remainder of the term of the loan. The interest rate shall not exceed the lesser of the Prime Rate plus four percent, or the maximum interest rate allowed by law. The interest rate shall be reset annually, on August 1<sup>st</sup>, based on the Prime Rate on the reset date. The effective interest rate as of June 30, 2006 is 8.25 percent.



b. Amortization Requirements

The annual requirements to amortize such long-term debt outstanding as of June 30, 2006, including interest payments to maturity, are as follows:

Year Ended June 30,	Capital Lease Obligations		Contracts Payable		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 8,774	\$ 1,510	\$ -	\$ -	\$ -	\$ -
2008	7,233	1,218	-	-	-	-
2009	6,474	938	-	-	-	-
2010	5,431	688	-	-	-	-
2011	4,067	487	-	-	-	-
2012-2016	8,562	527	-	-	-	-
Unscheduled*	-	-	2,615	1,713	7,294	4,144
Total	<u>\$ 40,541</u>	<u>\$ 5,368</u>	<u>\$ 2,615</u>	<u>\$ 1,713</u>	<u>\$ 7,294</u>	<u>\$ 4,144</u>

\* The contracts payable to SDSU Foundation in the amount of \$1,715, the contract payable to Western Pacific Housing, Inc. in the amount of \$900, and the notes payable to Wal-Mart of \$512 and San Diego Revitalization of \$6,782, do not have annual repayment schedules. Annual payments on the San Diego State University debt is based on the availability of tax increment net of the low-moderate and taxing agency set-asides as well as project area administration costs. Annual payments to the Wal-Mart, Western Pacific Housing, Inc., and San Diego Revitalization debt are based on available tax increment.

Year Ended June 30,	Loans Payable		SANDAG Loans		Section 108 Loans		General Obligation Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 2,702	\$ 385	\$ 5,107	\$ 225	\$ 3,068	\$ 2,340	\$ 1,985	\$ 783
2008	25	306	2,248	94	3,535	2,203	2,125	641
2009	27	304	-	-	2,364	2,046	2,265	502
2010	30	301	-	-	2,457	1,920	1,975	353
2011	33	298	-	-	2,595	1,783	2,100	219
2012-2016	224	1,433	-	-	15,066	6,415	2,240	74
2017-2021	361	1,295	-	-	9,443	2,424	-	-
2022-2026	581	1,076	-	-	3,971	421	-	-
2027-2031	935	722	-	-	-	-	-	-
2032-2036	846	185	-	-	-	-	-	-
Unscheduled*	8,581	242	-	-	-	-	-	-
Total	<u>\$ 14,345</u>	<u>\$ 6,547</u>	<u>\$ 7,355</u>	<u>\$ 319</u>	<u>\$ 42,499</u>	<u>\$ 19,552</u>	<u>\$ 12,690</u>	<u>\$ 2,572</u>

\* The loans payable to North Park Theatre, LLC in the amount of \$3,335, and Centerpoint, LLC in the amount of \$5,246 do not have annual repayment schedules. Annual payments are based upon future receipts of unallocated tax increment or other available sources.

Year Ended June 30,	Revenue Bonds / COPs		Special Assessment / Special Tax Bonds		Tax Allocation Bonds			Tobacco Asset-Backed Bonds	
	Principal	Interest	Principal	Interest	Principal	Unaccreted Appreciation	Interest	Principal	Interest
2007	\$ 19,875	\$ 32,416	\$ 3,770	\$ 7,286	\$ 12,041	\$ 1,910	\$ 23,442	\$ 2,700	\$ 7,093
2008	20,860	31,437	4,045	7,112	13,371	1,996	24,746	3,300	7,317
2009	21,550	30,395	4,315	6,921	14,476	2,081	24,208	3,600	7,082
2010	21,235	29,337	4,630	6,709	15,088	2,163	23,555	3,800	6,826
2011	19,325	28,303	4,960	6,474	15,853	2,243	22,808	4,000	6,555
2012-2016	91,445	126,723	29,375	28,033	101,267	12,058	99,778	25,100	28,015
2017-2021	108,975	98,482	35,055	19,364	124,038	11,280	71,011	35,500	17,691
2022-2026	135,645	62,689	18,985	11,855	119,894	6,394	40,397	27,400	3,285
2027-2031	95,390	22,726	25,520	5,001	77,322	447	13,849		
2032-2036	15,550	1,155	2,950	260	21,495	-	1,166		
Subtotal	549,850	463,663	133,605	99,015	514,845	40,572	344,960	105,400	83,864
Add:									
Accreted Appreciation through June 30, 2006	-	-	-	-	9,219	-	-	-	-
Total	\$ 549,850	\$ 463,663	\$ 133,605	\$ 99,015	\$ 524,064	\$ 40,572	\$ 344,960	\$ 105,400	\$ 83,864

\* The Tobacco Asset-Backed Bond's Principal Debt Service requirements are based upon expected Turbo Principal payments.

c. Change in Long-Term Liabilities

Additions to governmental activities long-term debt for contracts, notes and loans payable may differ from proceeds reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances, due to funding received in prior fiscal years being converted from short-term to long-term debt as a result of developers extending the terms of the obligation.

The following is a summary of changes in governmental activities long-term liabilities for the year ended June 30, 2006. The effect of bond accretion, bond premiums, discounts, and deferred amounts on bond refunds are amortized as adjustments to long-term liabilities.

	Governmental Activities				
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated Absences	74,387	50,878	(53,445)	71,820	31,064
Liability Claims	218,366	35,905	(51,789)	202,482	32,390
Capital Lease Obligations	30,647	20,087	(10,193)	40,541	8,774
Contracts Payable	1,715	900	-	2,615	-
Notes Payable	7,924	-	(630)	7,294	-
Loans Payable	5,187	9,171	(13)	14,345	2,702
Section 108 Loans Payable	42,858	2,151	(2,510)	42,499	3,068
SANDAG Loans Payable	13,979	1,651	(8,275)	7,355	5,107
General Obligation Bonds	14,530	-	(1,840)	12,690	1,985
Revenue Bonds / COPs	571,285	-	(21,435)	549,850	19,875
Unamortized Bond Premiums, Discounts and Deferred Amounts on Refunding	(950)	-	51	(899)	-
Net Revenue Bonds/COP's	570,335	-	(21,384)	548,951	19,875
Special Assessment / Special					
Tax Bonds	137,305	-	(3,700)	133,605	3,770
Unamortized Bond Premiums, Discounts and Deferred Amounts on Refunding	(654)	-	46	(608)	-
Net Special Assessment Bonds	136,651	-	(3,654)	132,997	3,770
Tax Allocation Bonds	415,778	109,985	(10,918)	514,845	12,041
Interest Accretion	7,463	1,822	(66)	9,219	-
Balance with Accretion	423,241	111,807	(10,984)	524,064	12,041
Unamortized Bond Premiums, Discounts and Deferred Amounts on Refunding	3,215	2,408	-	5,623	-
Net Tax Allocation Bonds	426,456	114,215	(10,984)	529,687	12,041
Tobacco Settlement Asset-Backed Bonds:	-	105,400	-	105,400	2,700
Unamortized Bond Premiums, Discounts and Deferred Amounts on Refunding	-	-	-	-	-
Net Tobacco Settlement Asset-Backed Bonds	-	105,400	-	105,400	2,700
Net Pension Obligation	254,486	6,325	(102,724)	158,087	-
Total	\$ 1,797,521	\$ 346,683	\$ (267,441)	\$ 1,876,763	\$ 123,476

d. Defeasance of Debt

As of June 30, 2006, principal amounts payable from escrow funds established for defeased bonds are as follows:

<u>Defeased Bonds</u>	<u>Amount</u>
Horton Plaza Redevelopment Project Subordinate Tax Allocation Refunding Bonds, Series 1996 B	<u>\$ 6,640</u>
Total Defeased Bonds Outstanding	<u><u>\$ 6,640</u></u>

**6. BUSINESS-TYPE ACTIVITIES LONG-TERM LIABILITIES (In Thousands)****a. Long-Term Liabilities**

Business-type activities long-term liabilities as of June 30, 2006 are comprised of the following:

<u>Type of Obligation</u>	<u>Interest Rates</u>	<u>Fiscal Year Maturity Date</u>	<u>Original Amount</u>	<u>Balance Outstanding June 30, 2006</u>
<b>Arbitrage Liability</b>				\$ 193
<b>Compensated Absences</b>				16,390
<b>Liability Claims</b>				50,379
<b>Capital Lease Obligations</b>				2,051
<b><u>Loans Payable:</u></b>				
Loans Payable to San Diego County Water Authority	-	-	100	100
Loans Payable to State Water Resources Control Board, issued February 9, 2000	1.80%**	2020	10,606	7,816
Loans Payable to State Water Resources Control Board, issued February 9, 2000	1.80**	2022	6,684	5,533
Loans Payable to State Water Resources Control Board, issued March 30, 2001	1.80**	2022	33,720	27,912
Loans Payable to State Water Resources Control Board, issued May 17, 2001	1.80**	2022	7,742	6,406
Loans Payable to State Water Resources Control Board, issued May 17, 2001	1.80**	2021	860	673
Loans Payable to State Water Resources Control Board, issued June 11, 2001	1.80**	2021	2,525	1,977
Loans Payable to State Water Resources Control Board, issued October 3, 2002	1.99**	2020	3,767	3,042
Loans Payable to State Water Resources Control Board, issued October 3, 2002	1.80**	2023	8,068	7,033
Loans Payable to State Water Resources Control Board, issued December 14, 2005	1.89**	2024	10,093	9,647
Loans Payable to Department of Health Services, issued July 6, 2005	2.5132	2026	21,525	21,108
<b>Total Loans Payable</b>				<u>91,247</u>
<b><u>Bonds Payable:</u></b>				
Sewer Revenue Bonds, Series 1993	2.8 - 5.25*	2023	250,000	182,370
Sewer Revenue Bonds, Series 1995	3.9 - 6.0*	2025	350,000	284,505
Sewer Revenue Bonds, Series 1997 A	3.7 - 5.375*	2027	183,000	152,625

(continued on next page)

Type of Obligation	Interest Rates	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2006
Sewer Revenue Bonds, Series 1997 B	3.7 - 5.375*	2027	\$ 67,000	\$ 55,875
Water Certificate of Undivided Interest, Series 1998	4.0 - 5.375*	2029	385,000	271,055
Sewer Revenue Bonds, Series 1999 A	3.5 - 5.125*	2029	203,350	178,665
Sewer Revenue Bonds, Series 1999 B	3.5 - 5.125*	2029	112,060	98,665
Subordinated Water Revenue Bonds, Series 2002	2.0 - 5.0*	2033	286,945	286,945
Sewer Revenue Bonds, Series 2004	variable***	2008	152,000	152,000
<b>Total Bonds Payable</b>				<b>1,662,705</b>
<b>Estimated Landfill Closure and Postclosure Care</b>				<b>14,811</b>
<b>Net Pension Obligation</b>				<b>36,394</b>
<b>Total Business-Type Activities Long-Term Liabilities</b>				<b>\$ 1,874,170</b>

\* Interest rates are fixed, and reflect the range of rates for various maturities from the date of issuance to maturity.

\*\* Effective rate

\*\*\* Variable rate based on 62.34% of the London Inter-bank Offered Rate (LIBOR), which is a daily reference rate based on the interest rates at which major banks offer to lend unsecured funds to other banks in the London inter-bank market, plus 90 basis points through December 16, 2006. The effective interest rate at fiscal year end June 30, 2006 is 3.8984%.

b. Amortization Requirements

Annual requirements to amortize long-term debt as of June 30, 2006, including interest payments to maturity, are as follows:

Year Ended June 30	Revenue Bonds Payable		Loans Payable		Capital Lease Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 56,845	\$ 80,721	\$ 4,677	\$ 1,802	\$ 1,045	\$ 69
2008	74,015	77,795	4,767	1,712	840	31
2009	75,995	74,606	4,860	1,619	166	4
2010	77,985	71,404	4,956	1,523		
2011	80,210	67,972	5,052	1,427	-	-
2012-2016	305,245	292,865	26,783	5,612	-	-
2017-2021	369,745	211,023	28,624	2,883	-	-
2022-2026	398,920	109,321	11,428	533	-	-
2027-2031	197,600	25,353	-	-	-	-
2032-2036	26,145	1,324	-	-	-	-
Unscheduled *	-	-	100	-	-	-
<b>Total</b>	<b>\$ 1,662,705</b>	<b>\$ 1,012,384</b>	<b>\$ 91,247</b>	<b>\$ 17,111</b>	<b>\$ 2,051</b>	<b>\$ 104</b>

\* The loan payable to the San Diego County Water Authority in the amount of \$100 does not have an annual repayment schedule. The payment is due if funding for the projects for which the loan was received becomes available from other sources.

c. Change in Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2006. The effect of bond premiums, discounts and deferred amounts on refunding are reflected as adjustments to long-term liabilities.

	Business-Type Activities				
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Arbitrage Liability	\$ 213	\$ 3	\$ (23)	\$ 193	\$ -
Compensated Absences	17,521	12,974	(14,105)	16,390	7,580
Liability Claims	47,389	4,551	(1,561)	50,379	3,524
Capital Lease Obligations	3,521	-	(1,470)	2,051	1,045
Loans Payable	63,803	31,618	(4,174)	91,247	4,677
Revenue Bonds Payable	1,698,060	-	(35,355)	1,662,705	56,845
Unamortized Bond Premiums, Discounts and Deferred Amounts on Refunding	(8,510)	-	751	(7,759)	-
Net Revenue Bonds Payable	1,689,550	-	(34,604)	1,654,946	56,845
Estimated Landfill Closure and Postclosure Care	13,665	1,146	-	14,811	-
Net Pension Obligation	35,104	2,264	(974)	36,394	-
Total	<u>\$ 1,870,766</u>	<u>\$ 52,556</u>	<u>\$ (56,911)</u>	<u>\$ 1,866,411</u>	<u>\$ 73,671</u>

d. Defeasance of Debt

As of June 30, 2006, principal amounts payable from escrow funds established for defeased bonds are as follows:

<u>Defeased Bonds</u>	<u>Balance</u>
Water Revenue Bonds, Series 1998	<u>\$ 77,155</u>
Total Defeased Bonds Outstanding	<u>\$ 77,155</u>

7. **DISCRETELY PRESENTED COMPONENT UNITS LONG-TERM DEBT (In Thousands)**

Discretely presented component units long-term debt as of June 30, 2006 is comprised as follows:

**San Diego Convention Center Corporation**

Type of Obligation	Interest Rate	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2006	Due Within One Year
Compensated Absences				\$ 1,121	\$ 1,076
Capital Lease			3,942	3,662	706
Note Payable to San Diego					
Unified Port District, dated 1999	0.00%	2011	10,000	4,500	1,000
Total Long-Term Liabilities				9,283	2,782

Annual requirements to amortize long-term debt as of June 30, 2006, are as follows:

Capital Lease		Note Payable	
Fiscal Year	Amount	Fiscal Year	Amount
2007	\$ 706	2007	\$ 1,000
2008	755	2008	1,000
2009	807	2009	1,000
2010	863	2010	1,000
2011	531	2011	500
Total	<u>\$ 3,662</u>	Total	<u>\$ 4,500</u>

### San Diego Housing Commission

Type of Obligation	Interest Rate	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2006	Due Within One Year
Compensated Absences				\$ 1,391	\$ 1,391
Note Payable to Bank of America, dated February 1985	5.0 – 10.2%	2025	3,789	3,077	103
Note Payable to City of San Diego Redevelopment Agency, dated March 1992	0.0	2022	696	696	-
Note Payable to Washington Mutual, dated June 1995	Variable*	2011	4,725	3,672	169
Note Payable to State of California (RHCP)	3.0	2013	3,149	3,149	-
Note Payable to State of California (RHCP)	0.0	2015	1,405	1,405	-
Note Payable to State of California (CalHELP)	0.0	2013	704	1,892	-
Total Notes Payable				<u>\$ 15,282</u>	<u>\$ 1,663</u>

\* The interest rate as of June 30, 2006 was 4.31%

Annual requirements to amortize such long-term debt as of June 30, 2006 to maturity are as follows:

Year Ending June 30	Principal	Interest
2007	\$ 272	\$ 313
2008	289	295
2009	302	283
2010	314	271
2011	3,001	257
2012-2016	7,211	1,772
2017-2021	957	312
2022-2025	1,545	62
Total	<u>\$ 13,891</u>	<u>\$ 3,565</u>

**8. SHORT-TERM NOTES PAYABLE (In Thousands)**

The City issues Tax and Revenue Anticipation Notes (TRANs) in advance of property tax collections, depositing the proceeds into the General Fund. These notes are necessary to meet the cash requirements of the City prior to the receipt of property taxes.

Short-term debt activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Tax and Revenue Anticipation Notes	\$ -	\$ 145,000	\$ (145,000)	\$ -

The \$145,000 FY06 TRANs issue had an average interest rate of 3.19% and was repaid on May 31, 2006.



**9. JOINT VENTURE and JOINTLY GOVERNED ORGANIZATIONS (In Thousands)**San Diego Medical Services Enterprise, LLC

A joint venture is a legal entity or other organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control. San Diego Medical Services Enterprise, LLC (SDMSE) is a joint venture that is reported within the General Fund.

SDMSE was organized on May 2, 1997 to provide emergency medical services and medical transportation services to the citizens of San Diego. Operations began July 1, 1997 under an initial 5 year agreement that was extended on July 1, 2002 and again on July 1, 2005 for an additional three year period. The SDMSE partners are the City of San Diego and Rural Metro of San Diego, Inc., a wholly owned subsidiary of Rural Metro Corporation (a publicly traded corporation). The SDMSE governing board is comprised of five members, three of whom are appointed by the City. In accordance with GASB 14, the financial impacts of the joint venture are reported in the General Fund.

The maximum funds which the City is required to contribute to the costs of SDMSE operations are limited to an aggregate of \$8,450 during the term of the third amended agreement. This aggregate includes a \$650 annual subsidy and any other amounts to be paid to the City since 1997 under the original contract, and any losses the City is required to cover under the extended contract, excluding any amount the City contributes for Medicare fee reimbursements. Cumulatively, the City has paid annual subsidies totaling \$5,700 as of June 30, 2006. Effective in fiscal year 2006, the City is no longer required to pay the \$650 annual subsidy and the Medicare fee reimbursements shall not exceed \$250 per fiscal year. Net assets of SDMSE are pro-rated to each partner based on a 50/50 split. In accordance with the operating agreement, profit and loss for each fiscal year is allocated equally to the members, subject to an aggregate limitation on loss to the City of \$8,450 (equal to the amount of subsidies discussed above). For the fiscal year ended June 30, 2006, SDMSE reported a net income of \$1,499, a member distribution of \$455, and ending net assets of \$4,127.

Under the terms of an operating agreement between Rural/Metro of San Diego, Inc. and SDMSE, Rural/Metro of San Diego, Inc. has made available a line-of-credit in the initial amount of \$3,500 bearing an interest rate of 9.5%. SDMSE did not have an outstanding balance, nor did it borrow on the line-of-credit at June 30, 2006.

Complete financial statements can be requested from San Diego Medical Services Enterprise, LLC, 8401 East Indian School Rd., Scottsdale, Arizona 85251.

San Diego Workforce Partnership

The City of San Diego and the County of San Diego jointly govern the San Diego Workforce Partnership (Consortium). The Consortium's Board of Directors consists of two members of the City Council, two members from the County Board of Supervisors, and one member of a charitable organization. The purpose of the Consortium is to provide regional employment and training services in order to develop and create job opportunities throughout San Diego County.

San Diego Geographic Information Source (SanGIS)

SanGIS was created in July 1997 as a joint powers agreement between the City of San Diego and the County of San Diego. SanGIS objectives are to create and maintain a geographic information system, marketing and licensing compiled digital geographic data and software, providing technical services and publishing geographical and land-related information.

**10. LEASE COMMITMENTS (In Thousands)**

The City leases various properties and equipment. Leased property having elements of ownership are recorded as capital leases and reported as capital assets in the government-wide financial statements, along with a corresponding capital lease obligation. Leased property that does not have elements of ownership is reported as an operating lease and is expensed when paid.

Operating Leases

The City's operating leases consist primarily of rental property occupied by City departments. The following is a schedule of future minimum rental payments required under operating leases entered into by the City for property that has initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2006:

Year Ended June 30	Amount
2007	\$ 11,699
2008	11,167
2009	11,396
2010	11,078
2011	10,524
2012-2016	27,442
2017-2021	245
2022-2026	147
Total	<u>\$ 83,698</u>

Rent expense as related to operating leases was \$12,259 for the year ended June 30, 2006.

Capital Leases

The City has entered into various capital leases for equipment, vehicles and property. These capital leases have maturity dates ranging from July 1, 2006 through November 30, 2014, and interest rates ranging from 2.57% to 7.94%. A schedule of future minimum lease payments under capital leases as of June 30, 2006 is provided in Notes 5 and 6. The value of all capital leased assets as of June 30, 2006 for governmental assets is \$32,850, net of accumulated depreciation of \$79,249 and business-type assets of \$12,619 net of accumulated depreciation of \$12,761.

Lease Revenues

The City has operating leases for certain land, buildings and facilities with tenants and concessionaires. Leased capital asset carrying values of approximately \$45,672 as well as depreciation are reported in Note 4 and are consolidated with non-leased assets. Minimum annual lease revenues are reported in the following schedule:

Year Ended June 30	Amount
2007	\$ 28,540
2008	27,262
2009	26,661
2010	26,026
2011	25,767
2012-2016	121,799
2017-2021	110,250
2022-2026	103,007
2027-2031	97,531
2032-2036	87,577
2037-2041	80,145
2042-2046	69,584
2047-2051	32,968
2052-2056	6,958
2057-2061	2,375
Total	<u>\$ 846,450</u>

This amount does not include contingent rentals which may be received under certain leases of property on the basis of percentage returns. Rental income as related to operating leases was \$72,822 for the year ended June 30, 2006 which includes contingent rentals amounting to \$44,900.

**11. DEFERRED COMPENSATION PLAN (In Thousands)**

The City, San Diego Convention Center Corporation (SDCCC), San Diego Data Processing Corporation (SDDPC), and San Diego Housing Commission (SDHC) each offer their employees a deferred compensation plan, created in accordance with Internal Revenue Service Code Section 457, State and Local Government Deferred Compensation Plans. These plans, available to eligible employees, permit them to defer, pre-tax, a portion of their salary until future years. Deferred compensation is not available to employees until termination, retirement, death, disability or an unforeseeable emergency. All assets and income of the deferred compensation plan are held in trust for the exclusive benefit of plan participants and their beneficiaries. The deferred compensation plans are not considered part of the City of San Diego's financial reporting entity.

**12. PENSION PLANS (In Thousands)**

The City has a defined benefit pension plan and various defined contribution pension plans covering substantially all of its employees.

**DEFINED BENEFIT PLAN****a. Plan Description**

San Diego City Employees' Retirement System ("SDCERS"), as authorized by Article IX of the City Charter, is a public employee retirement system established in fiscal year 1927 by the City. SDCERS is an agent multiple-employer defined benefit public pension plan and acts as a common investment and administrative agent for the City, the San Diego Unified Port District (the "Port"), and the San Diego County Regional Airport Authority (the "Airport"). It is administered by the SDCERS Board (the "Board") to provide retirement, disability, death and survivor benefits for its members. Amendments to the City's benefit provisions require City Council approval as well as a majority vote by members, provided that benefit increases also require a majority vote of the public (effective January 1, 2007). All approved benefit changes are codified in the City's Municipal Code.

The Defined Benefit Plan (the Plan) covers all eligible employees of the City, the Port, and the Airport. All City employees working half-time or greater and full-time employees of the Port and the Airport, are eligible for membership and are required to join SDCERS. The Port and Airport are not component units of the City CAFR, however, and the information herein relates solely to the City's participation in SDCERS. City employment classes participating in the Plan are elected officers, general and safety (including police, fire and lifeguard members). These classes are represented by various unions depending on the type and nature of work performed, except for elected officials, unclassified and unrepresented employees.

**Plan Membership as of June 30, 2006**

	General	Safety	Total by Classification
Active Members	6,409	2,478	8,887
Terminated Members	1,983	376	2,359
Retirees, Disabled and Beneficiaries	3,800	2,601	6,401
Total Members, as of June 30, 2006	12,192	5,455	17,647

Source: SDCERS-City of San Diego Actuarial Valuation as of June 30, 2006

As a defined benefit plan, retirement benefits are determined primarily by a member's class, age at retirement, number of years of creditable service, and the member's final compensation based on the highest salary earned over a consecutive one-year period. The Plan provides cost of living adjustments of 2% to retirees, which is factored into the actuarial assumptions. Increases in retirement benefits due to cost of living adjustments do not require voter approval. The Plan requires ten years of service at age 62, or 20 years of service at age 55 for general members (50 for safety members), which could include certain service purchased or service earned at a reciprocating government entity, to vest for a benefit. Typically, retirement benefits are awarded at a rate of 2.5% of the employee's one-year high annual salary per year of service at age 55 for general members, and 3% for Safety members starting at the age of 50. The actual percentage of final average salary per year served component of the calculation rises as the employee's retirement age increases and depends on the retirement option selected by the employee. General plan percentage of final average salary per year served is a maximum of 2.8% for general members and 3% for safety members.

### Deferred Retirement Option Program (DROP)

The City also has a Deferred Retirement Option Program (DROP) where participants continue to work for the City and receive a regular paycheck. SDCERS' members electing to participate in DROP must agree to participate in the program for a specific period, up to a maximum of five years. A DROP participant must agree to end employment with the City on or before the end of the selected DROP participation period. A SDCERS member's decision to enter DROP is irrevocable.

Upon entering the program, the DROP participant stops making contributions to SDCERS and stops earning creditable service. Instead, amounts equivalent to the participant's retirement benefit plus 8% earnings and additional contributions are credited to an individual account held in the participant's name. The DROP benefit is the value of a DROP participant's account at the end of the DROP participation period. Participants select the form of the distribution of the DROP account when they leave employment and begin retirement. The distribution is made as a single lump sum or in 240 equal monthly payments, or as otherwise allowed by applicable provisions of the Internal Revenue Code. Outstanding liabilities for DROP are shown on the Statement of Fiduciary Net Assets in the basic financial statements. During the period of participation, the participant continues to receive most of the employer offered benefits available to regular employees.

SDCERS' members who were hired on or after July 1, 2005 are ineligible to participate in the DROP program due to the benefit changes negotiated with the July 1, 2005 Memoranda of Understanding (MOU). However, SDCERS has asserted that due to delays in codification of benefit changes into the Municipal Code, the effective cut off date would instead be February 16, 2007, which is when the Ordinance O-19567 was officially codified in the Municipal Code. As of the issuance of this report, the City Attorney and SDCERS legal counsel do not agree on this issue and the Municipal Code states July 1, 2005 as the effective date [refer to Note 18 for additional information]. Notwithstanding amendments to the municipal code, SDCERS' members who were hired prior to July 1, 2005 are eligible to participate in DROP when they are eligible for a service retirement.

### Purchase of Service Credits

Article 4 Division 13 of the City's Municipal Code allows plan members to purchase years of Creditable Service for use in determining retirement allowances. To purchase Creditable Service, a Member must elect to pay and thereafter pay, in accordance with such election before retirement, into the Retirement Fund an amount, including interest, determined by the Board. No Member will receive Creditable Service under this Division for any service for which payment has not been completed pursuant to this Division before the effective date of the Member's retirement. The City Attorney has opined that in the past, the Purchase of Service Credits were under priced by the Board of Administration. After review of the purchase of service program, SDCERS' actuary concluded that the service credit pricing structure that was in place prior to November 2003 did not reflect the full cost in the price then charged to SDCERS members. The pricing shortfall of approximately \$146,000, which is included in the UAAL, is reported in the RSI of these financial statements. The service credit pricing structure used after November 2003, however, does cover the full projected cost to the System when members purchased the service credits (this is discussed in Note 18: Contingencies).

SDCERS' members who were hired on or after July 1, 2005 are ineligible to participate in the Purchase of Service Credit program due to the benefit changes negotiated with the July 1, 2005 Memoranda of Understanding (MOU). However, SDCERS has asserted that due to delays in codification of benefit changes into the municipal code, the effective cut off date would instead be February 16, 2007, which is when the Ordinance O-19567 was officially codified in the Municipal Code. As of the issuance of this report, the City Attorney and SDCERS legal counsel do not agree on this issue and the Municipal Code states July 1, 2005 as the effective date [refer to Note 18 for additional information]. Notwithstanding amendments to the municipal code, SDCERS' members who were hired prior to July 1, 2005 are eligible to participate the Purchase of Service Credit Program.

### Corbett Settlement Benefits and Retirement Factors

In 1998, a lawsuit was filed by retired employees who alleged that the City's definition of compensation subject to the computation of retirement benefits improperly excluded the value of certain earnings. The City and SDCERS settled in May of 2000, which is known as the Corbett Settlement. This settlement provided for a flat increase of

7% in benefits payable to eligible members who retired prior to July 1, 2000, payable annually. The settlement also provided a 10% benefit increase and allows for two options in calculating the service retirement allowance for employees active at the time of the settlement and who joined the Retirement System before July 1, 2000 and who retired after July 1, 2000.

The options for calculating the service retirement allowance are outlined in the San Diego Municipal Code sections 24.0402 and 24.0403 which can be obtained at City of San Diego City Clerks Office 202 C Street, San Diego, CA 92101 or online at [www.sandiego.gov](http://www.sandiego.gov).

On July 1, 2002 the City Council increased the retirement factors used for calculating retirement allowances; this action was related to MP-2 (as discussed later in this note). As a result of the Corbett Settlement and other benefit actions taken by the City Council, the service retirement factors for general members (non-safety and non-legislative) range from 2.0% at age 55 to 2.8% at age 65. The service retirement factors for Safety Members (Fire, Police and Lifeguard) range from 2.2% at age 50 to 3.0% at age 50 depending on the Corbett Settlement option selected. Finally, the City also maintains an Elected Officer's Retirement Plan where members are eligible to receive 3.5% of their final average salary per year of creditable service. Depending on the number of years serviced, participants of the Elected Officer's Retirement plan can retire earlier than the age of 55, however, their retirement allowance is reduced by 2.0% for each year under the age of 55.

#### Preservation of Benefit Plan

On March 19, 2001, the City Council adopted Ordinance O-18930, adding SDMC sections 24.1601 through 24.1608, establishing the Preservation of Benefit Plan (POB Plan). The POB Plan is a qualified governmental excess benefit arrangement (QEBA) under Internal Revenue Code (IRC) section 415(m), which was created by Congress to allow the payment of promised pension benefits that exceed the IRC section 415(b) limits (and therefore cannot be paid from a qualified retirement plan). As provided, in SDMC section 24.1606, and required by federal tax law, the POB Plan is unfunded within the meaning of the federal tax laws. The City may not pre-fund the POB Plan to cover future liabilities beyond the current year as it can with an IRC section 401(a) pension plan. SDCERS has established procedures to pay for these benefits on a pay-as-you-go basis. Currently, SDCERS is participating in a Voluntary Correction Program with the IRS concerning the POB plan (refer to Note 18: Contingencies for additional information). As of issuance of this report, actuarial liabilities related to retired member benefits that exceeded \$415 limits are included in the RSI for the City's core pension plan for valuation years up to and including fiscal year 2005. In the fiscal year 2006 actuarial valuation, the estimated actuarial accrued liability related to excess benefits for eligible active members of the system, amounting to approximately \$22,800, was removed from the plan's Actuarial Liabilities (this liability is estimated to be approximately \$30,400 in the fiscal year 2007 actuarial valuation). Additionally, the liability for retired members of the POB Plan, amounting to approximately \$6,400, has been excluded from the fiscal year 2007 actuarial valuation. Estimates related to the actuarial liability for benefits that exceed IRS \$415 limits were calculated using actuarial assumptions consistent with those used to perform actuarial valuations for the City's core pension plan and also pursuant to the Compliance Statement, dated December 20, 2007, and Tax Determination Letter provided by the IRS during Voluntary Correction Program discussions.

The most current estimates related to the Preservation of Benefit plan are that approximately 58 beneficiaries have received benefits of approximately \$2,900 in excess of IRC \$415 limits through June 30, 2006; an additional approximate \$900 in benefits were paid in the fiscal year ending June 30, 2007 for an estimated cumulative overpayment of \$3,800. No additional plan payments or repayments are required as a result of the Compliance Statement. The number of plan participants, in any given year, for the Preservation of Benefit Plan is determined by the number of plan participants who exceed the current year's IRS \$415(b) limitations as calculated by SDCERS' actuary. The maximum limit for the calendar year 2006 was \$175 (calendar year 2008 limit is \$185) and is adjusted downward depending on the age of the participant when benefits began.

#### Charter Amendment

On November 7, 2006, the citizens approved an amendment to Article 9, Section 143 of the City's Charter, requiring voter approval of certain increases in retirement system benefits for public employees. Specifically, this amendment requires a majority approval of any ordinance that amends the City's retirement system by increasing the benefits of any employee.

Additional details of retirement benefits can be obtained from SDCERS. SDCERS is considered part of the City of San Diego's financial reporting entity and is reported as a pension trust fund. SDCERS issues stand-alone financial statements which are available at its office located at 401 West A Street, Suite 400, San Diego, California 92101.

**b. Summary of Significant Accounting Policies – Pension**

*Basis of Accounting* - The pension trust fund uses the economic resources measurement focus and the accrual basis of accounting. Contributions are recognized as additions in the period in which the contributions are due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the Plan.

*Method Used to Value Investments* - SDCERS investments are stated at fair value. The SDCERS custodial agent provides market values of invested assets with the exception of the fair value of directly owned real estate assets which are provided by the responsible investment manager and independent third party appraisal firms. Investment income is recognized in accordance with GASB 25 and is stated net of investment management fees and related expenses.

**c. Contributions and Reserves - Disclosure Related to Long - Term Contracts and Other Agreements**

**Funding Contracts: MP-1 and MP-2**

The City employer contributions for fiscal years 1996 - 2003 were not based on the full actuarial rates. Instead, employer contributions were less than the full actuarial rates in accordance with an agreement between the City and SDCERS, commonly referred to as Manager's Proposal 1 (MP-1). MP-1 provided that the City would make annual payments according to a contractually fixed formula of increasing percentages of total payroll instead of annual payments based on the annually required contribution (ARC) rates determined by the actuary. This agreement was subject to an actuarially determined funding ratio ("the trigger") of 82.3%. In the event the trigger was reached, the City would be required to make a lump sum payment to return the system to the funding ratio of 82.3%. The funding provision established by MP-1 was to be effective until fiscal year 2007, at which time, the City's contribution would return to the full ARC rate determined by the actuary. In the opinion of Kroll (a professional consulting firm engaged by the City to act in the capacity of an Audit Committee) and the City Attorney, the funding mechanism of MP-1 was illegal in violation of the City Charter and the State Constitution.

In 2002, a second agreement between the City and SDCERS was ratified; this agreement subsequently became known as Manager's Proposal 2 (MP-2). MP-2 modified MP-1 principally by allowing the City to avoid a balloon payment if the trigger was reached. Instead, MP-2 allowed the City to increase its funding until the full ARC was reached. This provision of MP-2 required that funding be increased over a five year period. In the opinion of Kroll and the City Attorney, the funding mechanism of MP-2 was illegal in violation of the City Charter and the State Constitution.

The actuarial valuation as of June 30, 2002, received in January 2003, which applies to contributions made in fiscal year 2004, reported the funded ratio to be 77.3%, thus the trigger had been breached. As a result, the City paid the increased contribution rates (which were less than the full actuarial rates) as required by MP-2 in the next fiscal year (fiscal year ended June 30, 2004). MP-1 and MP -2 are no longer in effect due to the Gleason settlement (see the section titled "Funding Commitments Related to Legal Settlements" in this Note).

*A discussion of funding levels can be found in the Funding Policy and Annual Pension Cost section of this note.*

**Funding Contracts: Union Agreements**

The City has historically picked up a portion of the employee's retirement contributions. The fiscal year 2006 MOUs and the changes to current and future employee benefits therein were introduced to Council in November 2006, and the changes in benefit eligibility were approved by Council Resolution 300600.



The agreement in the MOUs (agreements with the police union were not reached) was to reduce the amount of individual employees' pension contributions which are paid for by the City, effective fiscal year 2006. The agreements with labor unions resulted in the reduction of City "pick-up" of the employee pension contribution by 3% for the Municipal Employees' Association (MEA), the International Association of Fire Fighters Local 145, and the Deputy City Attorney Association (DCAA) and a unilaterally imposed reduction of 3.2% for the San Diego Police Officers Association (POA). In addition, the American Federation of State and County Municipal Employees (AFSCME) Local 127 negotiated a 1.9% salary reduction in lieu of a City "pick up" contribution reduction and a benefit freeze.

The agreements with the bargaining units explicitly indicate that savings to the City must be used to help address its Unfunded Actuarial Accrued Liability (UAAL) within the timeframe of the respective contracts. The labor contract with Local 127 states that "By June 30, 2008, if the City has not dedicated a total of \$600,000 or more to the UAAL reduction, including the amount received by leveraging employee salary reduction and pension contribution monies, the AFSCME salary reduction monies with interest will revert to SDCERS Employee Contribution Rate Reserve for benefit of Local 127 unit members to defray employee pension contributions." The City will be excused from meeting the above obligation if the funded ratio reaches 100% by June 30, 2008.

In June 2006, the City leveraged a portion of the employee pick up savings by contributing \$90,800 from securitization of future tobacco settlement revenues, \$9,200 of current tobacco settlement revenues, and \$8,300 from the remaining balance in the employee "pick-up" amount as part of meeting its negotiated commitment. The \$100,000 payment in excess of the ARC from tobacco settlement revenues is 100% backed by general fund revenues, and therefore, was directly allocated to reduce the NPO of the general fund only. The additional contribution of \$8,300 in excess of the ARC, however, was allocated Citywide as a reduction to the NPO. In June 2007, the City contributed approximately \$7,000 in addition to the ARC, from the savings of the employee "pick-up" reduction. (These agreements are also discussed in the Subsequent Events Note 22). A financing option to generate additional funding is currently being pursued. As of issuance of this report, it appears the City will not be able to meet the outstanding commitment by June 30, 2008 in its entirety. As such, the salary reduction monies, with interest, will likely revert to the employee contribution rate reserve as stated in the MOU with the Local 127 bargaining unit.

### **Funding Commitments Related to Legal Settlements**

Subsequent to the adoption of MP-2, the City settled a class action lawsuit regarding alleged breaches of fiduciary duty and law regarding the City's underfunding of the pension system resulting from the adoption of MP-1 and MP-2. The Gleason Settlement Agreement addressed the issues raised regarding the City's underfunding of the pension system by imposing the following requirements on the City for fiscal years 2005 through 2008:

1. Contribute \$130,000 in fiscal year 2005. \*
2. Pay its full ARC beginning fiscal year 2006.
3. Repeal Municipal Code Sections that legitimized the City's contribution obligations related to MP-2.
4. Provide a total of \$375,000 of real property as collateral for payments required via the Gleason Settlement Agreement.

\* The City's Gleason Settlement required contribution of \$130,000 in fiscal year 2005 was paid prior to the execution of the agreement on July 7, 2005, and therefore, was omitted from the final agreement.

The Gleason Settlement also stipulated that certain actuarial assumptions be fixed, notably, that the amortization period was reset to a 29-year closed commencing with the June 30, 2004 Annual Actuarial Valuation. These assumptions were to remain in place for the duration of the settlement. On July 1, 2004, the City made the Gleason Settlement required contribution of \$130,000 for fiscal year 2005 in addition to providing real property totaling \$375,000 as collateral to be returned in annual installments of \$125,000. On July 1, 2005, the City made the annually required contribution of \$163,000 for fiscal year 2006. Additionally, the City made a contribution in excess of the ARC in the amount of \$108,300 on June 30, 2006. On July 3, 2006 the City made its full annually required contribution of \$162,000 as well as an additional \$7,000 contribution in excess of the ARC for fiscal year 2007 and on July 1, 2007, the City made its full annually required contribution of \$137,700 as well as an additional \$27,300 contribution in excess of the ARC for fiscal year 2008. The final installment of \$125,000 of real property



collateral was returned to the City on November 9, 2007.

The annual required contributions for fiscal years 2005, 2006, and 2007 did not include the effects of the Corbett settlement because the SDCERS' Board viewed those benefits as contingent (see section a. for a description of the Corbett Settlement). Subsequent to those payments, the City determined that the Corbett Settlement liabilities are not contingent. As a result, the ARC for financial reporting was restated from the original ARC calculated by SDCERS' actuary to include Corbett Settlement liabilities. As a result, the City's NPO includes the effects of the Corbett Settlement.

In September 2006, the City entered into a settlement of McGuigan v. City of San Diego (the "McGuigan Settlement") related to the underfunding by the City of the pension system. This agreement stipulated that the City pay \$173,000 plus interest on amounts outstanding to SDCERS over a period of 5 years. An additional requirement of the McGuigan Settlement is that the City provides SDCERS real property collateral totaling \$100,000 (Non-Depreciable Capital Assets – Land). These amounts are in addition to those required by the Gleason Settlement and are to be returned upon the full payment of the settlement.

As of the issuance of this report, the City has provided the real property collateral in addition to approximately \$115,400 of additional payments to SDCERS, in an attempt to meet the terms of the McGuigan Settlement. The McGuigan Settlement was partially funded through the securitization of future tobacco revenue, transfers of actual tobacco revenue receipts, and additional employee "pick up" savings. This contribution is further discussed in the Funding Contracts: Union Agreements section above.

In January, 2006, the City reached a settlement on a separate civil action captioned: Newsome v. City of San Diego Retirement System, City of San Diego (the "Newsome Settlement"). As part of this settlement, the plaintiff has agreed to dismiss the lawsuit if the City provides an additional \$100,000 in funding over five years to SDCERS or, the funding ratio of the City's retirement plan returns to 82.3%. The amounts stipulated in the Newsome settlement are in addition to the amount stipulated in the settlement of the McGuigan Settlement. Under the Newsome Settlement, if the City does not provide the additional funding, the plaintiff then has the right to re-file the lawsuit after giving the City 60 days notice.

d. **Funding Policy and Contribution Rates**

City Charter Article IX Section 143 requires employees and employers to contribute to the retirement plan. The Charter section, which was amended in fiscal year 2005, stipulates that funding obligations of the City shall be determined by the Board of SDCERS and are not subject to modification by the City. The section also stipulates that under no circumstances, may the City and Board enter into any multi-year funding agreements that delay full funding of the retirement plan. The Charter requires that employer contributions be substantially equal to employee contributions (SDCERS' legal counsel has opined that this requirement applies to the normal cost contribution only). Pursuant to the Charter, City employer contribution rates, adjusted for payment at the beginning of the year, are actuarially determined rates and are expressed as a fixed annual required contribution as well as percentages of annual covered payroll. The entire expense of SDCERS' administration is charged against the earnings and plan assets of SDCERS.

The following table shows the City's contribution rates for fiscal year 2006, based on the valuation ending June 30, 2004, expressed as percentages of active payroll:

	Employer Contribution Rates	
	General Members	Safety Members
Normal Cost*	10.74%	19.21%
Amortization Payment*	10.39%	21.76%
Normal Cost Adjusted for Amortization Payment*	21.13%	40.97%
City Contribution Rates Adjusted for Payment at the Beginning of the Year	20.33%	39.42%

\* Rates assume that contributions are made uniformly during the Plan year.

Normal Cost = The actuarial present value of pension plan benefits allocated to the current year by the actuarial cost method.

Amortization Payment = That portion of the pension plan contribution which is designed to pay interest on and to amortize the unfunded actuarial accrued liability.

Members are required to contribute a percentage of their annual salary to the Plan on a biweekly basis. Rates vary according to entry age. For fiscal year 2006, the City employee contribution rates as a percentage of annual covered payroll, averaged 10.57% for general members and 12.88% for safety members. A portion of the employee's share, depending on the employee's member class, is paid by the City. The amount paid by the City ranges from 4.61% to 7.61% of covered payroll for general members. Of this, 1.6% came from the retirement fund employee rate reserve, and the remainder of the pick up was paid by the City. The rate for safety plan members ranges from 7.47% to 7.71%. Of this, 2.7% came from the retirement fund employee rate reserve and the remainder of the pick up was paid by the City. On June 30, 2006, the employee rate reserve was depleted, after which employees began to pay for the difference. All future employee contributions paid by the City will be made from the City's operating budget. The amount paid on behalf of the employees has been renegotiated through the meet and confer process and reduced the amount of the employee contribution paid for by the City. In accordance with agreements with the labor unions, any and all savings realized by these agreements must be set aside and ultimately leveraged to reduce the pension system's UAAL.

Under SDMC Sections 24.1501 and 24.1502, an annual calculation is required to determine the Annual Realized Investment Earnings ("Realized Earnings") of SDCERS' pension assets. In accordance with these SDMC sections, an annual distribution of these Realized Earnings, in priority order, takes place. The Realized Earnings are distributed to various SDCERS system reserves, SDCERS budget, and contingent benefits. The order of distribution and a more detailed discussion of each distribution follows: First, realized earnings are used to credit interest, at a rate determined by the SDCERS Board, which is currently 8%, to the Employer and Employee Contribution Reserves (these reserves increase Plan assets to fund the Plan liabilities for defined benefits), and Deferred Retirement Option Plan ("DROP") member accounts as well as funding the SDCERS Annual Budget (DROP and Budget disbursements decrease Plan assets). If earnings still remain, they are distributed for supplemental or contingent payments or transfers to reserves. These items include in a priority order: 1) Annual Supplement Benefit Payment ("13th Check") paid to retirees generally equal to approximately \$30 (whole dollars) times the number of years of employment and paid only when there are sufficient annual Realized Earnings. 2) Corbett Settlement Payment paid to retirees who terminated employment prior to July 1, 2000 (In spite of costs being included in the ARC for the Actuarial Valuation dated June 30, 2006), Corbett Settlement payments not paid in any one year accrue to the next year and remain an obligation of SDCERS until paid). 3) Crediting interest to the Reserve for Supplemental Cost of Living Adjustment ("COLA"). After the above noted distribution, any remaining Realized Earnings are transferred to the Employer Contribution Reserve which increases system assets. Beginning in fiscal year 2006 actuarial valuation, the liabilities related to the 13<sup>th</sup> Check and Corbett Settlement Payments are included in the calculation of actuarial liabilities and are reflected in the ARC.

Paying supplemental or contingent payments out of Realized Earnings decreases system assets. This has the effect of increasing the UAAL and thereby decreasing the funded ratio. Another related impact is on the net return

on system assets which is negatively impacted when earnings are diverted from system assets. The City recognizes SDMC Section 24.1502's negative impact to the UAAL and funded ratio; however, in order to eliminate the use of surplus undistributed earnings as described above, changes to the municipal code are necessary. To date these changes have not been codified as the result of disagreements over the effect Municipal Code amendments proposed by the City Attorney will have on benefits and whether such amendments are compliant with previous legal settlements.

Beginning in fiscal year 2005 when the reserve fund for healthcare benefits was depleted, the City funded the remaining retiree health benefits expense for fiscal year 2005 and the expenses for fiscal years 2006 and 2007 by transferring from the general and non-general funds into the retiree healthcare trust fund (discussed further in Note 13).

In November 2004, voters changed the City Charter and the mix of Board members requiring that a majority of the Board be independent of the City. Also, the Charter now requires that a 15-year amortization period be used for the UAAL beginning in fiscal year 2009; however, the SDCERS Board, in conjunction with the actuary, is currently using a 20-year amortization period with no negative amortization and has taken the position that it is legally responsible for establishing the valuation parameters, including the amortization period. Given the size of the City's current Unfunded Actuarially Accrued Liability, a change to a 15-year amortization schedule could have a significant impact on future annually required contributions. In the fiscal year 2006 valuation, the use of a 15-year amortization assumption would have increased the ARC by approximately 21%.

e. **Annual Pension Cost and Net Pension Obligation**

**Annual Pension Costs**

The normal cost (i.e. the actuarial present value of pension plan benefits allocated to the current year) and the UAAL amortization cost (i.e. the portion of the pension plan payment designed to amortize the UAAL) were determined using the Projected Unit Credit (PUC) actuarial funding method. The following are the principal actuarial assumptions used for the 2004 valuation (additional assumptions were used regarding a variety of other factors):

- (a) An 8.0% investment rate of return, net of administrative expenses.\*\*
- (b) Projected salary increases of at least 4.75% per year.\*\*
- (c) An assumed annual cost-of-living adjustment that is generally 2% per annum and compounded. In addition, there is a closed group of special safety officers whose annual adjustment is equal to inflation (4.25% per year).

\*\*Both (a) and (b) included an inflation rate of 4.25%.

The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. In fiscal year 2007, the SDCERS Board approved the decision to begin the implementation of the actuary's recommendation to adopt a different asset smoothing method by marking the actuarial value of assets to market value in the fiscal year 2006 actuarial valuation. The method used by the actuary in fiscal year 2005 was not a commonly used method. The expected asset value asset smoothing method will commence with the fiscal year 2007 valuation. The UAAL for funding purposes, pursuant to the Gleason Settlement, is being amortized over a fixed 30-year period for the fiscal years 2006, 2007, and 2008. As of June 30, 2004, the valuation year used to compute the fiscal year 2006 annually required contribution, there were 29 years remaining in the amortization period. For valuations effective June 30 2008, SDCERS' Board of Administration decided to use a 20-year amortization schedule. Beginning with the valuation dated June 30, 2007, the normal cost and UAAL amortization cost will be determined using the Entry Age Normal actuarial method, the result of which will cause the UAAL to increase by \$252,200 in fiscal year 2009.

The following table shows the City's annual pension cost ("APC") and the percentage of APC contributed for the fiscal year ended June 30, 2006 and two preceding years (in thousands):

Fiscal Year Ended June 30	APC	Percentage Contributed	Net Pension Obligation
2004	\$ 138,488	49.83%	\$ 232,536
2005	179,743	67.92%	290,190
2006	175,879	154.28%	194,720

### Net Pension Obligation

Net Pension Obligation (NPO) is the cumulative difference, since the effective date of GASB 27 (fiscal year 1998), between the annual pension cost and the employer's contributions to the Plan. This includes the pension liability at transition (beginning pension liability) and excludes short term differences and unpaid contributions that have been converted to pension-related debt. As of June 30, 2006, the City's NPO is approximately \$194,700 and is reported in accordance with GASB 27. See table above.

The change to NPO is derived by first calculating the City's Annual Required Contribution ("ARC"). The ARC is calculated by actuarially determining the cost of pension benefits accrued during the year (normal cost) and adding to that the annual amount needed to amortize the UAAL (amortization cost) as reported by the actuary, in accordance with the amortization period and method selected. The ARC is then increased by interest accruing on any outstanding NPO (NPO Interest) and then reduced by the amortization of the UAAL that is related to the NPO (ARC Adjustment).

The following shows the calculation for NPO based on the actuarial information provided to the City (in thousands):

ARC [Fiscal Year 2006]	\$ 170,072
Contributions [Fiscal Year 2006]	(271,349)
Interest on NPO	23,228
ARC Adjustment	(17,421)
Change in NPO	(95,470)
NPO Beginning of Year [Fiscal Year 2005]	290,190
NPO End of Year [Fiscal Year 2006]	<u>\$ 194,720</u>

### NPO Components related to Retiree Health

The City's annual contribution to SDCERS pension trust fund, for the fiscal years ended June 30, 2005, 2004, and 2003, included amounts that were contributed to the 401(h) Fund for healthcare benefits and are reported net of this contribution. Annual realized earnings, as determined by the SDMC Sections 24.1501 and 24.1502, in the pension trust fund were withdrawn and used to offset the portion of the City's contribution that went to healthcare benefits instead of being retained in the pension trust fund. This funding mechanism is a violation of the Internal Revenue Code (IRC) Section 401(a). SDCERS hired counsel to make a filing to the IRS to correct this operational failure and potential IRC violation. (See Contingencies Note 18 for additional disclosures). The amounts paid from the pension trust fund for healthcare benefits were approximately \$7,900 in fiscal year 2005, \$12,800 in fiscal year 2004, and \$11,500 in fiscal year 2003. These payments have been removed from the City contribution amounts and resulted in an increase to the City's NPO. The cumulative impact to the City's NPO related to the diversion of assets to fund retiree health is approximately \$77,100. The City's contribution related to retiree health for the fiscal year 2006 was placed in a Retiree Health Trust Fund which is paid from the City's operating funds. (See Other Post Employment Benefits Note 13 for further details.)

### NPO Components related to Employee Offset Liabilities

In fiscal year 1998, the City set aside \$37,800 in funds from the pension trust fund's undistributed earnings to fund the Employee Contribution Rate Reserve, and in accordance with SDMC §24.1502, annually added 8% interest

earnings to this reserve. This employee contribution reserve was to pay for the City's share (pick up) of the employee's retirement contribution. The amount of NPO related to the employee offset as of June 30, 2006 is \$34,900. This reserve was depleted in fiscal year 2006. As noted in the Funding Contracts: Union Agreements section above, the agreements with labor unions resulted in the reduction of City "pick-up" of the employee pension contribution, followed by employees paying for the contribution upon depletion of the reserve.

#### **NPO Components related to Corbett Settlement and Subsequent Benefit Increases**

The City is amortizing the unfunded liability incurred as a result of the benefit increases pursuant to the Corbett Settlement. The City interprets GASB 27 to require that the amortization methods used in calculating funding for the Plan to be consistent with the method used to calculate Plan expense. Thus, the previous amortization method of 40 years open for expensing plan costs was found to be incorrect. The impact on the NPO related to Corbett as of June 30, 2006 is approximately \$27,600.

#### **NPO Components related to the Under Funding of Plan Contributions**

As a result of the MP-1 and MP-2 funding contracts, the City's contributions for fiscal years 1996-2003 were less than the annual required contribution as determined by the actuary. The impact on the NPO related to the under funding of plan contributions as of June 30, 2006 is approximately \$55,120.

#### **f. Actions taken on behalf of the City to address Pension Liability and Net Pension Obligation**

As part of the agreements with the labor unions, several benefits were altered or eliminated for all employees hired on or after July 1, 2005, including the Deferred Retirement Option Plan (DROP), the 13<sup>th</sup> Check, the option to purchase years of service credits ("air-time"), and retiree healthcare benefits; however, the retirement formula generally remains 2.5% at 55 for general members and 3.0% at 50 for safety members. Also for employees hired on or after July 1, 2005, it was agreed to establish a trust vehicle for a defined contribution plan to fund and determine retiree medical benefits. As of the issuance of this report, the employer/employee contributions for such a plan have not been determined. The City has consolidated health care options to help manage the cost of health care for both current and retired employees, and as part of the agreements with the labor unions, the new definition of "health-eligible retiree" states that employees must have 10 years of service with the City to receive 100% of the retiree health benefit and five years of service to receive 50% of the retiree health benefit.

In June 2006, the amount from labor concessions that was committed to address the pension's unfunded liability was \$17,500 (general fund and non-general fund). The City has contributed \$115,300 through the securitization of future tobacco revenue, transfers of actual tobacco revenue receipts, and additional employee "pick up" savings. This contribution is the same as that discussed in the Funding Contracts: Union Agreements section discussed previously. The contribution has created a reduction in the NPO in fiscal year 2006. The City is also exploring other financing options as a means to eliminate its NPO and UAAL.

#### **DEFINED CONTRIBUTION PLANS**

##### **a. Supplemental Pension Savings Plan - City**

Pursuant to the City's withdrawal from the Federal Social Security System effective January 8, 1982, the City established the Supplemental Pension Savings Plan ("SPSP"). Pursuant to the Federal Government's mandate of a Social Security Medicare tax for all employees not covered by Social Security hired on or after April 1, 1986, the City established the Supplemental Pension Savings Plan-Medicare ("SPSP-M"). The SPSP and SPSP-M Plans were merged into a single plan ("SPSP") on November 12, 2004 for administrative simplification, without a change in benefits. Pursuant to the requirements of the Omnibus Budget Reconciliation Act of 1990 ("OBRA-90") requiring employee coverage under a retirement system in lieu of coverage under the Federal Insurance Contributions Act ("FICA") effective July 1, 1991, the City established the Supplemental Pension Savings Plan-Hourly ("SPSP-H"). These supplemental plans are defined contribution plans administered by Wachovia Corporation to provide pension benefits for eligible employees. There are no plan members who belong to an entity other than the City. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings, less investment losses. The City's general retirement members and lifeguard members

of the City's safety retirement members participate in the plan. Eligible employees may participate from the date of employment.

The following table details plan participation as of June 30, 2006:

<u>Plan</u>	<u>Participants</u>
SPSP	8,672
SPSP – H	4,173

The SPSP Plan requires that both the employee and the City contribute an amount equal to 3% of the employee's total salary each pay period. Participants in the Plan hired before July 1, 1986 may voluntarily contribute up to an additional 4.5% and participants hired on or after July 1, 1986 may voluntarily contribute up to an additional 3.05% of total salary, with the City matching each. Hourly employees contribute 3.75% on a mandatory basis which is also matched by City contributions.

Under the SPSP Plan, the City's contributions for each employee (and interest allocated to the employee's account) are fully vested after five years of continuous service at a rate of 20% for each year of service. Hourly employees are immediately 100% vested. The unvested portion of City contributions and interest forfeited by employees who leave employment before five years of service are used to reduce the City's cost.

In fiscal year 2006, the City and the covered employees contributed approximately \$24,622 and \$25,528, respectively. As of June 30, 2006, the fair value of plan assets totaled approximately \$478,984. SPSP is considered part of the City of San Diego's financial reporting entity and is reported as a pension and employee savings trust fund.

**b. 401(k) Plan - City**

The City established a 401(k) Plan effective July 1, 1985. The 401(k) Plan is a defined contribution plan administered by Wachovia Corporation to provide pension benefits for eligible employees. Employees are eligible to participate from date of employment. Employees make contributions to their 401(k) Plan accounts through payroll deductions, and may also elect to contribute to their 401(k) account through the City's Employees' Flexible Benefits Program.

The employees' 401(k) contributions are based on IRS calendar year limits. Employees contributed approximately \$26,870 during the fiscal year ended June 30, 2006. There is no City contribution towards the 401(k) Plan.

As of June 30, 2006, the fair value of plan assets totaled approximately \$196,385. The 401(k) Plan is considered part of the City's financial reporting entity and is reported as a pension and employee savings trust fund.

**c. Pension Plan - Centre City Development Corporation (CCDC)**

CCDC has a Money Purchase Pension Plan covering all full-time permanent employees (the "CCDC Plan"). The CCDC Plan is a defined contribution plan under which benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate on the first day of the month following 90 days after their date of employment. During each year, CCDC contributes semi-monthly an amount equal to 8% of the total quarterly compensation for all employees. CCDC's contributions for each employee are fully vested after six years of continuous service. CCDC's total payroll in fiscal year 2006 was approximately \$3,647. CCDC contributions were calculated using the base salary amount of approximately \$3,262. CCDC made the required 8% contribution amounting to approximately \$261 (net of forfeitures) for fiscal year 2006.

In addition, CCDC has a Tax Deferred Annuity Plan covering current and previous eligible employees. The CCDC Plan is a defined contribution plan under which benefits depend solely on amounts contributed to the plan by the employer and the employees, plus investment earnings. Employees are eligible to participate on the first day of the month following 90 days after their date of employment. During each plan year, CCDC contributes semi-monthly an amount equal to 16% of the total semi-monthly compensation for eligible employees. This amount



includes a 3% increase from the prior year as approved by the Board of Directors on August 13, 2003. CCDC's contributions for each employee are fully vested at time of contribution. The Tax Deferred Annuity Plan includes amounts deposited by employees prior to CCDC becoming a contributor to the CCDC Plan. CCDC made the required 16% contribution amounting to approximately \$516 for fiscal year 2006.

The fiduciary responsibilities of CCDC consist of making contributions and remitting deposits collected. The City does not hold these assets in a trustee or agency capacity for CCDC; therefore, these assets are not reported within the City's basic financial statements.

d. **Pension Plan - San Diego Convention Center Corporation (SDCCC)**

SDCCC's Money Purchase Pension Plan (the "SDCCC Plan") became effective January 1, 1986. The SDCCC Plan is a qualified defined contribution plan and as such, benefits depend on amounts contributed to the SDCCC Plan plus investment earnings less allowable plan expenses. The SDCCC Plan covers employees not otherwise entitled to a retirement/pension plan provided through a collective bargaining unit agreement. Employees are eligible at the earlier of the date on which they complete six months of continuous full-time service, or the twelve-month period beginning on the hire date (or any subsequent Plan year) during which they complete 1,000 hours of service.

A plan year is defined as a calendar year. SDCCC's balance for each eligible employee is vested gradually over five years of continuing service with an eligible employee becoming fully vested after five years. Forfeitures and SDCCC Plan expenses are allocated in accordance with Plan provisions. A trustee bank holds the SDCCC Plan assets. The City does not act in a trustee or agency capacity for the SDCCC plan; therefore, these assets are not reported within the City's basic financial statements.

For the year ended June 30, 2006, pension expenditures for the SDCCC Plan amounted to \$1,223. SDCCC records pension expenditures during the fiscal year based upon estimated covered compensation.

e. **Pension Plan - San Diego Data Processing Corporation (SDDPC)**

SDDPC has accrued and set aside funds in a money market account to provide employees who transferred from the City to SDDPC with retirement benefits approximately equal to those under the City's retirement plan. As of June 30, 2006, the balance in the account was \$133.

The balance at June 30, 2006 consisted of the total estimated liability plus interest earned on the account since its establishment in fiscal year 1991.

In addition, SDDPC has in effect a Money Purchase Pension Plan (the "SDDPC Plan") covering substantially all employees. The SDDPC Plan is a defined contribution plan, wherein benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. During each plan year, SDDPC contributes monthly an amount equal to 20% of the total monthly compensation for all employees. SDDPC contributions for each employee are fully vested after four years of continuing service. The City does not act in a trustee or agency capacity for the SDDPC Plan; therefore, these assets are not reported within the City's basic financial statements. SDDPC's total payroll in fiscal year 2006 was approximately \$17,686. As all employees are substantially covered, SDDPC contributions were calculated using this base salary amount. SDDPC made the required 20% contribution, amounting to approximately \$3,527.

f. **Pension Plan - San Diego Housing Commission (SDHC)**

SDHC provides pension benefits for all its full-time employees through a defined contribution plan (the "SDHC Plan"). In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate on the first day of their employment. SDHC's contributions for each employee (and interest allocated to the employee's account) are fully vested after four years of continuous service. SDHC's contributions for, and interest forfeited by, employees who leave employment before four years of service are used to reduce the SDHC's current-period contribution requirement. SDHC's covered payroll in

fiscal year 2006 was approximately \$11,062. SDHC made the required 14% contribution, amounting to approximately \$1,549 for fiscal year 2006. The City does not act in a trustee or agency capacity for the SDHC Plan; therefore, these assets are not reported within the City's basic financial statements.

g. **Pension Plan - Southeastern Development Corporation (SEDC)**

SEDC has an optional Simplified Employee Pension Plan covering all full-time permanent employees (the "SEDC Plan"). The SEDC Plan is a defined contribution plan administered by Morgan Stanley Dean Witter. Under section 212 of the SEDC Employee Handbook, employees are eligible to participate six months after their date of employment, and SEDC contributes a monthly amount equal to 12% of the employees' base salary, or 15% of management employees' base salary. Such contributions are fully vested upon contribution. SEDC's total payroll in fiscal year 2006 was approximately \$1,034. SEDC contributions were calculated using the base salary amount of approximately \$945. SEDC made the required contribution, amounting to approximately \$126 for fiscal year 2006. SEDC Plan members contributed an additional \$7.5.



**13. OTHER POST EMPLOYMENT BENEFITS (In Thousands)****a. Plan Description**

The City provides certain healthcare benefits to a variety of retired employees through SDCERS, as provided for in San Diego Municipal Code (SDMC) SDMC Sections 24.1201 through 24.1204. Currently, the benefits are primarily for health-eligible retirees who were actively employed on or after October 5, 1980 and were otherwise entitled to retirement allowances. Health eligible retirees can obtain health insurance coverage with the plan of their choice, including any City-sponsored, union-sponsored, or privately-secured health plan. In fiscal year 2006, health eligible retirees who are also eligible for Medicare are entitled to receive reimbursement/payment of healthcare premiums, limited to approximately \$6.8 per year, in addition to reimbursement/payment for Medicare Part B premiums, limited to approximately \$1.0 per year. Health eligible retirees who are not eligible for Medicare are entitled to receive reimbursement/payment of healthcare premiums, limited to approximately \$7.2 per year. Non-health-eligible employees who retired or terminated prior to October 6, 1980 or employees who were hired after July 1, 2005, and who are otherwise eligible for retirement allowances, are also eligible for reimbursement/payment of healthcare benefits, limited to a total of \$1.2 per year.

**b. Contributions**

Expenses for post-employment healthcare benefits were paid for on a pay-as-you-go basis through fiscal year 2007. In fiscal year 2006, approximately 4,100 retirees received either City paid insurance or were reimbursed for other health insurance costs incurred amounting to approximately \$24,100. Approximately \$17,400 was paid by the City and approximately \$6,400 was paid by retirees for beneficiary health benefits. Remaining retiree healthcare expenditures of approximately \$300 were accrued by the City and paid for in fiscal year 2007. These contributions were placed into a trust fund called the Retiree Health Trust Fund, and all retiree healthcare expenses are paid directly from this fund by SDCERS. The City is currently implementing a plan to ensure that sufficient resources are available in the Retiree Health Trust Fund to pay for retiree healthcare expenses in future periods.

In July 2004, GASB issued GASB 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions* (OPEB), which establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial statements. The City will implement GASB 45 in the financial statements for the fiscal year ending June 30, 2008. In preparation to meet the requirements of GASB 45, the City entered into an agreement on January 18, 2008 to pre-fund expenses related to post-employment healthcare benefits. The plan, administered by CalPERS, requires the City to pre-fund the plan in an amount not less than \$5,000; however, the City intends to pay an amount not less than 50% of the Annual Required Contribution, as calculated by an actuary of the City's choice. Post-employment healthcare actuarial accrued liability and any unfunded actuarial accrued liability will be reported in the required supplemental information in a manner similar to pension obligations.

**14. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (In Thousands)**

Interfund Working Capital Advance (WCA) balances are the result of loans between funds that are expected to be repaid in excess of one year. The majority of the advances, \$4,114, are advances from the HUD Section 108 and NTC Section 108 grant funds to the Redevelopment Agency. Interfund WCA balances at June 30, 2006 are as follows:

Contributing Fund (Receivable)	Benefiting Fund (Payable)		
	General Fund	NonMajor Governmental	Total
General Fund	\$ -	\$ 300	\$ 300
NonMajor Governmental	-	4,414	4,414
Sewer Utility	341	-	341
Water Utility	644	-	644
Total	<u>\$ 985</u>	<u>\$ 4,714</u>	<u>\$ 5,699</u>

Interfund receivable and payable balances are the result of loans between funds that are expected to be repaid during the next fiscal year. The majority of these short-term loans, approximately \$21,000, represents General Fund, TOT fund, and Transnet fund loans to expenditure-driven grant funds that have temporary cash shortfalls, pending reimbursement from the Federal Government and the State. Interfund receivable/payable balances at June 30, 2006 are as follows:

Contributing Fund (Receivable)	Benefitting Fund (Payable)
	Nonmajor Governmental
General Fund	\$ 6,060
Nonmajor Governmental	15,364
Nonmajor Enterprise	3,399
Total	<u>\$ 24,823</u>

The Water Utility Fund has an interfund loan receivable of \$2,386 and interfund interest receivable of \$773, and the Capital Outlay Fund has a corresponding interfund loan payable of \$2,386 and interfund interest payable of \$773, for a loan agreement in which the Water Utility financed a land acquisition for the government. This land held for resale in the Capital Outlay Fund was sold to the Redevelopment Agency on October 16, 2006. The purchase price of the land was \$6,380, of which \$3,191 (which includes accrued interest) will be repaid to the Water Utility Fund and the remainder will be placed in the Capital Outlay Fund.

The Sewer Utility Fund has an interfund loan receivable of \$3,487, and the Black Mountain Ranch Facilities Benefit Assessment Fund, a capital projects fund, has a corresponding interfund payable of \$3,487 for advanced Facilities Benefit Assessment (FBA) project funding. The Sewer Fund agreed to finance the Carmel Valley Trunk Sewer project to facilitate earlier construction, of which a portion was deemed the responsibility of the Carmel Valley area developers and is intended to be reimbursed in fiscal year 2010 from FBA Fund assessment revenue.

Interfund transfers result from the transfer of assets without the expectation of repayment. Transfers are most commonly used to (1) move revenues from the fund in which it is legally required to collect them into the fund which is legally required to expend them, including Transient Occupancy Tax (TOT), Storm Drain, and TransNet funds collected in said funds but legally spent within the General Fund, (2) utilize unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds, in accordance with budgetary authorizations, and (3) move tax revenues collected in the special revenue funds to capital projects and debt service funds to pay for the capital projects and debt service needs during the fiscal year. Interfund transfer balances at June 30, 2006 are as follows:

Contributing Fund	Benefiting Fund							Total
	General Fund	NonMajor Governmental	Sewer Utility	Water Utility	NonMajor Enterprise	Internal Service	Capital Asset Transfers	
General Fund	\$ -	\$ 21,946	\$ -	\$ -	\$ -	\$ 246	\$ -	\$ 22,192
NonMajor Governmental	71,672	318,507	-	-	962	576	-	391,717
Sewer Utility	-	1,692	-	-	-	147	266	2,105
Water Utility	-	999	-	-	-	158	482	1,639
NonMajor Enterprise	1,685	558	-	-	-	101	10	2,354
Internal Service	1,304	737	481	220	224	244	-	3,210
Total	<u>\$ 74,661</u>	<u>\$ 344,439</u>	<u>\$ 481</u>	<u>\$ 220</u>	<u>\$ 1,186</u>	<u>\$ 1,472</u>	<u>\$ 758</u>	<u>\$ 423,217</u>

**15. RISK MANAGEMENT (In Thousands)**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has established various self-insurance programs and maintains contracts with various insurance companies to manage excessive risks.

The City participates in an excess liability insurance policy in collaboration with a statewide joint powers authority risk pool, the California State Association of Counties-Excess Insurance Authority (CSAC-EIA) whereby the City pays the first \$1,000 per occurrence. Effective July 2003, the City's excess liability insurance coverage was obtained through a sister joint powers risk pool, California Public Entity Insurance Authority (CPEIA) for amounts up to \$50,000 per occurrence in excess of a \$2,000 self-insured retention. On October 1, 2007, the City's self-insurance retention amount increased to \$5,000.

The City offers a cafeteria-style flexible benefits plan. This plan requires employees to choose a health and life insurance plan and also gives employees the option of obtaining dental insurance, vision insurance, or catastrophic care insurance. Employees can place remaining flexible benefit dollars into IRS qualified dental/medical/vision and childcare reimbursement accounts, into their 401(k), and/or take as cash.

The City is self-insured for workers' compensation and long-term disability (LTD). All operating funds of the City participate in both these programs and make payments to the Self Insurance Fund. Each fund contributes an amount equal to a specified rate multiplied by the gross salaries of the fund. These payments are treated as operating expenditures in the contributing funds and operating revenues in the Self Insurance Fund.

Public liability, workers' compensation, and long-term disability estimated liabilities as of June 30, 2006 are determined based on results of independent actuarial evaluations and include amounts for claims incurred but not reported and adjustment expenses. Claims liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. Estimated liabilities for public liability claims have been recorded in the Self Insurance Fund, Sewer Utility Fund, and Water Utility Fund.

A reconciliation of total liability claims, for all three funds, showing current and prior year activity is presented below:

	Public Liability	Workers' Comp & Long-Term Disability	Total
Balance, July 1, 2004	\$ 101,861	\$ 150,302	\$ 252,163
Claims and Changes in Estimates	24,996	40,037	65,033
Claim Payments	(24,508)	(26,933)	(51,441)
Balance, June 30, 2005	102,349	163,406	265,755
Claims and Changes in Estimates	11,623	28,832	40,455
Claim Payments	(28,563)	(24,786)	(53,349)
Balance, June 30, 2006	<u>\$ 85,409</u>	<u>\$ 167,452</u>	<u>\$ 252,861</u>

The City also participates in the joint purchase of its first party property insurance including all-risk, flood, boiler and machinery and business interruption coverages through the CSAC-EIA pool. Earthquake coverage is purchased separately through the pool. The joint purchase of the City's "all risk" property insurance, insuring approximately \$2,000,000 in value of City property and assets, provides coverage for losses to City property up to approximately \$400 per occurrence, subject to a \$25 deductible. This limit includes coverage for business interruption losses for designated lease-financed locations. There is no sharing of limits among the City and member counties of the CSAC-

EIA pool, unless the City and member counties are mutually subject to the same loss. Limits and coverages may be adjusted periodically in response to requirements of bond financed projects, acquisitions, and in response to changes in the insurance marketplace.

Earthquake coverage is provided for designated buildings/structures and certain designated City lease financed locations in the amount of \$60,000 including coverage for business interruption caused by earthquake at certain designated locations. Earthquake coverage is subject to a deductible of 5% of total values per unit per occurrence, subject to a \$100 minimum. The City's earthquake coverage is purchased jointly and shared with the member counties in the CSAC-EIA pool. Due to the potential for geographically concentrated earthquake losses, the CSAC-EIA pool is geographically diverse to minimize any potential sharing of coverage in the case of an individual earthquake occurrence. Depending upon the availability and affordability of such earthquake insurance, the City may elect not to purchase such coverage in the future, or the City may elect to increase the deductible or reduce the coverage from present levels.

The City is a public agency subject to liability for the dishonest acts and negligent acts or omissions of its officers and employees acting within the scope of their duty ("employee dishonesty" and "faithful performance"). The City participates in the joint purchase of insurance covering employee dishonesty and faithful performance through the CSAC-EIA pool. Coverage is provided in the amount of \$10,000 per occurrence subject to a \$25 deductible.

During the year reported hereon, there were no significant reductions in insurance coverage from the prior year. For each of the past three fiscal years, the settlements have not exceeded insurance coverage.

See Contingencies, Note 18, for additional information.

#### **16. FUND BALANCE / NET ASSETS DEFICIT (In Thousands)**

The Grants Fund and the Capital Outlay Fund have net deficits of approximately (\$30,082) and (\$18,453), respectively, due to the large number of reimbursement grants accounted for within these funds. With reimbursement grants, the resources remain the property of the grantor until allowable costs are incurred. The grants revenues are recognized as soon as all eligibility criteria have been met and the amounts become available. This results in a deficit fund balance in these funds.

The Self Insurance Fund has a net deficit of approximately (\$168,494), which represents unfunded estimated claims and claim settlements related to Public Liability, Workers' Compensation, and Long-Term Disability. It is anticipated that individual claim settlements will be funded through future user charges subsequent to the filing of a claim and prior to its settlement. In addition to user charges, in January 2008, the Mayor's office presented a five-year financial outlook to the City Council that outlines a proposal to fund the Self Insurance Fund by contributing an additional \$5,000 to the Public Liability Reserves in fiscal year 2008.

Publishing Services has a net deficit of (\$249), due to a decline in work production, and outdated pricing for services which are not fully cost recoverable.

The Retiree Health Trust Fund has a net deficit of approximately (\$280), due to an accrual of administrative expenses paid in fiscal year 2007. The City is currently implementing a plan to ensure that sufficient resources are available in the Retiree Health Trust Fund to pay for retiree healthcare expenses in future periods.

**17. COMMITMENTS (In Thousands)**

As of June 30, 2006, the City's business-type activities contractual commitments are as follows:

Airports	\$	803
Environmental Services		2,935
Sewer Utility		57,417
Water Utility		47,716
Other		3,623
Total Contractual Commitments	\$	<u>112,494</u>

The contractual commitments are to be financed with existing reserves and future service charges. In addition, the Sewer and Water Utility Funds intend to finance the contractual commitments with existing reserves, future service charges, and financing proceeds secured by system revenues.

Consent Decree

On April 2, 2001, two environmental groups filed suit against the City alleging that the Municipal System's collection system was deficient as a result of sewer spills from December 1996 to the time of the filing. The complaint sought injunctive relief to prevent illegal discharges, a compliance schedule to upgrade the Municipal System's collection system, and civil penalties of \$27.5 per day for each day of a violation. The City contested the plaintiffs' claims.

The Environmental Protection Agency (EPA) and the State also filed suits against the City alleging the same collection system violations, seeking unspecified penalties and injunctive relief for collection system improvements. All three cases were consolidated. On March 16, 2005, the City settled the State lawsuit for \$1,200. Of this total, \$1,000 funded three supplemental environmental projects to benefit the local environment, and \$200 was deposited in the State's Cleanup and Abatement Account.

The EPA, the City and the environmental groups reached an agreement on additional requirements to reduce sewer spills, which are set forth in a Consent Decree (the "Consent Decree"). The Consent Decree requires increased sewer spill response and tracking, increased root control, replacement or rehabilitation of 250 miles of pipeline, a canyon economic and environmental analysis, pump station and force main upgrades, and entails court supervision of these upgrades at least through June 2013. The estimated annual cost of this commitment is \$108,000 per year in capital projects and \$47,000 per year in operational maintenance to the sewer system through the term of the settlement; however, the costs for bidding, constructing and completing the required work will fluctuate depending on variables such as changes in the cost of materials and labor. No civil penalty payment was required, though stipulated penalties ranging from \$375 (in whole dollars) to \$20,000 (in whole dollars) per occurrence are included for subsequent violations of the Consent Decree. The Consent Decree was approved by the Court on October 9, 2007, settling all remaining issues in the case.

Sewer rate increases were approved for the next four years to partially fund the obligations of the Consent Decree. However, additional rate increases will be necessary (likely beginning in year 2011) to completely fund the Consent Decree. As mentioned previously, the estimated annual cost is \$108,000/year in capital projects and \$47,000/year in operations and maintenance. The City funds the Capital Projects in the Consent Decree through the issuance of notes and bonds supported by the sewer system's net system revenues.

### California Department of Public Health Compliance Order

In 1994, the City of San Diego entered into a compliance agreement with the State of California Department of Public Health ("DPH") with the approval of City Council, after the DPH Drinking Water Field Operations Branch conducted a sanitary survey of the City's water system. This agreement required the City to correct operational deficiencies and begin necessary capital improvements. The City was notified in January of 1997 that it was not in compliance with this agreement. At that time, the DPH issued a compliance order. The January 1997 Compliance Order was last amended in May of 2007 ("Amendment 11"), and included additional items that were not in the original Compliance Order. The DPH Compliance Order will remain in effect until the required projects are completed.

Presently, the Water Department is meeting all of the requirements of the DPH Compliance Order, including the ongoing obligation to provide DPH with quarterly progress reports. On February 26, 2007, the City authorized an increase in water rates and charges to continue funding projects mandated in the DPH Compliance Order as well as other Capital Improvement Program projects. In addition, on October 8, 2007, the City authorized a second "pass-thru" rate increase to account for the higher cost of water purchased from the San Diego County Water Authority. The pass-thru rate increase took effect on January 1, 2008 and will help preserve the funds previously committed to DPH Compliance Order projects.

DPH has the authority to impose civil penalties if the City fails to meet DPH Compliance Order deadlines, although DPH has not imposed such penalties to date. Violation of the DPH Compliance Order may be subject to judicial action, including civil penalties specified in California Health and Safety Code, Section 116725. Section 116725 penalties for violating a schedule of compliance for a primary drinking water standard can go as high as \$25 per day for each violation; for violating other standards, such as turbidity, the penalties can reach \$5 per day. There are a number of additional enforcement tools prescribed by law, including mandatory water conservation, litigation and service connection moratoriums.

The costs for bidding, constructing and completing the required work will fluctuate depending on variables such as changes in the cost of materials and labor. As of 2007, the Water Department's DPH Compliance Order project and DPH related project costs approximate:

<u>Total Projects</u>	<u>FY07</u>	<u>FY08 - FY11</u>	<u>FY12 - FY19</u>	<u>TOTAL</u>
DPH & EPA Requirements	\$ 28,292	\$ 345,747	\$ 214,877	\$ 588,916
DPH Related Projects	4,614	137,191	315,245	457,050

These commitments are to be financed with existing net assets, present and future revenues, and financing proceeds secured by system revenues.

### Convention Center Dewatering

The City operates the San Diego Convention Center, located adjacent to San Diego Bay. The Convention Center includes a subterranean parking garage, which is subject to infiltration of water from the bay. This groundwater must be continually pumped from the parking structure to prevent it from being submerged. Approximately 500,000 gallons of groundwater is pumped daily from the parking structure and discharged into San Diego Bay. The City holds a National Pollutant Discharge Elimination System ("NPDES") permit for the discharge, issued by the Regional Water Quality Control Board ("RWQCB"). Failure to meet water quality standards set forth in the permit could subject the City to fines and penalties of up to \$25,000 (in whole dollars) per day.

Monthly groundwater discharge sample results have not met the standards dictated by NPDES Permit No. CA0109029 (Order R9-2003-0050) since the end of calendar year 2005. This triggered the implementation of work to cease effluent violations within twenty seven months (end of March 2008), pursuant to an order of the RWQCB.

To achieve compliance with groundwater discharge requirements, the City retained an engineering consultant in 2006 to review all previous work and develop the most cost-effective engineering solution to achieve compliance. The consultant's final report was received in August 2007. A determination will be made as to which report recommendations will be implemented. Possible solutions include constructing facilities to treat the groundwater before it is discharged into the bay, or diverting the groundwater into the sewer system for treatment at an existing plant. Costs for implementing the report's recommended potential solutions could range from a one-time expense of between \$5,600 to \$9,500, and annual operation and maintenance expenses of \$528 to \$793 per year. Funding to implement any of the potential solutions is the responsibility of the City General Fund, though the San Diego Port District, which owns the Convention Center property, may also be partially responsible.

The City of San Diego plans to take necessary actions to achieve groundwater discharge NPDES compliance by the end of March 2008. Upon completion by the City of an action plan to address the groundwater discharge problem and the identification of required funding, the City plans to communicate with the Regional Water Quality Control Board ("RWQCB") on the final details of the plan. If compliance is not achieved by March 2008, the Board could enact enforcement actions against the City of San Diego.



**18. CONTINGENCIES (In Thousands)****FEDERAL AND STATE GRANTS**

The City recognizes revenue grant monies received as reimbursement for costs incurred in certain Federal and State programs it administers. Although the County's Federal grant programs are audited in accordance with the requirements of the Federal Single Audit Act of 1984, the Single Audit Act Amendments of 1996 and the related U.S. Office of Management and Budget Circular A-133, these programs may be subject to financial and compliance audits by the reimbursing agencies. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The Single Audit for fiscal year 2004 was completed by Macias Gini & O'Connell LLP and has been received and filed by the City Council. Macias Gini & O'Connell LLP also completed the Single Audit for fiscal year 2005; however, this report has not yet been received and filed by the City Council. Additionally, Macias Gini & O'Connell LLP is still in the process of completing the Single Audit for fiscal year 2006.

Additionally, the local unit of the U.S. Department of Housing and Urban Development (HUD) has recently conducted an audit of the City's Community Development Block Grant (CDBG) program. The overall objective of the audit was to determine whether management complied with applicable laws, regulations, and requirements of HUD's CDBG program. After review of the program, HUD determined that the City may not be in compliance with CFR 85.25. Specifically, HUD is concerned with CDBG loans to the Redevelopment Agency, "Re-Loans", and other program eligibility issues. The Office of the Inspector General is currently conducting a preliminary review to determine if an additional audit is required.

**CONTINUING DISCLOSURE OBLIGATIONS**

The City, in connection with all bond offerings since the effective date (July 1995) of the continuing disclosure requirements of SEC Rule 15c2-12, has contractually obligated itself to provide annual financial information, including audited financial statements, within certain specified time periods (generally nine months) after the end of each fiscal year. The City completed, and Council has received and filed, its financial statements for fiscal year ended June 30, 2004 and June 30, 2005. The City has not yet released its audited financial statements for the fiscal year ended June 30, 2007. Accordingly, the City has not been able to timely satisfy its contractual obligations to provide to the national repositories audited financial statements, or financial information and operating data derived from the financial statements. At the time of each deadline, the City did, as required by its continuing disclosure contractual obligations, provide to the national repositories a notice of the failure to file the audited annual financial statements information.

**REGULATORY AND OTHER INDEPENDENT INVESTIGATIONS**

In November 2006, the Securities and Exchange Commission (SEC) entered an Order sanctioning the City of San Diego for committing securities fraud by failing to disclose, in 2002 and 2003, important information about its pension and retiree health care obligations in connection with disclosures relating to the sale of its municipal bonds. To settle the action, the City agreed to cease and desist from future securities fraud violations and to retain an independent consultant for three years to foster compliance with its disclosure obligations under the federal securities laws.

In issuing the Order, the SEC made the following determinations:

- The City failed to disclose that the City's unfunded liability to its pension plan was projected to increase to an estimated \$2 billion at the beginning of fiscal year 2009, and that the City knew and failed to disclose that its health care liability would be in excess of \$1.1 billion. (The information presented in the SDCERS actuarial valuation for the fiscal year ended June 30, 2007, which will be incorporated in the City's fiscal year 2009 financial statements, reported the unfunded actuarial liability to be \$1.183 billion.)

- The City failed to disclose that it had been intentionally under-funding its pension obligations so that it could increase pension benefits but defer the costs, and that it would face severe difficulty funding its future pension and retiree healthcare obligations unless new revenues were obtained, pension and healthcare benefits were reduced, or City services were reduced.
- The City knew or was reckless in not knowing that its disclosures were materially misleading.
- The Order finds that the City made these misleading statements through three different means:
  1. In the offering documents for five municipal offerings in 2002 and 2003 that raised over \$260 million from investors. The offering documents containing the misleading statements included the "official statements," which were intended to disclose material information to investors, and the "preliminary official statements," which were used to gauge investors' interest in a bond issuance.
  2. The City made misleading statements to the agencies that gave the City its credit rating for its municipal bonds.
  3. The City made misleading statements in its "continuing disclosure statements," which described the City's financial condition and were provided by the City to the municipal securities market with respect to prior City bond offerings.

The City consented to the issuance of the Order without admitting or denying the findings in the Order. The SEC's investigation with respect to the misleading disclosures in the City's fiscal year 2002 and fiscal year 2003 financial statements is ongoing as to individuals and other entities that may have violated the federal securities laws.

The SEC Order sanctioning the City of San Diego for committing securities fraud is available at: [www.sec.gov](http://www.sec.gov)

Prior to settlement with the SEC, the City engaged a number of firms to review the City's disclosure practices and to investigate potential illegal acts. In February 2004, the law firm of Vinson & Elkins LLP (V&E) was engaged to conduct a review of the adequacy of the City's financial disclosure relating to the pension fund in bond offerings from 1996 to 2002 and to prepare a report on its findings. In September 2004, V&E released a report that identified a number of disclosure deficiencies and made recommendations on how to remediate their causes. The report did not offer conclusions on the culpability of individual members of the City's government.

Many of the recommendations contained in the V&E report were adopted by the City in October 2004. However, the City's previous accounting firm advised that the report did not provide a sufficient basis to conclude that all questions necessary to the completion of the audit were sufficiently investigated and resolved in a manner that would permit the issuance of an audit report. In response, the City engaged a professional consulting firm, Kroll Inc. and the law firm Willkie, Farr and Gallagher LLP, to act in the capacity of an audit committee. Kroll took over the investigation. The independent investigations concluded when Kroll presented its final report to the City on August 8, 2006. The Kroll report concluded that there were numerous failures on the part of City government to conform to law, to adhere to principles of sound governance and financial reporting, and to protect the financial integrity of the City's pension system. The Kroll report was more fully summarized in the City's fiscal year 2003 financial report. The City's fiscal year 2003 financial report, and the entire Kroll report including interview summaries and footnotes, as well as the V&E report, are available at: [www.sandiego.gov](http://www.sandiego.gov).

#### REMEDATION OF CITY DISCLOSURE DEFICIENCIES

The City has taken a variety of remedial actions in the wake of the disclosure deficiencies identified by V&E, Kroll and the SEC. In response to the V&E Report, the City amended the municipal code to address certain control environment issues.

The Disclosure Ordinance created a Disclosure Practices Working Group of City officials to review the form and content of all financial disclosures by the City and its related entities and a finance and disclosure unit within the City Attorney's office headed by an attorney with experience in municipal securities and disclosure matters. Pursuant to the Ordinance, the Auditor and Comptroller is required to annually review and report on internal controls within the City. In addition, mandatory training is required for City staff and officials, including the City Council and Mayor, regarding their obligations under federal and state securities laws.

Further reforms were proposed by the Mayor to address deficiencies identified in the Kroll Report. A monitor, who also serves as the Independent Consultant pursuant to the Order, was appointed on January 26, 2007, to oversee the implementation of the Mayor's remediation plan. Structural changes were made to the City's Finance Department to enhance accountability to the City's Chief Financial Officer, who also serves as the Auditor and Comptroller. The City Council amended the Municipal Code to create an Audit Committee comprised of three Councilmembers, which provides legislative oversight of the City's accounting and financial reporting processes and internal audit function.

In Fall 2007, an Internal Auditor was appointed by the Mayor, in consultation with the Audit Committee. The Internal Auditor reports to both the Chief Operating Officer and the Audit Committee. The City has also retained an independent actuary to provide periodic analysis of SDCERS' actuarial reporting and of the fiscal impact of pension and benefit related decisions. An Enterprise Resource Planning ("ERP") system has been purchased to enhance the timeliness and accuracy of the City's operational reporting; the first ERP modules are scheduled for activation in October 2008.

Certain recommendations included in the Kroll Report and the Mayor's remediation plan require further action by the City or the voters. An ordinance imposing criminal penalties for City employees who improperly influence the City's outside consultants has not been presented to the City Council for consideration. Changes to the City Charter to enhance the independence of both the Internal Auditor and the Audit Committee require voter approval and proposed Charter amendments have been approved for inclusion on the ballot for the June 3, 2008 election.

The Independent Consultant required by the SEC Order has several specific mandates. Among these are annual reviews, for a three year period, of the City's policies, procedures and internal controls regarding financial disclosures. The Independent Consultant is also required to make recommendations concerning the City's policies, procedures and internal controls and to assess the City's adoption and implementation of these recommendations. A draft of the Independent Consultant's first annual report was presented to management in March 2008. The final version is expected to be presented to the City Council in April 2008.

#### GENERAL INVESTIGATIONS

The City Attorney is currently being investigated by the California State Bar. Bar investigations are confidential and the scope, nature, and likely outcome of the investigation are not known.

#### LITIGATION AND REGULATORY ACTIONS

The City is a defendant in lawsuits pertaining to material matters, including claims asserted which are incidental to performing routine governmental and other functions. This litigation includes but is not limited to: actions commenced and claims asserted against the City arising out of alleged torts; alleged breaches of contracts; alleged violations of law; and condemnation proceedings. The City has received approximately 2,400 notices of claims in fiscal year 2006.

The estimate of the liability for unsettled claims has been reported in the Government-Wide Statement of Net Assets, the Proprietary Fund Statement of Net Assets, and in the Proprietary Fund financial statements. The liability was estimated by categorizing the various claims and supplemented by information provided by the City Attorney with respect to certain large

individual claims and proceedings. The recorded liability is the City's best estimate based on available information.

Significant individual lawsuits are described below.

De La Fuente Business Park v. City of San Diego

This lawsuit, filed in 1995, involves allegations of breach of contract and inverse condemnation brought by an Otay Mesa developer. In the first proceeding, the jury returned a verdict of \$94,500 in favor of the plaintiff. On appeal, the court issued a tentative ruling that the case will be remanded to trial again on the contract issue, and that the inverse condemnation was not valid as a matter of law. There are also two other pending cases similar in nature that have been filed by the same Otay Mesa developer. These cases are on hold in the trial court, pending the outcome of the Business Park case. According to the City Attorney, the possible exposure of these cases ranges between \$0 and \$60,000. Liabilities for these cases were not accrued in the City's financial statements as the City Attorney has indicated the likelihood that the plaintiff will prevail is only reasonably possible.

Abbit, Ernest v. City of San Diego

Plaintiffs are 298 individuals from the De Anza Mobilehome Park that are alleging Mobilehome Residency Law "MRL" violations by the City of San Diego. The likelihood of an unfavorable outcome is reasonably possible and is estimated to be in the range of \$0 - \$22,000.

Wood, Janet v. City of San Diego

Plaintiff sued as a representative class claiming that women and unmarried retirees receive less pension benefits than others. Case has been remanded to the district court in September 2007. Likelihood of unfavorable outcome is reasonably possible and is estimated to be in the range of \$0 - \$2,150 per year in increased benefits.

San Diego Police Officer's/ABBE v. City of San Diego

On October 25, 2005 the SDPOA (SDPOA #2) filed a lawsuit against the City alleging failure to pay for overtime work under the Fair Labor Standards Act. The likelihood of an unfavorable outcome is reasonably possible and is estimated to be in the range of \$0 - \$5,000.

Significant regulatory actions are described below (Other regulatory actions are described in Notes 17 and 22).

IRS Voluntary Correction Program Settlement

SDCERS is operated as a qualified governmental defined benefit plan under Internal Revenue Code (IRC) §§ 401(a) and 414(d). In light of various concerns raised in investigative reports regarding practices of SDCERS that could have jeopardized its status as a qualified governmental defined benefit plan, SDCERS requested its outside tax counsel, Ice Miller LLP, to perform a comprehensive document compliance review, prepare submissions in accordance with the IRS Voluntary Correction Program (VCP), and work with the IRS to finalize a compliance statement to resolve SDCERS' compliance issues. A comprehensive settlement was reached between the IRS and SDCERS on December 20, 2007 (Settlement). The Settlement requires the City and SCDERS to take certain corrective actions, some of which will require Council approval, regarding certain provisions of its retirement plan within 150 days of December 20, 2007. The Settlement does not require the City to pay any penalty payments or to make any additional contributions to the retirement system. In the event the City does not successfully implement certain plan document changes required by the IRS Compliance Statement, SDCERS and the City may face additional regulatory actions from the IRS including but not limited to, SDCERS plan disqualification and financial penalties against the City, the plan sponsor.

The VCP filings identified violations and proposed corrections regarding the City's Presidential Leave Program for presidents of certain labor organizations that represent City employees; compensation limits under IRC § 401(a)(17); minimum distribution requirements under IRC § 401(a)(9); eligible rollover distribution compliance under IRC § 401(a)(31); minimum distribution requirements from the Deferred Retirement Option Plan (DROP) program; overpayment of disability benefits; conversion of annual leave to purchased service credits; retiree healthcare benefits and health administrative expenses under IRC § 401(h); benefit and compensation limits under IRC §§ 415(b), 415(c) and 415(n); and remedial plan amendments.

The practice of using pension plan assets, and later a bifurcation of City contributions to the pension plan to fund retirement healthcare benefits, resulted in the most significant plan violation in monetary terms. The compliance statement identified that from 1983 through 1991 retiree health benefits were paid by SDCERS when the plan document did not provide for such benefits. Additionally, the compliance statement states that the plan was not appropriately reimbursed for administrative expenses related to the provision of retiree health benefits from 1993 to 2006. Both of these failures were related to non-compliance with IRC § 401(a)(2). The cumulative value of improper payments associated with this failure was approximately \$34 million. In a separate failure, the compliance statement also identified that from 1998 through 2005, the terms of the Plan did not comply with all of the provisions of IRC §§ 401(a)2 and 401(h) as it relates to the plan's administration of retirement health benefits and the use of plan earnings to fund the benefits. The compliance statement indicated that the manner in which the benefits were funded "made it extremely difficult, if not impossible to resolve that there was no inappropriate use of the Plan Assets." In this regard, and for the purposes of presenting fairly the effect on net assets, the City has estimated that from 1988 through 2006, the cumulative effect of the improper administration of Retiree Health Benefits was approximately \$77.1 million. These amounts will be treated as a reduction to City contributions against its Annually Required Contribution during the year in which the expenditures occurred and instead recorded as part of the City's Net Pension Obligation.

With regard to benefit and compensation limits, in March 2001 the City Council authorized the establishment a Preservation of Benefit Plan. A preservation of benefit plan is a qualified governmental excess benefit arrangement (QEBA) under IRC § 415(m), which is a vehicle created by Congress to allow the payment of promised pension benefits that exceed the IRC § 415(b) limits. While the City Council approved the establishment of a Preservation of Benefit Plan satisfying the requirements of § 415(m), the City has not received a determination letter from the IRS approving the formation of its Preservation of Benefit Plan QEBA. Under the Internal Revenue Code, the City may not pre-fund the Preservation of Benefit Plan to cover future liabilities beyond the current year, as with the 401(a) plan. Despite the creation of the Preservation of Benefit Plan by the City Council in March 2001, SDCERS continued to treat the excess amounts as payable from the 401(a) plan assets in violation of law. SDCERS did not establish a Preservation of Benefit Plan and Trust until February 2007. In future years, SDCERS will determine the amount necessary to fund any pension benefits payable during the calendar year in excess of the amount permitted by IRC § 415(b). This amount will include the projected amount of all excess pension benefits payable for the calendar year as well as the projected cost of administering the Preservation of Benefit Plan for the calendar year. SDCERS will provide this information to the City and the City will pay these costs on an annual basis. The City transferred money into a new POB account in December 2007 to fund POB payments. With the issuance of the Compliance Statement, SDCERS has stopped paying benefits in excess of the 415(b) limits from the SDCERS Trust Fund. Excess benefits will be paid only from the POB Plan.

The most current estimated actuarially accrued liability related to excess benefits for eligible active members of the system, amounting to approximately \$22.8 million, has been excluded from the actuarial valuation of the 401(a) retirement plan beginning in fiscal year 2006 (this liability is estimated to be approximately \$30.4 million in the fiscal year 2007 actuarial valuation). Additionally, the liability for retired members of the Preservation of Benefit Plan, amounting to approximately \$6.4 million, has been excluded from the fiscal year 2007 actuarial valuation of the 401(a) retirement plan. Accordingly, the

liability related to excess benefits for retired members is reflected in the actuarial liabilities of the 401(a) plan in the actuarial valuation dated June 30, 2006 as well as in the ARC payable in fiscal year 2008.

In fiscal year 2005, costs related to the Preservation of Benefit Plan for both retired and active members are included in the actuarial liabilities presented in the Required Supplementary Information (RSI) for the City's core pension plan and are valued using the same set of assumptions. In a review of the financial statements of other local governments, the City has noted significant diversity of practice in how governments are accounting for QEBAs. As such, the City is in the process of implementing a plan to account for the QEBA with SDCERS.

#### City Attorney Concerns with Pension System

The City Attorney has concluded that, in his opinion, the excess retirement benefits referenced above, require voter approval as such benefits constitute a distinct pension plan not authorized under the City Charter. Therefore, it is also his opinion that the excess retirement benefits are illegal and that the City should immediately discontinue payment. Other members of management believe that this issue has yet to be resolved in court related to lawsuits previously filed by the City Attorney. As such, the City intends to continue to treat these benefits as legal obligations until instructed to do otherwise by a court. In the opinion of management, a decision to terminate such benefits would expose the City's residents to unnecessary and costly legal fees.

In addition, the City Attorney has written to the Internal Revenue Service, in letters dated September 13, 2007, October 3, 2007 and November 6, 2007, expressing his concerns that the pension plan in its current form violates various provisions of the City Charter and the City Municipal Code, and that such violations could jeopardize the status of SDCERS as a qualified governmental defined benefit plan. In addition to matters identified elsewhere in these notes and the IRS Compliance Statement, set forth below are additional concerns raised in such letters or in other public pronouncements of the City Attorney:

1. DROP: The City Attorney has alleged that the DROP program, as discussed in Note 12, is not currently operated on a neutral cost basis. Municipal Code section 24.1401(b) provides that "DROP is intended to be cost neutral." In DROP, the employee's retirement benefit calculation is fixed as of the date of participation and they continue to work for the City up to five years, while their monthly pension benefit is deposited into an individual account held by SDCERS.<sup>1</sup>
2. Purchase of Service Credit Program: Employees hired before July 1, 2005 were permitted to buy pensionable years' service credit below cost; however, such program was also intended to be cost neutral as reflected in a City Manager memorandum to the Council at the time Council approved such program.<sup>1</sup>
3. Term Limit: Elected officials are permitted to buy pensionable years' service credit in excess of the time they are permitted to serve under section 12(f) of the City Charter (two consecutive four-year terms).<sup>2</sup>
4. Pension Plan Vesting Requirement: Employees were allowed credit for pension years purchased below cost to satisfy the retirement plan's 10 year vesting requirement. In relation to non-public safety employees, the Charter provides that "No employee shall be retired before reaching the age of 62 years and before completing 10 years of service for which payment has been made, except such employees may be given the option to retire at the age

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<sup>1</sup> As of issuance of this report, these matters are currently on appeal to the California Court of Appeals, Fourth District, and the parties are presently waiting to be apprised of the briefing schedule by the court.

<sup>2</sup> As of issuance of this report, this concern has not been involved in any type of litigation

of 55 years after 20 years of service for which payment has been made with a proportionally reduced allowance".<sup>1</sup>

5. Retirement Age: Non-public safety Employees were permitted to use pension years purchased below cost to retire at 55 rather than 62, without regard to whether they have 20 years of service.<sup>1</sup>

Other members of management believe that the legal status of these matters has not been definitively determined and do not raise IRS qualification issues. Furthermore, other members of management note that while the IRS was made aware of these issues prior to issuing the compliance statement discussed earlier in the note, to date the IRS has not determined to take any action regarding the issues alleged by the City Attorney.

#### California Regional Water Quality Board Administrative Proceeding

The City is in an on-going administrative proceeding before the California Regional Water Quality Control Board (RWQCB) where it has been alleged that the City, along with eight other entities, have contributed to polluting San Diego Bay, a condition which requires abatement. The allegations relate to current and historic discharges of urban runoff into Chollas Creek, which drains into the San Diego Bay. The City has retained consultants to assess the available data and therefore it is difficult to determine likelihood of an unfavorable outcome. However, the RWQCB has estimated that remediation costs could range between \$900 and \$122,000 depending on the remedy selected, and the City would have a yet-to-be determined share of those remediation costs if an unfavorable outcome were to happen.

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<sup>1</sup> As of issuance of this report, these matters are currently on appeal to the California Court of Appeals, Fourth District, and the parties are presently waiting to be apprised of the briefing schedule by the court.



**19. THIRD PARTY DEBT (In Thousands)**

The City has authorized the issuance of certain conduit revenue private activity bonds, in its name, to provide tax exempt status because it believes a substantial public benefit will be achieved through the use of the proceeds. Aside from the fact that these bonds have been issued in the City's name, the City has no legal obligation to make payment on these bonds and has not pledged any City assets as a guarantee to the bondholders. The following describes the various types of such third party debt:

Mortgage and Revenue Bonds

Single family mortgage revenue bonds have been issued to provide funds to purchase mortgage loans secured by first trust deeds on newly constructed and existing single-family residences. The purpose of this program is to provide low interest rate home mortgage loans to persons of low or moderate income who are unable to qualify for conventional mortgages at market rates. Multi-family housing revenue bonds are issued to provide construction and permanent financing to developers of multi-family residential rental projects located in the City to be partially occupied by persons of low income.

Industrial Development Revenue Bonds

Industrial Development Revenue bonds have been issued to provide financial assistance for the acquisition, construction, and installation of privately-owned facilities for industrial, commercial or business purposes to mutually benefit the citizens of the City of San Diego.

1911 Act Special Assessment Bonds

1911 Act Special Assessment Bonds have been issued to provide funds for the construction or acquisition of public improvements, and/or the acquisition of property for public purposes, for the benefit of particular property holders within the City. Each bond is secured by a lien on a specific piece of property. The final payment on all outstanding 1911 Act Special Assessment Bonds occurred on December 27, 2005, accordingly, there was no balance outstanding as of June 30, 2006.

As of June 30, 2006, the status of all third party bonds issued is as follows (in thousands):

	Original Amount	Balance June 30, 2006
Mortgage Revenue	\$ 132,390	\$ 33,320
Industrial Development Revenue	345,805	161,240
1911 Act Special Assessment	236	-
Total	<u>\$ 478,431</u>	<u>\$ 194,560</u>

These bonds do not constitute an indebtedness of the City. The bonds are payable solely from payments made on and secured by a pledge of the acquired mortgage loans, certain funds and other monies held for the benefit of the bondholders pursuant to the bond indentures, property liens and other loans. In reliance upon the opinion of bond counsel, City officials have determined that these bonds are not payable from any revenues or assets of the City, and neither the full faith nor credit for the taxing authority of the City, the state, or any political subdivision thereof is obligated to the payment of principal or interest on the bonds. In essence, the City is acting as a conduit for the private property owners/bondholders in collecting and forwarding the funds. Accordingly, no liability has been recorded in the City's government-wide statement of net assets.



**20. CLOSURE AND POST CLOSURE CARE COST (In Thousands)**

State and federal laws and regulations require that the City of San Diego place a final cover on its Miramar Landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and post closure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of these closure and post closure care costs as an operating expense in each period based on landfill capacity used as of each financial statement date.

The \$14,811 reported as landfill closure and post closure care liability at June 30, 2006 represents the cumulative amount reported to date based on the use of 81.6% of the estimated capacity of the landfill.

The City will recognize the remaining estimated cost of closure and post closure care of \$3,294 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure care at June 30, 2006. The City expects to close the landfill in fiscal year 2012. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

The City is required by state and federal laws and regulations to make annual contributions to finance closure and post-closure care. The City is in compliance with these requirements and at June 30, 2006, cash or equity in pooled cash and investments of \$31,814 was held for this purpose. This is reported as restricted assets on the statement of net assets in the Environmental Services Fund. The City expects that future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional post-closure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be paid by charges to future landfill users or from other sources.

**21. OPERATING AGREEMENTS (In Thousands)**San Diego Data Processing Corporation and Automated Regional Justice Information System

On October 22, 2001, SDDPC renewed its fiscal year 2002 agreement with a joint powers agency known as the Automated Regional Justice Information System ("ARJIS") whose main purpose is to pursue development of computerized law enforcement systems in the region.

Under the agreement, SDDPC is to provide data processing services to ARJIS at rates which, on an annual basis, are equivalent to those charged to other governmental entity clients. Included in SDDPC's data processing services revenue is approximately \$2,624 related to ARJIS for the year ended June 30, 2006.

City of San Diego and San Diego Medical Services Enterprise, LLC

On July 1, 1997, the City entered into an operating agreement with Rural/Metro Corporation, a provider of emergency medical transport services, to form San Diego Medical Services Enterprise, LLC (SDMSE) for the purpose of providing the City with emergency medical and medical transportation services. The operating agreement and related contracts to provide such services were renewed on July 1, 2002 and again on July 1, 2005. The operating agreement will expire on June 30, 2008 unless SDMSE is awarded a new contract after a competitive bidding process. SDMSE made a profit distribution to its partners of \$455 during fiscal year 2006.

City of San Diego and Padres L.P.

On February 1, 2000, the City entered into a Joint Use and Management Agreement (Agreement) with the San Diego Padres baseball team (Padres) governing the rights and duties of the City and Padres with respect to the use and operation of the new Petco Park Ballpark Facility (Facility). The Facility was completed and operational in April 2004. The City and Padres jointly own the facility; the Padres having a 30% divided interest based upon the original Facility cost estimate of \$267,500 (or \$80,250) with the City owning 70% which is capitalized on the City's books. The City and the Padres have agreed upon the schedule of items and components that constitute the Padres' divided ownership, and the value of that divided ownership may vary from (but does not exceed) 30% due to the calculation of cost overruns for the Ballpark. Following termination of any occupancy agreement for the Ballpark, the Padres' ownership interest will automatically transfer to the City. Under the terms of the Agreement, the Padres are responsible for Facility operation and management, including maintenance, repairs and security required to preserve its condition. The City is responsible for paying certain expenses associated with the operation and maintenance of the Facility, up to a maximum of \$3,500 per year, subject to certain inflationary adjustments.

**22. SUBSEQUENT EVENTS (In Thousands)**

On July 3, 2006, the City privately placed a fiscal year 2006-2007 Tax Revenue Anticipation Note in an amount not to exceed \$142,000, to meet certain general fund cash flow needs of the City. The fiscal year 2006-2007 Tax Revenue Anticipation Note was repaid in August 2007.

On July 13, 2006, the City issued, on a private placement basis, \$16,000 of Community Facilities District No. 3 Special Tax Bonds to finance public improvements required in connection with the district. The Series 2006 A bonds were issued pursuant to the Mello-Roos Community Facilities Act of 1982 and are limited obligations of the district. The bonds were structured as five term bonds, and were issued on a fixed rate basis. The fixed rate on the term bonds range from 5.0% to 5.75%, and the final maturity date is September 1, 2036.

On August 6, 2006 a lawsuit was filed following a water main break which caused flooding along a private street in the Colony Hills Homeowners Association (HOA) in La Jolla. Claimants allege the water main failure caused soil subsidence, hillside failure, road failure and diminished property values of 40 HOA homes. In the event of an adverse ruling, the liability facing the City is estimated to be in the range of \$0 - \$40,000.

On August 6, 2006 a lawsuit arose following a traffic accident between plaintiffs and a San Diego Police officer. In the event of an adverse ruling, the liability facing the City is estimated to be in the range of \$0 - \$1,500.

On October 17, 2006, the City Council authorized the 2<sup>nd</sup> and 3<sup>rd</sup> Amendments to the Master Lease Agreement with Banc of America Leasing and Capital, LLC. The 2<sup>nd</sup> Amendment to the Master Lease Agreement authorizes the lease-purchase of Motive Equipment in an amount not to exceed \$6,800. The 3<sup>rd</sup> Amendment to the Master Lease Agreement authorizes the lease-purchase of Fire Apparatus in an amount not to exceed \$2,550.

On October 2, 2006, Ace Properties entered into an inverse condemnation case against the City of San Diego. In the event of an adverse ruling, the liability facing the City is estimated to be in the range of \$0 - \$3,000.

On October 31, 2006, the Redevelopment Agency of the City of San Diego issued a non-revolving line of credit with Bank of America, N.A. for an aggregate amount of \$10,000, comprised of a tax-exempt commitment of \$7,534 and a taxable commitment of \$2,466. The line of credit is to be used to refinance the North Park Theatre, to pay sums of settlement of eminent domain actions relating to the North Park Redevelopment Area and for other redevelopment activities in the North Park Redevelopment Area. The interest rate on the tax-exempt advances will be at a rate per year equal to 62.347% of the LIBOR Rate plus .90% and the interest rate on the taxable advances will be at a rate per year equal to the LIBOR Rate plus 1.20%, unless the Agency elects to have any of the tax-exempt or taxable advances bear interest at a rate based on the Bank's Prime Rate. The maturity date will be November 1, 2008, unless the Agency issues bonds, notes or other obligations for the North Park Project Area prior to the maturity date.

On December 1, 2006, the Governmental Accounting Standards Board issued GASB 49. Reflecting its intention to ensure that costs and liabilities not specifically addressed by current governmental accounting standards are included in financial reports, the GASB issued a standard that will require state and local governments to provide the public with more extensive information about the financial impact of environmental cleanups effective for financial statements issued for fiscal year 2009. The City has not at this time determined the impact of this accounting standard on its financial statements.

On January 9, 2007, the City Council authorized the Mayor to execute a fifteen-year loan agreement with the California Energy Resources Conservation and Development Commission in the amount of \$2,227 at the rate of 4.5% interest, to upgrade mechanical and electrical systems at multiple City facilities to more energy efficient systems. The effective

date of the loan agreement or the date that the loan agreement was executed by both parties was March 3, 2007.

On January 30, 2007, the Public Facilities Financing Authority of the City of San Diego issued, on a private placement basis, \$57,000 of Non-Transferable Subordinated Water Revenue Notes to finance upgrades to and expansion of the City's water system and to reimburse for previous costs incurred. The Series 2007A Notes are secured by and payable solely from net system revenues of the Water Utility Fund. The 2007A Notes bear an interest rate of 4.06%, and the maturity date is January 30, 2009.

On March 7, 2007, Grace Church of North County filed a claim against the City alleging State and Federal constitutional violations arising from the City's approval of a five year permit instead of the requested ten year permit. In the event of an adverse ruling, the liability facing the City is estimated to be in the range of \$0 – \$2,000.

On March 12, 2007, the Public Facilities Financing Authority of the City of San Diego issued, on a private placement basis, \$156,560 of Lease Revenue Refunding Bonds to refund the existing Public Facilities Financing Authority Ballpark Lease Revenue Bonds, Series 2002. The Series 2007A Bonds are secured by and payable solely from base rental payments payable under the Ballpark Facility Lease. Such base rental payments are a general fund obligation of the City. The interest rates range from 5.0% to 5.25%, and the final maturity date is February 15, 2032.

On March 21, 2007, the City received a State Revolving Fund Loan disbursement from the State of California Water Resources Control Board totaling \$3,858 for the Point Loma Fourth Sludge Pump Modifications Project. The repayment period for the loan is 20 years, which begins one year after the completion of the project. The City is required to provide a 16.667% match for the loan, resulting in an effective interest rate of 2.42%.

On March 27, 2007, the Council authorized a Master Lease Agreement with Koch Financial Corporation for the lease-purchase of Motive Equipment and Public Safety Equipment in an amount not to exceed \$14,600.

On May 7, 2007, the Public Facilities Financing Authority of the City of San Diego issued, on a private placement basis, \$223,830 of Subordinate Sewer Revenue Notes, Series 2007 to finance and reimburse for previous costs incurred from upgrades to the City's sewer system and to refund the outstanding balance on the Series 2004 Subordinated Bonds in the amount of \$144,400. The Series 2007 Notes are secured by and payable solely from net system revenues of the Sewer Utility Fund. The notes bear an interest rate of 5.00%, and the maturity date is May 15, 2009.

On May 15, 2007, the Council authorized a Master Lease Agreement with IBM Credit LLC for the lease-purchase of the Enterprise Resource Planning System in an amount not to exceed \$29,500.

On July 2, 2007, the City privately placed a fiscal year 2007-2008 Tax Revenue Anticipation Note in an amount not to exceed \$116,000 to meet general fund cash flow needs of the City. The City borrowed \$116,000 on July 2, 2007 on a 13 month term.

On July 12, 2007, the Public Facilities Financing Authority issued \$17,230 Series 2007A taxable pooled financing bonds for Southcrest, Central Imperial and Mount Hope Redevelopment Projects and \$17,755 Series 2007B tax-exempt pooled financing Bonds for Southcrest and Central Imperial Redevelopment Projects. The Series A and Series B together were issued to make loans to the Redevelopment Agency of the City of San Diego to be used for financing and refinancing redevelopment activities in the Southcrest, Central Imperial and Mount Hope Redevelopment Project Areas. The issuance was through a public offering. The Series 2007 A and 2007 B Bonds are secured by a Loan Agreement and a Second Supplemental Trust Agreement (Central Imperial Redevelopment Project Area) and a Third Supplemental Trust Agreement (Southcrest Redevelopment Project Area) and a Fourth Supplemental Trust Agreement (Mount Hope Redevelopment Area) and are payable solely from the tax increment revenues derived from

each project area. The fixed rate on the term bonds range from 4.0% to 6.65%, and the final maturity date is October 1, 2037.

On July 26, 2007, the Redevelopment Agency of the City of San Diego executed six separate non-revolving secured three-year term taxable and tax-exempt lines of credit with San Diego National Bank. Four taxable lines of credit are for affordable housing in North Park, City Heights, North Bay and Naval Training Center (NTC) Redevelopment Project Areas for an aggregate of \$34,000. The two additional lines of credit are for non-housing or general purpose for City Heights, which is a taxable line of credit of \$20,000 and NTC Redevelopment Project, which is taxable for \$6,000 and tax-exempt for \$10,000. The Agency may elect to have the taxable advance bear interest at a fixed rate equal to the United States Three-Year Treasury Constant Maturities Index plus 1.90%, which will remain fixed for the entire period of such advance or elect to have the interest set at a fixed rate equal to the One-Month LIBOR Rate plus 1.10%. Tax-exempt advances will bear interest at a fixed rate determined by adding .70% to the product of the One-Month LIBOR Rate multiplied by 90%. Interest will be payable quarterly in arrears along with a .45% per annum loan fee on the unused commitment. Principal is due at maturity with no prepayment penalty.

On September 28, 2007, several current firefighters for the City of San Diego filed suit against the City of San Diego Fire Department alleging sexual harassment, failure to prevent harassment, retaliation, emotional distress and violation of freedom of speech experienced during the 2007 Gay Pride Parade in San Diego. In the event of an adverse ruling, the liability facing the City is estimated to be in the range of \$0 - \$3,000.

On October 3, 2007 there was a landslide in La Jolla on Soledad Mountain Road. The cause of the landslide is under investigation by a geological consulting group, and has not been identified as of the issuance of this report.

On October 21, 2007, multiple wild fires began burning throughout the county of San Diego. Fueled by dry Santa Ana winds, these fires prompted the evacuation of an estimated 500,000 residents. As of the issuance of this report, the City estimates that the fire related costs are approximately \$24,000. The City has received cash advances of \$4,800 to reimburse a portion of these costs and expects to receive additional reimbursements from federal and state agencies and other sources ranging from \$0 - \$16,000.

On January 18, 2008, the City Council approved, by majority vote, to enter into a plan to pre-fund expenses related to other post employment benefits. The plan, administered by CalPERS, requires the City to pre-fund the plan in an amount not less than \$5,000 annually; however, the City intends to make annual contributions to the plan in an amount not less than 50% of the Annual Required Contribution, as calculated by an actuary of the City's choice.

On February 28, 2008, the Public Facilities Financing Authority of the City of San Diego issued, on a private placement basis, \$150,000 of Subordinated Water Revenue Notes to finance the acquisition and construction of the City's water system and to reimburse for previous costs incurred. The Series 2008A Notes are secured by and payable solely from net system revenues of the Water Utility Fund. The 2008A Notes bear an interest rate of 3.28%, and the maturity date is August 28, 2009.

**Required Supplementary Information  
(Unaudited)  
Pension Trust Funds Analysis of Funding Progress**

The following table shows the funding progress of the full City's portion of SDCERS (excluding the Port and the Airport) for the last three fiscal years (in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability ** PUC * (b)	UAAL ** (b - a)	Funded Ratio ** (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
6/30/2004	\$ 2,628,680	\$ 4,077,833	\$ 1,449,153	64.46%	\$ 540,181	268.27%
6/30/2005	2,983,080	4,436,017	1,452,937	67.25%	557,631	260.56%
6/30/2006	3,981,932	4,982,700	1,000,768	79.92%	534,103	187.37%

\* Projected Unit Credit method used for determining actuarial accrued liability.

\*\* For fiscal years 2004 and 2005, the actuarial accrued liability, UAAL, and funded ratio have been adjusted to reflect the impact of the Corbett contingent benefit. The Actuarial Valuations provided by the actuary for these years do not include this contingent benefit in the funded ratio. However, the valuation prepared by the actuary for fiscal year 2006 does include the impact of the Corbett contingent benefit.

## REQUIRED SUPPLEMENTARY INFORMATION - GENERAL FUND

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## GENERAL FUND

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

General fund revenues are derived from such sources as: Taxes; Licenses and Permits; Fines, Forfeitures, and Penalties; Use of Money and Property; Aid from Other Governmental Agencies; Charges for Current Services; and Other Revenue.

Current expenditures and encumbrances are classified by the functions of: General Government and Support; Public Safety–Police; Public Safety–Fire and Life Safety; Parks, Recreation, Culture and Leisure; Transportation; Sanitation and Health; Neighborhood Services; and Debt Service Principal and Interest. Appropriations are made from the fund annually.

**GENERAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL (BUDGETARY BASIS)**  
**YEAR ENDED JUNE 30, 2006**  
(In Thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>REVENUES</b>				
Property Tax .....	\$ 290,917	\$ 308,938	\$ 322,087	\$ 13,149
Sales Tax .....	150,230	150,570	110,556	(40,014)
In-Lieu Sales Tax .....	-	-	45,433	45,433
Transient Occupancy Tax .....	67,337	67,337	72,126	4,789
Other Local Taxes .....	78,395	78,396	72,102	(6,294)
Licenses and Permits .....	28,757	29,350	31,913	2,563
Fines, Forfeitures and Penalties .....	32,126	32,126	32,346	220
Revenue from Use of Money and Property .....	32,386	34,523	35,872	1,349
Revenue from Federal Agencies .....	802	4,641	3,755	(886)
Revenue from Other Agencies .....	16,434	16,434	12,594	(3,840)
Charges for Current Services .....	87,266	88,109	91,514	3,405
Other Revenue .....	13,126	3,196	2,864	(332)
<b>TOTAL REVENUES</b> .....	<u>797,776</u>	<u>813,620</u>	<u>833,162</u>	<u>19,542</u>
<b>EXPENDITURES</b>				
Current:				
General Government and Support .....	188,407	197,417	190,117	7,300
Public Safety - Police .....	338,219	339,952	339,289	663
Public Safety - Fire and Life Safety and Homeland Security .....	162,219	171,316	170,459	857
Parks, Recreation, Culture and Leisure .....	116,426	115,247	111,096	4,151
Transportation .....	23,859	24,814	24,207	607
Sanitation and Health .....	44,069	43,450	42,909	541
Neighborhood Services .....	17,768	20,955	20,488	467
Debt Service:				
Principal Retirement .....	2,956	2,504	2,504	-
Interest .....	2,000	2,509	3,416	(907)
<b>TOTAL EXPENDITURES</b> .....	<u>895,923</u>	<u>918,164</u>	<u>904,485</u>	<u>13,679</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b> .....	<u>(98,147)</u>	<u>(104,544)</u>	<u>(71,323)</u>	<u>33,221</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers from Proprietary Funds .....	3,527	2,280	2,989	709
Transfers from Other Funds .....	58,851	68,970	71,672	2,702
Transfers to Proprietary Funds .....	(9,110)	(246)	(246)	-
Transfers to Other Funds .....	(7,048)	(21,936)	(21,946)	-
Net Income from Joint Venture .....	-	-	522	522
<b>TOTAL OTHER FINANCING SOURCES (USES)</b> .....	<u>46,220</u>	<u>49,068</u>	<u>52,991</u>	<u>3,933</u>
<b>NET CHANGE IN FUND BALANCE</b> .....	<u>(51,927)</u>	<u>(55,476)</u>	<u>(18,332)</u>	<u>37,154</u>
Fund Balance Undesignated at July 1, 2005 .....	41,593	41,593	41,593	-
Reserved for Encumbrances at July 1, 2005 .....	15,659	15,659	15,659	-
Reserved for Minority Interest in Joint Venture at July 1, 2005 .....	-	-	1,542	1,542
Reserved for Minority Interest in Joint Venture at June 30, 2006 .....	-	-	(2,063)	(2,063)
Designated for Subsequent Years' Expenditures at July 1, 2005 .....	1,954	1,954	1,954	-
Designated for Subsequent Years' Expenditures at June 30, 2006 .....	-	-	(469)	(469)
<b>FUND BALANCE UNDESIGNATED AT JUNE 30, 2006</b> .....	<u>\$ 7,279</u>	<u>\$ 3,730</u>	<u>\$ 39,884</u>	<u>\$ 36,164</u>

The accompanying note is an integral part of the financial statements.

## Note to Required Supplementary Information Year Ended June 30, 2006

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### a. Budgetary Data

On or before the first meeting in May of each year, the City Manager submits to the City Council a proposed operating and capital improvements budget for the fiscal year commencing July 1. This budget includes annual budgets for the following funds:

- **General Fund**
- **Special Revenue Funds:**
  - City of San Diego:
    - Acquisition, Improvement and Operation
    - Environmental Growth Funds:
      - Two-Thirds Requirement
      - One-Third Requirement
    - Police Decentralization
    - Public Transportation
    - Qualcomm Stadium Operations
    - Special Gas Tax Street Improvement
    - Street Division Operations
    - Transient Occupancy Tax
    - Zoological Exhibits
    - Other Special Revenue
  - Centre City Development Corporation
  - Southeastern Economic Development Corporation
- **Debt Service Funds:**
  - City of San Diego:
    - Public Safety Communications Project
  - San Diego Open Space Park Facilities District #1
- **Capital Projects Funds:**
  - City of San Diego:
    - Underground Surcharge

Public hearings are then conducted to obtain citizen comments on the proposed budget. During the month of July the budget is legally adopted through passage of an appropriation ordinance by the City Council. Budgets are prepared on the modified accrual basis of accounting except that (1) encumbrances outstanding at year-end are considered expenditures and (2) the increase/decrease in reserve for advances and deposits to other funds and agencies are considered as additions/deductions of expenditures. The City budget is prepared excluding unrealized gains or losses resulting from the change in fair value of investments, proceeds from capital leases, and net income from joint venture.

The legal level of budgetary control for the City's general fund is exercised at the salaries and wages and non-personnel expenditures level. Budgetary control for the other budgeted funds, including those of certain component units, is maintained at the total fund appropriation level. All amendments to the adopted budget require City Council approval except as delegated in the Annual Appropriation Ordinance.

Reported budget figures are as originally adopted or subsequently amended plus prior year continuing appropriations. Such budget amendments during the year, including those related to supplemental appropriations, did not cause these reported budget amounts to be significantly different than the originally adopted budget amounts. Appropriations lapse at year-end to the extent that they have not been expended or encumbered, except for those of a capital nature, which continue to subsequent years.

The following is a reconciliation of the net change in fund balance prepared on a GAAP basis to that prepared on the budgetary basis for the year ended June 30, 2006 (in thousands):

	General Fund
Net Change in Fund Balances - GAAP Basis	\$ 593
Add (Deduct):	
Encumbrances Outstanding, June 30, 2006	(18,916)
Reserved for Advances and Deposits, June 30, 2006	(309)
Reserved for Advances and Deposits, June 30, 2005	300
Net Change in Fund Balances - Budgetary Basis	<u>\$ (18,332)</u>

**b. Encumbrances**

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

Encumbrances outstanding at year-end are reported as reservations of fund balances, since the commitments will be honored through subsequent years' continuing appropriations. Encumbrances do not constitute expenditures or liabilities for GAAP reporting purposes.

## SUPPLEMENTARY INFORMATION - GENERAL FUND

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**GENERAL FUND  
SCHEDULE OF REVENUE AND TRANSFERS  
BUDGET AND ACTUAL (BUDGETARY BASIS)  
YEAR ENDED JUNE 30, 2006  
(In Thousands)**

	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
<b>PROPERTY TAX</b>					
One Percent Property Tax Allocation .....	\$ -	\$ -	\$ -	\$ 308,465	\$ (308,465)
Current Year - Secured .....	205,077	-	205,077	-	205,077
Current Year Supplemental - Secured .....	21,973	-	21,973	-	21,973
Current Year - Unsecured .....	8,258	-	8,258	-	8,258
Current Unsecured Supplemental Roll .....	391	-	391	-	391
Homeowners' Exemptions - Secured .....	2,797	-	2,797	-	2,797
Homeowners' Exemptions - Unsecured .....	2	-	2	-	2
Prior Years' - Secured .....	6,942	-	6,942	473	6,469
Prior Years' - Unsecured .....	(15)	-	(15)	-	(15)
In-Lieu Vehicle License Fees .....	70,566	-	70,566	-	70,566
Interest and Penalties on Delinquent Taxes .....	699	-	699	-	699
Escapes - Secured .....	166	-	166	-	166
Escapes - Unsecured .....	414	-	414	-	414
Other Property Taxes .....	1,148	-	1,148	-	1,148
State Secured Unitary .....	3,669	-	3,669	-	3,669
<b>TOTAL PROPERTY TAX .....</b>	<b>322,087</b>	<b>-</b>	<b>322,087</b>	<b>308,938</b>	<b>13,149</b>
<b>SALES TAX .....</b>	<b>110,556</b>	<b>-</b>	<b>110,556</b>	<b>150,570</b>	<b>(40,014)</b>
<b>IN-LIEU SALES TAX .....</b>	<b>45,433</b>	<b>-</b>	<b>45,433</b>	<b>-</b>	<b>45,433</b>
<b>TRANSIENT OCCUPANCY TAX .....</b>	<b>72,126</b>	<b>-</b>	<b>72,126</b>	<b>67,337</b>	<b>4,789</b>
<b>OTHER LOCAL TAXES</b>					
Franchises .....	60,390	-	60,390	63,490	(3,100)
Property Transfer Tax .....	11,712	-	11,712	14,906	(3,194)
<b>TOTAL OTHER LOCAL TAXES .....</b>	<b>72,102</b>	<b>-</b>	<b>72,102</b>	<b>78,396</b>	<b>(6,294)</b>
<b>LICENSES AND PERMITS</b>					
General Business Licenses .....	7,689	-	7,689	7,381	308
Refuse Collection Business Licenses .....	1,837	-	1,837	865	972
Other Regulatory Business Licenses .....	3,580	-	3,580	3,358	222
Rental Unit Tax .....	7,372	-	7,372	6,397	975
Parking Meter Revenue .....	7,123	-	7,123	7,417	(294)
Street and Curb Permits .....	103	-	103	126	(23)
Other Licenses and Permits .....	4,209	-	4,209	3,806	403
<b>TOTAL LICENSES AND PERMITS .....</b>	<b>31,913</b>	<b>-</b>	<b>31,913</b>	<b>29,350</b>	<b>2,563</b>
<b>FINES, FORFEITURES AND PENALTIES</b>					
California Vehicle Code Violations .....	28,338	-	28,338	27,666	672
Other City Ordinance Code Violations .....	4,007	-	4,007	4,460	(453)
Other California Statutory Violations .....	1	-	1	-	1
<b>TOTAL FINES, FORFEITURES AND PENALTIES .....</b>	<b>32,346</b>	<b>-</b>	<b>32,346</b>	<b>32,126</b>	<b>220</b>
<b>REVENUE FROM USE OF MONEY AND PROPERTY</b>					
Interest on Investments .....	1,307	-	1,307	3,337	(2,030)
Balboa Park Rents and Concessions .....	789	-	789	578	211
Mission Bay Park Rents and Concessions .....	26,978	-	26,978	22,950	4,028
Other Rents and Concessions .....	6,798	-	6,798	7,658	(860)
<b>TOTAL REVENUE FROM USE OF MONEY AND PROPERTY .....</b>	<b>35,872</b>	<b>-</b>	<b>35,872</b>	<b>34,523</b>	<b>1,349</b>
<b>REVENUE FROM FEDERAL AGENCIES .....</b>	<b>3,755</b>	<b>-</b>	<b>3,755</b>	<b>4,641</b>	<b>(886)</b>

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**GENERAL FUND  
SCHEDULE OF REVENUE AND TRANSFERS  
BUDGET AND ACTUAL (BUDGETARY BASIS)  
YEAR ENDED JUNE 30, 2006  
(In Thousands)**

	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
<b>REVENUE FROM OTHER AGENCIES</b>					
State Motor Vehicle License Fees .....	\$ 8,817	\$ -	\$ 8,817	\$ 9,517	\$ (700)
Off-Highway Motor Vehicle License Fees .....	49	-	49	-	49
Local Relief .....	230	-	230	5,303	(5,073)
Tobacco Revenue .....	114	-	114	-	114
State Grants .....	3,384	-	3,384	1,614	1,770
<b>TOTAL REVENUE FROM OTHER AGENCIES .....</b>	<b>12,594</b>	<b>-</b>	<b>12,594</b>	<b>16,434</b>	<b>(3,840)</b>
<b>CHARGES FOR CURRENT SERVICES</b>					
Administrative Services to Other Agencies .....	44	-	44	27	17
Cemetery Revenue .....	795	-	795	905	(110)
Engineering Services .....	416	-	416	805	(389)
Fire Services .....	11,004	-	11,004	11,036	(32)
Library Revenue .....	1,485	-	1,485	1,238	247
Miscellaneous Recreation Revenue .....	3,043	-	3,043	3,047	(4)
Other Services .....	455	-	455	487	(32)
Paramedic Services .....	149	-	149	170	(21)
Planning and Miscellaneous Filing Fees .....	349	-	349	258	91
Police Services .....	6,446	-	6,446	5,188	1,258
Swimming Pools Revenue .....	1,319	-	1,319	1,816	(497)
Services Rendered to Other Funds for:					
General Government and Financial .....	31,868	-	31,868	36,200	(4,332)
Engineering .....	22,054	-	22,054	18,302	3,752
Park Design .....	3,967	-	3,967	2,920	1,047
Miscellaneous Services .....	8,120	-	8,120	5,710	2,410
<b>TOTAL CHARGES FOR CURRENT SERVICES .....</b>	<b>91,514</b>	<b>-</b>	<b>91,514</b>	<b>88,109</b>	<b>3,405</b>
<b>OTHER REVENUE</b>					
Other Refunds of Prior Years' Expenditures .....	564	-	564	235	329
Repairs and Damage Recoveries .....	244	-	244	82	162
Sale of Personal Property .....	210	-	210	135	75
Miscellaneous Revenue .....	1,846	-	1,846	2,744	(898)
<b>TOTAL OTHER REVENUE .....</b>	<b>2,864</b>	<b>-</b>	<b>2,864</b>	<b>3,196</b>	<b>(332)</b>
<b>TOTAL REVENUES .....</b>	<b>833,162</b>	<b>-</b>	<b>833,162</b>	<b>813,620</b>	<b>19,542</b>
<b>TRANSFERS FROM PROPRIETARY FUNDS</b>					
Enterprise Funds:					
City of San Diego:					
Environmental Services .....	63	-	63	-	63
Golf Course .....	1,622	-	1,622	1,622	-
Internal Service Funds:					
City of San Diego:					
Central Garage and Machine Shop .....	237	-	237	-	237
Central Stores .....	18	-	18	-	18
Self Insurance .....	953	-	953	-	953
Special Engineering .....	-	-	-	658	(658)
Miscellaneous Internal Service .....	96	-	96	-	96
<b>TOTAL TRANSFERS FROM PROPRIETARY FUNDS .....</b>	<b>2,989</b>	<b>-</b>	<b>2,989</b>	<b>2,280</b>	<b>709</b>



GENERAL FUND  
SCHEDULE OF REVENUE AND TRANSFERS  
BUDGET AND ACTUAL (BUDGETARY BASIS)  
YEAR ENDED JUNE 30, 2006  
(In Thousands)

	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
<b>TRANSFERS FROM OTHER FUNDS</b>					
Special Revenue Funds:					
City of San Diego:					
Acquisition, Improvement, & Operations.....	8	-	8	-	8
Environmental Growth Fund .....	8,567	-	8,567	8,792	(225)
Police Decentralization.....	23	-	23	-	23
Special Gas Tax Street Improvement .....	4,222	-	4,222	4,211	11
Street Division Operations.....	121	-	121	-	121
Transient Occupancy Tax .....	38,599	-	38,599	43,758	(5,159)
Zoological Exhibits.....	31	-	31	-	31
Other Special Revenue-Budgeted .....	7,765	-	7,765	9,518	(1,753)
Grants.....	10	-	10	-	10
Other Special Revenue-Unbudgeted .....	6,909	-	6,909	1,566	5,343
Redevelopment Agency .....	-	-	-	750	(750)
Capital Projects Funds:					
City of San Diego:					
Other Construction .....	5,087	-	5,087	-	5,087
Permanent Funds:					
Cemetery Perpetuity .....	330	-	330	-	330
<b>TOTAL TRANSFERS FROM OTHER FUNDS .....</b>	<b>71,672</b>	<b>-</b>	<b>71,672</b>	<b>68,970</b>	<b>2,702</b>
<b>PROCEEDS FROM CAPITAL LEASES</b>					
Proceeds from Capital Leases .....	5,374	(5,374)	-	-	-
<b>NET INCOME (LOSS) FROM JOINT VENTURE .....</b>	<b>522</b>	<b>-</b>	<b>522</b>	<b>-</b>	<b>522</b>
<b>TOTAL REVENUE AND TRANSFERS .....</b>	<b>\$ 913,719</b>	<b>\$ (5,374)</b>	<b>\$ 908,345</b>	<b>\$ 884,870</b>	<b>\$ 23,475</b>

**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES AND TRANSFERS**  
**BUDGET AND ACTUAL (BUDGETARY BASIS)**  
**YEAR ENDED JUNE 30, 2006**  
**(In Thousands)**

	Current Year				
		Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
	Actual				
GENERAL GOVERNMENT AND SUPPORT					
Departmental:					
Mayor					
Salaries and Wages .....	\$ 1,557	\$ -	\$ 1,557	\$ 1,557	\$ -
Non-Personnel .....	1,021	6	1,027	1,027	-
Total Mayor .....	2,578	6	2,584	2,584	-
City Council District 1					
Salaries and Wages .....	514	-	514	514	-
Non-Personnel .....	336	-	336	336	-
Total City Council District 1 .....	850	-	850	850	-
City Council District 2					
Salaries and Wages .....	493	-	493	493	-
Non-Personnel .....	279	-	279	279	-
Total City Council District 2 .....	772	-	772	772	-
City Council District 3					
Salaries and Wages .....	524	-	524	524	-
Non-Personnel .....	332	-	332	332	-
Total City Council District 3 .....	856	-	856	856	-
City Council District 4					
Salaries and Wages .....	533	-	533	533	-
Non-Personnel .....	351	1	352	352	-
Total City Council District 4 .....	884	1	885	885	-
City Council District 5					
Salaries and Wages .....	449	-	449	449	-
Non-Personnel .....	305	-	305	305	-
Total City Council District 5 .....	754	-	754	754	-
City Council District 6					
Salaries and Wages .....	498	-	498	498	-
Non-Personnel .....	336	-	336	336	-
Total City Council District 6 .....	834	-	834	834	-
City Council District 7					
Salaries and Wages .....	635	-	635	635	-
Non-Personnel .....	380	-	380	380	-
Total City Council District 7 .....	1,015	-	1,015	1,015	-
City Council District 8					
Salaries and Wages .....	486	-	486	486	-
Non-Personnel .....	317	-	317	317	-
Total City Council District 8 .....	803	-	803	803	-
Council Administration					
Salaries and Wages .....	857	-	857	857	-
Non-Personnel .....	531	-	531	531	-
Total Council Administration .....	1,388	-	1,388	1,388	-
City Attorney					
Salaries and Wages .....	21,902	-	21,902	21,903	1
Non-Personnel .....	12,384	66	12,450	12,450	-
Total City Attorney .....	34,286	66	34,352	34,353	1

Prior Year					Total				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,557	\$ -	\$ 1,557	\$ 1,557	\$ -
-	-	-	1	1	1,021	6	1,027	1,028	1
-	-	-	1	1	2,578	6	2,584	2,585	1
-	-	-	-	-	514	-	514	514	-
1	-	1	1	-	337	-	337	337	-
1	-	1	1	-	851	-	851	851	-
-	-	-	-	-	493	-	493	493	-
-	-	-	1	1	279	-	279	280	1
-	-	-	1	1	772	-	772	773	1
-	-	-	-	-	524	-	524	524	-
1	-	1	1	-	333	-	333	333	-
1	-	1	1	-	857	-	857	857	-
-	-	-	-	-	533	-	533	533	-
1	-	1	4	3	352	1	353	356	3
1	-	1	4	3	885	1	886	889	3
-	-	-	-	-	449	-	449	449	-
1	-	1	1	-	306	-	306	306	-
1	-	1	1	-	755	-	755	755	-
-	-	-	-	-	498	-	498	498	-
-	-	-	1	1	336	-	336	337	1
-	-	-	1	1	834	-	834	835	1
-	-	-	-	-	635	-	635	635	-
-	-	-	1	1	380	-	380	381	1
-	-	-	1	1	1,015	-	1,015	1,016	1
-	-	-	-	-	486	-	486	486	-
-	-	-	1	1	317	-	317	318	1
-	-	-	1	1	803	-	803	804	1
-	-	-	-	-	857	-	857	857	-
-	-	-	1	1	531	-	531	532	1
-	-	-	1	1	1,388	-	1,388	1,389	1
-	-	-	-	-	21,902	-	21,902	21,903	1
50	28	78	163	85	12,434	94	12,528	12,613	85
50	28	78	163	85	34,336	94	34,430	34,516	86

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**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES AND TRANSFERS**  
**BUDGET AND ACTUAL (BUDGETARY BASIS)**  
**YEAR ENDED JUNE 30, 2006**  
**(In Thousands)**

	Current Year				Variance with Final Budget Positive (Negative)
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	
Departmental (Continued):					
City Auditor and Comptroller					
Salaries and Wages .....	\$ 6,294	\$ -	\$ 6,294	\$ 6,382	\$ 88
Non-Personnel .....	3,795	74	3,869	3,872	3
Total City Auditor and Comptroller .....	10,089	74	10,163	10,254	91
City Clerk					
Salaries and Wages .....	1,976	-	1,976	2,148	172
Non-Personnel .....	1,477	22	1,499	1,586	87
Total City Clerk .....	3,453	22	3,475	3,734	259
City Manager					
Salaries and Wages .....	761	-	761	761	-
Non-Personnel .....	453	-	453	464	11
Total City Manager .....	1,214	-	1,214	1,225	11
Engineering and Capital Projects - Administration					
Salaries and Wages .....	322	-	322	322	-
Non-Personnel .....	187	6	193	193	-
Total Engineering and Capital Projects - Administration .....	509	6	515	515	-
Field Engineering					
Salaries and Wages .....	8,495	-	8,495	8,553	58
Non-Personnel .....	5,022	24	5,046	5,073	27
Total Field Engineering .....	13,517	24	13,541	13,626	85
Public Buildings & Parks					
Salaries and Wages .....	2,675	-	2,675	2,677	2
Non-Personnel .....	1,608	8	1,616	1,616	-
Total Public Buildings & Parks .....	4,283	8	4,291	4,293	2
Equal Opportunity Contracting					
Salaries and Wages .....	1,372	-	1,372	1,379	7
Non-Personnel .....	886	26	912	1,072	160
Total Equal Opportunity Contracting .....	2,258	26	2,284	2,451	167
Budget and Management Services					
Salaries and Wages .....	1,699	-	1,699	1,699	-
Non-Personnel .....	981	-	981	982	1
Total Budget and Management Services .....	2,680	-	2,680	2,681	1
City Treasurer					
Salaries and Wages .....	4,137	-	4,137	4,137	-
Non-Personnel .....	4,285	777	5,062	5,062	-
Total City Treasurer's .....	8,422	777	9,199	9,199	-
Financing Services					
Salaries and Wages .....	673	-	673	1,602	929
Non-Personnel .....	496	1	497	721	224
Total Financing Services .....	1,169	1	1,170	2,323	1,153
General Services - Administration					
Salaries and Wages .....	202	-	202	202	-
Non-Personnel .....	95	1	96	96	-
Total General Services - Administration .....	297	1	298	298	-
Station 38					
Salaries and Wages .....	339	-	339	346	7
Non-Personnel .....	168	1	169	197	28
Total Station 38 .....	507	1	508	543	35

Prior Year					Total				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,294	\$ -	\$ 6,294	\$ 6,382	\$ 88
12	2	14	19	5	3,807	76	3,883	3,891	8
12	2	14	19	5	10,101	76	10,177	10,273	96
-	-	-	-	-	1,976	-	1,976	2,148	172
39	12	51	62	11	1,516	34	1,550	1,648	98
39	12	51	62	11	3,492	34	3,526	3,796	270
-	-	-	-	-	761	-	761	761	-
-	-	-	-	-	453	-	453	464	11
-	-	-	-	-	1,214	-	1,214	1,225	11
-	-	-	-	-	322	-	322	322	-
-	-	-	13	13	187	6	193	206	13
-	-	-	13	13	509	6	515	528	13
-	-	-	-	-	8,495	-	8,495	8,553	58
32	45	77	123	46	5,054	69	5,123	5,196	73
32	45	77	123	46	13,549	69	13,618	13,749	131
-	-	-	-	-	2,675	-	2,675	2,677	2
21	174	195	199	4	1,629	182	1,811	1,815	4
21	174	195	199	4	4,304	182	4,486	4,492	6
-	-	-	-	-	1,372	-	1,372	1,379	7
1	-	1	5	4	887	26	913	1,077	164
1	-	1	5	4	2,259	26	2,285	2,456	171
-	-	-	-	-	1,699	-	1,699	1,699	-
24	-	24	32	8	1,005	-	1,005	1,014	9
24	-	24	32	8	2,704	-	2,704	2,713	9
-	-	-	-	-	4,137	-	4,137	4,137	-
187	427	614	701	87	4,472	1,204	5,676	5,763	87
187	427	614	701	87	8,609	1,204	9,813	9,900	87
-	-	-	-	-	673	-	673	1,602	929
-	-	-	25	25	496	1	497	746	249
-	-	-	25	25	1,169	1	1,170	2,348	1,178
-	-	-	-	-	202	-	202	202	-
-	-	-	-	-	95	1	96	96	-
-	-	-	-	-	297	1	298	298	-
-	-	-	-	-	339	-	339	346	7
-	-	-	-	-	168	1	169	197	28
-	-	-	-	-	507	1	508	543	35

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**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES AND TRANSFERS**  
**BUDGET AND ACTUAL (BUDGETARY BASIS)**  
**YEAR ENDED JUNE 30, 2006**  
(In Thousands)

	Current Year				Variance with Final Budget Positive (Negative)
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	
Departmental (Continued):					
Facilities Maintenance					
Salaries and Wages .....	\$ 6,617	\$ -	\$ 6,617	\$ 6,620	\$ 3
Non-Personnel .....	9,611	272	9,883	9,883	-
Total Facilities Maintenance .....	16,228	272	16,500	16,503	3
Purchasing					
Salaries and Wages .....	1,129	-	1,129	1,130	1
Non-Personnel .....	723	-	723	753	30
Total Purchasing .....	1,852	-	1,852	1,883	31
Storm Water					
Salaries and Wages .....	1,049	-	1,049	1,080	31
Non-Personnel .....	1,354	1,496	2,850	3,164	314
Total Storm Water .....	2,403	1,496	3,899	4,244	345
Governmental Relations					
Salaries and Wages .....	400	-	400	400	-
Non-Personnel .....	392	5	397	397	-
Total Governmental Relations .....	792	5	797	797	-
Human Resources					
Salaries and Wages .....	540	-	540	544	4
Non-Personnel .....	271	-	271	287	16
Total Human Resources .....	811	-	811	831	20
Organizational Effectiveness Program					
Salaries and Wages .....	382	-	382	382	-
Non-Personnel .....	314	10	324	326	2
Total Organizational Effectiveness Program .....	696	10	706	708	2
Personnel					
Salaries and Wages .....	3,753	-	3,753	3,753	-
Non-Personnel .....	2,303	159	2,462	2,462	-
Total Personnel .....	6,056	159	6,215	6,215	-
Public and Media Affairs					
Salaries and Wages .....	46	-	46	110	64
Non-Personnel .....	61	-	61	100	39
Total Public and Media Affairs .....	107	-	107	210	103
Real Estate Assets					
Salaries and Wages .....	2,143	-	2,143	2,440	297
Non-Personnel .....	1,333	175	1,508	1,539	31
Total Real Estate Assets .....	3,476	175	3,651	3,979	328
Special Projects					
Salaries and Wages .....	514	-	514	652	138
Non-Personnel .....	508	48	556	658	102
Total Special Projects .....	1,022	48	1,070	1,310	240
Citizens Assistance					
Salaries and Wages .....	222	-	222	222	-
Non-Personnel .....	125	-	125	130	5
Total Citizens Assistance .....	347	-	347	352	5

Prior Year					Total				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,617	\$ -	\$ 6,617	\$ 6,620	\$ 3
108	20	128	219	91	9,719	292	10,011	10,102	91
108	20	128	219	91	16,336	292	16,628	16,722	94
-	-	-	-	-	1,129	-	1,129	1,130	1
-	-	-	25	25	723	-	723	778	55
-	-	-	25	25	1,852	-	1,852	1,908	56
-	-	-	-	-	1,049	-	1,049	1,080	31
150	96	246	280	34	1,504	1,592	3,096	3,444	348
150	96	246	280	34	2,553	1,592	4,145	4,524	379
-	-	-	-	-	400	-	400	400	-
1	38	39	70	31	393	43	436	467	31
1	38	39	70	31	793	43	836	867	31
-	-	-	-	-	540	-	540	544	4
-	-	-	-	-	271	-	271	287	16
-	-	-	-	-	811	-	811	831	20
-	-	-	-	-	382	-	382	382	-
-	-	-	-	-	314	10	324	326	2
-	-	-	-	-	696	10	706	708	2
-	-	-	-	-	3,753	-	3,753	3,753	-
87	317	404	404	-	2,390	476	2,866	2,866	-
87	317	404	404	-	6,143	476	6,619	6,619	-
-	-	-	-	-	46	-	46	110	64
-	-	-	-	-	61	-	61	100	39
-	-	-	-	-	107	-	107	210	103
-	-	-	-	-	2,143	-	2,143	2,440	297
1	13	14	90	76	1,334	188	1,522	1,629	107
1	13	14	90	76	3,477	188	3,665	4,069	404
-	-	-	-	-	514	-	514	652	138
85	-	85	100	15	593	48	641	758	117
85	-	85	100	15	1,107	48	1,155	1,410	255
-	-	-	-	-	222	-	222	222	-
-	-	-	-	-	125	-	125	130	5
-	-	-	-	-	347	-	347	352	5

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**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES AND TRANSFERS**  
**BUDGET AND ACTUAL (BUDGETARY BASIS)**  
**YEAR ENDED JUNE 30, 2006**  
(In Thousands)

	Current Year				Variance with Final Budget Positive (Negative)
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	
Departmental (Continued):					
Ethics Commission					
Salaries and Wages .....	\$ 373	\$ -	\$ 373	\$ 425	\$ 52
Non-Personnel .....	209	10	219	245	26
Total Ethics Commission .....	582	10	592	670	78
Total Departmental .....	127,790	3,188	130,978	133,938	2,960
Citywide Program:					
Assessments to Public Property					
Non-Personnel .....	314	35	349	411	62
Citywide Elections					
Non-Personnel .....	1,969	112	2,081	2,598	517
Employee Personal Property Damage					
Non-Personnel .....	4	-	4	5	1
Financial Accounting Systems					
Salaries and Wages .....	69	-	69	69	-
Non-Personnel .....	(20)	19	(1)	170	171
Total Financial Accounting Systems .....	49	19	68	239	171
General Government Printing					
Non-Personnel .....	14	-	14	56	42
Independent Audit					
Non-Personnel .....	318	127	445	445	-
Total Financial Accounting Systems .....	318	127	445	445	-
Insurance					
Non-Personnel .....	1,171	-	1,171	1,414	243
Labor Relations					
Salaries and Wages .....	142	-	142	193	51
Non-Personnel .....	98	-	98	99	1
Total Labor Relations .....	240	-	240	292	52
Management Compensation Plan					
Non-Personnel .....	277	-	277	306	29
Total Management Compensation Plan .....	277	-	277	306	29



Prior Year					Total				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 373	\$ -	\$ 373	\$ 425	\$ 52
-	2	2	3	1	209	12	221	248	27
-	2	2	3	1	582	12	594	673	79
802	1,174	1,976	2,546	570	128,592	4,362	132,954	136,484	3,530
-	-	-	-	-	314	35	349	411	62
-	57	57	58	1	1,969	169	2,138	2,656	518
-	-	-	-	-	4	-	4	5	1
-	-	-	-	-	69	-	69	69	-
-	-	-	-	-	(20)	19	(1)	170	171
-	-	-	-	-	49	19	68	239	171
-	-	-	-	-	14	-	14	56	42
33	392	425	428	3	351	519	870	873	3
33	392	425	428	3	351	519	870	873	3
-	76	76	76	-	1,171	76	1,247	1,490	243
-	-	-	-	-	142	-	142	193	51
-	-	-	-	-	98	-	98	99	1
-	-	-	-	-	240	-	240	292	52
1	-	1	2	1	278	-	278	308	30
1	-	1	2	1	278	-	278	308	30

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**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES AND TRANSFERS**  
**BUDGET AND ACTUAL (BUDGETARY BASIS)**  
**YEAR ENDED JUNE 30, 2006**  
(In Thousands)

	Current Year				Variance with Final Budget Positive (Negative)
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	
Citywide Program (Continued):					
Memberships					
Non-Personnel .....	\$ 604	\$ -	\$ 604	\$ 604	\$ -
Municipal Activities					
Non-Personnel .....	24	-	24	24	-
Property Tax Administration					
Non-Personnel .....	3,088	-	3,088	3,088	-
Public Liability					
Non-Personnel .....	27,526	-	27,526	27,526	-
Public Works Projects					
Salaries and Wages .....	5	-	5	8	3
Non-Personnel .....	394	219	613	620	7
Total Public Works Projects .....	399	219	618	628	10
Random Drug Testing					
Salaries and Wages .....	37	-	37	42	5
Non-Personnel .....	74	61	135	136	1
Total Random Drug Testing .....	111	61	172	178	6
San Diego Geographic Info Source					
Non-Personnel .....	337	132	469	551	82
Total San Diego Geographic Info Source .....	337	132	469	551	82
Space Rental					
Salaries and Wages .....	-	-	-	-	-
Non-Personnel .....	6,710	183	6,893	7,054	161
Total Space Rental .....	6,710	183	6,893	7,054	161
Other Special Projects					
Salaries and Wages .....	453	-	453	474	21
Non-Personnel .....	10,483	399	10,882	12,865	1,983
Total Other Special Projects .....	10,936	399	11,335	13,339	2,004
Total Citywide Program .....	54,091	1,287	55,378	58,758	3,380
<b>TOTAL GENERAL GOVERNMENT AND SUPPORT .....</b>	<b>181,881</b>	<b>4,475</b>	<b>186,356</b>	<b>192,696</b>	<b>6,340</b>

Prior Year					Total				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 604	\$ -	\$ 604	\$ 604	\$ -
-	24	24	24	-	24	24	48	48	-
-	-	-	-	-	3,088	-	3,088	3,088	-
-	-	-	-	-	27,526	-	27,526	27,526	-
-	-	-	-	-	5	-	5	8	3
103	102	205	290	85	497	321	818	910	92
103	102	205	290	85	502	321	823	918	95
-	-	-	-	-	37	-	37	42	5
17	-	17	73	56	91	61	152	209	57
17	-	17	73	56	128	61	189	251	62
2	-	2	2	-	339	132	471	553	82
2	-	2	2	-	339	132	471	553	82
-	-	-	-	-	-	-	-	-	-
23	536	559	650	91	6,733	719	7,452	7,704	252
23	536	559	650	91	6,733	719	7,452	7,704	252
-	-	-	-	-	453	-	453	474	21
281	138	419	572	153	10,764	537	11,301	13,437	2,136
281	138	419	572	153	11,217	537	11,754	13,911	2,157
460	1,325	1,785	2,175	390	54,551	2,612	57,163	60,933	3,770
1,262	2,499	3,761	4,721	960	183,143	6,974	190,117	197,417	7,300

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**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES AND TRANSFERS**  
**BUDGET AND ACTUAL (BUDGETARY BASIS)**  
**YEAR ENDED JUNE 30, 2006**  
(In Thousands)

	Current Year				Variance with Final Budget Positive (Negative)
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	
PUBLIC SAFETY - POLICE					
Departmental:					
Police					
Salaries and Wages .....	\$ 195,964	\$ -	\$ 195,964	\$ 195,963	\$ (1)
Non-Personnel .....	138,164	3,711	141,875	141,876	1
Total Police .....	334,128	3,711	337,839	337,839	-
Citywide Program:					
Police Review Board					
Salaries and Wages .....	157	-	157	157	-
Non-Personnel .....	110	3	113	114	1
Total Police Review Board .....	267	3	270	271	1
Total Citywide Program .....	267	3	270	271	1
TOTAL PUBLIC SAFETY - POLICE .....	334,395	3,714	338,109	338,110	1
PUBLIC SAFETY - FIRE AND LIFE SAFETY AND HOMELAND SECURITY					
Departmental:					
Fire-Rescue					
Salaries and Wages .....	103,854	-	103,854	103,853	(1)
Non-Personnel .....	66,950	(4,479)	62,471	62,592	121
Total Fire-Rescue .....	170,804	(4,479)	166,325	166,445	120
Homeland Security					
Salaries and Wages .....	625	-	625	625	-
Non-Personnel .....	464	1	465	548	83
Total Homeland Security .....	1,089	1	1,090	1,173	83
Citywide Program:					
Emergency Medical Services					
Salaries and Wages .....	166	-	166	173	7
Non-Personnel .....	290	27	317	644	327
Total Emergency Medical Services .....	456	27	483	817	334
Total Citywide Program .....	456	27	483	817	334
TOTAL PUBLIC SAFETY - FIRE AND LIFE SAFETY AND HOMELAND SECURITY .....	172,349	(4,451)	167,898	168,435	537

Prior Year					Total				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 195,964	\$ -	\$ 195,964	\$ 195,963	\$ (1)
900	280	1,180	1,842	662	139,064	3,991	143,055	143,718	663
900	280	1,180	1,842	662	335,028	3,991	339,019	339,681	662
-	-	-	-	-	157	-	157	157	-
-	-	-	-	-	110	3	113	114	1
-	-	-	-	-	267	3	270	271	1
-	-	-	-	-	267	3	270	271	1
900	280	1,180	1,842	662	335,295	3,994	339,289	339,952	663
-	-	-	-	-	103,854	-	103,854	103,853	(1)
1,604	941	2,545	2,864	319	68,554	(3,538)	65,016	65,456	440
1,604	941	2,545	2,864	319	172,408	(3,538)	168,870	169,309	439
-	-	-	-	-	625	-	625	625	-
-	-	-	1	1	464	1	465	549	84
-	-	-	1	1	1,089	1	1,090	1,174	84
-	-	-	-	-	166	-	166	173	7
16	-	16	16	-	306	27	333	660	327
16	-	16	16	-	472	27	499	833	334
16	-	16	16	-	472	27	499	833	334
1,620	941	2,561	2,881	320	173,969	(3,510)	170,459	171,316	857

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**GENERAL FUND  
SCHEDULE OF EXPENDITURES AND TRANSFERS  
BUDGET AND ACTUAL (BUDGETARY BASIS)  
YEAR ENDED JUNE 30, 2006  
(In Thousands)**

	Current Year				
		Adjustment to	Actual on		Variance with Final Budget
	Actual	Budgetary Basis	Budgetary Basis	Final Budget	Positive (Negative)
PARKS, RECREATION, CULTURE AND LEISURE					
Departmental:					
Reservoir Concessions					
Salaries and Wages .....	\$ 665	\$ -	\$ 665	\$ 765	\$ 100
Non-Personnel .....	626	3	629	794	165
Total Reservoir Concessions .....	1,291	3	1,294	1,559	265
Park and Rec-Administrative Services					
Salaries and Wages .....	847	-	847	848	1
Non-Personnel .....	483	-	483	484	1
Total Park and Rec - Administration Services .....	1,330	-	1,330	1,332	2
Community Parks I					
Salaries and Wages .....	5,138	-	5,138	5,220	82
Non-Personnel .....	7,801	665	8,466	8,945	479
Total Community Parks I .....	12,939	665	13,604	14,165	561
Community Parks II					
Salaries and Wages .....	9,038	-	9,038	9,038	-
Non-Personnel .....	9,304	164	9,468	9,468	-
Total Community Parks II .....	18,342	164	18,506	18,506	-
Developed Regional Parks					
Salaries and Wages .....	13,151	-	13,151	13,605	454
Non-Personnel .....	17,704	627	18,331	18,479	148
Total Developed Regional Parks .....	30,855	627	31,482	32,084	602
Open Space Division					
Salaries and Wages .....	1,756	-	1,756	1,857	101
Non-Personnel .....	2,404	244	2,648	2,932	284
Total Open Space Division .....	4,160	244	4,404	4,789	385
Park and Planning Development					
Salaries and Wages .....	2,772	-	2,772	2,773	1
Non-Personnel .....	1,626	20	1,646	1,646	-
Total Park and Planning Development .....	4,398	20	4,418	4,419	1
Library					
Salaries and Wages .....	18,394	-	18,394	18,481	87
Non-Personnel .....	15,703	348	16,051	16,737	686
Total Library .....	34,097	348	34,445	35,218	773
Total Departmental .....	107,412	2,071	109,483	112,072	2,589
Citywide Program:					
Park and Recreation Programs					
Non-Personnel .....	1	3	4	254	250
TOTAL PARKS, RECREATION CULTURE AND LEISURE .....	107,413	2,074	109,487	112,326	2,839

Prior Year					Total				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 665	\$ -	\$ 665	\$ 765	\$ 100
2	-	2	108	106	628	3	631	902	271
2	-	2	108	106	1,293	3	1,296	1,667	371
-	-	-	-	-	847	-	847	848	1
-	-	-	-	-	483	-	483	484	1
-	-	-	-	-	1,330	-	1,330	1,332	2
-	-	-	-	-	5,138	-	5,138	5,220	82
70	33	103	561	458	7,871	698	8,569	9,506	937
70	33	103	561	458	13,009	698	13,707	14,726	1,019
-	-	-	-	-	9,038	-	9,038	9,038	-
167	-	167	167	-	9,471	164	9,635	9,635	-
167	-	167	167	-	18,509	164	18,673	18,673	-
-	-	-	-	-	13,151	-	13,151	13,605	454
61	47	108	444	336	17,765	674	18,439	18,923	484
61	47	108	444	336	30,916	674	31,590	32,528	938
-	-	-	-	-	1,756	-	1,756	1,857	101
230	450	680	776	96	2,634	694	3,328	3,708	380
230	450	680	776	96	4,390	694	5,084	5,565	481
-	-	-	-	-	2,772	-	2,772	2,773	1
54	307	361	363	2	1,680	327	2,007	2,009	2
54	307	361	363	2	4,452	327	4,779	4,782	3
-	-	-	-	-	18,394	-	18,394	18,481	87
156	32	188	502	314	15,859	380	16,239	17,239	1,000
156	32	188	502	314	34,253	380	34,633	35,720	1,087
740	869	1,609	2,921	1,312	108,152	2,940	111,092	114,993	3,901
-	-	-	-	-	1	3	4	254	250
740	869	1,609	2,921	1,312	108,153	2,943	111,096	115,247	4,151

Continued on Next Page

**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES AND TRANSFERS**  
**BUDGET AND ACTUAL (BUDGETARY BASIS)**  
**YEAR ENDED JUNE 30, 2006**  
(In Thousands)

	Current Year				
		Adjustment to	Actual on		Variance with Final Budget Positive
	Actual	Budgetary Basis	Budgetary Basis	Final Budget	(Negative)
TRANSPORTATION					
Departmental:					
Parking Management					
Salaries and Wages .....	\$ 4,564	\$ -	\$ 4,564	\$ 4,567	\$ 3
Non-Personnel .....	4,061	330	4,391	4,392	1
Total Parking Management .....	8,625	330	8,955	8,959	4
Transportation Design					
Salaries and Wages .....	4,548	-	4,548	4,548	-
Non-Personnel .....	2,613	26	2,639	2,694	55
Total Transportation Design .....	7,161	26	7,187	7,242	55
Traffic Engineering					
Salaries and Wages .....	3,454	-	3,454	3,455	1
Non-Personnel .....	3,091	411	3,502	3,754	252
Total Traffic Engineering .....	6,545	411	6,956	7,209	253
Total Departmental.....	22,331	767	23,098	23,410	312
Citywide Program:					
Transportation					
Non-Personnel .....	278	151	429	429	-
TOTAL TRANSPORTATION .....	22,609	918	23,527	23,839	312
SANITATION AND HEALTH					
Departmental:					
Collection Services					
Salaries and Wages .....	6,736	-	6,736	6,750	14
Non-Personnel .....	27,105	507	27,612	27,802	190
Total Collection Services .....	33,841	507	34,348	34,552	204
Environmental Protection					
Salaries and Wages .....	277	-	277	277	-
Non-Personnel .....	365	-	365	366	1
Total Environmental Protection .....	642	-	642	643	1
Resource Management					
Salaries and Wages .....	219	-	219	219	-
Non-Personnel .....	122	-	122	122	-
Total Resource Management .....	341	-	341	341	-
Mt. Hope Cemetery					
Salaries and Wages .....	489	-	489	510	21
Non-Personnel .....	922	123	1,045	1,102	57
Total Mt. Hope Cemetery .....	1,411	123	1,534	1,612	78
Total Departmental .....	36,235	630	36,865	37,148	283



Prior Year					Total				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,564	\$ -	\$ 4,564	\$ 4,567	\$ 3
117	101	218	400	182	4,178	431	4,609	4,792	183
117	101	218	400	182	8,742	431	9,173	9,359	186
-	-	-	-	-	4,548	-	4,548	4,548	-
9	49	58	93	35	2,622	75	2,697	2,787	90
9	49	58	93	35	7,170	75	7,245	7,335	90
-	-	-	-	-	3,454	-	3,454	3,455	1
77	107	184	262	78	3,168	518	3,686	4,016	330
77	107	184	262	78	6,622	518	7,140	7,471	331
203	257	460	755	295	22,534	1,024	23,558	24,165	607
220	-	220	220	-	498	151	649	649	-
423	257	680	975	295	23,032	1,175	24,207	24,814	607
-	-	-	-	-	6,736	-	6,736	6,750	14
134	134	268	460	192	27,239	641	27,880	28,262	382
134	134	268	460	192	33,975	641	34,616	35,012	396
-	-	-	-	-	277	-	277	277	-
-	-	-	-	-	365	-	365	366	1
-	-	-	-	-	642	-	642	643	1
-	-	-	-	-	219	-	219	219	-
-	-	-	-	-	122	-	122	122	-
-	-	-	-	-	341	-	341	341	-
-	-	-	-	-	489	-	489	510	21
2	13	15	19	4	924	136	1,060	1,121	61
2	13	15	19	4	1,413	136	1,549	1,631	82
136	147	283	479	196	36,371	777	37,148	37,627	479

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**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES AND TRANSFERS**  
**BUDGET AND ACTUAL (BUDGETARY BASIS)**  
**YEAR ENDED JUNE 30, 2006**  
(In Thousands)

	Current Year				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
Citywide Program:					
Animal Regulation					
Non-Personnel .....	\$ 5,205	\$ 86	\$ 5,291	\$ 5,291	\$ -
Health Services Furnished by County					
Non-Personnel .....	43	30	73	74	1
Refuse Container Fund					
Non-Personnel .....	-	-	-	-	-
Total Citywide Program .....	5,248	116	5,364	5,365	1
<b>TOTAL SANITATION AND HEALTH .....</b>	<b>41,483</b>	<b>746</b>	<b>42,229</b>	<b>42,513</b>	<b>284</b>
<b>NEIGHBORHOOD SERVICES:</b>					
Departmental:					
Community and Economic Development					
Salaries and Wages .....	2,933	-	2,933	2,933	-
Non-Personnel .....	2,441	545	2,986	3,004	18
Total Community and Economic Development .....	5,374	545	5,919	5,937	18
Development Services					
Non-Personnel .....	-	-	-	2	2
Total Development Services .....	-	-	-	2	2
Family Justice Center					
Salaries and Wages .....	342	-	342	342	-
Non-Personnel .....	272	-	272	272	-
Total Family Justice Center .....	614	-	614	614	-
Neighborhood Code Compliance					
Salaries and Wages .....	3,784	-	3,784	3,784	-
Non-Personnel .....	2,623	30	2,653	2,656	3
Total Neighborhood Code Compliance .....	6,407	30	6,437	6,440	3
Planning					
Salaries and Wages .....	4,182	-	4,182	4,184	2
Non-Personnel .....	2,525	2	2,527	2,637	110
Total Planning .....	6,707	2	6,709	6,821	112
Total Departmental .....	19,102	577	19,679	19,814	135
Citywide Program:					
Community and Economic Development Special Projects					
Salaries and Wages .....	-	-	-	-	-
Non-Personnel .....	-	-	-	11	11
Total Community and Economic Development Special Projects ..	-	-	-	11	11
Total Citywide Program .....	-	-	-	11	11
<b>TOTAL NEIGHBORHOOD SERVICES .....</b>	<b>19,102</b>	<b>577</b>	<b>19,679</b>	<b>19,825</b>	<b>146</b>
<b>DEBT SERVICE:</b>					
Principal .....	2,504	-	2,504	2,504	-
Interest .....	3,416	-	3,416	2,509	(907)
<b>TOTAL DEBT SERVICE .....</b>	<b>5,920</b>	<b>-</b>	<b>5,920</b>	<b>5,013</b>	<b>(907)</b>
<b>TOTAL EXPENDITURES .....</b>	<b>885,152</b>	<b>8,053</b>	<b>893,205</b>	<b>902,757</b>	<b>9,552</b>

Prior Year					Total				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
\$ 101	\$ 295	\$ 396	\$ 457	\$ 61	\$ 5,306	\$ 381	\$ 5,687	\$ 5,748	\$ 61
-	-	-	-	-	43	30	73	74	1
-	1	1	1	-	-	1	1	1	-
101	296	397	458	61	5,349	412	5,761	5,823	62
237	443	680	937	257	41,720	1,189	42,909	43,450	541
-	-	-	-	-	2,933	-	2,933	2,933	-
563	92	655	786	131	3,004	637	3,641	3,790	149
563	92	655	786	131	5,937	637	6,574	6,723	149
-	48	48	48	-	-	48	48	50	2
-	48	48	48	-	-	48	48	50	2
-	-	-	-	-	342	-	342	342	-
-	-	-	-	-	272	-	272	272	-
-	-	-	-	-	614	-	614	614	-
-	-	-	-	-	3,784	-	3,784	3,784	-
12	8	20	20	-	2,635	38	2,673	2,676	3
12	8	20	20	-	6,419	38	6,457	6,460	3
-	-	-	-	-	4,182	-	4,182	4,184	2
25	61	86	276	190	2,550	63	2,613	2,913	300
25	61	86	276	190	6,732	63	6,795	7,097	302
600	209	809	1,130	321	19,702	786	20,488	20,944	456
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	11	11
-	-	-	-	-	-	-	-	11	11
-	-	-	-	-	-	-	-	11	11
600	209	809	1,130	321	19,702	786	20,488	20,955	467
-	-	-	-	-	2,504	-	2,504	2,504	-
-	-	-	-	-	3,416	-	3,416	2,509	(907)
-	-	-	-	-	5,920	-	5,920	5,013	(907)
5,782	5,498	11,280	15,407	4,127	890,934	13,551	904,485	918,164	13,679

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**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES AND TRANSFERS**  
**BUDGET AND ACTUAL (BUDGETARY BASIS)**  
**YEAR ENDED JUNE 30, 2006**  
(In Thousands)

	Current Year				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
<b>TRANSFERS TO PROPRIETARY FUNDS</b>					
Internal Service Funds:					
City of San Diego:					
Central Garage and Machine Shop .....	\$ 40	\$ -	\$ 40	\$ 40	\$ -
Print Shop .....	6	-	6	6	-
Miscellaneous Internal Service .....	200	-	200	200	-
Total Internal Service Funds .....	246	-	246	246	-
<b>TOTAL TRANSFERS TO PROPRIETARY FUNDS .....</b>	<b>246</b>	<b>-</b>	<b>246</b>	<b>246</b>	<b>-</b>
<b>TRANSFERS TO OTHER FUNDS</b>					
Special Revenue Funds:					
City of San Diego:					
Acquisition, Improvement and Operation .....	768	-	768	768	-
Qualcomm Stadium Operations .....	8	-	8	8	-
Other Special Revenue - Budgeted .....	1,627	-	1,627	1,627	-
Grants .....	372	-	372	362	(10)
Other Special Revenue - Unbudgeted .....	7,938	-	7,938	7,938	-
Total Special Revenue Funds .....	10,713	-	10,713	10,703	(10)
Capital Projects Funds:					
City of San Diego:					
Capital Outlay .....	69	-	69	69	-
Other Construction .....	11,164	-	11,164	11,164	-
Total Capital Projects Funds .....	11,233	-	11,233	11,233	-
<b>TOTAL TRANSFERS TO OTHER FUNDS .....</b>	<b>21,946</b>	<b>-</b>	<b>21,946</b>	<b>21,936</b>	<b>(10)</b>
<b>TOTAL EXPENDITURES AND TRANSFERS .....</b>	<b>\$ 907,344</b>	<b>\$ 8,053</b>	<b>\$ 915,397</b>	<b>\$ 924,939</b>	<b>\$ 9,542</b>

Prior Year					Total				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 40	\$ -	\$ 40	\$ 40	\$ -
-	-	-	-	-	6	-	6	6	-
-	-	-	-	-	200	-	200	200	-
-	-	-	-	-	246	-	246	246	-
-	-	-	-	-	246	-	246	246	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	768	-	768	768	-
-	-	-	-	-	8	-	8	8	-
-	-	-	-	-	1,627	-	1,627	1,627	-
-	-	-	-	-	372	-	372	362	(10)
-	-	-	-	-	7,938	-	7,938	7,938	-
-	-	-	-	-	10,713	-	10,713	10,703	(10)
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	69	-	69	69	-
-	-	-	-	-	11,164	-	11,164	11,164	-
-	-	-	-	-	11,233	-	11,233	11,233	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	21,946	-	21,946	21,936	(10)
\$ 5,782	\$ 5,498	\$ 11,280	\$ 15,407	\$ 4,127	\$ 913,126	\$ 13,551	\$ 926,677	\$ 940,346	\$ 13,669

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## NON-MAJOR GOVERNMENTAL FUNDS

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**NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
June 30, 2006  
(In Thousands)**

	Special Revenue	Debt Service	Capital Projects	Permanent	Total Nonmajor Governmental Funds
<b>ASSETS</b>					
Cash and Investments .....	\$ 416,795	\$ -	\$ 505,130	\$ 590	\$ 922,515
Receivables:					
Taxes - Net .....	23,168	27	6,006	-	29,201
Accounts - Net of Allowance for Uncollectibles (Special Revenue \$408) .....	8,835	4,804	310	15	13,964
Claims - Net .....	68	-	-	-	68
Special Assessments - Net .....	623	708	15	-	1,346
Notes .....	43,690	-	8,899	-	52,589
Accrued Interest .....	3,437	314	3,262	31	7,044
Grants .....	33,863	-	24,845	-	58,708
From Other Funds .....	6,630	134	8,600	-	15,364
Advances to Other Funds .....	4,114	-	300	-	4,414
Advances to Other Agencies .....	3,545	-	-	-	3,545
Land Held for Resale .....	16,081	-	16,052	-	32,133
Prepaid Items .....	198	34	-	-	232
Restricted Cash and Investments .....	-	121,772	-	14,588	136,360
<b>TOTAL ASSETS .....</b>	<b>\$ 561,047</b>	<b>\$ 127,793</b>	<b>\$ 573,419</b>	<b>\$ 15,224</b>	<b>\$ 1,277,483</b>
<b>LIABILITIES</b>					
Accounts Payable .....	\$ 33,003	\$ -	\$ 15,179	\$ -	\$ 48,182
Accrued Wages and Benefits .....	1,323	-	-	-	1,323
Other Accrued Liabilities .....	21	-	-	-	21
Due to Other Funds .....	11,558	-	13,265	-	24,823
Due to Other Agencies .....	245	-	954	-	1,199
Unearned Revenue .....	28,585	-	5,433	-	34,018
Deferred Revenue .....	39,707	5,336	32,090	-	77,133
Interfund Interest Payable .....	-	-	773	-	773
Interfund Loan Payable .....	-	-	5,873	-	5,873
Advances from Other Funds .....	2,550	-	2,164	-	4,714
Sundry Trust Liabilities .....	94	-	3,732	-	3,826
<b>TOTAL LIABILITIES .....</b>	<b>117,086</b>	<b>5,336</b>	<b>79,463</b>	<b>-</b>	<b>201,885</b>
<b>FUND EQUITY:</b>					
Fund Balances:					
Reserved for Land Held for Resale .....	16,081	-	14,725	-	30,806
Reserved for Encumbrances .....	55,913	-	72,801	-	128,714
Reserved for Advances and Deposits .....	7,659	-	300	-	7,959
Reserved for Low and Moderate Income Housing .....	96,732	-	-	-	96,732
Reserved for Permanent Endowments .....	-	-	-	14,568	14,568
Reserved for Debt Service .....	-	122,240	-	-	122,240
Unreserved:					
Designated for Unrealized Gains .....	5	166	-	590	761
Designated for Debt Service .....	11,482	-	-	-	11,482
Designated for Subsequent Years' Expenditures .....	147,382	-	284,892	11	432,285
Undesignated .....	108,707	51	121,238	55	230,051
<b>TOTAL FUND EQUITY .....</b>	<b>443,961</b>	<b>122,457</b>	<b>493,956</b>	<b>15,224</b>	<b>1,075,598</b>
<b>TOTAL LIABILITIES AND FUND EQUITY .....</b>	<b>\$ 561,047</b>	<b>\$ 127,793</b>	<b>\$ 573,419</b>	<b>\$ 15,224</b>	<b>\$ 1,277,483</b>

**NONMAJOR GOVERNMENTAL FUNDS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**Year Ended June 30, 2006**  
**(In Thousands)**

	Special Revenue	Debt Service	Capital Projects	Permanent	Total Nonmajor Governmental Funds
<b>REVENUES</b>					
Property Taxes .....	\$ 133,410	\$ 2,411	\$ -	\$ -	\$ 135,821
Special Assessments .....	18,368	17,648	683	-	36,699
Sales Taxes .....	83,182	-	33,279	-	116,461
Transient Occupancy Taxes .....	64,675	-	-	-	64,675
Other Local Taxes .....	75,899	-	-	-	75,899
Licenses and Permits .....	1,306	-	8,898	-	10,204
Fines, Forfeitures and Penalties .....	3,095	-	-	-	3,095
Revenue from Use of Money and Property .....	30,885	3,554	18,441	686	53,566
Revenue from Federal Agencies .....	35,314	-	4,501	-	39,815
Revenue from Other Agencies .....	33,384	-	12,311	-	45,695
Revenue from Private Sources .....	31,163	-	60,008	116	91,287
Charges for Current Services .....	35,474	-	32	101	35,607
Other Revenue .....	19,405	-	3,654	-	23,059
<b>TOTAL REVENUES</b> .....	<b>565,560</b>	<b>23,613</b>	<b>141,807</b>	<b>903</b>	<b>731,883</b>
<b>EXPENDITURES</b>					
Current:					
General Government and Support .....	78,844	2,760	25,802	1	107,407
Public Safety - Police .....	73,108	-	71	-	73,179
Public Safety - Fire and Life Safety .....	37,749	-	351	-	38,100
Parks, Recreation, Culture and Leisure .....	99,277	-	8,432	176	107,885
Transportation .....	123,240	-	1,705	-	124,945
Sanitation and Health .....	6,204	-	1,170	-	7,374
Neighborhood Services .....	65,633	-	26,745	-	92,378
Capital Projects .....	17,993	-	108,590	-	126,583
Debt Service:					
Principal Retirement .....	3,978	38,536	8,275	-	50,789
Interest .....	2,554	62,476	286	-	65,316
<b>TOTAL EXPENDITURES</b> .....	<b>508,580</b>	<b>103,772</b>	<b>181,427</b>	<b>177</b>	<b>793,956</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b> .....	<b>56,980</b>	<b>(80,159)</b>	<b>(39,620)</b>	<b>726</b>	<b>(62,073)</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers from Proprietary Funds .....	3,986	-	-	-	3,986
Transfers from Other Funds .....	169,358	86,773	84,322	-	340,453
Transfers to Proprietary Funds .....	(1,044)	-	(494)	-	(1,538)
Transfers to Other Funds .....	(325,866)	(6,041)	(57,797)	(475)	(390,179)
Capital Leases .....	14,713	-	-	-	14,713
Contracts/Notes Issued .....	-	-	900	-	900
Loans Issued .....	5,245	-	3,926	-	9,171
Section 108 Loans Issued .....	2,151	-	-	-	2,151
SANDAG Loans Issued .....	-	-	1,651	-	1,651
Tax Allocation Bonds Issued .....	33,760	-	76,225	-	109,985
Tobacco Settlement Bonds Issued .....	90,980	14,420	-	-	105,400
Discount on Bonds Issued .....	(97)	-	-	-	(97)
Premium on Bonds Issued .....	-	-	2,509	-	2,509
<b>TOTAL OTHER FINANCING SOURCES (USES)</b> .....	<b>(6,814)</b>	<b>95,152</b>	<b>111,242</b>	<b>(475)</b>	<b>199,105</b>
<b>NET CHANGE IN FUND BALANCES</b> .....	<b>50,166</b>	<b>14,993</b>	<b>71,622</b>	<b>251</b>	<b>137,032</b>
Fund Balances at Beginning of Year .....	393,795	107,464	422,334	14,973	938,566
<b>FUND BALANCES AT END OF YEAR</b> .....	<b>\$ 443,961</b>	<b>\$ 122,457</b>	<b>\$ 493,956</b>	<b>\$ 15,224</b>	<b>\$ 1,075,598</b>

NON-MAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE

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## SPECIAL REVENUE FUNDS

Special revenue funds are used to account for the proceeds of specific revenue sources (other than those for major capital projects) that are legally restricted to expenditures for specified purposes.

### **CITY OF SAN DIEGO**

#### ACQUISITION, IMPROVEMENT AND OPERATIONS

This Fund accounts for various operating activities including business improvement areas, lighting and landscape maintenance areas, facilities financing, and the City's public art program. Revenues are derived from business tax surcharges, special assessments on property, various rents, concessions and fees, and interest earnings derived there from.

#### ENVIRONMENTAL GROWTH

This Fund was established in accordance with Section 103.1a of the City Charter to receive 25 percent of all monies derived from the revenues accruing to the City from gas, electricity, and steam franchises. One third of the franchise monies and the interest derived there from are used exclusively for the purpose of preserving and enhancing the environment of the City of San Diego. Two thirds of the franchise monies and the interest derived there from are used as matching funds for open space acquisition and for debt service of bonds issued by the San Diego Open Space Facilities District No. 1.

#### POLICE DECENTRALIZATION

This Fund accounts for monies allocated for Police department decentralization expenditures for temporary facilities and to devise future capital improvement projects. Revenues are derived from sales tax allocations.

#### PUBLIC TRANSPORTATION

This Fund was established to account for funds set aside as reserves to be used for transportation-related purposes. Fund transfers and interest derived there from are the main sources of revenue.

#### QUALCOMM STADIUM OPERATIONS

This Fund accounts for the operations of the Stadium. The Stadium hosts various sporting events for its football tenants. Revenues are derived from rents, concessions, parking, and advertising.

#### SPECIAL GAS TAX STREET IMPROVEMENT

This Fund was established to account for the receipt of motor vehicle fuel taxes from the State under Sections 2106 and 2107 of the Streets and Highways Code. Expenditures are for the construction, improvement, maintenance, and operation of public streets and highways.

#### STREET DIVISION OPERATIONS

This Fund was established to account for the operations of Transportation's Street division. Revenues are derived from sales tax allocations and transfers from Gas Tax and TransNet, as well as services performed by the Streets Division. Expenditures are for maintenance and operation of City streets.

#### TRANSIENT OCCUPANCY TAX

This Fund was established to receive and expend transient occupancy taxes. Since 1964, a tax has been imposed on transients of hotel and motel rooms in the City of San Diego. Effective August 1994, the tax was increased from 9% to 10.5%.

## UNDERGROUND SURCHARGE

This fund was established to account primarily for the capital improvement activities related to the undergrounding of utilities. This fund receives and disburses undergrounding surcharge revenue in accordance with the City's franchise agreements with San Diego Gas & Electric.

## ZOOLOGICAL EXHIBITS

This Fund was established to collect monies from a fixed property tax levy authorized by Section 77a of the City Charter for the maintenance of zoological exhibits. These funds are remitted in accordance with a contractual agreement with the San Diego Zoological Society, a not-for-profit corporation independent from the City of San Diego.

## OTHER SPECIAL REVENUE - BUDGETED

This Fund was established to account for revenues derived specifically for a variety of budgeted special programs administered by departments such as Police, Development Services, and General Services. Revenues in this Fund are derived from service charges, revenues from other agencies, and fines.

## GRANTS

This Fund was established to account for revenue received from federal, state and other governmental agencies. Expenditures are made and accounted for as prescribed by appropriate grant provisions/agreements.

## OTHER SPECIAL REVENUE FUND - UNBUDGETED

This Fund was established to account for revenues earmarked for a variety of special programs administered by such departments as Engineering and Capital Projects, Libraries, Park and Recreation, and Police. Revenues in this fund are derived from such sources as parking fees, service charges, contributions from other agencies and private sources, and interest earnings.

## **BLENDED COMPONENT UNITS**

### CENTRE CITY DEVELOPMENT CORPORATION

This Fund was established to account for the revenues and expenditures of the Centre City Development Corporation ("CCDC"). CCDC is a non-profit corporation that administers certain redevelopment projects in downtown San Diego and provides redevelopment advisory services to the Redevelopment Agency (the "Agency") of the City of San Diego. CCDC is primarily funded by the Agency and by the City of San Diego.

### PUBLIC FACILITIES FINANCING AUTHORITY

This Fund was established to account for the activities of the Public Facilities Financing Authority (the "Authority"). The Authority, created by the City of San Diego and the Redevelopment Agency of the City of San Diego (the "Agency"), facilitates the financing, acquisition and construction of public capital facility improvements of the Agency or the City. The Authority's special revenue account is generally used to account for revenues from the Reassessment District Bond Fund and investment income used to pay for costs of issuance and administrative expenses related to debt redemption.

### REDEVELOPMENT AGENCY

This Fund was established to account for the activities of the Redevelopment Agency of the City of San Diego (the "Agency"). The Agency was established to provide a method for revitalizing deteriorated and blighted areas of the City of San Diego. The Agency's special revenue account is used to account for funds restricted for the benefit of low and moderate income housing. Funding is primarily from property tax increment revenues and the City of San Diego.

#### SAN DIEGO INDUSTRIAL DEVELOPMENT AUTHORITY

This Fund was established to account for revenues and expenditures of the San Diego Industrial Development Authority (the "Authority"). The Authority was formed in 1983 pursuant to the California Industrial Development Financing Act for the purpose of providing an alternative method of financing to participating parties for economic development purposes, through the sale and issuance of revenue bonds. Revenues are derived from fees collected from companies applying for industrial development bond financing. Expenditures are incurred for management and administrative services provided by the City of San Diego.

#### SOUTHEASTERN ECONOMIC DEVELOPMENT CORPORATION

This Fund was established to account for the revenues and expenditures of the Southeastern Economic Development Corporation ("SEDC"). SEDC is a non-profit corporation that administers economic development projects within the community of Southeast San Diego and provides redevelopment advisory services to the Redevelopment Agency of the City of San Diego (the "Agency"). SEDC is primarily funded by the Agency and by the City of San Diego pursuant to operating agreements under which SEDC is reimbursed for eligible costs incurred in connection with such activities.

#### TOBACCO SETTLEMENT REVENUE FUNDING CORPORATION

This fund was established to account for the activities of the Tobacco Settlement Revenue Funding Corporation (The "Corporation"). The Corporation was established for the purpose of acquiring the Tobacco Settlement Revenues allocated to the City from the State of California, pursuant to the Master Settlement Agreement. The Corporation's special revenue fund is used to account for the expenditures incurred for administrative services provided by the City of San Diego.

**NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE**  
**COMBINING BALANCE SHEET**  
**JUNE 30, 2006**  
**(In Thousands)**

	City of San Diego	Centre City Development Corporation
<b>ASSETS</b>		
Cash and Investments .....	\$ 209,050	\$ 236
Receivables:		
Taxes - Net .....	19,048	-
Accounts - Net of Allowance for Uncollectibles (City of San Diego \$408) .....	7,987	659
Claims - Net .....	68	-
Special Assessments - Net .....	623	-
Notes .....	1,004	-
Accrued Interest .....	1,830	-
Grants .....	33,863	-
From Other Funds .....	6,024	-
Advances to Other Funds .....	4,114	-
Advances to Other Agencies .....	3,545	-
Land Held for Resale .....	-	-
Prepaid Items .....	161	31
<b>TOTAL ASSETS</b> .....	<b>\$ 287,317</b>	<b>\$ 926</b>
<b>LIABILITIES</b>		
Accounts Payable .....	\$ 30,117	\$ 45
Accrued Wages and Benefits .....	1,323	-
Other Accrued Liabilities .....	-	21
Due to Other Funds .....	11,481	-
Due to Other Agencies .....	245	-
Unearned Revenue .....	28,585	-
Deferred Revenue .....	33,323	-
Advances from Other Funds .....	300	-
Sundry Trust Liabilities .....	-	-
<b>TOTAL LIABILITIES</b> .....	<b>105,374</b>	<b>66</b>
<b>FUND EQUITY:</b>		
Fund Balances:		
Reserved for Land Held for Resale .....	-	-
Reserved for Encumbrances .....	22,067	-
Reserved for Advances and Deposits .....	7,659	-
Reserved for Low and Moderate Income Housing .....	-	-
Unreserved:		
Designated for Unrealized Gains .....	5	-
Designated for Debt Service .....	-	-
Designated for Subsequent Years' Expenditures .....	44,903	-
Undesignated .....	107,309	860
<b>TOTAL FUND EQUITY</b> .....	<b>181,943</b>	<b>860</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b> .....	<b>\$ 287,317</b>	<b>\$ 926</b>



Public Facilities Financing Authority	Redevelopment Agency	San Diego Industrial Development Authority	Southeastern Economic Development Corporation	Tobacco Settlement Revenue Funding Corporation	Total
\$ 60	\$ 207,089	\$ 55	\$ 105	\$ 200	\$ 416,795
-	4,120	-	-	-	23,168
-	-	-	189	-	8,835
-	-	-	-	-	68
-	-	-	-	-	623
-	42,686	-	-	-	43,690
1	1,605	1	-	-	3,437
-	-	-	-	-	33,863
-	606	-	-	-	6,630
-	-	-	-	-	4,114
-	-	-	-	-	3,545
-	16,081	-	-	-	16,081
-	-	-	6	-	198
<u>\$ 61</u>	<u>\$ 272,187</u>	<u>\$ 56</u>	<u>\$ 300</u>	<u>\$ 200</u>	<u>\$ 561,047</u>
\$ -	\$ 2,838	\$ -	\$ 3	\$ -	\$ 33,003
-	-	-	-	-	1,323
-	-	-	-	-	21
2	75	-	-	-	11,558
-	-	-	-	-	245
-	-	-	-	-	28,585
-	6,384	-	-	-	39,707
-	2,250	-	-	-	2,550
-	94	-	-	-	94
<u>2</u>	<u>11,641</u>	<u>-</u>	<u>3</u>	<u>-</u>	<u>117,086</u>
-	16,081	-	-	-	16,081
15	33,831	-	-	-	55,913
-	-	-	-	-	7,659
-	96,732	-	-	-	96,732
-	-	-	-	-	5
-	11,482	-	-	-	11,482
44	102,420	15	-	-	147,382
-	-	41	297	200	108,707
<u>59</u>	<u>260,546</u>	<u>56</u>	<u>297</u>	<u>200</u>	<u>443,961</u>
<u>\$ 61</u>	<u>\$ 272,187</u>	<u>\$ 56</u>	<u>\$ 300</u>	<u>\$ 200</u>	<u>\$ 561,047</u>

**NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**YEAR ENDED JUNE 30, 2006**  
(In Thousands)

	City of San Diego	Centre City Development Corporation
<b>REVENUES</b>		
Property Taxes .....	\$ 7,750	\$ -
Special Assessments .....	18,368	-
Sales Taxes .....	83,182	-
Transient Occupancy Taxes .....	64,675	-
Other Local Taxes .....	75,899	-
Licenses and Permits .....	1,306	-
Fines, Forfeitures and Penalties .....	3,095	-
Revenue from Use of Money and Property .....	26,536	1
Revenue from Federal Agencies .....	35,314	-
Revenue from Other Agencies .....	26,798	6,586
Revenue from Private Sources .....	31,163	-
Charges for Current Services .....	33,470	-
Other Revenue .....	19,373	32
<b>TOTAL REVENUES</b> .....	<u>426,929</u>	<u>6,619</u>
<b>EXPENDITURES</b>		
Current:		
General Government and Support .....	49,055	6,619
Public Safety - Police .....	73,108	-
Public Safety - Fire and Life Safety .....	37,749	-
Parks, Recreation, Culture and Leisure .....	99,277	-
Transportation .....	123,240	-
Sanitation and Health .....	6,204	-
Neighborhood Services .....	44,842	-
Capital Projects .....	17,993	-
Debt Service:		
Principal Retirement .....	3,978	-
Interest .....	2,554	-
<b>TOTAL EXPENDITURES</b> .....	<u>458,000</u>	<u>6,619</u>
<b>EXCESS (DEFICIENCY) OF REVENUES</b>		
<b>OVER EXPENDITURES</b> .....	<u>(31,071)</u>	<u>-</u>
<b>OTHER FINANCING SOURCES (USES)</b>		
Transfers from Proprietary Funds .....	3,986	-
Transfers from Other Funds .....	163,406	215
Transfers to Proprietary Funds .....	(1,044)	-
Transfers to Other Funds .....	(147,236)	-
Capital Leases .....	14,713	-
Tobacco Settlement Bonds Issued .....	-	-
Tax Allocation Bonds Issued .....	-	-
Loans Issued .....	-	-
Section 108 Loans issued .....	2,151	-
Discount on Bonds Issued .....	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b> .....	<u>35,976</u>	<u>215</u>
<b>NET CHANGE IN FUND BALANCES</b> .....	<u>4,905</u>	<u>215</u>
Fund Balances at Beginning of Year .....	<u>177,038</u>	<u>645</u>
<b>FUND BALANCES AT END OF YEAR</b> .....	<u>\$ 181,943</u>	<u>\$ 860</u>

Public Facilities Financing Authority	Redevelopment Agency	San Diego Industrial Development Authority	Southeastern Economic Development Corporation	Tobacco Settlement Revenue Funding Corporation	Total
\$ -	\$ 125,660	\$ -	\$ -	\$ -	\$ 133,410
-	-	-	-	-	18,368
-	-	-	-	-	83,182
-	-	-	-	-	64,675
-	-	-	-	-	75,899
-	-	-	-	-	1,306
-	-	-	-	-	3,095
3	4,343	2	-	-	30,885
-	-	-	-	-	35,314
-	-	-	-	-	33,384
-	-	-	-	-	31,163
-	104	-	1,900	-	35,474
-	-	-	-	-	19,405
<u>3</u>	<u>130,107</u>	<u>2</u>	<u>1,900</u>	<u>-</u>	<u>565,560</u>
435	20,810	-	1,925	-	78,844
-	-	-	-	-	73,108
-	-	-	-	-	37,749
-	-	-	-	-	99,277
-	-	-	-	-	123,240
-	-	-	-	-	6,204
-	20,791	-	-	-	65,633
-	-	-	-	-	17,993
-	-	-	-	-	3,978
-	-	-	-	-	2,554
<u>435</u>	<u>41,601</u>	<u>-</u>	<u>1,925</u>	<u>-</u>	<u>508,580</u>
(432)	88,506	2	(25)	-	56,980
-	-	-	-	-	3,986
294	5,308	-	135	-	169,358
-	-	-	-	-	(1,044)
-	(87,850)	-	-	(90,780)	(325,866)
-	-	-	-	-	14,713
-	-	-	-	90,980	90,980
-	33,760	-	-	-	33,760
-	5,245	-	-	-	5,245
-	-	-	-	-	2,151
-	(97)	-	-	-	(97)
<u>294</u>	<u>(43,634)</u>	<u>-</u>	<u>135</u>	<u>200</u>	<u>(6,814)</u>
(138)	44,872	2	110	200	50,166
<u>197</u>	<u>215,674</u>	<u>54</u>	<u>187</u>	<u>-</u>	<u>393,795</u>
<u>\$ 59</u>	<u>\$ 260,546</u>	<u>\$ 56</u>	<u>\$ 297</u>	<u>\$ 200</u>	<u>\$ 443,961</u>

**NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE**  
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN UNDESIGNATED FUND BALANCES**  
**BUDGET AND ACTUAL (BUDGETARY BASIS)**  
**YEAR ENDED JUNE 30, 2006**  
(In Thousands)

	City of San Diego	
	Actual on Budgetary Basis	Final Budget
<b>REVENUES</b>		
Property Taxes .....	\$ 7,716	\$ 19,682
Special Assessments .....	18,334	5,804
Sales Taxes .....	81,142	69,713
Transient Occupance Taxes .....	64,675	61,216
Other Local Taxes .....	75,899	79,967
Licenses and Permits .....	1,306	1,306
Fines, Forfeitures and Penalties .....	1,197	1,165
Revenue from Use of Money and Property .....	11,788	11,778
Revenue from Federal Agencies .....	2	-
Revenue from Other Agencies .....	6,769	5,412
Revenue from Private Sources .....	562	326
Charges for Current Services .....	31,810	18,095
Other Revenue .....	886	3,316
<b>TOTAL REVENUES</b> .....	<b>302,086</b>	<b>277,780</b>
<b>EXPENDITURES</b>		
Current:		
General Government and Support .....	12,765	12,838
Public Safety - Police .....	12,116	12,671
Public Safety - Fire and Life Safety .....	8,336	8,337
Parks, Recreation, Culture and Leisure .....	80,119	88,300
Transportation .....	97,611	93,222
Sanitation and Health .....	3,629	3,992
Neighborhood Services .....	11,982	9,826
Capital Projects .....	8,993	19,773
Debt Service:		
Principal Retirement .....	608	640
Interest .....	59	46
<b>TOTAL EXPENDITURES</b> .....	<b>236,218</b>	<b>249,645</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b> .....	<b>65,868</b>	<b>28,135</b>
<b>OTHER FINANCING SOURCES (USES)</b>		
Transfers from Proprietary Funds .....	1,031	920
Transfers from Other Funds .....	59,475	100,062
Transfers to Proprietary Funds .....	(576)	(451)
Transfers to Other Funds .....	(136,629)	(164,108)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b> .....	<b>(76,699)</b>	<b>(63,577)</b>
<b>NET CHANGE IN FUND BALANCES</b> .....	<b>(10,831)</b>	<b>(35,442)</b>
Fund Balances Undesignated at July 1, 2005 .....	78,269	74,491
Reserved for Encumbrances at July 1, 2005 .....	14,080	13,901
Designated for Subsequent Years' Expenditures at July 1, 2005 .....	10,710	10,198
Designated for Subsequent Years' Expenditures at June 30, 2006 .....	(6,275)	-
<b>FUND BALANCES UNDESIGNATED AT JUNE 30, 2006</b> .....	<b>\$ 85,952</b>	<b>\$ 63,147</b>

Centre City Development Corporation		Southeastern Economic Development Corporation		Total		Variance with Final Budget Positive (Negative)
Actual on Budgetary Basis	Final Budget	Actual on Budgetary Basis	Final Budget	Actual on Budgetary Basis	Final Budget	
\$ -	\$ -	\$ -	\$ -	\$ 7,716	\$ 19,682	\$ (11,966)
-	-	-	-	18,334	5,804	12,530
-	-	-	-	81,142	69,713	11,429
-	-	-	-	64,675	61,216	3,459
-	-	-	-	75,899	79,967	(4,068)
-	-	-	-	1,306	1,306	-
-	-	-	-	1,197	1,165	32
1	-	-	-	11,789	11,778	11
-	-	-	-	2	-	2
6,586	7,182	1,900	1,962	15,255	14,556	699
-	-	-	-	562	326	236
-	-	-	-	31,810	18,095	13,715
32	-	135	-	1,053	3,316	(2,263)
6,619	7,182	2,035	1,962	310,740	286,924	23,816
6,619	7,182	1,925	1,962	21,309	21,982	673
-	-	-	-	12,116	12,671	555
-	-	-	-	8,336	8,337	1
-	-	-	-	80,119	88,300	8,181
-	-	-	-	97,611	93,222	(4,389)
-	-	-	-	3,629	3,992	363
-	-	-	-	11,982	9,826	(2,156)
-	-	-	-	8,993	19,773	10,780
-	-	-	-	608	640	32
-	-	-	-	59	46	(13)
6,619	7,182	1,925	1,962	244,762	258,789	14,027
-	-	110	-	65,978	28,135	37,843
-	-	-	-	1,031	920	111
215	-	-	-	59,690	100,062	(40,372)
-	-	-	-	(576)	(451)	(125)
-	-	-	-	(136,629)	(164,108)	27,479
215	-	-	-	(76,484)	(63,577)	(12,907)
215	-	110	-	(10,506)	(35,442)	24,936
645	645	187	187	79,101	75,323	3,778
-	-	-	-	14,080	13,901	179
-	-	-	-	10,710	10,198	512
-	-	-	-	(6,275)	-	(6,275)
\$ 860	\$ 645	\$ 297	\$ 187	\$ 87,109	\$ 63,979	\$ 23,131

**CITY OF SAN DIEGO  
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE  
COMBINING BALANCE SHEET  
JUNE 30, 2006  
(In Thousands)**

	Budgeted				
	Acquisition, Improvement and Operations	Environmental Growth	Police Decentralization	Public Transportation	Qualcomm Stadium Operations
<b>ASSETS</b>					
Cash and Investments .....	\$ 18,104	\$ 1,995	\$ 1,249	\$ 2,177	\$ 3,098
Receivables:					
Taxes - Net .....	-	2,873	-	-	-
Accounts - Net of Allowance for Uncollectibles (Transient Occupancy Tax \$408) .....	340	-	-	-	454
Claims - Net .....	24	-	-	-	-
Special Assessments - Net .....	420	-	-	-	-
Notes .....	-	-	-	-	-
Accrued Interest .....	159	80	-	18	21
Grants .....	-	-	-	-	-
From Other Funds .....	-	-	-	-	-
Advances to Other Funds .....	-	-	-	-	-
Advances to Other Agencies .....	1,071	-	-	-	-
Prepaid Items .....	-	-	-	-	5
<b>TOTAL ASSETS .....</b>	<b>\$ 20,118</b>	<b>\$ 4,948</b>	<b>\$ 1,249</b>	<b>\$ 2,195</b>	<b>\$ 3,578</b>
<b>LIABILITIES</b>					
Accounts Payable .....	\$ 1,479	\$ 4	\$ 845	\$ 2	\$ 130
Accrued Wages and Benefits .....	55	-	-	-	59
Due to Other Funds .....	30	-	-	-	-
Due to Other Agencies .....	-	-	-	-	-
Unearned Revenue .....	-	-	-	-	-
Deferred Revenue .....	638	-	-	-	335
Advances from Other Funds .....	-	-	-	-	-
<b>TOTAL LIABILITIES .....</b>	<b>2,202</b>	<b>4</b>	<b>845</b>	<b>2</b>	<b>524</b>
<b>FUND EQUITY:</b>					
Fund Balances:					
Reserved for Encumbrances .....	949	379	-	5	451
Reserved for Advances and Deposits .....	1,071	-	-	-	-
Unreserved:					
Designated for Unrealized Gains .....	-	-	-	-	-
Designated for Subsequent Years' Expenditures .....	738	666	-	-	838
Undesignated .....	15,158	3,899	404	2,188	1,765
<b>TOTAL FUND EQUITY .....</b>	<b>17,916</b>	<b>4,944</b>	<b>404</b>	<b>2,193</b>	<b>3,054</b>
<b>TOTAL LIABILITIES AND FUND EQUITY .....</b>	<b>\$ 20,118</b>	<b>\$ 4,948</b>	<b>\$ 1,249</b>	<b>\$ 2,195</b>	<b>\$ 3,578</b>

Special Gas Tax Street Improvement	Street Division Operations	Transient Occupancy Tax	Underground Surcharge	Zoological Exhibits	Other Special Revenue	Unbudgeted		Total
						Grants	Other Special Revenue	
\$ 2,974	\$ 6,742	\$ 29,271	\$ 15,877	\$ 1,228	\$ 12,343	\$ 1,024	\$ 112,968	\$ 209,050
-	-	5,283	-	81	10,809	-	2	19,048
2,173	455	203	-	-	1,804	1,170	1,388	7,987
1	43	-	-	-	-	-	-	68
-	-	-	-	-	-	-	203	623
-	-	-	-	-	-	-	1,004	1,004
121	3	138	136	-	426	(3)	731	1,830
-	-	-	-	-	-	33,706	157	33,863
-	-	5,961	-	-	-	61	2	6,024
-	-	-	-	-	-	-	4,114	4,114
-	-	1,996	-	-	-	280	198	3,545
-	-	137	-	-	10	2	7	161
<u>\$ 5,269</u>	<u>\$ 7,243</u>	<u>\$ 42,989</u>	<u>\$ 16,013</u>	<u>\$ 1,309</u>	<u>\$ 25,392</u>	<u>\$ 36,240</u>	<u>\$ 120,774</u>	<u>\$ 287,317</u>
\$ -	\$ 796	\$ 723	\$ 13,749	\$ -	\$ 171	\$ 10,891	\$ 1,327	\$ 30,117
3	692	15	26	-	459	11	3	1,323
-	-	31	-	-	-	8,021	3,399	11,481
-	-	-	-	-	-	246	(1)	245
-	-	-	-	-	-	17,993	10,592	28,585
41	497	203	-	-	230	29,160	2,219	33,323
-	-	-	-	-	-	-	300	300
<u>44</u>	<u>1,985</u>	<u>972</u>	<u>13,775</u>	<u>-</u>	<u>860</u>	<u>66,322</u>	<u>17,839</u>	<u>105,374</u>
28	3,791	5,333	2,020	-	840	1	8,270	22,067
-	-	1,996	-	-	-	280	4,312	7,659
-	-	-	-	-	-	-	5	5
51	798	2,964	218	-	2	-	38,628	44,903
<u>5,146</u>	<u>669</u>	<u>31,724</u>	<u>-</u>	<u>1,309</u>	<u>23,690</u>	<u>(30,363)</u>	<u>51,720</u>	<u>107,309</u>
<u>5,225</u>	<u>5,258</u>	<u>42,017</u>	<u>2,238</u>	<u>1,309</u>	<u>24,532</u>	<u>(30,082)</u>	<u>102,935</u>	<u>181,943</u>
<u>\$ 5,269</u>	<u>\$ 7,243</u>	<u>\$ 42,989</u>	<u>\$ 16,013</u>	<u>\$ 1,309</u>	<u>\$ 25,392</u>	<u>\$ 36,240</u>	<u>\$ 120,774</u>	<u>\$ 287,317</u>

**CITY OF SAN DIEGO**  
**NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**YEAR ENDED JUNE 30, 2006**  
**(In Thousands)**

	<b>Budgeted</b>				
	<b>Acquisition, Improvement and Operations</b>	<b>Environmental Growth</b>	<b>Police Decentralization</b>	<b>Public Transportation</b>	<b>Qualcomm Stadium Operations</b>
<b>REVENUES</b>					
Property Taxes .....	\$ -	\$ -	\$ -	\$ -	\$ -
Special Assessments .....	18,334	-	-	-	-
Sales Taxes .....	924	-	8,919	-	-
Transient Occupancy Taxes .....	-	-	-	-	-
Other Local Taxes .....	-	11,708	-	-	-
Licenses and Permits .....	1,306	-	-	-	-
Fines, Forfeitures and Penalties .....	-	-	-	-	-
Revenue from Use of Money and Property .....	381	183	23	71	8,166
Revenue from Federal Agencies .....	-	-	-	-	-
Revenue from Other Agencies .....	-	-	-	-	-
Revenue from Private Sources .....	60	-	-	-	-
Charges for Current Services .....	3,312	-	-	-	-
Other Revenue .....	220	-	-	-	-
<b>TOTAL REVENUES .....</b>	<b>24,537</b>	<b>11,891</b>	<b>8,942</b>	<b>71</b>	<b>8,166</b>
<b>EXPENDITURES</b>					
Current:					
General Government and Support .....	1,898	-	-	-	-
Public Safety - Police .....	-	-	8,732	-	-
Public Safety - Fire and Life Safety .....	-	-	-	-	-
Parks, Recreation, Culture and Leisure .....	12,026	1,820	-	-	17,342
Transportation .....	19	-	-	32	-
Sanitation and Health .....	-	-	-	-	-
Neighborhood Services .....	8,427	-	-	-	-
Capital Projects .....	94	135	-	-	-
Debt Service:					
Principal Retirement .....	-	-	-	-	172
Interest .....	-	-	-	-	46
<b>TOTAL EXPENDITURES .....</b>	<b>22,464</b>	<b>1,955</b>	<b>8,732</b>	<b>32</b>	<b>17,560</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES .....</b>	<b>2,073</b>	<b>9,936</b>	<b>210</b>	<b>39</b>	<b>(9,394)</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers from Proprietary Funds .....	13	8	-	-	-
Transfers from Other Funds .....	2,154	-	-	4,079	4,308
Transfers to Proprietary Funds .....	(8)	-	-	-	-
Transfers to Other Funds .....	(27)	(9,469)	(23)	(4,062)	(5,814)
Capital Leases .....	-	-	-	-	10,028
Section 108 Loans Issued .....	-	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES) .....</b>	<b>2,132</b>	<b>(9,461)</b>	<b>(23)</b>	<b>17</b>	<b>8,522</b>
<b>NET CHANGE IN FUND BALANCES .....</b>	<b>4,205</b>	<b>475</b>	<b>187</b>	<b>56</b>	<b>(872)</b>
Fund Balances at Beginning of Year .....	13,711	4,469	217	2,137	3,926
<b>FUND BALANCES AT END OF YEAR .....</b>	<b>\$ 17,916</b>	<b>\$ 4,944</b>	<b>\$ 404</b>	<b>\$ 2,193</b>	<b>\$ 3,054</b>



						Unbudgeted		
Special Gas Tax Street Improvement	Street Division Operations	Transient Occupancy Tax	Underground Surcharge	Zoological Exhibits	Other Special Revenue	Grants	Other Special Revenue	Total
\$ -	\$ -	\$ -	\$ -	\$ 7,716	\$ -	\$ -	\$ 34	\$ 7,750
-	-	-	-	-	-	-	34	18,368
-	17,020	37,291	-	-	16,988	-	2,040	83,182
-	-	64,675	-	-	-	-	-	64,675
23,845	-	-	40,346	-	-	-	-	75,899
-	-	-	-	-	-	-	-	1,306
-	1	-	-	-	1,196	-	1,898	3,095
261	134	1,859	468	31	211	(398)	15,146	26,536
-	-	-	-	-	2	34,982	330	35,314
-	69	4,500	-	-	2,200	19,430	599	26,798
-	148	354	-	-	-	-	30,601	31,163
14	2,619	27	-	-	25,838	2	1,658	33,470
150	39	41	23	-	413	242	18,245	19,373
24,270	20,030	108,747	40,837	7,747	46,848	54,258	70,585	426,929
209	-	160	894	-	9,370	1,886	34,638	49,055
-	-	-	-	-	7,905	19,654	36,817	73,108
-	-	-	-	-	8,117	12,363	17,269	37,749
-	-	46,667	-	6,633	184	1,276	13,329	99,277
16	47,136	-	46,135	-	-	-	29,902	123,240
-	337	112	-	-	2,821	1,294	1,640	6,204
-	-	-	-	-	2,679	22,620	11,116	44,842
30	395	1,630	3,658	-	-	3,784	8,267	17,993
-	436	-	-	-	-	1,802	1,568	3,978
-	13	-	-	-	-	1,944	551	2,554
255	48,317	48,569	50,687	6,633	31,076	66,623	155,097	458,000
24,015	(28,287)	60,178	(9,850)	1,114	15,772	(12,365)	(84,512)	(31,071)
179	-	-	-	-	831	-	2,955	3,986
201	29,100	17,114	-	-	2,475	1,333	102,642	163,406
-	(114)	-	-	-	(454)	-	(468)	(1,044)
(23,633)	(239)	(82,314)	(4)	(31)	(11,013)	(825)	(9,782)	(147,236)
-	-	-	-	-	4,685	-	-	14,713
-	-	-	-	-	-	-	2,151	2,151
(23,253)	28,747	(65,200)	(4)	(31)	(3,476)	508	97,498	35,976
762	460	(5,022)	(9,854)	1,083	12,296	(11,857)	12,986	4,905
4,463	4,798	47,039	12,092	226	12,236	(18,225)	89,949	177,038
\$ 5,225	\$ 5,258	\$ 42,017	\$ 2,238	\$ 1,309	\$ 24,532	\$ (30,082)	\$ 102,935	\$ 181,943

**CITY OF SAN DIEGO**  
**NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE**  
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN UNDESIGNATED FUND BALANCES**  
**BUDGET AND ACTUAL (BUDGETARY BASIS)**  
**YEAR ENDED JUNE 30, 2006**  
(In Thousands)

	Acquisition, Improvement and Operations				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>					
Property Taxes .....	\$ -	\$ -	\$ -	\$ 13,160	\$ (13,160)
Special Assessments .....	18,334	-	18,334	5,804	12,530
Sales Taxes .....	924	-	924	923	1
Transient Occupancy Taxes .....	-	-	-	-	-
Other Local Taxes .....	-	-	-	-	-
Licenses and Permits .....	1,306	-	1,306	1,306	-
Fines, Forfeitures and Penalties .....	-	-	-	-	-
Revenue from Use of Money and Property .....	381	-	381	246	135
Revenue from Federal Agencies .....	-	-	-	-	-
Revenue from Other Agencies .....	-	-	-	-	-
Revenue from Private Sources .....	60	-	60	76	(16)
Charges for Current Services .....	3,312	-	3,312	3,042	270
Other Revenue .....	220	-	220	201	19
<b>TOTAL REVENUES</b> .....	<b>24,537</b>	<b>-</b>	<b>24,537</b>	<b>24,758</b>	<b>(221)</b>
<b>EXPENDITURES</b>					
Current:					
General Government and Support .....	1,898	7	1,905	2,638	733
Public Safety - Police .....	-	-	-	-	-
Public Safety - Fire and Life Safety .....	-	-	-	-	-
Parks, Recreation, Culture and Leisure .....	12,026	922	12,948	24,503	11,555
Transportation .....	19	-	19	21	2
Sanitation and Health .....	-	-	-	-	-
Neighborhood Services .....	8,427	876	9,303	9,826	523
Capital Projects .....	94	-	94	912	818
Debt Service:					
Principal Retirement .....	-	-	-	-	-
Interest .....	-	-	-	-	-
<b>TOTAL EXPENDITURES</b> .....	<b>22,464</b>	<b>1,805</b>	<b>24,269</b>	<b>37,900</b>	<b>13,631</b>
<b>EXCESS (DEFICIENCY) OF REVENUES</b>					
<b>OVER EXPENDITURES</b> .....	<b>2,073</b>	<b>(1,805)</b>	<b>268</b>	<b>(13,142)</b>	<b>13,410</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers from Proprietary Funds .....	13	-	13	-	13
Transfers from Other Funds .....	2,154	44	2,198	3,318	(1,120)
Transfers to Proprietary Funds .....	(8)	-	(8)	-	(8)
Transfers to Other Funds .....	(27)	-	(27)	(148)	121
Capital Leases .....	-	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b> .....	<b>2,132</b>	<b>44</b>	<b>2,176</b>	<b>3,170</b>	<b>(994)</b>
<b>NET CHANGE IN FUND BALANCES</b> .....	<b>\$ 4,205</b>	<b>\$ (1,761)</b>	<b>2,444</b>	<b>(9,972)</b>	<b>12,416</b>
Fund Balances Undesignated at July 1, 2005 .....			11,865	11,865	-
Reserved for Encumbrances at July 1, 2005 .....			604	604	-
Designated for Subsequent Years' Expenditures at July 1, 2005 .....			983	983	-
Designated for Subsequent Years' Expenditures at June 30, 2006 .....			(738)	-	(738)
<b>FUND BALANCES UNDESIGNATED AT JUNE 30, 2006</b> .....	<b>\$ 15,158</b>	<b>\$ 3,480</b>	<b>\$ 11,678</b>		

Environmental Growth					Police Decentralization				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	8,919	-	8,919	8,919	-
-	-	-	-	-	-	-	-	-	-
11,708	-	11,708	12,691	(983)	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
183	-	183	107	76	23	-	23	-	23
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
11,891	-	11,891	12,798	(907)	8,942	-	8,942	8,919	23
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	8,732	-	8,732	8,936	204
-	-	-	-	-	-	-	-	-	-
1,820	279	2,099	2,072	(27)	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
135	100	235	902	667	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
1,955	379	2,334	2,974	640	8,732	-	8,732	8,936	204
9,936	(379)	9,557	9,824	(267)	210	-	210	(17)	227
8	-	8	-	8	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
(9,469)	-	(9,469)	-	(9,469)	(23)	-	(23)	-	(23)
-	-	-	-	-	-	-	-	-	-
(9,461)	-	(9,461)	-	(9,461)	(23)	-	(23)	-	(23)
\$ 475	\$ (379)	96	9,824	(9,728)	\$ 187	\$ -	187	(17)	204
		3,778	-	3,778			217	217	-
		179	-	179			-	-	-
		512	-	512			-	-	-
		(666)	-	(666)			-	-	-
		\$ 3,899	\$ 9,824	\$ (5,925)			\$ 404	\$ 200	\$ 204

Continued on Next Page

CITY OF SAN DIEGO  
**NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE**  
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN UNDESIGNATED FUND BALANCES**  
**BUDGET AND ACTUAL (BUDGETARY BASIS)**  
**YEAR ENDED JUNE 30, 2006**  
(In Thousands)

	Public Transportation				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>					
Property Taxes .....	\$ -	\$ -	\$ -	\$ -	\$ -
Special Assessments .....	-	-	-	-	-
Sales Taxes .....	-	-	-	-	-
Transient Occupancy Taxes .....	-	-	-	-	-
Other Local Taxes .....	-	-	-	-	-
Licenses and Permits .....	-	-	-	-	-
Fines, Forfeitures and Penalties .....	-	-	-	-	-
Revenue from Use of Money and Property .....	71	-	71	-	71
Revenue from Federal Agencies .....	-	-	-	-	-
Revenue from Other Agencies .....	-	-	-	-	-
Revenue from Private Sources .....	-	-	-	-	-
Charges for Current Services .....	-	-	-	-	-
Other Revenue .....	-	-	-	-	-
<b>TOTAL REVENUES .....</b>	<b>71</b>	<b>-</b>	<b>71</b>	<b>-</b>	<b>71</b>
<b>EXPENDITURES</b>					
Current:					
General Government and Support .....	-	-	-	-	-
Public Safety - Police .....	-	-	-	-	-
Public Safety - Fire and Life Safety .....	-	-	-	-	-
Parks, Recreation, Culture and Leisure .....	-	-	-	-	-
Transportation .....	32	5	37	48	11
Sanitation and Health .....	-	-	-	-	-
Neighborhood Services .....	-	-	-	-	-
Capital Projects .....	-	-	-	-	-
Debt Service:					
Principal Retirement .....	-	-	-	-	-
Interest .....	-	-	-	-	-
<b>TOTAL EXPENDITURES .....</b>	<b>32</b>	<b>5</b>	<b>37</b>	<b>48</b>	<b>11</b>
<b>EXCESS (DEFICIENCY) OF REVENUES</b>					
<b>OVER EXPENDITURES .....</b>	<b>39</b>	<b>(5)</b>	<b>34</b>	<b>(48)</b>	<b>82</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers from Proprietary Funds .....	-	-	-	-	-
Transfers from Other Funds .....	4,079	-	4,079	4,079	-
Transfers to Proprietary Funds .....	-	-	-	-	-
Transfers to Other Funds .....	(4,062)	-	(4,062)	(4,079)	17
Capital Leases .....	-	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES) .....</b>	<b>17</b>	<b>-</b>	<b>17</b>	<b>-</b>	<b>17</b>
<b>NET CHANGE IN FUND BALANCES .....</b>	<b>\$ 56</b>	<b>\$ (5)</b>	<b>51</b>	<b>(48)</b>	<b>99</b>
Fund Balances Undesignated at July 1, 2005 .....			2,133	2,133	-
Reserved for Encumbrances at July 1, 2005 .....			4	4	-
Designated for Subsequent Years' Expenditures at July 1, 2005 .....			-	-	-
Designated for Subsequent Years' Expenditures at June 30, 2006 .....			-	-	-
<b>FUND BALANCES UNDESIGNATED AT JUNE 30, 2006 .....</b>			<b>\$ 2,188</b>	<b>\$ 2,089</b>	<b>\$ 99</b>

Qualcomm Stadium Operations					Special Gas Tax Street Improvement				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	23,845	-	23,845	23,539	306
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
8,166	-	8,166	9,530	(1,364)	261	-	261	339	(78)
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	10	(10)	14	-	14	-	14
-	-	-	-	-	150	-	150	-	150
8,166	-	8,166	9,540	(1,374)	24,270	-	24,270	23,878	392
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	209	-	209	263	54
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
17,342	(9,577)	7,765	8,144	379	-	-	-	-	-
-	-	-	-	-	16	17	33	33	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	1,034	1,034	30	11	41	46	5
172	-	172	172	-	-	-	-	-	-
46	-	46	46	-	-	-	-	-	-
17,560	(9,577)	7,983	9,396	1,413	255	28	283	342	59
(9,394)	9,577	183	144	39	24,015	(28)	23,987	23,536	451
-	-	-	-	-	179	-	179	-	179
4,308	-	4,308	3,000	1,308	201	-	201	-	201
-	-	-	-	-	-	-	-	-	-
(5,814)	-	(5,814)	(5,854)	40	(23,633)	-	(23,633)	(23,628)	(5)
10,028	(10,028)	-	-	-	-	-	-	-	-
8,522	(10,028)	(1,506)	(2,854)	1,348	(23,253)	-	(23,253)	(23,628)	375
\$ (872)	\$ (451)	(1,323)	(2,710)	1,387	\$ 762	\$ (28)	734	(92)	826
		3,228	3,228	-			4,371	4,371	-
		375	375	-			40	40	-
		323	323	-			52	52	-
		(838)	-	(838)			(51)	-	(51)
		\$ 1,765	\$ 1,216	\$ 549			\$ 5,146	\$ 4,371	\$ 775

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**CITY OF SAN DIEGO**  
**NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE**  
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN UNDESIGNATED FUND BALANCES**  
**BUDGET AND ACTUAL (BUDGETARY BASIS)**  
**YEAR ENDED JUNE 30, 2006**  
**(In Thousands)**

	Street Division Operations				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>					
Property Taxes .....	\$ -	\$ -	\$ -	\$ -	\$ -
Special Assessments .....	-	-	-	-	-
Sales Taxes .....	17,020	-	17,020	17,020	-
Transient Occupancy Taxes .....	-	-	-	-	-
Other Local Taxes .....	-	-	-	-	-
Licenses and Permits .....	-	-	-	-	-
Fines, Forfeitures and Penalties .....	1	-	1	-	1
Revenue from Use of Money and Property .....	134	-	134	-	134
Revenue from Federal Agencies .....	-	-	-	-	-
Revenue from Other Agencies .....	69	-	69	20	49
Revenue from Private Sources .....	148	-	148	60	88
Charges for Current Services .....	2,619	-	2,619	855	1,764
Other Revenue .....	39	-	39	-	39
<b>TOTAL REVENUES</b> .....	<u>20,030</u>	<u>-</u>	<u>20,030</u>	<u>17,955</u>	<u>2,075</u>
<b>EXPENDITURES</b>					
Current:					
General Government and Support .....	-	-	-	-	-
Public Safety - Police .....	-	-	-	-	-
Public Safety - Fire and Life Safety .....	-	-	-	-	-
Parks, Recreation, Culture and Leisure .....	-	-	-	-	-
Transportation .....	47,136	3,691	50,827	49,865	(962)
Sanitation and Health .....	337	26	363	432	69
Neighborhood Services .....	-	-	-	-	-
Capital Projects .....	395	74	469	963	494
Debt Service:					
Principal Retirement .....	436	-	436	468	32
Interest .....	13	-	13	-	(13)
<b>TOTAL EXPENDITURES</b> .....	<u>48,317</u>	<u>3,791</u>	<u>52,108</u>	<u>51,728</u>	<u>(380)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b> .....	<u>(28,287)</u>	<u>(3,791)</u>	<u>(32,078)</u>	<u>(33,773)</u>	<u>1,695</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers from Proprietary Funds .....	-	-	-	-	-
Transfers from Other Funds .....	29,100	-	29,100	30,941	(1,841)
Transfers to Proprietary Funds .....	(114)	-	(114)	(451)	337
Transfers to Other Funds .....	(239)	-	(239)	(105)	(134)
Capital Leases .....	-	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b> .....	<u>28,747</u>	<u>-</u>	<u>28,747</u>	<u>30,385</u>	<u>(1,638)</u>
<b>NET CHANGE IN FUND BALANCES</b> .....	<u>\$ 460</u>	<u>\$ (3,791)</u>	<u>(3,331)</u>	<u>(3,388)</u>	<u>57</u>
Fund Balances Undesignated at July 1, 2005 .....			1,410	1,410	-
Reserved for Encumbrances at July 1, 2005 .....			2,530	2,530	-
Designated for Subsequent Years' Expenditures at July 1, 2005 .....			858	858	-
Designated for Subsequent Years' Expenditures at June 30, 2006 .....			(798)	-	(798)
<b>FUND BALANCES UNDESIGNATED AT JUNE 30, 2006</b> .....			<u>\$ 669</u>	<u>\$ 1,410</u>	<u>\$ (741)</u>

Transient Occupancy Tax					Underground Surcharge				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-	-	-
37,291	-	37,291	42,851	(5,560)	-	-	-	-	-
64,675	-	64,675	61,216	3,459	-	-	-	-	-
-	-	-	-	-	40,346	-	40,346	42,090	(1,744)
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
1,859	-	1,859	1,504	355	468	-	468	-	468
-	-	-	-	-	-	-	-	-	-
4,500	-	4,500	4,500	-	-	-	-	-	-
354	-	354	190	164	-	-	-	-	-
27	-	27	-	27	-	-	-	-	-
41	-	41	2,700	(2,659)	23	-	23	-	23
108,747	-	108,747	112,961	(4,214)	40,837	-	40,837	42,090	(1,253)
160	4	164	228	64	894	56	950	1,355	405
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
46,667	3,819	50,486	46,731	(3,755)	-	-	-	-	-
-	-	-	-	-	46,135	560	46,695	43,255	(3,440)
112	48	160	158	(2)	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
1,630	1,462	3,092	7,665	4,573	3,658	1,404	5,062	8,251	3,189
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
48,569	5,333	53,902	54,782	880	50,687	2,020	52,707	52,861	154
60,178	(5,333)	54,845	58,179	(3,334)	(9,850)	(2,020)	(11,870)	(10,775)	(1,099)
-	-	-	-	-	-	-	-	-	-
17,114	-	17,114	49,411	(32,297)	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
(82,314)	-	(82,314)	(118,840)	36,526	(4)	-	(4)	(4)	-
-	-	-	-	-	-	-	-	-	-
(65,200)	-	(65,200)	(69,429)	4,229	(4)	-	(4)	(4)	-
\$ (5,022)	\$ (5,333)	(10,355)	(11,250)	895	\$ (9,854)	\$ (2,020)	(11,874)	(10,775)	(1,099)
		36,532	36,532	-			4,436	4,436	-
		5,645	5,645	-			2,764	2,764	-
		2,866	2,866	-			4,892	4,892	-
		(2,964)	-	(2,964)			(218)	-	(218)
		\$ 31,724	\$ 33,793	\$ (2,069)			\$ -	\$ 1,317	\$ (1,317)

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CITY OF SAN DIEGO  
**NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE**  
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN UNDESIGNATED FUND BALANCES**  
**BUDGET AND ACTUAL (BUDGETARY BASIS)**  
**YEAR ENDED JUNE 30, 2006**  
(In Thousands)

	Zoological Exhibits				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>					
Property Taxes .....	\$ 7,716	\$ -	\$ 7,716	\$ 6,522	\$ 1,194
Special Assessments .....	-	-	-	-	-
Sales Taxes .....	-	-	-	-	-
Transient Occupancy Taxes .....	-	-	-	-	-
Other Local Taxes .....	-	-	-	-	-
Licenses and Permits .....	-	-	-	-	-
Fines, Forfeitures and Penalties .....	-	-	-	-	-
Revenue from Use of Money and Property .....	31	-	31	-	31
Revenue from Federal Agencies .....	-	-	-	-	-
Revenue from Other Agencies .....	-	-	-	-	-
Revenue from Private Sources .....	-	-	-	-	-
Charges for Current Services .....	-	-	-	-	-
Other Revenue .....	-	-	-	-	-
<b>TOTAL REVENUES .....</b>	<b>7,747</b>	<b>-</b>	<b>7,747</b>	<b>6,522</b>	<b>1,225</b>
<b>EXPENDITURES</b>					
Current:					
General Government and Support .....	-	-	-	-	-
Public Safety - Police .....	-	-	-	-	-
Public Safety - Fire and Life Safety .....	-	-	-	-	-
Parks, Recreation, Culture and Leisure .....	6,633	-	6,633	6,642	9
Transportation .....	-	-	-	-	-
Sanitation and Health .....	-	-	-	-	-
Neighborhood Services .....	-	-	-	-	-
Capital Projects .....	-	-	-	-	-
Debt Service:					
Principal Retirement .....	-	-	-	-	-
Interest .....	-	-	-	-	-
<b>TOTAL EXPENDITURES .....</b>	<b>6,633</b>	<b>-</b>	<b>6,633</b>	<b>6,642</b>	<b>9</b>
<b>EXCESS (DEFICIENCY) OF REVENUES</b>					
<b>OVER EXPENDITURES .....</b>	<b>1,114</b>	<b>-</b>	<b>1,114</b>	<b>(120)</b>	<b>1,234</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers from Proprietary Funds .....	-	-	-	-	-
Transfers from Other Funds .....	-	-	-	-	-
Transfers to Proprietary Funds .....	-	-	-	-	-
Transfers to Other Funds .....	(31)	-	(31)	-	(31)
Capital Leases .....	-	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES) .....</b>	<b>(31)</b>	<b>-</b>	<b>(31)</b>	<b>-</b>	<b>(31)</b>
<b>NET CHANGE IN FUND BALANCES .....</b>	<b>\$ 1,083</b>	<b>\$ -</b>	<b>1,083</b>	<b>(120)</b>	<b>1,203</b>
Fund Balances Undesignated at July 1, 2005 .....			226	226	-
Reserved for Encumbrances at July 1, 2005 .....			-	-	-
Designated for Subsequent Years' Expenditures at July 1, 2005 .....			-	-	-
Designated for Subsequent Years' Expenditures at June 30, 2006 .....			-	-	-
<b>FUND BALANCES UNDESIGNATED AT JUNE 30, 2006 .....</b>			<b>\$ 1,309</b>	<b>\$ 106</b>	<b>\$ 1,203</b>



Other Special Revenue					Total				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,716	\$ -	\$ 7,716	\$ 19,682	\$ (11,966)
-	-	-	-	-	18,334	-	18,334	5,804	12,530
16,988	-	16,988	-	16,988	81,142	-	81,142	69,713	11,429
-	-	-	-	-	64,675	-	64,675	61,216	3,459
-	-	-	1,647	(1,647)	75,899	-	75,899	79,967	(4,068)
-	-	-	-	-	1,306	-	1,306	1,306	-
1,196	-	1,196	1,165	31	1,197	-	1,197	1,165	32
211	-	211	52	159	11,788	-	11,788	11,778	10
2	-	2	-	2	2	-	2	-	2
2,200	-	2,200	892	1,308	6,769	-	6,769	5,412	1,357
-	-	-	-	-	562	-	562	326	236
25,838	-	25,838	14,188	11,650	31,810	-	31,810	18,095	13,715
413	-	413	415	(2)	886	-	886	3,316	(2,430)
46,848	-	46,848	18,359	28,489	302,086	-	302,086	277,780	24,306
9,370	167	9,537	8,354	(1,183)	12,531	234	12,765	12,838	73
7,905	(4,521)	3,384	3,735	351	16,637	(4,521)	12,116	12,671	555
8,117	219	8,336	8,337	1	8,117	219	8,336	8,337	1
184	4	188	208	20	84,672	(4,553)	80,119	88,300	8,181
-	-	-	-	-	93,338	4,273	97,611	93,222	(4,389)
2,821	285	3,106	3,402	296	3,270	359	3,629	3,992	363
2,679	-	2,679	-	(2,679)	11,106	876	11,982	9,826	(2,156)
-	-	-	-	-	5,942	3,051	8,993	19,773	10,780
-	-	-	-	-	608	-	608	640	32
-	-	-	-	-	59	-	59	46	(13)
31,076	(3,846)	27,230	24,036	(3,194)	236,280	(62)	236,218	249,645	13,427
15,772	3,846	19,618	(5,677)	25,295	65,806	62	65,868	28,135	37,733
831	-	831	920	(89)	1,031	-	1,031	920	111
2,475	-	2,475	9,313	(6,838)	59,431	44	59,475	100,062	(40,587)
(454)	-	(454)	-	-	(576)	-	(576)	(451)	(125)
(11,013)	-	(11,013)	(11,450)	437	(136,629)	-	(136,629)	(164,108)	27,479
4,685	(4,685)	-	-	-	14,713	(14,713)	-	-	-
(3,476)	(4,685)	(8,161)	(1,217)	(6,490)	(62,030)	(14,669)	(76,699)	(63,577)	(13,122)
\$ 12,296	\$ (839)	11,457	(6,894)	18,805	\$ 3,776	\$ (14,607)	(10,831)	(35,442)	24,611
		10,073	10,073	-			78,269	74,491	3,778
		1,939	1,939	-			14,080	13,901	179
		224	224	-			10,710	10,198	512
		(2)	-	(2)			(6,275)	-	(6,275)
		\$ 23,690	\$ 5,341	\$ 18,803			\$ 85,952	\$ 63,147	\$ 22,805

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CITY OF SAN DIEGO  
**NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE**  
**ENVIRONMENTAL GROWTH FUND**  
**COMBINING BALANCE SHEET**  
**JUNE 30, 2006**  
**( In Thousands )**

	Two-Thirds Requirement	One-Third Requirement	Total
<b>ASSETS</b>			
Cash or Equity in Pooled Cash and Investments .....	\$ 1,452	\$ 543	\$ 1,995
Receivables:			
Taxes - Net .....	1,915	958	2,873
Accrued Interest .....	58	22	80
<b>TOTAL ASSETS</b> .....	<u>\$ 3,425</u>	<u>\$ 1,523</u>	<u>\$ 4,948</u>
<b>LIABILITIES</b>			
Accounts Payable .....	\$ -	\$ 4	\$ 4
<b>FUND EQUITY</b>			
Fund Balances:			
Reserved for Encumbrances .....	-	379	379
Unreserved:			
Designated for Subsequent Years' Expenditures .....	-	666	666
Undesignated .....	3,425	474	3,899
<b>TOTAL FUND EQUITY</b> .....	<u>3,425</u>	<u>1,519</u>	<u>4,944</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b> .....	<u>\$ 3,425</u>	<u>\$ 1,523</u>	<u>\$ 4,948</u>

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**Year Ended June 30, 2006**  
**( In Thousands )**

	Two-Thirds Requirement	One-Third Requirement	Total
<b>REVENUES</b>			
Other Local Taxes .....	\$ 7,788	\$ 3,920	\$ 11,708
Revenue from Use of Money and Property .....	129	54	183
<b>TOTAL REVENUES</b> .....	<u>7,917</u>	<u>3,974</u>	<u>11,891</u>
<b>EXPENDITURES</b>			
Current:			
Parks, Recreation, Culture and Leisure .....	9	1,811	1,820
Capital Projects .....	-	135	135
<b>TOTAL EXPENDITURES</b> .....	<u>9</u>	<u>1,946</u>	<u>1,955</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b> .....	<u>7,908</u>	<u>2,028</u>	<u>9,936</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers from Proprietary Funds .....	5	3	8
Transfers to Other Funds .....	(7,315)	(2,154)	(9,469)
<b>NET CHANGE IN FUND BALANCES</b> .....	<u>598</u>	<u>(123)</u>	<u>475</u>
Fund Balances at Beginning of Year .....	<u>2,827</u>	<u>\$ 1,642</u>	<u>\$ 4,469</u>
<b>FUND BALANCES AT END OF YEAR</b> .....	<u>\$ 3,425</u>	<u>\$ 1,519</u>	<u>\$ 4,944</u>

CITY OF SAN DIEGO  
 NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE  
 ENVIRONMENTAL GROWTH FUND  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN UNDESIGNATED FUND BALANCES  
 BUDGET AND ACTUAL (BUDGETARY BASIS)  
 YEAR ENDED JUNE 30, 2006  
 ( In Thousands )

	Two-Thirds Requirement				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
REVENUES					
Other Local Taxes .....	\$ 7,788	\$ -	\$ 7,788	\$ 8,461	\$ (673)
Revenue from Use of Money and Property .....	129	-	129	53	76
TOTAL REVENUES .....	7,917	-	7,917	8,514	(597)
EXPENDITURES					
Current:					
Parks, Recreation, Culture and Leisure .....	9	-	9	9	-
Capital Projects .....	-	-	-	-	-
TOTAL EXPENDITURES .....	9	-	9	9	-
EXCESS OF REVENUES OVER EXPENDITURES .....	7,908	-	7,908	8,505	(597)
OTHER FINANCING SOURCES (USES)					
Transfers from Proprietary Funds .....	5	-	5	-	5
Transfers to Other Funds .....	(7,315)	-	(7,315)	(7,315)	-
NET CHANGE IN FUND BALANCES .....	\$ 598	\$ -	598	1,190	(592)
Fund Balances Undesignated at July 1, 2005 .....			2,827	2,827	-
Reserved for Encumbrances at July 1, 2005.....			-	-	-
Designated for Subsequent Years' Expenditures at July 1, 2005 .....			-	-	-
Designated for Subsequent Years' Expenditures at June 30, 2006 .....			-	-	-
FUND BALANCES UNDESIGNATED AT JUNE 30, 2006 .....			\$ 3,425	\$ 4,017	\$ (592)

One-Third Requirement					Total				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
\$ 3,920	\$ -	\$ 3,920	\$ 4,230	\$ (310)	\$ 11,708	\$ -	\$ 11,708	\$ 12,691	\$ (983)
54	-	54	54	-	183	-	183	107	76
3,974	-	3,974	4,284	(310)	11,891	-	11,891	12,798	(907)
1,811	279	2,090	2,063	(27)	1,820	279	2,099	2,072	(27)
135	100	235	902	667	135	100	235	902	667
1,946	379	2,325	2,965	640	1,955	379	2,334	2,974	640
2,028	(379)	1,649	1,319	330	9,936	(379)	9,557	9,824	(267)
3	-	3	-	3	8	-	8	-	8
(2,154)	-	(2,154)	(2,154)	-	(9,469)	-	(9,469)	(9,469)	-
<u>\$ (123)</u>	<u>\$ (379)</u>	(502)	(835)	333	<u>\$ 475</u>	<u>\$ (379)</u>	96	355	(259)
		951	951	-			3,778	3,778	-
		179	179	-			179	179	-
		512	512	-			512	512	-
		(666)	-	(666)			(666)	-	(666)
		<u>\$ 474</u>	<u>\$ 807</u>	<u>\$ (333)</u>			<u>\$ 3,899</u>	<u>\$ 4,824</u>	<u>\$ (925)</u>

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## NON-MAJOR GOVERNMENTAL FUNDS - DEBT SERVICE

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## **DEBT SERVICE FUNDS**

Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

### **CITY OF SAN DIEGO**

#### **PUBLIC SAFETY COMMUNICATIONS PROJECT**

This fund was established to account for the payment of principal and interest on general obligation bonds issued in 1991. These bonds are serviced by property taxes.

#### **OTHER SPECIAL ASSESSMENTS**

This fund was established to account for the payment of principal and interest for bonds issued under the Improvement Bond Act of 1915 and the Mello-Roos Community Facilities Act of 1982. These bonds are serviced by assessments and special taxes levied on property owners within each district.

### **BLENDED COMPONENT UNITS**

#### **CITY OF SAN DIEGO METROPOLITAN TRANSIT DEVELOPMENT BOARD AUTHORITY**

This fund was established to account for the debt service activities of the City of San Diego Metropolitan Transit Development Board Authority (the "Authority"). The Authority was created to acquire and construct mass public transit guideways, systems and related facilities. The Authority's debt service fund is used to account for the payment of long-term debt principal and interest. This fund is serviced by investment income, lease payments from the City of San Diego, and proceeds from lease revenue bonds and certificates of participation.

#### **CONVENTION CENTER EXPANSION FINANCING AUTHORITY**

This fund was established to account for the debt service activities of the Convention Center Expansion Financing Authority (the "Authority"). The Authority, created by the City of San Diego and the San Diego Unified Port District, facilitates the financing, acquisition and construction of an expansion to the existing convention center. The Authority's debt service fund is used to account for the payment of long-term debt principal and interest.

#### **PUBLIC FACILITIES FINANCING AUTHORITY**

This fund was established to account for the debt service activities of the Public Facilities Financing Authority (the "Authority"). The Authority, created by the City of San Diego and the Redevelopment Agency of the City of San Diego (the "Agency"), facilitates the financing, acquisition and construction of public capital facility improvements of the Agency or the City. The Authority's debt service fund is used to account for the payment of long-term debt principal and interest.

#### **REDEVELOPMENT AGENCY**

This fund was established to account for the debt service activities of the Redevelopment Agency of the City of San Diego (the "Agency"). The Agency was established to provide a method for revitalizing deteriorated and blighted areas of the City of San Diego. This fund is serviced by property tax increments, sale of real estate, and investment income.

#### **SAN DIEGO FACILITIES AND EQUIPMENT LEASING CORPORATION**

This fund was established to account for the debt service activities of the San Diego Facilities and Equipment Leasing Corporation (the "Corporation"). The Corporation was established to acquire and lease to the City of San Diego real and personal property to be used in the municipal operations of the City. The City makes lease payments from annual appropriations payable out of any source of legally available funds.

**SAN DIEGO OPEN SPACE PARK FACILITIES DISTRICT #1**

This fund was established for the purpose of acquiring open space properties to implement the Open Space element of the City of San Diego General Plan, and accounts for financial resources accumulated for the payment of long-term debt principal and interest. This fund is serviced by City contributions and investment income.

**TOBACCO SETTLEMENT REVENUE FUNDING CORPORATION**

This fund was established to account for the debt service activities of the Tobacco Settlement Revenue Funding Corporation (TSRFC). The TSRFC was established for the purpose of acquiring the tobacco settlement revenues allocated to the City from the State of California, pursuant to the Master Settlement Agreement. The TSRFC's debt service fund is used to account for the payment of long-term debt principal and interest.

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**NONMAJOR GOVERNMENTAL FUNDS - DEBT SERVICE**  
**COMBINING BALANCE SHEET**  
**June 30, 2006**  
**( In Thousands )**

	City of San Diego	City of San Diego/MTDB Authority	Convention Center Expansion Financing Authority	Public Facilities Financing Authority
<b>ASSETS</b>				
Receivables:				
Taxes - Net .....	\$ 27	\$ -	\$ -	\$ -
Accounts - Net .....	-	-	-	-
Special Assessments - Net .....	708	-	-	-
Accrued Interest .....	96	10	-	141
From Other Funds .....	-	-	-	-
Prepaid Items .....	-	-	-	-
Restricted Cash and Investments .....	28,742	5,908	12	16,339
<b>TOTAL ASSETS</b> .....	<b>\$ 29,573</b>	<b>\$ 5,918</b>	<b>\$ 12</b>	<b>\$ 16,480</b>
<b>LIABILITIES</b>				
Deferred Revenue .....	\$ 532	\$ -	\$ -	\$ -
<b>TOTAL LIABILITIES</b> .....	<b>532</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>FUND EQUITY</b>				
Fund Balances:				
Reserved for Debt Service .....	29,041	5,918	12	16,461
Unreserved:				
Designated for Unrealized Gains .....	-	-	-	19
Undesignated .....	-	-	-	-
<b>TOTAL FUND EQUITY</b> .....	<b>29,041</b>	<b>5,918</b>	<b>12</b>	<b>16,480</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b> .....	<b>\$ 29,573</b>	<b>\$ 5,918</b>	<b>\$ 12</b>	<b>\$ 16,480</b>

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**Year Ended June 30, 2006**  
**(In Thousands)**

<b>REVENUES</b>				
Property Taxes .....	\$ 2,411	\$ -	\$ -	\$ -
Special Assessments .....	17,648	-	-	-
Revenue from Use of Money and Property .....	847	116	45	620
<b>TOTAL REVENUES</b> .....	<b>20,906</b>	<b>116</b>	<b>45</b>	<b>620</b>
<b>EXPENDITURES</b>				
Current:				
General Government and Support .....	1,333	-	-	-
Debt Service:				
Principal Retirement .....	5,190	5,265	4,680	5,955
Interest .....	8,295	1,227	9,020	19,626
<b>TOTAL EXPENDITURES</b> .....	<b>14,818</b>	<b>6,492</b>	<b>13,700</b>	<b>25,581</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b> .....	<b>6,088</b>	<b>(6,376)</b>	<b>(13,655)</b>	<b>(24,961)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers from Other Funds .....	1,455	4,062	13,660	26,067
Transfers to Other Funds .....	(4,162)	-	-	(1,595)
Tobacco Settlement Bonds Issued .....	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b> .....	<b>(2,707)</b>	<b>4,062</b>	<b>13,660</b>	<b>24,472</b>
<b>NET CHANGE IN FUND BALANCES</b> .....	<b>3,381</b>	<b>(2,314)</b>	<b>5</b>	<b>(489)</b>
Fund Balances at Beginning of Year .....	25,660	8,232	7	16,969
<b>FUND BALANCES AT END OF YEAR</b> .....	<b>\$ 29,041</b>	<b>\$ 5,918</b>	<b>\$ 12</b>	<b>\$ 16,480</b>

Redevelopment Agency	San Diego Facilities and Equipment Leasing Corporation	San Diego Open Space Park Facilities District #1	Tobacco Settlement Revenue Funding Corporation	Total
\$ -	\$ -	\$ -	\$ -	\$ 27
-	-	-	4,804	4,804
-	-	-	-	708
62	-	4	1	314
134	-	-	-	134
-	-	34	-	34
57,413	3	358	12,997	121,772
<u>\$ 57,609</u>	<u>\$ 3</u>	<u>\$ 396</u>	<u>\$ 17,802</u>	<u>\$ 127,793</u>
\$ -	\$ -	\$ -	\$ 4,804	\$ 5,336
-	-	-	4,804	5,336
57,415	3	396	12,994	122,240
143	-	-	4	166
51	-	-	-	51
57,609	3	396	12,998	122,457
<u>\$ 57,609</u>	<u>\$ 3</u>	<u>\$ 396</u>	<u>\$ 17,802</u>	<u>\$ 127,793</u>
\$ -	\$ -	\$ -	\$ -	\$ 2,411
-	-	-	-	17,648
1,881	5	35	5	3,554
1,881	5	35	5	23,613
-	-	-	1,427	2,760
12,416	4,680	350	-	38,536
22,326	1,894	88	-	62,476
34,742	6,574	438	1,427	103,772
(32,861)	(6,569)	(403)	(1,422)	(80,159)
34,245	6,569	715	-	86,773
(284)	-	-	-	(6,041)
-	-	-	14,420	14,420
33,961	6,569	715	14,420	95,152
1,100	-	312	12,998	14,993
56,509	3	84	-	107,464
<u>\$ 57,609</u>	<u>\$ 3</u>	<u>\$ 396</u>	<u>\$ 12,998</u>	<u>\$ 122,457</u>

**CITY OF SAN DIEGO  
NONMAJOR GOVERNMENTAL FUNDS - DEBT SERVICE  
COMBINING BALANCE SHEET  
June 30, 2006  
( In Thousands )**

	Budgeted	Unbudgeted	
	Public Safety Communications Project	Other Special Assessments	Total
<b>ASSETS</b>			
Receivables:			
Taxes - Net .....	\$ 27	\$ -	\$ 27
Special Assessments - Net .....	-	708	708
Accrued Interest .....	18	78	96
Restricted Cash and Investments .....	2,360	26,382	28,742
<b>TOTAL ASSETS .....</b>	<b>\$ 2,405</b>	<b>\$ 27,168</b>	<b>\$ 29,573</b>
<b>LIABILITIES</b>			
Deferred Revenue .....	\$ -	\$ 532	\$ 532
<b>TOTAL LIABILITIES .....</b>	<b>-</b>	<b>532</b>	<b>532</b>
<b>FUND EQUITY</b>			
Fund Balances:			
Reserved for Debt Service .....	2,405	26,636	29,041
<b>TOTAL FUND EQUITY .....</b>	<b>2,405</b>	<b>26,636</b>	<b>29,041</b>
<b>TOTAL LIABILITIES AND FUND EQUITY .....</b>	<b>\$ 2,405</b>	<b>\$ 27,168</b>	<b>\$ 29,573</b>

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
Year Ended June 30, 2006  
(In Thousands)**

<b>REVENUES</b>			
Property Taxes .....	\$ 2,411	\$ -	\$ 2,411
Special Assessments .....	-	17,648	17,648
Revenue from Use of Money and Property .....	32	815	847
<b>TOTAL REVENUES .....</b>	<b>2,443</b>	<b>18,463</b>	<b>20,906</b>
<b>EXPENDITURES</b>			
Current:			
General Government and Support .....	1	1,332	1,333
Debt Service:			
Principal Retirement .....	1,490	3,700	5,190
Interest .....	839	7,456	8,295
<b>TOTAL EXPENDITURES .....</b>	<b>2,330</b>	<b>12,488</b>	<b>14,818</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES .....</b>	<b>113</b>	<b>5,975</b>	<b>6,088</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers from Other Funds .....	-	1,455	1,455
Transfers to Other Funds .....	-	(4,162)	(4,162)
<b>TOTAL OTHER FINANCING SOURCES (USES) .....</b>	<b>-</b>	<b>(2,707)</b>	<b>(2,707)</b>
<b>NET CHANGE IN FUND BALANCES .....</b>	<b>113</b>	<b>3,268</b>	<b>3,381</b>
Fund Balances at Beginning of Year .....	2,292	23,368	25,660
<b>FUND BALANCES AT END OF YEAR .....</b>	<b>\$ 2,405</b>	<b>\$ 26,636</b>	<b>\$ 29,041</b>

CITY OF SAN DIEGO  
 NONMAJOR GOVERNMENTAL FUNDS - DEBT SERVICE  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN UNDESIGNATED FUND BALANCES  
 BUDGET AND ACTUAL (BUDGETARY BASIS)  
 Year Ended June 30, 2006  
 (In Thousands)

	Public Safety Communications Project				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>					
Property Taxes .....	\$ 2,411	\$ -	\$ 2,411	\$ 2,411	\$ -
Revenue from Use of Money and Property .....	32	-	32	32	-
<b>TOTAL REVENUES .....</b>	<b>2,443</b>	<b>-</b>	<b>2,443</b>	<b>2,443</b>	<b>-</b>
<b>EXPENDITURES</b>					
Current:					
General Government and Support .....	1	-	1	1	-
Debt Service:					
Principal Retirement .....	1,490	-	1,490	1,490	-
Interest .....	839	-	839	839	-
<b>TOTAL EXPENDITURES .....</b>	<b>2,330</b>	<b>-</b>	<b>2,330</b>	<b>2,330</b>	<b>-</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES .....</b>	<b>113</b>	<b>-</b>	<b>113</b>	<b>113</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES .....</b>	<b>\$ 113</b>	<b>\$ -</b>	<b>113</b>	<b>113</b>	<b>-</b>
Reserved for Debt Service at July 1, 2005 .....			2,292	2,292	-
Reserved for Debt Service at June 30, 2006.....			(2,405)	(2,405)	-
<b>FUND BALANCES UNDESIGNATED AT JUNE 30, 2006.....</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

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## NON-MAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS

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## CAPITAL PROJECTS FUNDS

Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and fiduciary funds).

### **CITY OF SAN DIEGO**

#### CAPITAL OUTLAY

This fund was established per Section 77 of the City Charter to account for the acquisition, construction and completion of permanent public improvements and real property. Capital outlay fund revenues are derived from the sale of City-owned real property supplemented by sales tax revenue.

#### PARK & RECREATION DISTRICTS

This fund was established to account for park fees collected at the time of subdivision or permit issuance and is mandated per the City of San Diego Municipal Code. Fee assessments are only to be used for park purposes within a Community Park Service District to purchase land, facilities, or reimburse those who have donated more than their proportionate responsibilities.

#### FACILITIES BENEFIT ASSESSMENTS

This fund was established to account for building permit fees collected at the time of permit issuance and is mandated by the City Charter. Fee assessments are only to be used in the community the assessments are collected and are the primary source of project funding, excluding maintenance costs.

#### IMPACT FEES

This fund was established to account for building permit fees collected at the time of permit issuance and has specific State reporting requirements. Fee assessments are only to be used in the community the assessments are collected and are not the primary source of project funding and exclude maintenance costs.

#### SPECIAL ASSESSMENT/SPECIAL TAX BONDS

This fund was established to account for Community Facilities Districts and Special Assessment Districts, which under various sections of State law, issues limited obligation bonds to finance infrastructure facilities and other public improvements necessary to facilitate development of the properties within each district. The bonds are secured solely by the properties within each district, and are repaid through revenues generated by the annual levy of special taxes or special assessments on the benefiting properties.

#### TRANSNET

This fund was established to account for transportation improvements funded by a local sales tax approved by voters in the County of San Diego. Funds are to help relieve traffic congestion, increase safety, and improve air quality by performing repairs, restorations, and construction of needed facilities within the public rights-of-way.

## OTHER CONSTRUCTION

This fund was established to account for a variety of capital projects such as park and street improvements and construction of public facilities in new development areas. Revenues in this fund are derived from such sources as contributions from developers, grants from Federal, State and other governmental agencies, special assessments, special taxes, fees, and interest derived there from.

## **BLENDED COMPONENT UNITS**

### PUBLIC FACILITIES FINANCING AUTHORITY

This fund was established to account for the capital improvement acquisition and construction activities of the Public Facilities Financing Authority (the "Authority"). The Authority, created by the City of San Diego and the Redevelopment Agency of the City of San Diego (the "Agency"), facilitates the financing and construction of public capital improvements of the City or the Agency. Revenues are derived from the issuance of bonds and interest earnings on investments.

### REDEVELOPMENT AGENCY

This fund was established to account for the capital improvement activities of the Redevelopment Agency of the City of San Diego (the "Agency"). The Agency was established to provide a method for revitalizing deteriorated and blighted areas of the City of San Diego. Funds are derived from the City of San Diego, from the issuance of bonds for specific redevelopment projects, sale of real estate and investment income.

### SAN DIEGO FACILITIES AND EQUIPMENT LEASING CORPORATION

This fund was established to account for the capital improvement activities of the San Diego Facilities and Equipment Leasing Corporation (the "Corporation"). The Corporation was established to acquire and lease to the City of San Diego real and personal property to be used in the municipal operations of the City. This fund accounts for proceeds from the issuance of Certificates of Participation used to finance construction projects in Balboa and Mission Bay parks.

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**NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS**  
**COMBINING BALANCE SHEET**  
**June 30, 2006**  
**( In Thousands )**

	City of San Diego	Public Facilities Financing Authority
<b>ASSETS</b>		
Cash or Equity in Pooled Cash and Investments .....	\$ 279,593	\$ 4,284
Receivables:		
Taxes Net .....	6,006	
Accounts .....	310	-
Special Assessments .....	15	
Notes .....	-	-
Accrued Interest .....	2,462	13
Grants .....	24,845	-
From Other Funds .....	8,600	-
Advances to Other Funds .....	300	-
Land Held for Resale .....	1,327	-
<b>TOTAL ASSETS</b> .....	<u>\$ 323,458</u>	<u>\$ 4,297</u>
<b>LIABILITIES</b>		
Accounts Payable .....	\$ 10,326	\$ 13
Due to Other Funds .....	12,600	-
Due to Other Agencies .....	954	-
Unearned Revenue .....	5,433	-
Deferred Revenue .....	25,773	-
Interfund Interest Payable .....	773	-
Interfund Loan Payable .....	5,873	-
Advances from Other Funds .....	300	-
Sundry Trust Liabilities .....	-	-
<b>TOTAL LIABILITIES</b> .....	<u>62,032</u>	<u>13</u>
<b>FUND EQUITY</b>		
Fund Balances:		
Reserved for Land Held for Resale .....	-	-
Reserved for Encumbrances .....	43,121	1,422
Reserved for Advances and Deposits .....	300	-
Unreserved:		
Designated for Subsequent Years' Expenditures .....	134,581	1,300
Undesignated .....	83,424	1,562
<b>TOTAL FUND EQUITY</b> .....	<u>261,426</u>	<u>4,284</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b> .....	<u>\$ 323,458</u>	<u>\$ 4,297</u>

<u>Redevelopment Agency</u>	<u>San Diego Facilities and Equipment Leasing Corporation</u>	<u>Total</u>
\$ 221,249	\$ 4	\$ 505,130
		6,006
-	-	310
		15
8,899	-	8,899
787	-	3,262
-	-	24,845
-	-	8,600
-	-	300
<u>14,725</u>	<u>-</u>	<u>16,052</u>
<u>\$ 245,660</u>	<u>\$ 4</u>	<u>\$ 573,419</u>
\$ 4,840	\$ -	\$ 15,179
665	-	13,265
-	-	954
-	-	5,433
6,317	-	32,090
-	-	773
-	-	5,873
1,864	-	2,164
<u>3,732</u>	<u>-</u>	<u>3,732</u>
<u>17,418</u>	<u>-</u>	<u>79,463</u>
14,725	-	14,725
28,258	-	72,801
-	-	300
149,007	4	284,892
<u>36,252</u>	<u>-</u>	<u>121,238</u>
<u>228,242</u>	<u>4</u>	<u>493,956</u>
<u>\$ 245,660</u>	<u>\$ 4</u>	<u>\$ 573,419</u>

**NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**Year Ended June 30, 2006**  
**( In Thousands )**

	<u>City of San Diego</u>	<u>Public Facilities Financing Authority</u>
<b>REVENUES</b>		
Special Assessments .....	\$ 683	\$ -
Sales Taxes .....	33,279	-
Licenses and Permits .....	8,898	-
Revenue from Use of Money and Property .....	9,713	217
Revenue from Federal Agencies .....	4,501	-
Revenue from Other Agencies .....	12,311	-
Revenue from Private Sources .....	44,715	-
Charges for Services .....	32	-
Other Revenue .....	-	-
<b>TOTAL REVENUES</b> .....	<u>114,132</u>	<u>217</u>
<b>EXPENDITURES</b>		
Current:		
General Government and Support .....	6,167	-
Public Safety - Police .....	71	-
Public Safety - Fire & Life Safety .....	47	304
Parks, Recreation, Culture and Leisure .....	8,432	-
Transportation .....	1,705	-
Sanitation and Health .....	1,170	-
Neighborhood Services .....	145	-
Capital Projects .....	86,981	3,837
Debt Service:		
Principal Retirement .....	8,275	-
Interest .....	286	-
<b>TOTAL EXPENDITURES</b> .....	<u>113,279</u>	<u>4,141</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b> .....	<u>853</u>	<u>(3,924)</u>
<b>OTHER FINANCING SOURCES (USES)</b>		
Transfers from Other Funds .....	13,863	17,066
Transfers to Proprietary Funds .....	(494)	-
Transfers to Other Funds .....	(17,306)	(16,978)
Tax Allocation Bonds Issued .....	-	-
SANDAG Loans Issued .....	1,651	-
Contracts/Notes Issued .....	-	-
Loans Issued .....	-	-
Premium on Bonds Issued .....	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b> .....	<u>(2,286)</u>	<u>88</u>
<b>NET CHANGE IN FUND BALANCES</b> .....	<u>(1,433)</u>	<u>(3,836)</u>
Fund Balances at Beginning of Year .....	<u>262,859</u>	<u>8,120</u>
<b>FUND BALANCES AT END OF YEAR</b> .....	<u>\$ 261,426</u>	<u>\$ 4,284</u>



<u>Redevelopment Agency</u>	<u>San Diego Facilities and Equipment Leasing Corporation</u>	<u>Total</u>
\$ -	\$ -	\$ 683
-	-	33,279
-	-	8,898
8,511	-	18,441
-	-	4,501
-	-	12,311
15,293	-	60,008
-	-	32
<u>3,654</u>	<u>-</u>	<u>3,654</u>
<u>27,458</u>	<u>-</u>	<u>141,807</u>
19,635	-	25,802
-	-	71
-	-	351
-	-	8,432
-	-	1,705
-	-	1,170
26,600	-	26,745
17,772	-	108,590
-	-	8,275
<u>-</u>	<u>-</u>	<u>286</u>
<u>64,007</u>	<u>-</u>	<u>181,427</u>
<u>(36,549)</u>	<u>-</u>	<u>(39,620)</u>
53,393	-	84,322
-	-	(494)
(23,513)	-	(57,797)
76,225	-	76,225
-	-	1,651
900	-	900
3,926	-	3,926
<u>2,509</u>	<u>-</u>	<u>2,509</u>
<u>113,440</u>	<u>-</u>	<u>111,242</u>
76,891	-	71,622
<u>151,351</u>	<u>4</u>	<u>422,334</u>
<u>\$ 228,242</u>	<u>\$ 4</u>	<u>\$ 493,956</u>

CITY OF SAN DIEGO  
NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS  
COMBINING BALANCE SHEET  
June 30, 2006  
(In Thousands )

	Capital Outlay	Park & Recreation Districts	Facilities Benefit Assesments
<b>ASSETS</b>			
Cash and Investments .....	\$ 429	\$ 7,808	\$ 172,370
Receivables:			
Taxes Net.....			
Accounts .....	85	-	-
Special Assesments .....			
Accrued Interest .....	(12)	76	1,635
Grants .....	24,763	-	-
From Other Funds .....	-	-	-
Advances to Other Funds.....	300	-	-
Land Held for Resale .....	1,327	-	-
<b>TOTAL ASSETS</b> .....	<u>\$ 26,892</u>	<u>\$ 7,884</u>	<u>\$ 174,005</u>
<b>LIABILITIES</b>			
Accounts Payable .....	\$ 866	\$ -	\$ 5,648
Due to Other Funds .....	12,600	-	-
Due to Other Agencies .....	16	-	-
Unearned Revenue .....	4,348	-	-
Deferred Revenue .....	24,356	-	-
Interfund Interest Payable .....	773	-	-
Interfund Loan Payable .....	2,386	-	3,487
Advances from Other Funds .....	-	-	-
<b>TOTAL LIABILITIES</b> .....	<u>45,345</u>	<u>-</u>	<u>9,135</u>
<b>FUND EQUITY</b>			
Fund Balances:			
Reserved for Encumbrances .....	273	88	24,429
Reserved for Advances and Deposits .....	300	-	-
Unreserved:			
Designated for Subsequent Years' Expenditures .....	2,897	2,944	94,291
Undesignated .....	(21,923)	4,852	46,150
<b>TOTAL FUND EQUITY</b> .....	<u>(18,453)</u>	<u>7,884</u>	<u>164,870</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b> .....	<u>\$ 26,892</u>	<u>\$ 7,884</u>	<u>\$ 174,005</u>

<u>Impact Fees</u>	<u>Special Assessment / Special Tax Bonds</u>	<u>TransNet</u>	<u>Other Construction</u>	<u>Total</u>
\$ 34,970	\$ 14,636	\$ 3,764	\$ 45,616	\$ 279,593
		6,006		6,006
-	-	7	218	310
	15			15
334	80	100	249	2,462
-	-	-	82	24,845
-	-	8,600	-	8,600
-	-	-	-	300
-	-	-	-	1,327
<u>\$ 35,304</u>	<u>\$ 14,731</u>	<u>\$ 18,477</u>	<u>\$ 46,165</u>	<u>\$ 323,458</u>
\$ 271	\$ -	\$ 469	\$ 3,072	10,326
-	-	-	-	12,600
-	-	-	938	954
-	-	992	93	5,433
-	8	-	1,409	25,773
-	-	-	-	773
-	-	-	-	5,873
-	-	-	300	300
<u>271</u>	<u>8</u>	<u>1,461</u>	<u>5,812</u>	<u>62,032</u>
3,505	283	9,275	5,268	43,121
-	-	-	-	300
6,790	16	7,741	19,902	134,581
<u>24,738</u>	<u>14,424</u>	<u>-</u>	<u>15,183</u>	<u>83,424</u>
<u>35,033</u>	<u>14,723</u>	<u>17,016</u>	<u>40,353</u>	<u>261,426</u>
<u>\$ 35,304</u>	<u>\$ 14,731</u>	<u>\$ 18,477</u>	<u>\$ 46,165</u>	<u>\$ 323,458</u>

CITY OF SAN DIEGO  
 NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 Year Ended June 30, 2006  
 ( In Thousands )

	Capital Outlay	Park & Recreation Districts	Facilities Benefit Assessments	Impact Fees
<b>REVENUES</b>				
Special Assessments .....	\$ -	\$ -	\$ -	\$ -
Sales Taxes .....	125	-	-	-
Licenses and Permits .....				8,897
Revenue from Use of Money and Property .....	973	234	5,170	993
Revenue from Federal Agencies .....	4,104			
Revenue from Other Agencies .....	9,110	-		
Revenue from Private Sources .....	-	53	39,828	-
Charges for Current Services .....	-			
<b>TOTAL REVENUES</b> .....	<u>14,312</u>	<u>287</u>	<u>44,998</u>	<u>9,890</u>
<b>EXPENDITURES</b>				
Current:				
General Government and Support .....	78	-	1,274	581
Public Safety - Police .....	-	-	-	
Public Safety - Fire & Life Safety .....	30	-	6	
Parks, Recreation, Culture and Leisure .....	882	7	-	39
Transportation .....	56	-	-	164
Sanitation and Health .....				
Neighborhood Services .....	145	-	-	-
Capital Projects .....	17,510	153	43,346	6,362
Debt Service:				
Principal Retirement .....	-	-	-	-
Interest .....	-	-	-	-
<b>TOTAL EXPENDITURES</b> .....	<u>18,701</u>	<u>160</u>	<u>44,626</u>	<u>7,146</u>
<b>EXCESS (DEFICIENCY) OF REVENUES</b>				
<b>OVER EXPENDITURES</b> .....	<u>(4,389)</u>	<u>127</u>	<u>372</u>	<u>2,744</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers from Other Funds .....	69	-	-	-
Transfers to Proprietary Funds .....	-	-	-	-
Transfers to Other Funds .....	-	-	(724)	-
SANDAG Loans Issued .....	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b> .....	<u>69</u>	<u>-</u>	<u>(724)</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b> .....	<u>(4,320)</u>	<u>127</u>	<u>(352)</u>	<u>2,744</u>
Fund Balances at Beginning of Year .....	<u>(14,133)</u>	<u>7,757</u>	<u>165,222</u>	<u>32,289</u>
<b>FUND BALANCES AT END OF YEAR</b> .....	<u>\$ (18,453)</u>	<u>\$ 7,884</u>	<u>\$ 164,870</u>	<u>\$ 35,033</u>

Special Assessment / Special Tax Bonds	TransNet	Other Construction	Total
\$ 683	\$ -	\$ -	\$ 683
-	33,154	-	33,279
		1	8,898
552	400	1,391	9,713
	267	130	4,501
		3,201	12,311
60	-	4,774	44,715
		32	32
<u>1,295</u>	<u>33,821</u>	<u>9,529</u>	<u>114,132</u>
3,997	212	25	6,167
		71	71
		11	47
-	33	7,471	8,432
-	1,095	390	1,705
	729	441	1,170
-	-	-	145
-	7,445	12,165	86,981
-	8,275	-	8,275
<u>-</u>	<u>286</u>	<u>-</u>	<u>286</u>
<u>3,997</u>	<u>18,075</u>	<u>20,574</u>	<u>113,279</u>
<u>(2,702)</u>	<u>15,746</u>	<u>(11,045)</u>	<u>853</u>
214	725	12,855	13,863
-	(494)	-	(494)
(123)	(15,266)	(1,193)	(17,306)
<u>-</u>	<u>1,651</u>	<u>-</u>	<u>1,651</u>
<u>91</u>	<u>(13,384)</u>	<u>11,662</u>	<u>(2,286)</u>
(2,611)	2,362	617	(1,433)
<u>17,334</u>	<u>14,654</u>	<u>39,736</u>	<u>262,859</u>
<u>\$ 14,723</u>	<u>\$ 17,016</u>	<u>\$ 40,353</u>	<u>\$ 261,426</u>

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## NON-MAJOR GOVERNMENTAL FUNDS - PERMANENT

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## PERMANENT FUNDS

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the City's programs (i.e., for the benefit of the City or its citizens).

### CARMEL VALLEY SEWER MAINTENANCE

This fund was established to fund the City's share of maintenance costs for a private sewer system in the Carmel Valley community. The original contribution was received from a developer and interest earnings derived there from will finance a fifty-year maintenance period.

### CEMETERY PERPETUITY

This fund was established to account for the Mt. Hope Cemetery endowment. Investment earnings derived from the endowment supplement grave sales revenues in order to finance cemetery operations.

### EFFIE SERGEANT

This fund was established to account for a donation to benefit the North Park Branch Library. Investment earnings are used to finance library services and programs.

### FIGG ESTATE ENDOWMENT

This fund was established to account for a donation received for the planting and maintenance of jacaranda trees in the public rights of way throughout the City of San Diego. Investment earnings are used for planting and maintenance as well.

### GLADYS EDNA PETERS

This fund was established to account for a donation to benefit the Rancho Bernardo Branch Library. Investment earnings are used to procure and maintain a collection of large print books and periodicals.

### JANE CAMERON ESTATE

This fund was established to account for a donation to benefit the La Jolla/Riford Branch Library. Investment earnings are used to finance library services and programs.

### LOS PENASQUITOS CANYON

This fund was established to account for the Los Penasquitos Canyon Preserve Trust Fund. Investment earnings are used to finance operations, land acquisitions, historical restoration, and maintenance of the Penasquitos Preserve Park.

### MONTEZUMA ROAD MEDIAN MAINTENANCE

This fund was established to account for an endowment from San Diego State University. Investment earnings derived there from are used to finance the maintenance of medians along Montezuma Road.

## SOUTHCREST PARK ESTATES II

This fund was established to finance the City's landscape maintenance costs for the Southcrest Park Estates II, a residential development within the Southcrest Redevelopment project area. The original contribution was received from a developer, and investment earnings derived there from will finance the permanent maintenance costs.

## SYCAMORE ESTATES

This fund was established to account for an endowment agreement between the City and Sycamore Estates, LLC. Investment earnings from the endowment shall be used exclusively for the long-term maintenance of conserved property within Sycamore Estates.

## ZOOLOGICAL SOCIETY – MISSION TRAILS

This fund was established to account for the Fortuna Mountain Conservation Bank endowment. Investment earnings derived from the endowment shall be used to fund the permanent management of the Fortuna Mountain Conservation Bank within Mission Trails Regional Park.

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**CITY OF SAN DIEGO  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS - PERMANENT  
JUNE 30, 2006  
(In Thousands)**

	<b>Carmel Valley Sewer Maintenance</b>	<b>Cemetery Perpetuity</b>	<b>Effie Sergeant</b>
<b>ASSETS</b>			
Cash and Investments .....	\$ -	\$ 562	\$ 1
Receivables:			
Accounts - Net .....	-	15	-
Accrued Interest .....	1	17	-
Restricted Cash and Investments .....	42	9,069	484
<b>TOTAL ASSETS</b> .....	<u>\$ 43</u>	<u>\$ 9,663</u>	<u>\$ 485</u>
<b>FUND EQUITY:</b>			
Fund Balances:			
Reserved for Permanent Endowments .....	\$ -	\$ 9,101	\$ 484
Unreserved:			
Designated for Unrealized Gains .....	-	562	1
Designated for Subsequent Years' Expenditures .....	-	-	-
Undesignated .....	43	-	-
<b>TOTAL FUND EQUITY</b> .....	<u>\$ 43</u>	<u>\$ 9,663</u>	<u>\$ 485</u>

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
Year Ended June 30, 2006  
(In Thousands)**

<b>REVENUES</b>			
Revenue from Use of Money and Property .....	\$ 1	\$ 374	\$ 34
Revenue from Private Sources .....	-	-	-
Charges for Current Services .....	-	101	-
<b>TOTAL REVENUES</b> .....	<u>1</u>	<u>475</u>	<u>34</u>
<b>EXPENDITURES</b>			
Current:			
General Government & Support .....	-	-	-
Parks, Recreation, Culture and Leisure .....	-	-	19
<b>TOTAL EXPENDITURES</b> .....	<u>-</u>	<u>-</u>	<u>19</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b> .....	<u>1</u>	<u>475</u>	<u>15</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers to Other Funds .....	-	(330)	-
<b>NET CHANGE IN FUND BALANCES</b> .....	<u>1</u>	<u>145</u>	<u>15</u>
Fund Balances at Beginning of Year .....	42	9,518	470
<b>FUND BALANCES AT END OF YEAR</b> .....	<u>\$ 43</u>	<u>\$ 9,663</u>	<u>\$ 485</u>

Figg Estate Endowment	Gladys Edna Peters	Jane Cameron Estate	Los Penasquitos Canyon	Montezuma Road Median Maintenance	Southcrest Park Estates II	Sycamore Estates	Zoological Society - Mission Trails	Total
\$ -	\$ 6	\$ -	\$ 21	\$ -	\$ -	\$ -	\$ -	\$ 590
-	-	-	-	-	-	-	-	15
-	-	12	-	1	-	-	-	31
317	343	1,225	2,667	110	12	250	69	14,588
<u>\$ 317</u>	<u>\$ 349</u>	<u>\$ 1,237</u>	<u>\$ 2,688</u>	<u>\$ 111</u>	<u>\$ 12</u>	<u>\$ 250</u>	<u>\$ 69</u>	<u>\$ 15,224</u>
\$ 317	\$ 343	\$ 1,237	\$ 2,667	\$ 100	\$ -	\$ 250	\$ 69	\$ 14,568
-	6	-	21	-	-	-	-	590
-	-	-	-	11	-	-	-	11
-	-	-	-	-	12	-	-	55
<u>\$ 317</u>	<u>\$ 349</u>	<u>\$ 1,237</u>	<u>\$ 2,688</u>	<u>\$ 111</u>	<u>\$ 12</u>	<u>\$ 250</u>	<u>\$ 69</u>	<u>\$ 15,224</u>
\$ 7	\$ 24	\$ 37	\$ 195	\$ 3	\$ 1	\$ 8	\$ 2	\$ 686
-	-	116	-	-	-	-	-	116
-	-	-	-	-	-	-	-	101
<u>7</u>	<u>24</u>	<u>153</u>	<u>195</u>	<u>3</u>	<u>1</u>	<u>8</u>	<u>2</u>	<u>903</u>
-	-	-	1	-	-	-	-	1
-	18	138	-	1	-	-	-	176
-	18	138	1	1	-	-	-	177
<u>7</u>	<u>6</u>	<u>15</u>	<u>194</u>	<u>2</u>	<u>1</u>	<u>8</u>	<u>2</u>	<u>726</u>
(7)	-	-	(128)	-	-	(8)	(2)	(475)
-	6	15	66	2	1	-	-	251
317	343	1,222	2,622	109	11	250	69	14,973
<u>\$ 317</u>	<u>\$ 349</u>	<u>\$ 1,237</u>	<u>\$ 2,688</u>	<u>\$ 111</u>	<u>\$ 12</u>	<u>\$ 250</u>	<u>\$ 69</u>	<u>\$ 15,224</u>

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## NON-MAJOR BUSINESS-TYPE FUNDS - ENTERPRISE

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## ENTERPRISE FUNDS

Enterprise funds are used to account for any activity for which a fee is charged to external users for goods or services. These funds use full accrual accounting.

### **CITY OF SAN DIEGO**

#### AIRPORTS

This fund was established to account for the operation, maintenance and development of both City-owned airports--Montgomery and Brown Fields. Airports fund revenues are derived from such sources as rent/lease revenue, usage fees, earnings on investments and aid from other governmental agencies.

#### CITY STORE

This fund was established to account for activities of the City's entrepreneurial program. This program operates retail store outlets for the purpose of selling surplus city materials and other items promoting the City of San Diego.

#### DEVELOPMENT SERVICES

This fund was established to account for construction management, development project review, permitting, and inspection services for the City.

#### ENVIRONMENTAL SERVICES

This fund was established to account for refuse disposal, collection, energy conservation, resource management, and other environmental programs.

#### GOLF COURSE

This fund was established to operate, maintain, and improve physical conditions and initiate capital improvement programs for Torrey Pines and Balboa golf courses. Revenues are derived from green fees and leases.

#### RECYCLING

This fund was established to account for the planning, implementation, operation and management of City recycling and waste diversion programs. Revenues are derived from the recycling fee on all waste generated in the City or disposed of at the City landfill.

**NONMAJOR BUSINESS-TYPE FUNDS - OTHER ENTERPRISE**  
**COMBINING STATEMENT OF NET ASSETS**  
**June 30, 2006**  
**( In Thousands )**

	<u>Airports</u>	<u>City Store</u>
<b>ASSETS</b>		
Cash and Investments .....	\$ 5,629	\$ 103
Receivables:		
Accounts .....	548	-
Accrued Interest .....	52	-
Grants .....	637	-
From Other Funds .....	-	-
Inventories .....	-	90
Prepaid Expenses .....	-	-
Restricted Cash and Investments .....	-	-
Capital Assets - Non-Depreciable .....	2,581	-
Capital Assets - Depreciable .....	8,678	8
<b>TOTAL ASSETS</b> .....	<u>18,125</u>	<u>201</u>
<b>LIABILITIES</b>		
Accounts Payable .....	248	11
Accrued Wages and Benefits .....	23	-
Other Accrued Liabilities .....	60	-
Interest Accrued on Long-Term Debt .....	-	-
Long Term Debt Due Within One Year .....	32	-
Unearned Revenue .....	-	-
Contract Deposits .....	-	-
Deposits/Advances from Others .....	-	-
Compensated Absences .....	37	-
Capital Lease Obligations .....	-	-
Estimated Landfill Closure and Postclosure Care .....	-	-
Net Pension Obligation .....	220	-
<b>TOTAL LIABILITIES</b> .....	<u>620</u>	<u>11</u>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt .....	11,259	8
Restricted for Closure/Postclosure maintenance .....	-	-
Unrestricted .....	6,246	182
<b>TOTAL NET ASSETS</b> .....	<u>\$ 17,505</u>	<u>\$ 190</u>

<u>Development Services</u>	<u>Environmental Services</u>	<u>Golf Course</u>	<u>Recycling</u>	<u>Total</u>
\$ 18,150	\$ 41,889	\$ 15,745	\$ 7,557	\$ 89,073
20	1,269	13	43	1,893
318	754	157	73	1,354
-	-	-	29	666
3,399	-	-	-	3,399
-	-	1	-	91
-	14	-	13	27
-	31,814	-	-	31,814
177	18,078	1,683	-	22,519
<u>1,719</u>	<u>42,406</u>	<u>7,965</u>	<u>4,643</u>	<u>65,419</u>
<u>23,783</u>	<u>136,224</u>	<u>25,564</u>	<u>12,358</u>	<u>216,255</u>
489	1,198	445	233	2,624
1,559	485	133	342	2,542
-	-	-	-	60
-	-	-	20	20
1,502	561	173	1,322	3,590
5,960	-	-	27	5,987
-	230	60	15	305
-	30	-	-	30
1,746	653	201	321	2,958
-	-	-	1,006	1,006
-	14,811	-	-	14,811
<u>6,833</u>	<u>2,295</u>	<u>662</u>	<u>1,488</u>	<u>11,498</u>
<u>18,089</u>	<u>20,263</u>	<u>1,674</u>	<u>4,774</u>	<u>45,431</u>
1,896	60,484	9,648	2,592	85,887
-	32,115	-	-	32,115
<u>3,798</u>	<u>23,362</u>	<u>14,242</u>	<u>4,992</u>	<u>52,822</u>
<u>\$ 5,694</u>	<u>\$ 115,961</u>	<u>\$ 23,890</u>	<u>\$ 7,584</u>	<u>\$ 170,824</u>

**NONMAJOR BUSINESS-TYPE FUNDS - OTHER ENTERPRISE**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**Year Ended June 30, 2006**  
**(In Thousands)**

	Airports	City Store
<b>OPERATING REVENUES</b>		
Charges for Services .....	\$ -	\$ 837
Usage Fees .....	4,194	-
Other .....	191	-
<b>TOTAL OPERATING REVENUES .....</b>	<b>4,385</b>	<b>837</b>
<b>OPERATING EXPENSES</b>		
Maintenance and Operations .....	2,818	384
Cost of Materials Issued .....	-	322
Administration .....	635	103
Depreciation .....	468	1
<b>TOTAL OPERATING EXPENSES .....</b>	<b>3,921</b>	<b>810</b>
<b>OPERATING INCOME (LOSS) .....</b>	<b>464</b>	<b>27</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Earnings on Investments .....	140	1
Federal Grant Assistance .....	-	-
Other Agency Grant Assistance .....	-	-
Gain (Loss) on Sale/Retirement of Capital Assets .....	(177)	-
Debt Service Interest Expense .....	-	-
Other .....	7	-
<b>TOTAL NONOPERATING REVENUES (EXPENSES) .....</b>	<b>(30)</b>	<b>1</b>
<b>INCOME BEFORE CONTRIBUTIONS AND TRANSFERS .....</b>	<b>434</b>	<b>28</b>
Capital Contributions .....	1,364	-
Transfers from Other Funds .....	4	-
Transfers from Governmental Funds .....	-	-
Transfers to Other Funds .....	-	-
Transfers to Governmental Funds .....	(14)	-
<b>CHANGE IN NET ASSETS .....</b>	<b>1,788</b>	<b>28</b>
Net Assets at Beginning of Year .....	15,717	162
<b>NET ASSETS AT END OF YEAR .....</b>	<b>\$ 17,505</b>	<b>\$ 190</b>

Development Services	Environmental Services	Golf Course	Recycling	Total
\$ 54,833	\$ 1,175	\$ 11,922	\$ 2,986	\$ 71,753
-	38,399	1,169	14,244	58,006
178	276	28	4,115	4,788
55,011	39,850	13,119	21,345	134,547
29,785	31,748	7,725	18,791	91,251
-	-	-	-	322
28,440	5,312	1,155	1,479	37,124
214	6,604	670	1,062	9,019
58,439	43,664	9,550	21,332	137,716
(3,428)	(3,814)	3,569	13	(3,169)
426	2,103	432	208	3,310
-	-	-	130	130
-	92	-	443	535
-	(810)	(9)	-	(996)
-	-	-	(117)	(117)
-	2,145	-	101	2,253
426	3,530	423	765	5,115
(3,002)	(284)	3,992	778	1,946
-	-	-	-	1,364
6	106	33	75	224
962	-	-	-	962
(31)	(70)	-	-	(101)
(265)	(241)	(1,629)	(104)	(2,253)
(2,330)	(489)	2,396	749	2,142
8,024	116,450	21,494	6,835	168,682
\$ 5,694	\$ 115,961	\$ 23,890	\$ 7,584	\$ 170,824

**NONMAJOR BUSINESS-TYPE FUNDS - OTHER ENTERPRISE**  
**COMBINING STATEMENT OF CASH FLOWS**  
**Year Ended June 30, 2006**  
**( In Thousands )**

	Airports	City Store
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from Customers and Users .....	\$ 4,483	\$ 834
Receipts from Interfund Services Provided .....	-	3
Payments to Suppliers .....	(1,504)	(838)
Payments to Employees .....	(1,233)	-
Payments for Interfund Services Used .....	(668)	(3)
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES .....</b>	<b>1,078</b>	<b>(4)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfers In .....	4	-
Transfers from Governmental Funds .....	-	-
Transfers Out .....	-	-
Transfers to Governmental Funds .....	(4)	-
Operating Grants Received .....	(627)	-
<b>NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES .....</b>	<b>(627)</b>	<b>-</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from Capital Contributions .....	1,364	-
Acquisition of Capital Assets .....	(1,172)	-
Principal Payments on Capital Leases .....	-	-
Interest Paid on Long-Term Debt .....	-	-
<b>NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES .....</b>	<b>192</b>	<b>-</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest and Dividends Received on Investments .....	122	1
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES .....</b>	<b>122</b>	<b>1</b>
Net Increase (Decrease) in Cash and Cash Equivalents .....	765	(3)
Cash and Cash Equivalents at Beginning of Year .....	4,864	106
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR .....</b>	<b>\$ 5,629</b>	<b>\$ 103</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used For) Operating Activities:</b>		
Operating Income (Loss) .....	\$ 464	\$ 27
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:		
Depreciation .....	468	1
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables:		
Accounts - Net .....	91	-
From Other Funds .....	-	-
(Increase) Decrease in Inventories .....	-	(5)
(Increase) Decrease in Prepaid Expenses .....	-	-
Increase (Decrease) in Accounts Payable .....	95	(27)
Increase (Decrease) in Accrued Wages and Benefits .....	(37)	-
Increase (Decrease) in Compensated Absences .....	(16)	-
Increase (Decrease) in Due to Other Agencies .....	-	-
Increase (Decrease) in Unearned Revenue .....	-	-
Increase (Decrease) in Contract Deposits .....	-	-
Increase (Decrease) in Net Pension Obligation .....	6	-
Increase (Decrease) in Estimated Landfill Closure and Postclosure Care .....	-	-
Other Nonoperating Revenue (Expenses) .....	7	-
<b>Total Adjustments .....</b>	<b>614</b>	<b>(31)</b>
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES .....</b>	<b>\$ 1,078</b>	<b>\$ (4)</b>

Development Services	Environmental Services	Golf Course	Recycling	Total
\$ 37,717	\$ 40,014	\$ 13,272	\$ 18,571	\$ 114,891
18,357	3,147	-	3,145	24,652
(10,229)	(15,166)	(3,218)	(6,773)	(37,728)
(48,391)	(15,247)	(5,361)	(10,697)	(80,929)
(1,102)	(6,249)	(437)	(2,961)	(11,420)
(3,648)	6,499	4,256	1,285	9,466
6	106	33	75	224
962	-	-	-	962
(31)	(70)	-	-	(101)
(265)	(241)	(1,629)	(104)	(2,243)
-	92	-	620	85
672	(113)	(1,596)	591	(1,073)
-	-	-	-	1,364
(142)	(1,813)	(740)	(9)	(3,876)
-	-	-	(1,470)	(1,470)
-	-	-	(134)	(134)
(142)	(1,813)	(740)	(1,613)	(4,116)
347	1,852	375	206	2,903
347	1,852	375	206	2,903
(2,771)	6,425	2,295	469	7,180
20,921	67,278	13,450	7,088	113,707
\$ 18,150	\$ 73,703	\$ 15,745	\$ 7,557	\$ 120,887
\$ (3,428)	\$ (3,814)	\$ 3,569	\$ 13	\$ (3,169)
214	6,604	670	1,062	9,019
13	1,062	198	379	1,743
(235)	-	-	-	(235)
-	-	-	-	(5)
3	(14)	1	16	6
(103)	(223)	(96)	116	(238)
(1,483)	(471)	(97)	(302)	(2,390)
(159)	(121)	28	(32)	(300)
-	-	-	(17)	(17)
1,285	(17)	-	(109)	1,159
-	121	(45)	-	76
245	81	28	58	418
-	1,146	-	-	1,146
-	2,145	-	101	2,253
(220)	10,313	687	1,272	12,635
\$ (3,648)	\$ 6,499	\$ 4,256	\$ 1,285	\$ 9,466

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## INTERNAL SERVICE FUNDS

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## INTERNAL SERVICE FUNDS

Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governmental units and/or funds.

### **CITY OF SAN DIEGO**

#### CENTRAL GARAGE AND MACHINE SHOP

This fund was established to account for the acquisition, replacement, maintenance and fueling of the City's motive equipment (excluding fire and police vehicles).

#### CENTRAL STORES

This fund was established to provide centralized storeroom services to all City departments.

#### PUBLISHING SERVICES

This fund was established to provide printing and reproduction services to all City departments.

#### SELF INSURANCE

This fund was established to account for self insurance activities, including worker's compensation and long-term disability programs for employees. Revenues are derived from rates charged to departments as a percentage of payroll. This fund also accounts for the public liability reserve, which was established for the purpose of paying claims in excess of annual appropriations.

#### SPECIAL ENGINEERING

This fund was established to provide project planning, design, engineering systems management and support, and construction management and inspection services for water and wastewater capital improvements.

#### MISCELLANEOUS INTERNAL SERVICE

This fund accounts for various administrative activities including risk management administration, administration and operation of various employee related programs such as unused compensatory time, unused sick leave and unemployment insurance, and citywide training. Revenues are derived from rates or fees charged to the departments for specific services rendered.

### **BLENDED COMPONENT UNIT**

#### SAN DIEGO DATA PROCESSING CORPORATION

This fund accounts for the operations of the San Diego Data Processing Corporation, Inc. ("SDDPC"). SDDPC was formed for the purpose of providing data processing services to public agencies, primarily the City of San Diego, which is the sole member of the Corporation. The Corporation also provides telecommunication services to the City. Rates are charged for the various services provided as per operating agreements and are subject to change each year.

**INTERNAL SERVICE FUNDS  
COMBINING STATEMENT OF NET ASSETS  
JUNE 30, 2006  
( In Thousands )**

	City of San Diego		
	Central Garage and Machine Shop	Central	Stores
<b>ASSETS</b>			
Cash and Investments .....	\$ 46,287	\$	1,641
Receivables:			
Accounts - Net of Allowance for Uncollectibles (Self Insurance \$715) .....	76		765
Claims - Net .....	9		-
Contributions .....	-		-
Accrued Interest .....	-		1
Inventories .....	-		2,761
Prepaid Expenses .....	596		-
Restricted Cash and Investments .....	-		-
Capital Assets - Non-Depreciable .....	-		-
Capital Assets - Depreciable .....	60,499		161
<b>TOTAL ASSETS</b> .....	<b>107,467</b>		<b>5,329</b>
<b>LIABILITIES</b>			
Accounts Payable .....	1,514		1,512
Accrued Wages and Benefits .....	463		39
Interest Accrued on Long-Term Debt .....	138		-
Long-Term Debt Due Within One Year .....	4,953		21
Unearned Revenue .....	-		-
Compensated Absences .....	563		27
Liability Claims .....	-		-
Capital Lease Obligations .....	6,040		-
Net Pension Obligation .....	1,953		233
<b>TOTAL LIABILITIES</b> .....	<b>15,624</b>		<b>1,832</b>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt .....	49,924		161
Unrestricted .....	41,919		3,336
<b>TOTAL NET ASSETS</b> .....	<b>\$ 91,843</b>	<b>\$</b>	<b>3,497</b>

<u>Publishing Services</u>	<u>Self Insurance</u>	<u>Special Engineering</u>	<u>Miscellaneous Internal Service</u>	<u>San Diego Data Processing Corporation</u>	<u>Total</u>
\$ 54	\$ 41,228	\$ 4,677	\$ 8,383	\$ 3,921	\$ 106,191
19	244	1	5	4,235	5,345
-	8	-	-	-	17
-	-	-	184	-	184
-	-	35	51	-	87
-	-	-	-	9	2,770
-	-	1	-	1,036	1,633
-	-	-	-	133	133
-	-	-	-	1,984	1,984
<u>627</u>	<u>-</u>	<u>279</u>	<u>-</u>	<u>9,440</u>	<u>71,006</u>
<u>700</u>	<u>41,480</u>	<u>4,993</u>	<u>8,623</u>	<u>20,758</u>	<u>189,350</u>
489	7,371	362	327	4,962	16,537
37	121	478	2,082	580	3,800
-	-	-	-	-	138
49	32,390	448	1,791	1,001	40,653
-	-	-	-	105	105
65	-	520	2,420	120	3,715
-	170,092	-	-	-	170,092
-	-	-	-	-	6,040
<u>309</u>	<u>-</u>	<u>2,834</u>	<u>1,039</u>	<u>-</u>	<u>6,368</u>
<u>949</u>	<u>209,974</u>	<u>4,642</u>	<u>7,659</u>	<u>6,768</u>	<u>247,448</u>
627	-	279	-	11,424	62,415
<u>(876)</u>	<u>(168,494)</u>	<u>72</u>	<u>964</u>	<u>2,566</u>	<u>(120,513)</u>
<u>\$ (249)</u>	<u>\$ (168,494)</u>	<u>\$ 351</u>	<u>\$ 964</u>	<u>\$ 13,990</u>	<u>\$ (58,098)</u>

**INTERNAL SERVICE FUNDS**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**YEAR ENDED JUNE 30, 2006**  
**( In Thousands )**

	<u>City of San Diego</u>	
	<u>Central Garage and Machine Shop</u>	<u>Central Stores</u>
<b>OPERATING REVENUES</b>		
Charges for Services .....	\$ 2,737	\$ 27,209
Usage Fees .....	44,061	-
Other .....	446	138
<b>TOTAL OPERATING REVENUES .....</b>	<u>47,244</u>	<u>27,347</u>
<b>OPERATING EXPENSES</b>		
Benefit and Claim Payments .....	-	-
Maintenance and Operations .....	30,023	1,454
Cost of Materials Issued .....	-	25,645
Administration .....	1,701	329
Depreciation .....	18,304	21
<b>TOTAL OPERATING EXPENSES .....</b>	<u>50,028</u>	<u>27,449</u>
<b>OPERATING INCOME (LOSS) .....</b>	<u>(2,784)</u>	<u>(102)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Earnings on Investments .....	1,362	20
Gain on Sale/Retirement of Capital Assets .....	1,212	-
Debt Service Interest Expense .....	(499)	-
Other .....	392	-
<b>TOTAL NONOPERATING REVENUES (EXPENSES) .....</b>	<u>2,467</u>	<u>20</u>
<b>INCOME (LOSS) BEFORE TRANSFERS .....</b>	<u>(317)</u>	<u>(82)</u>
Transfers from Other Funds .....	243	4
Transfers from Governmental Funds .....	162	-
Transfers to Other Funds .....	(929)	-
Transfers to Governmental Funds .....	(592)	(24)
<b>CHANGE IN NET ASSETS .....</b>	<u>(1,433)</u>	<u>(102)</u>
Net Assets at Beginning of Year .....	<u>93,276</u>	<u>3,599</u>
<b>NET ASSETS AT END OF YEAR .....</b>	<u>\$ 91,843</u>	<u>\$ 3,497</u>

<u>Publishing Services</u>	<u>Self Insurance</u>	<u>Special Engineering</u>	<u>Miscellaneous Internal Service</u>	<u>San Diego Data Processing Corporation</u>	<u>Total</u>
\$ 4,553	\$ 57,660	\$ 22,271	\$ 22,168	\$ 42,102	\$ 178,700
-	-	-	-	-	44,061
-	932	-	2	1,162	2,680
<u>4,553</u>	<u>58,592</u>	<u>22,271</u>	<u>22,170</u>	<u>43,264</u>	<u>225,441</u>
-	40,820	-	13,511	-	54,331
4,706	-	12,743	-	-	48,926
-	-	-	-	-	25,645
276	-	10,046	9,288	36,361	58,001
156	-	50	-	3,412	21,943
<u>5,138</u>	<u>40,820</u>	<u>22,839</u>	<u>22,799</u>	<u>39,773</u>	<u>208,846</u>
<u>(585)</u>	<u>17,772</u>	<u>(568)</u>	<u>(629)</u>	<u>3,491</u>	<u>16,595</u>
(5)	952	84	248	83	2,744
-	-	-	-	2	1,214
-	-	-	-	(5)	(504)
-	-	3	-	18	413
<u>(5)</u>	<u>952</u>	<u>87</u>	<u>248</u>	<u>98</u>	<u>3,867</u>
(590)	18,724	(481)	(381)	3,589	20,462
-	-	-	403	-	650
6	454	-	200	-	822
-	(240)	-	-	-	(1,169)
<u>(11)</u>	<u>(952)</u>	<u>(319)</u>	<u>(143)</u>	<u>-</u>	<u>(2,041)</u>
(595)	17,986	(800)	79	3,589	18,724
<u>346</u>	<u>(186,480)</u>	<u>1,151</u>	<u>885</u>	<u>10,401</u>	<u>(76,822)</u>
<u>\$ (249)</u>	<u>\$ (168,494)</u>	<u>\$ 351</u>	<u>\$ 964</u>	<u>\$ 13,990</u>	<u>\$ (58,098)</u>

**INTERNAL SERVICE FUNDS  
COMBINING STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2006  
( In Thousands )**

	<b>City of San Diego</b>	
	<b>Central Garage and Machine Shop</b>	<b>Central Stores</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from Customers and Users .....	\$ 44,358	\$ 27,643
Receipts from Interfund Services Provided .....	3,287	38
Payments to Suppliers .....	(17,920)	(25,453)
Payments to Employees .....	(14,174)	(1,869)
Payments for Interfund Services Used.....	(501)	(245)
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES .....</b>	<b>15,050</b>	<b>114</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfers In .....	243	4
Transfers from Governmental Funds .....	162	-
Transfers Out .....	(929)	-
Transfers to Governmental Funds .....	(592)	(24)
<b>NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES .....</b>	<b>(1,116)</b>	<b>(20)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of Capital Assets .....	(7,359)	(41)
Proceeds from the Sale of Capital Assets .....	1,553	-
Principal Payments on Capital Leases .....	(6,222)	-
Interest Paid on Long-Term Debt .....	(506)	-
<b>NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES .....</b>	<b>(12,534)</b>	<b>(41)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest and Dividends Received on Investments .....	1,362	19
<b>NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES .....</b>	<b>1,362</b>	<b>19</b>
Net Increase (Decrease) in Cash and Cash Equivalents .....	2,762	72
Cash and Cash Equivalents at Beginning of Year .....	43,525	1,569
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR .....</b>	<b>\$ 46,287</b>	<b>\$ 1,641</b>
<b>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</b>		
Operating Income (Loss) .....	\$ (2,784)	\$ (102)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:		
Depreciation .....	18,304	21
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables:		
Accounts - Net .....	16	334
Claims - Net .....	(7)	-
Contributions .....	-	-
(Increase) Decrease in Inventories .....	-	(159)
(Increase) Decrease in Prepaid Expenses .....	(194)	-
Increase (Decrease) in Accounts Payable .....	(359)	67
Increase (Decrease) in Accrued Wages and Benefits .....	(353)	(41)
(Increase) Decrease in Unearned Revenue .....	-	-
Increase (Decrease) in Liability Claims .....	-	-
Increase (Decrease) in Compensated Absences .....	(35)	(13)
Increase (Decrease) in Net Pension Obligation .....	70	7
Other Nonoperating Revenue (Expenses) .....	392	-
<b>Total Adjustments .....</b>	<b>17,834</b>	<b>216</b>
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES .....</b>	<b>\$ 15,050</b>	<b>\$ 114</b>



Publishing Services	Self Insurance	Special Engineering	Miscellaneous Internal Service	San Diego Data Processing Corporation	Total
\$ 4,468	\$ 58,530	\$ 4,732	\$ 21,684	\$ 42,144	\$ 203,559
94	-	17,541	553	-	21,513
(3,175)	(27,002)	(6,611)	(2,220)	(12,895)	(95,276)
(1,735)	(24,842)	(16,251)	(20,606)	(23,958)	(103,435)
(56)	-	(579)	(524)	-	(1,905)
(404)	6,686	(1,168)	(1,113)	5,291	24,456
-	-	-	402	-	649
6	454	-	200	-	822
-	(240)	-	-	-	(1,169)
(11)	(952)	(319)	(143)	-	(2,041)
(5)	(738)	(319)	459	-	(1,739)
-	-	-	-	(2,342)	(9,742)
-	-	-	-	69	1,622
-	-	-	-	-	(6,222)
-	-	-	-	(5)	(511)
-	-	-	-	(2,278)	(14,853)
(5)	952	70	236	83	2,717
(5)	952	70	236	83	2,717
(414)	6,900	(1,417)	(418)	3,096	10,581
468	34,328	6,094	8,801	958	95,743
\$ 54	\$ 41,228	\$ 4,677	\$ 8,383	\$ 4,054	\$ 106,324
\$ (585)	\$ 17,772	\$ (568)	\$ (629)	\$ 3,491	\$ 16,595
156	-	50	-	3,412	21,943
9	(63)	(1)	-	(1,177)	(882)
-	-	-	-	-	(7)
-	-	-	66	-	66
-	-	-	-	11	(148)
-	-	(1)	-	101	(94)
95	4,880	136	151	(290)	4,680
(54)	(18)	(678)	(738)	(333)	(2,215)
-	-	-	-	58	58
-	(15,884)	-	-	-	(15,884)
(33)	-	(193)	4	-	(270)
8	-	84	32	-	201
-	-	3	-	18	413
181	(11,085)	(600)	(485)	1,800	7,861
\$ (404)	\$ 6,687	\$ (1,168)	\$ (1,114)	\$ 5,291	\$ 24,456

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## FIDUCIARY FUNDS

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## **FIDUCIARY FUNDS**

Fiduciary funds are used to account for resources held for the benefit of parties outside the government.

The resources of fiduciary funds are not available to support the City's programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

### **PENSION AND EMPLOYEE SAVINGS TRUST FUNDS**

#### **CITY EMPLOYEES' RETIREMENT SYSTEM**

The City Employees' Retirement System ("CERS") fund is under the control of the Retirement Board of Administration. It is a defined benefit plan, whereby funds are accumulated from contributions from both the City and employees, plus earnings from fund investments. Disbursements are made for retirements, disability and death benefit payments, and refunds.

#### **RETIREE HEALTH INSURANCE TRUST FUND**

Retiree Health Insurance Trust fund is a separate trust fund used solely for providing retiree health benefits. It is maintained by the Retirement Board of Administration to reflect all amounts the City and retirees contribute to pay retiree health benefits.

#### **SUPPLEMENTAL PENSION SAVINGS PLAN**

The Supplemental Pension Savings Plan Fund is a defined contribution plan, where benefits depend solely on amounts contributed to the plan by both the City and employees, plus investment earnings. Disbursements are made from the fund for terminations, retirements, allowable yearly withdrawals, and loans.

#### **401(k) PLAN**

The City's 401(k) Plan Fund is a defined contribution plan, where benefits depend solely on amounts contributed to the plan by City employees, plus investment earnings. Disbursements are made from the fund for terminations, retirements, allowable yearly withdrawals, and loans.

### **AGENCY FUNDS**

These funds were established to account for assets held by the City as an agent for individuals, private organizations, other governments and/or funds, including federal and state income taxes withheld from employees, parking citation revenues, and employee benefit plans.

**FIDUCIARY FUNDS  
PENSION AND EMPLOYEE SAVINGS TRUST FUNDS  
COMBINING STATEMENT OF FIDUCIARY NET ASSETS  
June 30, 2006  
(In Thousands)**

	City Employees' Retirement System	Post-Employment Healthcare Benefit Plan	Supplemental Pension Savings Plan	401(k) Plan	Total
<b>ASSETS</b>					
Cash or Equity in Pooled Cash and Investments .....	\$ 3,960	\$ 20	\$ 6	\$ 434	\$ 4,420
Cash with Custodian/Fiscal Agent .....	489,233	-	-	-	489,233
Investments at Fair Value:					
Short Term Investments .....	192,172	-	-	-	192,172
Domestic Fixed Income Securities (Bonds) .....	774,125	-	-	-	774,125
International Fixed Income Securities (Bonds) .....	166,743	-	-	-	166,743
Domestic Equity Securities (Stocks) .....	1,605,508	-	-	-	1,605,508
International Equity Securities (Stocks) .....	703,112	-	-	-	703,112
Mortgages .....	6	-	-	-	6
Real Estate Equity and Real Estate Securities .....	385,200	-	-	-	385,200
Defined Contribution Investments .....	-	-	458,294	188,727	647,021
Receivables:					
Contributions .....	30,099	-	1,900	-	31,999
Accrued Interest .....	13,132	(13)	-	-	13,119
Loans .....	-	-	18,784	7,224	26,008
Securities Sold .....	48,576	-	-	-	48,576
Prepaid and Reimbursable Items and Deposits .....	9	-	-	-	9
Securities Lending Collateral .....	581,290	-	-	-	581,290
Capital Assets - Depreciable .....	116	-	-	-	116
<b>TOTAL ASSETS</b> .....	<b>4,993,281</b>	<b>7</b>	<b>478,984</b>	<b>196,385</b>	<b>5,668,657</b>
<b>LIABILITIES</b>					
Accounts Payable .....	5,512	287	-	-	5,799
Accrued Wages and Benefits .....	513	-	-	-	513
DROP Liabilities .....	225,570	-	-	-	225,570
Net Pension Obligation .....	239	-	-	-	239
Securities Lending Obligations .....	581,290	-	-	-	581,290
Securities Purchased .....	166,332	-	-	-	166,332
<b>TOTAL LIABILITIES</b> .....	<b>979,456</b>	<b>287</b>	<b>-</b>	<b>-</b>	<b>979,743</b>
<b>NET ASSETS</b>					
Held in Trust for Pension Benefits and Other Purposes .....	4,013,825	(280)	478,984	196,385	4,688,914

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
Year Ended June 30, 2006  
(In Thousands)**

<b>ADDITIONS</b>					
Employer Contributions .....	\$ 306,403	\$ 17,431	\$ 24,622	\$ -	\$ 348,456
Employee Contributions .....	42,605	-	25,528	26,870	95,003
Retiree Contributions .....	-	6,374	-	-	6,374
Earnings on Investments:					
Investment Income .....	474,511	(15)	33,849	14,893	523,238
Investment Expense .....	(18,316)	-	-	-	(18,316)
Net Investment Income .....	456,195	(15)	33,849	14,893	504,922
Securities Lending:					
Gross Earnings .....	21,261	-	-	-	21,261
Borrow Rebates .....	(19,406)	-	-	-	(19,406)
Administrative Expenses (Lending Agent) .....	(498)	-	-	-	(498)
Net Securities Lending Income .....	1,357	-	-	-	1,357
Other Income:					
Litigation Proceeds .....	15,500	-	-	-	15,500
<b>TOTAL OPERATING ADDITIONS</b> .....	<b>822,060</b>	<b>23,790</b>	<b>83,999</b>	<b>41,763</b>	<b>971,612</b>
<b>DEDUCTIONS</b>					
DROP Interest Expense .....	17,749	-	-	-	17,749
Benefit and Claim Payments .....	219,265	24,070	48,364	14,543	306,242
Administration .....	22,973	-	(104)	-	22,869
<b>TOTAL OPERATING DEDUCTIONS</b> .....	<b>259,987</b>	<b>24,070</b>	<b>48,260</b>	<b>14,543</b>	<b>346,860</b>
<b>CHANGE IN NET ASSETS</b> .....	<b>562,073</b>	<b>(280)</b>	<b>35,739</b>	<b>27,220</b>	<b>624,752</b>
Net Assets at Beginning of Year .....	3,451,752	-	443,245	169,165	4,064,162
<b>NET ASSETS AT END OF YEAR</b> .....	<b>\$ 4,013,825</b>	<b>\$ (280)</b>	<b>\$ 478,984</b>	<b>\$ 196,385</b>	<b>\$ 4,688,914</b>

**FIDUCIARY FUNDS  
AGENCY FUNDS  
COMBINING STATEMENT OF FIDUCIARY NET ASSETS  
June 30, 2006  
(In Thousands)**

	<u>Employee Benefits</u>	<u>Other Miscellaneous Agency</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and Investments .....	\$ 7,241	\$ 29,637	\$ 36,878
Receivables:			
Accounts - Net .....	80	2	82
Accrued Interest .....	7	13	20
Restricted Cash and Investments .....	-	14,273	14,273
<b>TOTAL ASSETS .....</b>	<u>\$ 7,328</u>	<u>\$ 43,925</u>	<u>\$ 51,253</u>
<b>LIABILITIES</b>			
Due to Component Unit .....	\$ -	\$ 3,578	\$ 3,578
Deposits/Advances from Others .....	-	18,224	18,224
Sundry Trust Liabilities .....	7,328	22,123	29,451
<b>TOTAL LIABILITIES .....</b>	<u>\$ 7,328</u>	<u>\$ 43,925</u>	<u>\$ 51,253</u>

**FIDUCIARY FUNDS  
AGENCY FUNDS  
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
YEAR ENDED JUNE 30, 2006  
(In Thousands)**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
<b>Employee Benefits</b>				
<b>ASSETS</b>				
Cash or Equity in Pooled Cash and Investments .....	\$ 8,072	\$ 64,648	\$ 65,479	\$ 7,241
Receivables:				
Accounts - Net .....	70	893	883	80
Accrued Interest .....	4	72	69	7
<b>TOTAL ASSETS</b> .....	<u>\$ 8,146</u>	<u>\$ 65,613</u>	<u>\$ 66,431</u>	<u>\$ 7,328</u>
<b>LIABILITIES</b>				
Sundry Trust Liabilities .....	\$ 8,146	\$ 77,042	\$ 77,860	\$ 7,328
<b>TOTAL LIABILITIES</b> .....	<u>\$ 8,146</u>	<u>\$ 77,042</u>	<u>\$ 77,860</u>	<u>\$ 7,328</u>
<b>Other Miscellaneous Agency</b>				
<b>ASSETS</b>				
Cash and Investments .....	\$ 21,655	\$ 756,834	\$ 748,852	\$ 29,637
Receivables:				
Accounts - Net .....	2	1	1	2
Accrued Interest .....	6	150	143	13
Accrued Taxes - Net .....	3	-	3	-
Restricted Cash and Investments .....	24,752	5,605	16,084	14,273
<b>TOTAL ASSETS</b> .....	<u>\$ 46,418</u>	<u>\$ 762,590</u>	<u>\$ 765,083</u>	<u>\$ 43,925</u>
<b>LIABILITIES</b>				
Due to Component Unit .....	\$ 2,869	\$ 8,818	\$ 8,109	\$ 3,578
Deposits/Advances from Others .....	15,628	7,603	5,007	18,224
Sundry Trust Liabilities .....	27,921	719,890	725,688	22,123
<b>TOTAL LIABILITIES</b> .....	<u>\$ 46,418</u>	<u>\$ 736,311</u>	<u>\$ 738,804</u>	<u>\$ 43,925</u>
<b>TOTAL AGENCY FUNDS</b>				
<b>ASSETS</b>				
Cash and Investments .....	\$ 29,727	\$ 821,482	\$ 814,331	\$ 36,878
Receivables:				
Accounts - Net .....	72	894	884	82
Accrued Interest .....	10	222	212	20
Accrued Taxes - Net .....	3	-	3	-
Restricted Cash and Investments .....	24,752	5,605	16,084	14,273
<b>TOTAL ASSETS</b> .....	<u>\$ 54,564</u>	<u>\$ 828,203</u>	<u>\$ 831,514</u>	<u>\$ 51,253</u>
<b>LIABILITIES</b>				
Due to Component Unit .....	\$ 2,869	\$ 8,818	\$ 8,109	\$ 3,578
Deposits/Advances from Others .....	15,628	7,603	5,007	18,224
Sundry Trust Liabilities .....	36,067	796,932	803,548	29,451
<b>TOTAL LIABILITIES</b> .....	<u>\$ 54,564</u>	<u>\$ 813,353</u>	<u>\$ 816,664</u>	<u>\$ 51,253</u>



STATISTICAL SECTION [NOT AUDITED]

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**City of San Diego**  
**Net Assets by Category (Unaudited)**  
**Last Five Fiscal Years (In Thousands)**  
*(accrual basis of accounting)*

Table 1

	Fiscal Year				
	2002	2003	2004	2005	2006
	(restated)				
<b><u>Governmental Activities</u></b>					
Invested in Capital Assets, Net of Related Debt	\$ 3,013,292	\$ 3,106,168	\$ 3,200,262	\$ 3,600,989	\$ 3,472,531
Restricted for:					
Capital Projects	231,964	250,452	274,664	90,390	273,575
Debt Service	70,029	154,926	74,268	37,522	-
Low-Moderate Income Housing	-	-	-	-	64,493
Permanent	15,860	11,857	13,104	13,908	14,568
Other	137,071	78,743	129,686	104,488	96,537
Unrestricted	5,450	(53,988)	(146,793)	(215,719)	(140,126)
Total Governmental Activities Net Assets	<u>\$ 3,473,666</u>	<u>\$ 3,548,158</u>	<u>\$ 3,545,191</u>	<u>\$ 3,631,578</u>	<u>\$ 3,781,578</u>
<b><u>Business-type Activities</u></b>					
Invested in Capital Assets, Net of Related Debt	2,348,754	2,624,846	2,818,690	2,863,136	2,867,469
Restricted for:					
Capital Projects	-	-	-	-	-
Debt Service	70,011	72,567	3,674	3,517	2,970
Permanent	-	-	-	-	-
Other	24,385	25,275	26,735	29,412	32,115
Unrestricted	616,624	373,143	317,358	271,943	308,575
Total Business-type Activities Net Assets	<u>\$ 3,059,774</u>	<u>\$ 3,095,831</u>	<u>\$ 3,166,457</u>	<u>\$ 3,168,008</u>	<u>\$ 3,211,129</u>
<b><u>Primary Government</u></b>					
Invested in Capital Assets, Net of Related Debt	5,362,046	5,731,014	6,018,952	6,464,125	6,340,000
Restricted for:					
Capital Projects	231,964	250,452	274,664	90,390	273,575
Debt Service	140,040	227,493	77,942	41,039	2,970
Low-Moderate Income Housing	-	-	-	-	64,493
Permanent	15,860	11,857	13,104	13,908	14,568
Other	161,456	104,018	156,421	133,900	128,652
Unrestricted	622,074	319,155	170,565	56,224	168,449
Total Primary Government Net Assets	<u>\$ 6,533,440</u>	<u>\$ 6,643,989</u>	<u>\$ 6,711,648</u>	<u>\$ 6,799,586</u>	<u>\$ 6,992,707</u>

**City of San Diego**  
**Changes in Net Assets (Unaudited)**  
**Last Five Fiscal Years (In Thousands)**  
*(accrual basis of accounting)*

Table 2

	Fiscal Year				
	2002	2003	2004	2005	2006
	(restated)				
<b>Expenses</b>					
Governmental Activities					
General Government and Support	\$ 181,722	\$ 204,072	\$ 221,752	\$ 247,038	\$ 252,295
Public Safety - Police	298,176	334,461	361,501	372,230	370,990
Public Safety - Fire and Life Safety	139,699	147,897	173,311	186,203	194,074
Parks, Recreation, Culture and Leisure	181,762	202,567	204,736	218,601	237,375
Transportation	153,002	154,603	197,152	220,095	200,883
Sanitation and Health	57,227	37,615	44,925	45,088	48,774
Neighborhood Services	116,397	95,267	100,568	89,162	111,886
Interest on Long-Term Debt	59,952	68,410	71,588	73,381	71,109
Total Governmental Activities Expenses	1,187,937	1,244,892	1,375,533	1,451,798	1,487,386
Business-type Activities					
Airports	3,085	4,281	7,384	3,196	4,100
City Store	731	731	858	808	810
Development Services	46,920	47,278	52,970	60,240	57,893
Environmental Services	35,684	40,306	40,602	43,711	44,493
Golf Course	6,433	6,963	7,572	8,585	9,563
Recycling	16,161	19,141	19,497	21,426	21,853
Sewer Utility	277,833	352,075	312,929	348,327	319,274
Water Utility	255,160	267,855	270,940	300,665	302,996
Total Business-type Activities Expenses	642,007	738,630	712,752	786,958	760,982
Total Primary Government Expenses	\$ 1,829,944	\$ 1,983,522	\$ 2,088,285	\$ 2,238,756	\$ 2,248,368
<b>Program Revenues</b>					
Governmental Activities					
Charges for Services:					
General Government and Support	\$ 72,067	\$ 80,782	\$ 81,167	\$ 100,887	\$ 96,345
Public Safety - Police	18,812	21,498	23,699	23,496	24,256
Public Safety - Fire and Life Safety	16,492	21,014	19,940	21,381	18,572
Parks, Recreation, Culture and Leisure	20,136	9,187	12,466	35,314	51,196
Transportation	35,673	44,020	47,709	30,625	52,375
Sanitation and Health	7,571	9,009	9,087	8,651	10,697
Neighborhood Services	21,801	17,748	20,033	48,623	25,440
Operating Grants and Contributions	99,541	95,882	95,202	109,268	101,723
Capital Grants and Contributions	136,461	115,748	91,981	134,702	100,564
Total Governmental Activities Program Revenues	428,554	414,888	401,284	512,947	481,168
Business-type Activities					
Charges for Services:					
Airports	3,346	3,461	3,827	4,151	4,385
City Store	694	771	852	807	837
Development Services	46,860	46,656	58,412	61,299	55,011
Environmental Services	33,315	36,889	38,377	41,944	39,850
Golf Course	10,143	10,311	11,911	12,625	13,119
Recycling	15,870	17,640	16,169	19,883	21,345
Sewer Utility	233,980	256,947	267,294	288,972	290,568
Water Utility	213,577	222,462	239,533	267,649	280,567
Operating Grants and Contributions	5,981	3,616	1,483	2,028	1,909
Capital Grants and Contributions	170,943	143,444	133,586	63,830	77,602
Total Business-type Activities Program Revenues	734,710	742,197	771,444	763,188	785,193
Total Primary Government Program Revenues	\$ 1,163,264	\$ 1,157,085	\$ 1,172,728	\$ 1,276,135	\$ 1,266,361
<b>Net (Expense)/Revenue</b>					
Governmental Activities	\$ (759,383)	\$ (830,004)	\$ (974,249)	\$ (938,851)	\$ (1,006,218)
Business-type Activities	92,703	3,567	58,692	(23,770)	24,211
Total Primary Government Net Expense	\$ (666,680)	\$ (826,437)	\$ (915,557)	\$ (962,621)	\$ (982,007)

**City of San Diego**  
**Changes in Net Assets (Unaudited)**  
**Last Five Fiscal Years (In Thousands)**  
*(accrual basis of accounting)*

Table 2

	Fiscal Year				
	2002	2003	2004	2005	2006
	(restated)				
<b>General Revenues and</b>					
<b>Other Changes in Net Assets</b>					
Governmental Activities					
Property Taxes	\$ 222,778	\$ 248,659	\$ 278,804	\$ 329,659	\$ 459,777
Transient Occupancy Taxes	95,175	105,263	113,209	120,792	136,803
Other Local Taxes	106,723	98,783	139,748	152,577	148,001
Developer Contributions and Fees	36,879	39,577	33,363	47,063	53,502
Grants and Contributions not Restricted to Specific Programs	93,824	91,556	101,086	141,934	64,039
Sales Taxes	233,864	223,594	238,616	197,198	227,017
Investment Income	90,073	84,448	57,537	29,473	40,108
Gain on Sale of Capital Assets	480	92	467	684	1,214
Permanent Fund Contributions	280	870	250	-	-
Miscellaneous	6,983	6,243	4,396	5,232	21,227
Transfers	47,953	5,411	3,806	626	4,530
Total Governmental Activities General Revenues	935,012	904,496	971,282	1,025,238	1,156,218
Business-type Activities					
Investment Income	34,918	31,760	10,289	17,132	16,938
Gain on Sale of Capital Assets	-	(1,761)	8	-	-
Miscellaneous	(1,036)	7,902	5,443	8,815	6,502
Transfers	(47,953)	(5,411)	(3,806)	(626)	(4,530)
Total Business-type Activities General Revenues	(14,071)	32,490	11,934	25,321	18,910
Total Primary Government General Revenues	\$ 920,941	\$ 936,986	\$ 983,216	\$ 1,050,559	\$ 1,175,128
<b>Change in Net Assets</b>					
Governmental Activities	\$ 175,629	\$ 74,492	\$ (2,967)	\$ 86,387	\$ 150,000
Business-type Activities	78,632	36,057	70,626	1,551	43,121
Total Primary Government Change in Net Assets	\$ 254,261	\$ 110,549	\$ 67,659	\$ 87,938	\$ 193,121

**City of San Diego**  
**Fund Balances of Governmental Funds (Unaudited)**  
**Last Ten Fiscal Years (In Thousands)**  
*(modified accrual basis of accounting)*

	Fiscal Year			
	1997 <sup>1</sup>	1998	1999 <sup>1</sup>	2000
General Fund:				
Reserved	\$ 15,072	\$ 14,497	\$ 16,663	\$ 21,898
Unreserved	13,442	25,937	22,988	32,508
Total General Fund	<u>\$ 28,514</u>	<u>\$ 40,434</u>	<u>\$ 39,651</u>	<u>\$ 54,406</u>
All Other Governmental Funds:				
Reserved	\$ 375,999	\$ 311,622	\$ 490,696	\$ 593,837
Unreserved, reported in:				
Special Revenue Funds	106,169	108,323	142,000	119,272
Debt Service Funds	-	-	575	562
Capital Projects Funds	266,262	173,728	653,505	357,522
Permanent Funds	-	-	-	-
Total All Other Governmental Funds	<u>\$ 748,430</u>	<u>\$ 593,673</u>	<u>\$ 1,286,776</u>	<u>\$ 1,071,193</u>

Footnotes:

<sup>1</sup> Amounts have been subsequently restated in future periods.

Table 3

Fiscal Year					
2001 <sup>1</sup>	2002 <sup>1</sup>	2003	2004	2005	2006
\$ 22,128	\$ 26,298	\$ 21,482	\$ 18,550	\$ 17,501	\$ 21,288
55,579	43,705	45,570	42,672	43,547	40,353
<u>\$ 77,707</u>	<u>\$ 70,003</u>	<u>\$ 67,052</u>	<u>\$ 61,222</u>	<u>\$ 61,048</u>	<u>\$ 61,641</u>
\$ 445,752	\$ 574,974	\$ 386,652	\$ 277,968	\$ 372,806	\$ 401,019
137,040	202,651	185,219	305,909	284,818	267,576
1,194	3,740	864	1,650	13	217
320,563	283,250	275,591	287,259	279,866	406,130
-	-	461	879	1,063	656
<u>\$ 904,549</u>	<u>\$ 1,064,615</u>	<u>\$ 848,787</u>	<u>\$ 873,665</u>	<u>\$ 938,566</u>	<u>\$ 1,075,598</u>

**City of San Diego**  
**Changes in Fund Balances of Governmental Funds (Unaudited)**  
**Last Ten Fiscal Years (In Thousands)**  
*(modified accrual basis of accounting)*

	Fiscal Year				
	1997	1998	1999	2000	2001
<b>Revenues:</b>					
Property Taxes	\$ 162,318	\$ 150,409	\$ 160,658	\$ 179,048	\$ 201,801
Special Assessments <sup>(1)</sup>	-	17,573	19,630	18,457	18,775
Sales Taxes <sup>(2)</sup>	-	174,615	179,037	198,622	221,724
In-Lieu Sales Taxes <sup>(3)</sup>	-	-	-	-	-
Transient Occupancy Taxes <sup>(4)</sup>	-	-	-	-	-
Other Local Taxes	289,555	155,587	161,928	171,141	193,177
Licenses and Permits	26,553	30,735	34,854	30,381	34,803
Fines, Forfeitures and Penalties	18,370	17,949	25,541	31,141	32,902
Revenue from Use of Money and Property	88,239	97,996	112,558	120,966	108,345
Revenue from Federal Agencies	103,375	108,131	124,191	52,889	40,136
Revenue from Other Agencies	99,416	126,326	166,334	214,559	222,868
Revenue from Private Sources	48,320	40,906	50,394	82,382	77,583
Charges for Current Services	80,275	78,209	82,427	95,000	101,781
Other Revenue	19,406	23,640	10,544	15,462	11,544
<b>Total Revenues</b>	<b>935,827</b>	<b>1,022,076</b>	<b>1,128,096</b>	<b>1,210,048</b>	<b>1,265,439</b>
<b>Expenditures:</b>					
<b>Current:</b>					
General Government	71,379	73,045	77,751	83,351	95,992
Public Safety - Police <sup>(5)</sup>	292,981	311,844	356,358	395,942	406,580
Public Safety - Fire & Life Safety	-	-	-	-	-
Parks, Recreation and Culture	83,654	88,687	99,464	106,227	116,195
Public Transportation <sup>(6)</sup>	21	41	30	14	8
Sanitation and Health <sup>(6)</sup>	-	-	-	-	-
Neighborhood Services <sup>(6)</sup>	-	-	-	-	-
Capital Projects	381,991	288,909	439,885	413,107	467,769
<b>Debt Service</b>					
Principal Retirement	29,311	42,512	39,470	43,027	54,233
Interest	62,849	81,016	90,717	127,620	125,330
Arbitrage Rebate	-	-	-	-	-
<b>Total Expenditures</b>	<b>1,192,992</b>	<b>1,159,075</b>	<b>1,399,369</b>	<b>1,387,793</b>	<b>1,505,350</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(257,165)</b>	<b>(136,999)</b>	<b>(271,273)</b>	<b>(177,745)</b>	<b>(239,911)</b>
<b>Other Financing Sources (Uses):</b>					
Transfers In	132,050	8,572	4,424	5,286	7,130
Transfers Out	(149,117)	(14,911)	(18,932)	(32,476)	(28,013)
Issuance of Bonds	363,575	-	1,042,238	23,459	117,229
Issuance of Loans	-	-	-	3,711	222
Payment to Escrow Agent	-	-	(64,137)	-	-
Other Income	-	-	-	-	-
Restatements	-	501	-	(23,063)	-
<b>Total Other Financing Sources (Uses)</b>	<b>346,508</b>	<b>(5,838)</b>	<b>963,593</b>	<b>(23,083)</b>	<b>96,568</b>
<b>Net Change in Fund Balances</b>	<b>\$ 89,343</b>	<b>\$ (142,837)</b>	<b>\$ 692,320</b>	<b>\$ (200,828)</b>	<b>\$ (143,343)</b>
<b>Debt Service as a Percentage of Noncapital Expenditures</b>	<b>11.4%</b>	<b>14.2%</b>	<b>13.6%</b>	<b>17.5%</b>	<b>17.3%</b>

**Footnotes:**

- (1) The City began reporting Special Assessments separate from Property Taxes beginning with the fiscal year ended June 30, 1998.
- (2) The City began reporting Sales Taxes separate from Other Local Taxes beginning with the fiscal year ended June 30, 1998.
- (3) The City began reporting In-Lieu Sales Taxes separate from Sales Taxes beginning with the fiscal year ended June 30, 2005.
- (4) The City began reporting Transient Occupancy Taxes separate from Other Local Taxes beginning with the fiscal year ended June 30, 2004.
- (5) Amounts reported as Public Safety - Police prior to the fiscal year ended June 30, 2002 includes Public Safety - Fire & Life Safety.
- (6) Multiple classification adjustments were imposed as a result of implementation of GASB Statement No. 34.



Table 4

Fiscal Year				
2002	2003	2004	2005	2006
\$ 223,100	\$ 248,276	\$ 279,090	\$ 325,857	\$ 457,908
22,491	25,748	26,816	30,263	36,699
221,383	223,023	238,430	197,198	227,017
-	-	-	48,220	45,433
-	-	113,209	121,612	136,801
202,364	203,493	140,016	152,576	148,001
25,194	29,268	30,592	40,724	42,117
25,854	26,679	33,870	33,906	35,441
97,213	86,789	63,268	77,514	89,438
42,635	56,851	50,493	66,283	43,570
171,681	136,359	154,559	143,639	58,289
140,841	82,410	62,143	91,354	91,287
110,418	123,461	129,350	138,794	127,121
10,074	10,594	10,462	11,518	25,923
1,293,248	1,252,951	1,332,298	1,479,458	1,565,045
189,128	193,980	198,826	236,706	290,550
288,809	301,839	313,387	347,359	408,474
131,974	141,967	152,073	178,553	212,069
174,485	177,584	170,163	180,327	216,038
91,746	89,653	117,619	140,604	147,977
36,851	38,031	42,184	44,327	49,094
72,087	98,050	104,205	102,235	112,080
208,083	229,496	174,346	175,493	126,583
39,831	49,858	49,118	77,952	53,293
49,140	65,216	68,800	68,201	68,732
-	-	421	-	-
1,282,134	1,385,674	1,391,142	1,551,757	1,684,890
11,114	(132,723)	(58,844)	(72,299)	(119,845)
6,338	11,660	7,373	10,634	6,975
(16,749)	(8,676)	(16,474)	(2,366)	(1,784)
253,181	89,340	66,168	152,056	219,448
-	3,891	27,507	5,435	12,222
-	(53,974)	(10,132)	(32,011)	-
2,622	8,237	3,450	3,278	20,609
(104,144)	(136,534)	-	-	-
141,248	(86,056)	77,892	137,026	257,470
\$ 152,362	\$ (218,779)	\$ 19,048	\$ 64,727	\$ 137,625
8.3%	10.0%	9.7%	10.6%	7.8%

**City of San Diego**  
**Assessed Value and Estimated Value of Taxable Property (Unaudited)**  
**Last Ten Fiscal Years (In Thousands)**

Fiscal Year Ended June 30	City			Taxable Assessed Value
	Secured	Unsecured	Less: Exemptions	
1997	\$ 63,562,588	\$ 4,988,950	\$ (2,910,753)	\$ 65,640,785
1998	68,648,609	5,337,916	(2,994,814)	70,991,711
1999	75,788,751	5,852,822	(2,987,620)	78,653,953
2000	82,195,239	6,347,101	(3,249,480)	85,292,860
2001	89,259,317	6,838,926	(3,572,188)	92,526,055
2002	96,534,652	6,959,602	(3,189,764)	100,304,490
2003	105,602,893	7,230,861	(4,006,246)	108,827,508
2004	115,116,772	6,842,254	(4,271,203)	117,687,823
2005	128,611,940	7,191,819	(4,497,084)	131,306,675
2006	124,598,322	7,063,201	(5,678,208)	125,983,315

**Notes:**

1. Effective July 1, 1988, Assembly Bill 454, Chapter 921 eliminated the reporting of the unitary valuations pertaining to public utilities such as San Diego Gas and Electric and Pacific Telephone. In lieu of the property tax on these previously included assessed valuations, the City will receive from the State (through the County) an amount of unitary revenue based upon the unitary property tax received in the prior year.

2. 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 reassessed at the time that it is sold to a new owner. At that point, the new assessed value is reassessed at the purchase price of the property sold. The assessed valuation data shown above represents the only data currently available with respect to the actual market value of taxable property and is subject to the limitations described above.

Source: MuniServices, LLC, County of San Diego

Table 5

Redevelopment Agency				
Secured	Unsecured	Less: Exemptions	Taxable Assessed Value	Total Direct Tax Rate
\$ 4,139,438	\$ 210,919	\$ (211,726)	\$ 4,138,631	0.209%
4,426,121	283,966	(262,115)	4,447,972	0.199%
6,064,771	435,459	(305,697)	6,194,533	0.189%
6,637,895	466,314	(361,440)	6,742,769	0.195%
7,420,900	482,155	(352,739)	7,550,316	0.202%
8,287,824	526,423	(412,869)	8,401,378	0.205%
9,662,606	593,738	(434,701)	9,821,643	0.209%
9,558,045	483,522	(482,525)	9,559,042	0.219%
10,222,644	505,380	(524,636)	10,203,388	0.230%
14,574,228	633,220	(691,376)	14,516,072	0.326%

**City of San Diego**  
**Direct and Overlapping Property Tax Rates (Unaudited)**  
**(\$1 Per \$100 of Assessed Value)**  
**Last Ten Fiscal Years (In Thousands)**

**Table 6**

Fiscal Year Ended June 30	Direct Rate	Overlapping		
	Basic County/ City Rate	City of San Diego	Education	Total
1997	1.00000%	0.00830%	0.10020%	1.10850%
1998	1.00000%	0.00840%	0.09930%	1.10770%
1999	1.00000%	0.00790%	0.09630%	1.10420%
2000	1.00000%	0.00760%	0.09580%	1.10340%
2001	1.00000%	0.00740%	0.09580%	1.10320%
2002	1.00000%	0.00730%	0.09580%	1.10310%
2003	1.00000%	0.00710%	0.09580%	1.10290%
2004	1.00000%	0.00680%	0.00000%	1.00680%
2005	1.00000%	0.00670%	0.00000%	1.00670%
2006	1.00000%	0.01165%	0.10085%	1.11250%

Source: MuniServices, LLC, County of San Diego

**City of San Diego**  
**Principal Property Tax Payers (Unaudited)**  
**Current Year and Nine Years Ago (In Thousands)**

**Table 7**

Taxpayer	Taxable Assessed Value	Percent of Total City Taxable Assessed Value
<b><u>For the Fiscal Year Ended June 30, 2006</u></b>		
Kilroy Realty, LP	\$ 679,312	0.48%
Qualcomm, Inc.	646,693	0.46%
Pfizer, Inc.	470,414	0.33%
Fashion Valley Mall, LLC	428,018	0.30%
San Diego Family Housing, LLC	407,398	0.29%
Irvine Co.	372,631	0.27%
Sea World, Inc.	358,828	0.26%
Manchester Resorts, LP	341,093	0.24%
Pacific Gateway, Ltd	265,295	0.19%
University Towne Centre, LLC	205,156	0.15%
<b><u>For the Fiscal Year Ended June 30, 1997</u></b>		
Qualcomm, Inc.	\$ 332,016	0.53%
Pardee Construction	214,898	0.34%
Equitable Life Assurance	272,038	0.43%
Pacific Gateway, Ltd	227,049	0.36%
Sony Corp of America	228,425	0.36%
Hewlett-Packard	218,492	0.35%
Sea World, Inc.	205,556	0.33%
Solar Turbines	170,157	0.27%
Manchester Resorts, LP	123,181	0.20%
Miramar Ranch North	44,006	0.07%

Source: MuniServices, LLC, County of San Diego

**City of San Diego**  
**Property Tax Levies and Collections (Unaudited)**  
**Last Ten Fiscal Years (In Thousands)**

**Table 8**

Fiscal Year Ended June 30	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percent of Levy		Amount	Percent of Levy
1997	\$ 111,719	\$ 108,676	97.28%	\$ 1,887	\$ 110,563	98.97%
1998	116,912	114,311	97.78%	3,118	117,429	100.44%
1999	127,846	124,267	97.20%	2,656	126,923	99.28%
2000	141,963	137,859	97.11%	2,366	140,225	98.78%
2001	155,060	150,900	97.32%	2,506	153,406	98.93%
2002	167,077	163,357	97.77%	2,089	165,446	99.02%
2003	181,687	175,943	96.84%	2,398	178,341	98.16%
2004	199,630	191,224	95.79%	3,175	194,399	97.38%
2005	227,422	213,173	93.73%	3,152	216,325	95.12%
2006	255,211	240,895	94.39%	4,563	245,458	96.18%

Source: County of San Diego

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City of San Diego  
Ratios of Outstanding Debt by Type (Unaudited)  
Last Ten Fiscal Years (In Thousands)

Fiscal Year Ended June 30	Governmental Activities				
	General Obligation Bonds	Revenue Bonds/ Lease Revenue Bonds/ Certificates of Participation	Special Assessment/ Special Tax Bonds	Tax Allocation Bonds	Contracts Payable
1997	82,625	224,715	120,900	113,925	1,182
1998	78,600	213,801	113,105	109,445	1,013
1999	74,255	446,885	72,690	164,215	717
2000	68,700	448,000	70,550	171,101	1,697
2001	63,595	434,365	128,545	222,751	3,848
2002	58,095	609,235	125,955	275,471	3,597
2003	52,165	609,785	123,130	283,310	1,882
2004	45,775	591,620	140,545	314,333	1,715
2005	14,530	571,285	137,305	415,778	1,715
2006	12,690	549,850	133,605	514,845	2,615

Fiscal Year Ended June 30	Business-Type Activities				
	Notes Payable	Loans Payable	Bonds Payable	Capital Lease Obligations	Line of Credit
1997	838,311	100	-	5,247	-
1998	818,760	100	-	10,242	-
1999	1,118,740	100	-	18,656	-
2000	1,485,497	17,256	-	25,807	3,569
2001	1,463,290	60,222	-	28,885	4,169
2002*	63,786	-	1,433,465	7,612	-
2003	-	69,093	1,612,200	6,465	-
2004	-	67,054	1,731,825	5,008	-
2005	-	63,803	1,698,060	3,521	-
2006	-	91,247	1,662,705	2,051	-

Notes:

Details regarding the City's outstanding debt can be found in the notes to the financial statements.

\*In fiscal year 2002, loans payable were reclassified as notes payable, and notes payable were reclassified as bond payable.

(a) Ratio is calculated using assessed property values. Personal income data is not available.

(b) Ratio is calculated using population data.

Source: previously published CAFR Reports (2004-05 and prior)



Table 9

Notes Payable	Governmental Activities				Total Governmental Activities
	Loans	Capital Lease Obligations	Arbitrage Liability	Tobacco Settlement Asset-Backed Bonds	
105,996	-	14,534	-	-	663,877
107,351	-	17,571	-	-	640,886
99,230	-	17,551	-	-	875,543
33,606	5,972	14,284	-	-	813,910
37,962	3,250	13,233	-	-	907,549
15,521	28,255	38,345	-	-	1,154,474
8,416	46,117	37,701	363	-	1,162,869
5,998	69,084	30,619	262	-	1,199,951
7,924	62,024	30,647	-	-	1,241,208
7,294	64,199	40,541	-	105,400	1,431,039

Arbitrage Liability	Total Business-Type Activities	Total Primary Government	Percentage of Assessed Value (a)	Debt Per Capita (b)
-	843,658	1,507,535	2.30%	1.26
-	829,102	1,469,988	2.07%	1.20
-	1,137,496	2,013,039	2.56%	1.60
-	1,532,129	2,346,039	2.75%	1.84
-	1,556,566	2,464,115	2.66%	1.97
-	1,504,863	2,659,337	2.65%	2.12
1,812	1,689,570	2,852,439	2.62%	2.24
221	1,804,108	3,004,059	2.55%	2.32
213	1,765,597	3,006,805	2.29%	2.30
193	1,756,196	3,187,235	2.53%	2.43

**City of San Diego**  
**Ratios of General Bonded Debt Outstanding (Unaudited)**  
**Last Ten Fiscal Years**

**Table 10**

<b>Fiscal Year Ended June 30</b>	<b>General Obligation Bonds (Thousands)</b>	<b>Assessed Valuation (Thousands)</b>	<b>Percentage of Assessed Value (a)</b>	<b>Population</b>	<b>Debt Per Capita (b)</b>
1997	82,625	65,640,785	0.13%	1,197,077	69.02
1998	78,600	70,991,711	0.11%	1,224,848	64.17
1999	74,255	78,653,953	0.09%	1,254,281	59.20
2000	68,700	85,292,860	0.08%	1,277,168	53.79
2001	63,595	92,526,055	0.07%	1,250,700	50.85
2002	58,095	100,304,490	0.06%	1,255,742	46.26
2003	52,165	108,827,508	0.05%	1,275,112	40.91
2004	45,775	117,687,823	0.04%	1,294,000	35.37
2005	14,530	131,306,675	0.01%	1,306,000	11.13
2006	12,690	125,983,315	0.01%	1,311,162	9.68

**Notes:**

Details regarding the City's outstanding debt can be found in the notes to the financial statements.

(a) Ratio is calculated using assessed property values. Personal income data is not available.

(b) Ratio is calculated using population data.

Source: previously published CAFR Reports (2004-05 and prior)

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**City of San Diego**  
**Direct and Overlapping Debt (Unaudited)**  
**June 30, 2006 (In Thousands)**

Table 11

2005-06 Assessed Valuation:	\$	142,010,987
Redevelopment Incremental Valuation:		10,710,394
Adjusted Assessed Valuation:	\$	131,300,593

<b><u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u></b>	<b>Total Debt 6/30/06</b>	<b>% Applicable (1)</b>	<b>City's Share of Debt, 6/30/06</b>
Metropolitan Water District	\$ 389,565	8.982%	\$ 34,991
San Diego Community College District	61,235	99.903%	61,176
Southwestern Community College District	90,570	17.968%	16,274
Poway Unified School District School Facilities Improvement District No. 2002-1	64,165	67.500%	43,311
San Diego Unified School District	1,455,979	99.907%	1,454,625
Sweetwater Union High School District	82,615	21.080%	17,415
San Ysidro School District	57,784	93.892%	54,255
Other School, High School and Community College Districts	576,721	Various	15,048
Palomar Pomerado Hospital District	80,000	31.293%	25,034
City of San Diego	11,520	100.000%	11,520
San Diego Open Space Park Facilities District No. 1	19,930	100.000%	19,930
City of San Diego Community Facilities District No. 1	46,600	100.000%	46,600
City of San Diego Community Facilities District No. 2, Improvement Area Nos. 1, 3 and 4	73,510	100.000%	73,510
City of San Diego 1915 Act Bonds	37,499	100.000%	37,499
Del Mar Unified School District Community Facilities District No. 99-1	10,485	100.000%	10,485
North City West School District Community Facilities District	101,663	100.000%	101,663
Poway Unified School District Community Facilities Districts	254,881	99.609-100.000%	254,624
San Diego Union High School District Community Facilities Districts	95,993	39.731-81.063%	33,475
Sweetwater Union High School District Community Facilities Districts	30,339	8.935-100.000%	23,342
Other Special District 1915 Act Bonds	19,830	Various	884
TOTAL GROSS DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			\$ 2,335,661
Less: San Diego Open Space Park Facilities District No. 1 (100% self-supporting)			19,930
TOTAL NET DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			\$ 2,315,731
<b><u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u></b>			
San Diego County General Fund Obligations	\$ 387,535	46.242%	\$ 179,204
San Diego County Pension Obligations	1,231,283	46.242%	569,370
San Diego Superintendent of Schools Certificates of Participation	12,495	46.242%	5,778
Poway Unified School District Certificates of Participation	100,000	73.328%	73,328
Sweetwater Union High School District Certificates of Participation	16,040	21.080%	3,381
Chula Vista School District General Fund Obligations	1,395,985	5.809%	7,899
Del Mar Union School District Certificates of Participation	11,700	81.843%	9,517
San Ysidro School District Certificates of Participation	26,185	93.892%	24,586
Other School, High School and Community College District Certificates of Participation	41,935	Various	5,758
City of San Diego General Fund Obligations and MTDB Authority	498,040	100.000%	498,040
Otay Municipal Water District Certificates of Participation	24,925	6.053%	1,509
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT			\$ 1,378,370
Less: Otay Municipal Water District Certificates of Participation			1,509
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT			\$ 1,376,861
GROSS COMBINED TOTAL DEBT (2)			\$ 3,714,031
NET COMBINED TOTAL DEBT			\$ 3,692,592

(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 and tax allocation bonds and non-bonded capital lease obligations.

**City of San Diego**  
**Direct and Overlapping Debt (Unaudited)**  
**June 30, 2006 (In Thousands)**  
(Continued)

Table 11

Ratios to 2005-06 Assessed Valuation:

Direct Debt (\$11,520,000)	0.01%
Total Gross Direct and Overlapping Tax and Assessment Debt	1.64%
Total Net Direct and Overlapping Tax and Assessment Debt	1.63%

Ratios to Adjusted Assessed Valuation:

Gross Combined Direct Debt (\$529,490,000) (1)	0.40%
Net Combined Direct Debt (\$509,560,000)	0.39%
Gross Combined Total Debt	2.83%
Net Combined Total Debt	2.81%

(1) City	\$ 11,520
City Authorities and Certificates of Participation	498,040
San Diego Open Space Park Facilities District No. 1	19,930
	<u>\$ 529,490</u>

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/06: \$9,240

Source: California Municipal Statistics, Inc.

**City of San Diego**  
**Legal Debt Margin Schedule (Unaudited)**  
**Last Ten Fiscal Years (In Thousands)**

	Fiscal Year			
	1997	1998	1999	2000
Assessed valuation	\$ 65,640,785	\$ 70,991,711	\$ 78,653,953	\$ 85,292,860
Conversion percentage *	25%	25%	25%	25%
Adjusted assessed valuation	16,410,196	17,747,928	19,663,488	21,323,215
Debt limit percentage **	25%	25%	25%	25%
Debt limit	4,102,549	4,436,982	4,915,872	5,330,804
Total net debt applicable to limit: General Obligation Bonds	28,400	21,175	20,200	19,170
Legal debt margin	4,074,149	4,415,807	4,895,672	5,311,634
Total debt applicable to the limit as a percentage of the debt limit	0.69%	0.48%	0.41%	0.36%

\* 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. The calculations shown above present a conversion of assessed valuation data for each fiscal year from the current 100% valuation to the 25% level that was in effect at the time the legal debt margin was enacted.

\*\* Section 90 of the City Charter provides that the bonded indebtedness for the development, conservation, and furnishings of water shall not exceed 15% of the last preceding assessed valuation of all real and personal property of the City subject to direct taxation, and that the bonded indebtedness for other municipal improvements shall not exceed 10% of such valuation.

Source: previously published CAFR Reports (2004-05 and prior)

Table 12

Fiscal Year					
2001	2002	2003	2004	2005	2006
\$ 92,526,055	\$ 100,304,490	\$ 108,827,508	\$ 117,687,823	\$ 131,305,675	\$ 125,983,315
25%	25%	25%	25%	25%	25%
23,131,514	25,076,123	27,206,877	29,421,956	32,826,419	31,495,829
25%	25%	25%	25%	25%	25%
5,782,878	6,269,031	6,801,719	7,355,489	8,206,605	7,873,957
18,075	16,920	15,690	14,390	13,010	11,520
5,764,803	6,252,111	6,786,029	7,341,099	8,193,595	7,862,437
0.31%	0.27%	0.23%	0.20%	0.16%	0.15%

**City of San Diego**  
**Pledged-Revenue Coverage - Water Bonds (Unaudited)**  
**Last Ten Fiscal Years (In Thousands)**

<b>Fiscal Year Ended June 30</b>	<b>Total Income</b>	<b>Total Expenses</b>	<b>Net System Revenue</b>	<b>Less: Interest Earnings on Reserve Fund - Parity Obligations</b>	<b>Adjusted Net System Revenue</b>
1999	\$ 210,490	\$ 195,407	\$ 15,083	\$ (884)	\$ 14,199
2000	255,736	213,358	42,378	-	42,378
2001	255,974	214,056	41,918	(54)	41,864
2002	261,333	222,104	39,229	(3,444)	35,785
2003	256,968	226,058	30,910	(1,305)	29,605
2004	267,649	232,193	35,456	(1,296)	34,160
2005	294,904	234,392	60,512	(1,262)	59,250
2006	303,453	242,180	61,273	(1,228)	60,045

Note: The Water Utility had no bonded debt for fiscal years 1997-1998.

Source: previously published CAFR Reports (2004-05 and prior)



Table 13-1

Debt Service			Less: Parity Interest Earnings	Adjusted Debt Service	Adjusted Debt Service Coverage
Principal	Interest	Total			
\$ -	\$ 9,365	\$ 9,365	\$ (884)	\$ 8,481	1.67
-	18,730	18,730	-	18,730	2.26
-	18,730	18,730	(54)	18,676	2.24
6,780	18,594	25,374	(3,444)	21,930	1.63
7,055	16,308	23,363	(1,305)	22,058	1.34
7,345	14,010	21,355	(1,296)	20,059	1.70
7,645	13,710	21,355	(1,262)	20,093	2.95
7,965	13,390	21,355	(1,228)	20,127	2.98

**City of San Diego**  
**Pledged-Revenue Coverage - Sewer Bonds (Unaudited)**  
**Last Ten Fiscal Years (In Thousands)**

**Table 13-2**

Fiscal Year Ended June 30	Total Income	Total Expenses	Net System Revenue	Debt Service			Debt Service Coverage
				Principal	Interest	Total	
1997	\$ 310,352	\$ 188,704	\$ 121,648	\$ 4,660	\$ 32,781	\$ 37,441	3.25
1998	279,463	162,404	117,059	14,865	41,672	56,537	2.07
1999	256,163	138,880	117,283	15,430	41,108	56,538	2.07
2000	291,238	137,007	154,231	18,300	58,755	77,055	2.00
2001	283,228	168,853	114,375	22,150	54,905	77,055	1.48
2002	310,392	170,022	140,370	23,045	54,009	77,054	1.82
2003	334,551	241,822	92,729	24,000	53,046	77,046	1.20
2004	295,881	196,823	99,058	25,030	52,020	77,050	1.29
2005	322,716	204,163	118,553	26,120	50,935	77,055	1.54
2006	320,151	202,111	118,040	27,390	49,662	77,052	1.53

Source: previously published CAFR Report (2004-05 and prior)

**City of San Diego**  
**Demographic and Economic Statistics (Unaudited)**  
**Last Ten Fiscal Years**

**Table 14**

<b>Fiscal Year Ended June 30</b>	<b>Population</b>	<b>Personal Income (Thousands \$)</b>	<b>Per Capita Personal Income (\$)</b>	<b>Unemployment Rate</b>
1997	1,197,077	N/A	N/A	4.8%
1998	1,224,848	N/A	N/A	3.8%
1999	1,254,281	N/A	N/A	3.5%
2000	1,277,168	N/A	N/A	3.2%
2001	1,250,700	N/A	N/A	2.3%
2002	1,255,742	31,859,430	25,371	3.7%
2003	1,275,112	32,794,606	25,719	4.4%
2004	1,294,000	35,896,854	27,741	5.0%
2005	1,306,000	38,523,082	29,497	4.5%
2006	1,311,162	37,749,536	28,791	4.3%

**Notes:**

Population Projections are provided by the California Department of Finance Projections.

Income Data is provided by the United States Census Data and is adjusted for inflation.

Unemployment and Total Employment Data are provided by the EDD's Bureau of Labor Statistics Department.

Sources: 2005-06 MuniServices, LLC, and previously published CAFR Reports (2004-05 and prior).

**City of San Diego  
Principal Employers (Unaudited)  
Calendar Year-End 2006**

**Table 15**

<u>Employer</u>	<u>Number of Employees (1)</u>	<u>Percentage of Total Employment (2)</u>
Federal Government	40,200	6.11%
University of California, San Diego	27,200	4.13%
San Diego Unified School District	19,777	3.01%
County of San Diego	15,715	2.39%
Sharp Healthcare	13,377	2.03%
San Diego State University	11,114	1.69%
Scripps Health	10,932	1.66%
City of San Diego (3)	10,990	1.67%
Kaiser Permanente	7,432	1.13%
Qualcomm Inc.	6,960	1.06%
Total Top Employers	163,697	24.88%

Notes:

(1) Principal employers and number of employees based on data as of calendar year-end 2006, Source: San Diego Business Journal.

(2) Percentage based on total employment of 657,900 reported by the EDD for December 2006.

(3) Number of Employees for the City as of 06/30/06.

**City of San Diego**  
**Full-time and Part-time City Employees by Function (Unaudited)**  
**Last Six Fiscal Years\***

**Table 16**

Function	Fiscal Year					
	2001	2002	2003	2004	2005	2006
General Government and Support	1,864	2,015	2,039	1,990	1,944	1,816
Public Safety - Police	2,854	2,875	2,836	2,730	2,774	2,628
Public Safety - Fire and Life Safety	1,286	1,314	1,355	1,352	1,373	1,322
Parks, Recreation, Culture and Leisure	2,041	2,023	2,052	1,822	1,777	1,701
Transportation	490	517	513	501	461	447
Sanitation and Health	164	163	161	161	148	144
Neighborhood Services	267	259	260	235	234	177
Airports	19	20	21	19	17	14
Development Services	480	498	463	524	535	482
Environmental Services	209	222	225	219	219	196
Golf Course	69	70	73	82	81	88
Recycling	99	118	120	119	116	121
Sewer Utility	972	1,052	1,108	1,071	1,050	976
Water Utility	967	997	979	975	943	878
Total Employees	<u>11,781</u>	<u>12,143</u>	<u>12,205</u>	<u>11,800</u>	<u>11,672</u>	<u>10,990</u>

Notes:

\*Only data for the last six fiscal years was readily available

Source: Office of the Comptroller, Payroll Division

**City of San Diego**  
**Operating Indicators by Function (Unaudited)**  
**Fiscal Year 2006\***

**Table 17**

<u>Function</u>	<u>2006</u>
<u>Public Safety - Police</u>	
Calls for police services dispatched	623,940
Calls for 9-1-1 emergencies	518,291
<u>Public Safety - Fire and Life Safety</u>	
Fire Department:	
Emergency calls - fire	3,579
Emergency calls - medical/rescue	84,882
Emergency calls - other	12,918
Lifeguard:	
Water rescues	5,075
Other rescues	4,490
<u>Parks, Recreation, Culture and Leisure</u>	
Parks and Recreation:	
Therapeutic recreation services - participants**	70,000
Senior services - participants**	50,000
Library:	
Circulation	7,003,040
Total attendance - all libraries	6,017,790
<u>Sewer Utility</u>	
Average daily sewage flow (millions of gallons)	180.95
<u>Water Utility</u>	
Average daily consumption (millions of gallons)	204.74

Notes:

\*Historical data for prior years is unavailable.

\*\*Estimated figure

Source: Citywide departments

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**City of San Diego**  
**Capital Asset Statistics by Function (Unaudited)**  
**Last Ten Fiscal Years**

Function	Fiscal Year			
	1997	1998	1999	2000
<u>Public Safety - Police</u>				
Stations	12	9	9	9
<u>Public Safety - Fire and Life Safety</u>				
Fire stations	43	43	43	43
<u>Parks, Recreation, Culture and Leisure</u>				
Park and recreation sites*	344	345	416	416
<u>Transportation</u>				
Miles of streets -asphalt,concrete, & dirt**	2,781	2,974	2,974	3,820
<u>Airports</u>				
Municipal airports	2	2	2	2
<u>Golf Course</u>				
Municipal golf courses	9	9	9	9
<u>Sewer Utility</u>				
Miles of sewers	2,544	2,554	2,554	2,592
Sewer service laterals	262,739	259,666	259,666	263,107
<u>Water Utility</u>				
Miles of water distribution mains	2,728	2,729	3,098	3,125
Fire hydrants	22,458	22,771	23,035	23,399

Notes:

\*Statistics for fiscal years 1997-2003 were based on the number of parks, squares, and recreation centers. The department updated the statistics for overall park and recreation sites for fiscal years 2004-2006.

\*\*In prior years, miles of streets also included alleys and dirt streets. For FY 2006, Transportation provided the statistic only for miles of asphalt and concrete streets.

Source: previously published CAFR Reports (2004-05 and prior), Citywide departments



Table 18

Fiscal Year					
2001	2002	2003	2004	2005	2006
10	10	10	10	10	10
43	43	43	45	45	45
416	444	460	363	367	370
3,820	3,112	2,985	2,985	2,800	2,685
2	2	2	2	2	2
9	9	10	10	10	10
2,610	2,620	2,950	3,028	3,030	2,993
265,212	266,342	268,372	270,365	271,284	271,445
3,139	3,157	3,280	3,317	3,319	3,336
23,476	23,844	24,145	24,428	24,600	24,661

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