

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 for list of current NRMSIRs and SIDs

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.)

TYPE OF FILING:

X Electronic: **36 pages plus attachments**

Paper (no. of pages attached) _____

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

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.)

Combined Annual Report for the Fiscal Years Ended June 30, 2003 and June 30, 2004

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 – See information attached.

E. Other Secondary Market Information (Specify): _____

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 _____

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 a 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.

RAUSCHER PIERCE REFSNES, INC.

December 6, 1995

COPY OF OFFICIAL STATEMENT COVER PAGE FOR GENERAL REFERENCE ONLY

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."



**Financial Guaranty Insurance
Company**

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.

February 26, 1997

COPY OF OFFICIAL STATEMENT COVER PAGE FOR GENERAL REFERENCE ONLY

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.**



**Financial Guaranty Insurance
Company**

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 YEARS ENDED JUNE 30, 2003 AND JUNE 30, 2004
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"), for the above stated issuances pursuant to Continuing Disclosure Agreements (entered into to allow the respective underwriters to comply with Securities and Exchange Commission Rule 15c2-12) for the Fiscal Years ended June 30, 2003 and June 30, 2004. The audits of the City's financial statements for the Fiscal Years ended June 30, 2003 and June 30, 2004 were only recently completed. To the extent the City previously submitted financial information and operating data for the Fiscal Years ending June 30, 2003 and June 30, 2004, this submission replaces that information and data in its entirety.

On October 26, 2007, Macias Gini & O'Connell LLP, the outside auditor, issued a clean audit opinion of the City's Fiscal Year 2005 CAFR and the City's Audit Committee began its review of said financial statements on November 27, 2007. On December 13, 2007 the City's Chief Operating Officer notified the Audit Committee of the City's intention to re-open the 2005 CAFR for the limited purpose of analyzing the disclosures related to the Preservation of Benefits discussion of footnote 18. Once the 2005 CAFR is received and filed by the City Council, the continuing disclosure annual reports for Fiscal Year 2005 will be prepared and filed with the NRMSIRs. Macias, Gini & O'Connell

has been engaged to audit the City's financial statements for Fiscal Years 2006 and 2007 and it is not known as this time when such audits will be completed.

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 these Annual Reports 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: 1-25, 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

Interactive Data Pricing and Reference Data, Inc.

Attn: NRMSIR
100 William Street, 15th Floor
New York, NY 10038
Phone: (212) 771-6999
Fax: (212) 771-7390
Email: NRMSIR@interactivedata.com

Standard & Poor's Securities Evaluations, Inc.

55 Water Street, 45th Floor
New York, NY 10041
Phone: (212) 438-4595
Fax: (212) 438-3975
Email: nrmsir_repository@sandp.com

DPC Data, Inc.

One Executive Drive
Fort Lee, NJ 07024
Phone: (201) 346-0701
Fax: (201) 947-0107
Email: nrmsir@dpcdata.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 “Labor Relations”, “Pension Plan”, “Public Liability Insurance”, and “Investment of Funds”.

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

Fiscal Year Ended June 30	City Flow Through Point Loma Plant	Participating Agency Flow Through Point Loma Plant	City Flow Through Escondido Plant	City Flow Through Solana Beach Plant	Reclaimed Water Through North City Plant	City Flow Through South Bay Reclamation Plant	Total System Flow	Average MGD For The Year
1990	48,628	20,836	1,405	0	0	0	70,869	194
1991	45,602	19,218	1,365	0	0	0	66,185	181
1992	46,030	18,115	1,177	0	0	0	65,322	179
1993	48,680	20,092	1,318	0	0	0	70,090	192
1994	45,043	19,111	1,310	0	0	0	65,464	179
1995	46,802	19,724	1,321	0	0	0	67,847	186
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

Table 3A
METROPOLITAN SYSTEM
CITY AND PARTICIPATING AGENCIES FLOW AND CAPACITY RIGHTS
Fiscal Year Ended June 30, 2003
(Unaudited)

<u>Participating Agencies</u>	<u>Estimated Population</u> ⁽¹⁾	<u>Capacity Rights (in mgd)</u>	<u>% of Total Capacity</u>	<u>Average Flow (mgd)</u> ⁽⁴⁾	<u>% of Total Average Flow</u>
City of Chula Vista	208,024	19.843	8.268%	16.346	8.987%
City of Coronado	16,000	3.078	1.283%	2.314	1.272%
City of Del Mar	5,000	0.821	0.342%	0.697	0.383%
City of El Cajon	96,000	10.260	4.275%	8.502	4.674%
City of Imperial Beach	29,000	3.591	1.496%	2.235	1.229%
City of La Mesa	56,560	6.634	2.764%	5.081	2.793%
City of National City	54,260	7.141	2.975%	5.039	2.770%
City of Poway	44,000	5.630	2.346%	3.704	2.036%
East Otay Mesa Sewer Maintenance District ⁽²⁾	n/a	1.000	0.417%	0.00	0.00%
Lakeside/Alpine Sanitation District ⁽³⁾	38,000	4.586	1.911%	3.104	1.706%
Lemon Grove Sanitation District	27,200	2.873	1.197%	2.295	1.262%
Otay Water District	4,990	1.231	0.513%	0.383	0.211%
Padre Dam Municipal Water District	61,100	5.882	2.451%	3.320	1.925%
Spring Valley Sanitation District	89,000	9.808	4.087%	6.853	3.768%
Wintergardens Sewer Maintenance District	<u>10,000</u>	<u>1.241</u>	<u>0.517%</u>	<u>0.915</u>	<u>0.503%</u>
SUBTOTAL	739,134	83.619	34.841%	60.788	33.52%
City of San Diego	<u>1,292,000</u>	<u>156.381</u>	<u>65.159%</u>	<u>121.105</u>	<u>66.48%</u>
TOTAL:	2,031,134	240.000	100.000%	181.893	100.00%

(1) Source: Participating Agencies. Population served by Metropolitan System.

(2) Included as Participating Agency May 15, 2000.

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

(4) Total flow in Table 3A differs from Table 2 because Table 2 includes City flow through the Escondido Wastewater Treatment Plant and reclaimed water at the North City Plant and Table 3A does not.

Source: Participating Agencies and Metropolitan Wastewater Department

Table 3B
METROPOLITAN SYSTEM
CITY AND PARTICIPATING AGENCIES FLOW AND CAPACITY RIGHTS
Fiscal Year Ended June 30, 2004
(Unaudited)

Participating Agencies	<u>Estimated Population⁽¹⁾</u>	<u>Capacity Rights (in mgd)</u>	<u>% of Total Capacity</u>	<u>Average Flow (mgd) ⁽³⁾</u>	<u>% of Total Average Flow</u>
City of Chula Vista	215,193	19.843	8.268%	15.787	9.020%
City of Coronado	16,000	3.078	1.283%	2.300	1.314%
City of Del Mar	5,000	0.821	0.342%	0.680	0.389%
City of El Cajon	96,000	10.260	4.275%	8.114	4.636%
City of Imperial Beach	30,000	3.591	1.496%	2.325	1.328%
City of La Mesa	56,926	6.634	2.764%	4.908	2.804%
City of National City	55,528	7.141	2.975%	5.039	2.879%
City of Poway	44,353	5.630	2.346%	3.762	2.150%
East Otay Mesa Sewer Maintenance District	0	1.000	0.417%	0	0.0%
Lakeside/Alpine Sanitation District ⁽²⁾	39,000	4.586	1.911%	3.120	1.783%
Lemon Grove Sanitation District	27,500	2.873	1.197%	2.412	1.378%
Otay Water District	4,990	1.231	0.513%	0.270	0.154%
Padre Dam Municipal Water District	43,059	5.882	2.451%	3.222	1.841%
Spring Valley Sanitation District	89,000	9.808	4.087%	6.400	3.657%
Wintergardens Sewer Maintenance District	<u>10,000</u>	<u>1.241</u>	<u>0.517%</u>	<u>0.918</u>	<u>0.525%</u>
SUBTOTAL	732,549	83.619	34.841%	59.257	33.858%
City of San Diego	<u>1,315,000</u>	<u>156.381</u>	<u>65.159%</u>	<u>115.757</u>	<u>66.142%</u>
TOTAL:	2,047,549	240.000	100.000%	175.014	100.000%

(1) Source: Participating Agencies. Population served by Metropolitan System

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

(3) Total flow in Table 3B differs from Table 2 because Table 2 includes City flow through the Escondido Wastewater Treatment Plant, the Solana Beach Treatment Plant, and reclaimed water at the North City Plant and Table 3B does not.

Sources: Participating Agencies and Metropolitan Wastewater Department

Table 3C
METROPOLITAN SYSTEM
CITY AND PARTICIPATING AGENCIES FLOW AND CAPACITY RIGHTS
Fiscal Year Ended June 30, 2005
(Unaudited)

Participating Agencies	Estimated Population⁽¹⁾	Capacity Rights (in mgd)	% of Total Capacity	Average Flow (mgd) ⁽³⁾	% of Total Average Flow
City of Chula Vista	223,503	19.843	8.268%	17.021	9.047%
City of Coronado	16,403	3.078	1.283%	2.410	1.281%
City of Del Mar	5,000	0.821	0.342%	0.694	0.369%
City of El Cajon	97,000	10.260	4.275%	8.853	4.706%
City of Imperial Beach	30,000	3.591	1.496%	2.327	1.237%
City of La Mesa	55,923	6.634	2.764%	5.291	2.812%
City of National City	56,795	7.141	2.975%	5.247	2.789%
City of Poway	45,536	5.630	2.346%	3.857	2.050%
East Otay Mesa Sewer Maintenance District	0	1.000	0.417%	0	0.0%
Lakeside/Alpine Sanitation District ⁽²⁾	33,000	4.586	1.911%	3.233	1.718%
Lemon Grove Sanitation District	25,644	2.873	1.197%	2.390	1.270%
Otay Water District	3,000	1.231	0.513%	0.486	0.258%
Padre Dam Municipal Water District	59,300	5.882	2.451%	3.457	1.838%
Spring Valley Sanitation District	83,000	9.808	4.087%	7.136	3.793%
Wintergardens Sewer Maintenance District	<u>10,000</u>	<u>1.241</u>	<u>0.517%</u>	<u>0.952</u>	<u>0.506%</u>
SUBTOTAL	744,104	83.619	34.841%	63.354	33.676%
City of San Diego	<u>1,251,000</u>	<u>156.381</u>	<u>65.159%</u>	<u>124.776</u>	<u>66.324%</u>
TOTAL:	1,995,104	240.000	100.000%	188.130	100.000%

(1) Source: Participating Agencies. Population served by Metropolitan System

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

(3) Total flow in Table 3C differs from Table 2 because Table 2 includes City flow through the Escondido Wastewater Treatment Plant, the Solana Beach Treatment Plant, and reclaimed water at the North City Plant and Table 3C does not.

Source: Participating Agencies and Metropolitan Wastewater Department

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

Participating Agencies	Estimated Population⁽¹⁾	Capacity Rights (in mgd)	% of Total Capacity	Average Flow (mgd)⁽³⁾	% of Total Average Flow
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 ⁽²⁾	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>
SUBTOTAL	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>
TOTAL:	2,064,474	240.000	100.000%	181.213	100.000%

(1) Source: Participating Agencies. Population served by Metropolitan System

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

(3) Total flow in Table 3D differs from Table 2 because Table 2 includes City flow through the Escondido Wastewater Treatment Plant, the Solana Beach Treatment Plant, and reclaimed water at the North City Plant and Table 3D does not.

Source: Participating Agencies and Metropolitan Wastewater Department

Table 4
WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM
Fiscal Years Ending June 30, 2004 through June 30, 2011
(Unaudited)

<u>Expected Projects</u>	FY2004 - FY2011 Total Budget (In Millions) ⁽¹⁾	Expended FY04 Through FY06 (In Millions)	Remaining Cost (In Millions)	Percent Completed
Metropolitan System Projects				
Point Loma Plant Upgrade	\$ 50.8	\$ 19.6	\$ 31.2	38.6%
Annual Allocation Projects	28.2	9.4	18.8	33.3%
Metro Biosolids Center Projects	22.0	0.1	21.9	0.5%
Environmental Monitoring & Technical Services Lab	2.6	2.1	0.5	80.8%
Other Metropolitan System Projects	<u>45.4</u>	<u>14.3</u>	<u>31.1</u>	<u>31.5%</u>
Subtotal Metropolitan System Projects	\$ 149.0	\$ 45.5	\$ 103.5	30.5%
Municipal System Projects				
Annual Allocation Projects ⁽²⁾	\$ 549.6	\$ 143.0	\$ 406.6	26.0%
Pipeline, Trunk, and Interceptor Sewer Projects ⁽²⁾	157.9	71.1	86.8	45.0%
Sewer Pump Station Projects ⁽²⁾	35.3	15.8	19.5	44.8%
Other Municipal System Projects	<u>14.8</u>	<u>7.2</u>	<u>7.6</u>	<u>48.6%</u>
Subtotal Municipal System Projects	\$ 757.6	\$ 237.1	\$ 520.5	31.3%
TOTAL	\$ 906.6	\$ 282.6	\$ 624.0	31.2%

(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 2011 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

Table 5
SOURCES AND USES OF FUNDS FOR CAPITAL EXPENDITURES
WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM
Fiscal Years Ending June 30, 2003 through June 30, 2011
(UNAUDITED) (IN THOUSANDS)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total ⁽³⁾
SOURCE OF FUNDS										
Beginning Balance of Construction Fund	\$ -	\$ -	\$ 18,718	\$ -	\$ -	\$ 67,772	\$ -	\$ 37,793	\$ -	\$ 124,283
New Bond Issue	-	152,219	-	-	80,100	-	145,362	108,563	147,534	633,778
Grant Receipts	1,172	687	3	-	-	-	-	-	-	1,862
SRF Loan	12,857	466	-	-	14,435	-	-	-	-	27,758
Contributions in Aid	2,201	888	4,163	11,278	-	5,090	-	-	-	23,620
Pay-as-You Go	163,452	80,242	85,084	26,486	43,497	52,651	26,892	50,301	52,079	580,684
TOTAL SOURCES	\$179,682	\$234,502	\$107,968	\$37,764	\$138,032	\$125,513	\$172,254	\$196,657	\$199,613	\$1,391,985
USES OF FUNDS										
Issue Costs	\$ -	\$ -	\$ -	\$ -	\$ 334	\$ -	\$ 4,361	\$ 3,257	\$ 4,426	\$ 12,378
Debt Service Reserve Fund	-	-	-	-	-	-	10,611	7,925	10,770	29,306
Contribution to Construction Fund	-	18,718	-	-	67,772	-	37,793	-	-	124,283
Reimbursement of Prior Capital Expenditures	44,753	80,242	-	-	12,328	29,528	-	-	-	166,851
Capital Expenditures (1) (2) (3)	134,929	135,542	107,968	37,764	57,598	95,985	119,489	185,475	184,417	1,059,167
TOTAL USES	\$179,682	\$234,502	\$107,968	\$37,764	\$138,032	\$125,513	\$172,254	\$196,657	\$199,613	\$1,391,985
(2) Capital Expenditures by System										
Municipal System	92,950	113,800	89,690	32,300	46,427	77,145	92,098	157,352	151,307	853,069
Metropolitan System	41,979	21,742	18,278	5,464	11,171	18,840	27,391	28,123	33,110	206,098
Total System	\$134,929	\$135,542	\$107,968	\$37,764	\$57,598	\$95,985	\$119,489	\$185,475	\$184,417	\$1,059,167

(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 years ending June 30, 2003 through June 30, 2006 and projected from June 30, 2007 through June 30, 2011.

Source: Metropolitan Wastewater Department and the Auditor & Comptroller's Office (Comptroller's Office)

Table 6
HISTORICAL SOURCES OF SEWER SERVICE REVENUES ⁽¹⁾
(IN THOUSANDS)
Fiscal Years Ending June 30, 2003 through June 30, 2005⁽²⁾
(Unaudited)

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

(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 years ended June 30, 2001 through 2002, has not been provided. See page "v" 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

Source: Auditor & Comptroller's Office (Comptroller's Office)

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Table 7A
TEN LARGEST CUSTOMERS WITHIN MUNICIPAL SYSTEM ⁽¹⁾
Fiscal Year Ended June 30, 2003
(Unaudited)

	<u>Sewer Billings</u>	<u>Percent of Total Sewer Operating Revenues ⁽²⁾</u>
U.S. Navy	\$6,300,840	3.34%
University of California, San Diego	1,689,893	0.90%
R.J. Donovan Correctional Facility	1,468,126	0.78%
CP Kelco	1,407,138	0.75%
City of San Diego	1,160,272	0.61%
ISP Alginates ⁽³⁾	958,792	0.51%
Sony Corp of America	836,824	0.44%
Federal Government (excluding US Navy)	722,329	0.38%
San Diego Unified School	638,797	0.34%
County of San Diego	<u>543,429</u>	<u>0.29%</u>
TOTAL	\$15,726,440	8.34%

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

(2) Total Sewer Fund Revenues includes receipts from Participating Agencies.

(3) International Specialty Products purchased Kelco Alginates in 1999 forming ISP Alginates.

Sources: Metropolitan Wastewater Department, Water Department and Auditor and Comptroller's Office (Comptroller's Office)

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Table 7B
TEN LARGEST CUSTOMERS WITHIN MUNICIPAL SYSTEM ⁽¹⁾
Fiscal Year Ended June 30, 2004
(Unaudited)

	<u>Sewer Billings</u>	<u>Percent of Total Sewer Operating Revenues ⁽²⁾</u>
U.S. Navy	\$6,968,696	2.61%
University of California, San Diego	1,951,387	0.73%
CP Kelco	1,880,205	0.70%
R.J. Donovan Correctional Facility	1,495,841	0.56%
Federal Government (excluding U.S. Navy)	1,172,992	0.44%
ISP Alginates	1,103,277	0.41%
City of San Diego	1,046,600	0.39%
Sony Corp of America	757,201	0.28%
San Diego Zoo	689,884	0.26%
San Diego Unified School	<u>638,281</u>	<u>0.24%</u>
TOTAL	\$17,704,364	6.62%

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

(2) Total Sewer Fund Revenues includes receipts from Participating Agencies

Sources: Metropolitan Wastewater Department, Water Department and the Auditor & Comptroller's Office (Comptrollers's Office).

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Table 7C
TEN LARGEST CUSTOMERS WITHIN MUNICIPAL SYSTEM ⁽¹⁾
Fiscal Year Ended June 30, 2005
(Unaudited)

	<u>Sewer Billings</u>	<u>Percent of Total Sewer Operating Revenues ⁽²⁾</u>
U.S. Navy	\$6,738,027	2.35%
CP Kelco	3,203,561	1.12%
University of California, San Diego	2,549,510	0.89%
ISP Alginates	1,856,840	0.65%
R.J. Donovan Correctional Facility	1,405,603	0.49%
City of San Diego	1,132,777	0.40%
Federal Government (excluding U.S. Navy)	893,843	0.31%
SDSU	720,139	0.25%
Sony Corp of America	699,463	0.24%
Marine Park Corp.	<u>676,912</u>	<u>0.24%</u>
TOTAL	\$19,876,676	6.94%

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

(2) Total Sewer Fund Revenues includes receipts from Participating Agencies

Sources: Metropolitan Wastewater Department, Water Department and the Auditor & Comptroller's Office (Comptroller's Office)

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Table 7D
TEN LARGEST CUSTOMERS WITHIN MUNICIPAL SYSTEM ⁽¹⁾
Fiscal Year Ended June 30, 2006
(Unaudited)

	<u>Sewer Billings</u>	<u>Percent of Total Sewer Operating Revenues ⁽³⁾</u>
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 ⁽²⁾	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>
TOTAL	\$21,374,863	7.44%

(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 includes receipts from Participating Agencies

Sources: Metropolitan Wastewater Department, Water Department and Auditor and Comptroller's Office (Comptroller's Office)

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

Effective Date	Single Family Domestic ⁽¹⁾	All Classes % Rate Increase	Uniform Base Fee	Single Family Domestic	Commercial & Industrial Customer Class ⁽²⁾			
				Usage Fee \$/HCF water	Other Domestic Usage Fee \$/HCF water	\$/HCF Monthly Wastewater Flow	\$/LB Total Suspended Solids (TSS)	\$/LB Chemical Oxygen Demand (COD)
October 1, 2004 ⁽³⁾	\$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 ⁽⁴⁾	\$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 ⁽⁴⁾	\$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. More than 5 years provided for historical purposes.

Table 9
SEWER CUSTOMER ACCOUNTS RECEIVABLE
AND SHUT-OFFS BY FISCAL YEAR
(In Thousands of Dollars)
Fiscal Years Ending June 30, 2003 through June 30, 2005 ⁽¹⁾
(Unaudited)

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Sewer Service Revenue			
	\$253,437	\$262,673	\$283,423
Accounts Receivable ⁽²⁾			
	\$15,196	\$17,071	\$21,157
Accounts Receivable ^{(2), (3)}			
Over 120 Days	\$1,598	\$1,685	\$1,639
No. of Shut-offs ⁽⁴⁾	20,792	21,689	24,459

(1) The information called for by this table for the fiscal years ended June 30, 2001 through 2002, has not been provided. See page "v" 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.

Source: Auditor and Comptroller's Office (Comptroller's Office), Metropolitan Wastewater Department and the Water Department

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Table 10
SEWER REVENUE FUND
HISTORICAL CAPACITY CHARGE REVENUES (In Thousands)
Fiscal Years Ending June 30, 2003 through June 30, 2006 ⁽¹⁾
(Unaudited)

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

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

Source: Metropolitan Wastewater Department, Water Department and the Auditor & Comptroller's Office (Comptroller's Office)

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Table 11
RATE HISTORY
FOR SEWER CAPACITY CHARGES
(Unaudited)

<u>Effective Date</u>	<u>Sewer Capacity Charges (Per EDU)</u>	<u>% Increase (Decrease)</u>
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	\$2,500	(64%)
July 1, 2004	\$3,710	48%
May 1, 2007 ⁽¹⁾	\$4,124	11%

(1) Increase approved by City Council on February 26, 2007.

Source: Metropolitan Wastewater Department. 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 ⁽¹⁾
(In Thousands)
Fiscal Years Ending June 30, 2003 through June 30, 2005

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

(1) The information called for by this table for the fiscal years ended June 30, 2001 through 2002, has not been provided. See pages "v" hereof, under the caption "Introduction" for information regarding financial information prior to Fiscal Year 2003.

Source: Fiscal Year 2003, 2004 CAFR and Draft Audited 2005 Comprehensive Annual Financial Reports Auditor and Comptroller's Office (Comptroller's Office)

Table 13
Metropolitan Wastewater Utility
CALCULATION OF PARITY DEBT SERVICE COVERAGE
Fiscal Years Ending June 30, 2003 through June 30, 2005 ⁽¹⁾
(Unaudited)⁽²⁾

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

(1) The information called for by this table for the fiscal years ended June 30, 2001 through 2002, has not been provided. See pages "v" hereof, under the caption "Introduction" for information regarding financial information prior to Fiscal Year 2003.

(2) This schedule is included in the CAFR's Statistical Section - Table 10.

Source: Metropolitan Wastewater Department and Auditor & Comptroller's Office (Comptroller's Office)

Table 14
CITY OF SAN DIEGO SEWER REVENUE FUND
FINANCIAL PROJECTIONS
CALCULATION OF PARITY DEBT COVERAGE RATIOS
Fiscal Years Ending June 30, 2006 through June 30, 2011 (In Thousands)
(Unaudited)

	2006	2007	2008	2009	2010	2011
ESTIMATED REVENUES						
Service Charge Revenues	\$ 229,158	\$ 233,378	\$ 257,020	\$ 289,335	\$ 313,508	\$ 335,496
New Sewer Connections	314	200	200	200	200	200
Sewage Treatment Plant Services	53,593	66,958	70,378	73,324	75,378	77,914
Services Rendered to Others	4,160	5,631	6,189	6,189	6,189	6,189
Sale of Power from Co-Generation	966	1,084	1,398	1,398	1,398	1,398
Other Revenue	5,563	7,369	383	399	415	431
TOTAL ESTIMATED REVENUES	\$ 293,755	\$ 314,620	\$ 335,568	\$ 370,845	\$ 397,088	\$ 421,629
OPERATING EXPENSES						
Operation & Maintenance Expenses (1)	219,849	210,399	228,499	237,773	246,599	253,414
TOTAL OPERATING EXPENSES	\$ 219,849	\$ 210,399	\$ 228,499	\$ 237,773	\$ 246,599	\$ 253,414
OPERATING INCOME	\$ 73,906	\$ 104,221	\$ 107,068	\$ 133,072	\$ 150,489	\$ 168,214
OTHER INCOME & (CHARGES)						
Interest Earnings (2)	\$ 6,153	\$ 5,498	\$ 6,390	\$ 7,705	\$ 9,427	\$ 10,855
Capacity Charge	16,565	13,350	15,796	15,958	16,120	16,285
Grant Receipts	989	0	0	0	0	0
Contributions in Aid	0	0	5,090	0	0	0
Rate Stabilization Fund Transfer	0	(10,000)	(3,000)	(3,000)	(2,000)	0
TOTAL OTHER INCOME	\$ 23,707	\$ 8,847	\$ 24,276	\$ 20,663	\$ 23,547	\$ 27,140
NET SYSTEM REVENUE	\$ 97,613	\$ 113,068	\$ 131,344	\$ 153,736	\$ 174,036	\$ 195,354
COVERAGE TESTS						
Net System Revenue	\$ 97,613	\$ 113,068	\$ 131,344	\$ 153,736	\$ 174,036	\$ 195,354
Annual Parity Obligations Debt Service	77,052	77,051	77,055	77,056	106,991	115,782
DEBT SERVICE COVERAGE	1.27	1.47	1.70	2.00	1.63	1.69

(1) Excludes State Revolving Fund Loan repayments

(2) Excludes interest on Construction Fund

Note: The financial projection assumes the following:

Annual growth factor of 1.3% (SANDAG)

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

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

Source: Metropolitan Wastewater Department

Table 15
LIABILITY CLAIMS BUDGET AND EXPENDITURES
Fiscal Years Ending June 30, 2003 through June 30, 2006 ⁽¹⁾
(Unaudited)

<u>Fiscal Year</u>	<u>Budget</u>	<u>Expenditures</u> ^{(2) (3)}
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) The information called for by this table for the fiscal years ended June 30, 2002 has not been provided. See page "v" hereof, under the caption "Introduction" for information regarding financial information prior to Fiscal Year 2003.

(2) Overbudget expenditures are paid from sewer fund balance available for appropriation.

(3) Expenditures decrease each fiscal year due to a reduction of public liability general property damage claims which is primarily the result of an aggressive pipe cleaning program.

Source: Metropolitan Wastewater Department, Risk Management Department and Auditor and Comptroller's Office (Comptroller's Office)

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Labor Relations

Most City employees are represented by one of five labor organizations. As of June 2007, the American Federation of State and County Municipal Employees (Local 127) represents approximately 2211 employees; the Municipal Employees Association (MEA) and unrepresented employees (who are part of the MEA bargaining unit for salary purposes) represents approximately 5558 employees; the Police Officers Association (POA) represents approximately 2089 employees; The International Association of Firefighters (Local 145) represents approximately 1036 employees; and the Deputy City Attorneys' Association (DCAA) represents approximately 132 employees.

Labor agreements were in place with Local 127, MEA, and Local 145 through June 20, 2005. MEA and Local 127 received the following pay increases: 2% effective December 2003, 2% effective June 2004, 3% effective December 2004 and 3% effective June 2005. Local 145 received the following pay increase: 2% effective July 2003, 2% effective December 2003, 4% effective July 2004, and 2% effective December 2004. In addition to increases in paid compensation, MEA, Local 127 and Local 145 also received increases in the amount of employee retirement contributions paid by the City on behalf of the employees. Including these retirement benefit increases, over the three-year period of the labor agreements total compensation will increase by 12.6% for MEA and Local 127, and by 15.7% for Local 145. A labor agreement with POA through June 30, 2003 provided the POA with a 2% pay increase and a 1.7% increase in retirement compensation effective July 2002.

The labor agreement for Fiscal Year 2006 included a 1.9% salary decrease for Local 127. MEA and Local 145 agreed to pay an additional 3% of the employee retirement contribution that was being paid by the City. DCAA agreed to pay an additional 3% of the employee retirement contribution that was being paid by the City. POA was imposed to pay an additional 3.2% of the employee retirement contribution that was being paid by the City. All actions were effective July 2005.

In the labor agreement for Fiscal Year 2007 Local 145 agreed to no increase. POA was imposed no increase. DCAA agreed to pay an additional .2% of the employee retirement contribution that was being paid by the City effective July 1, 2006.

In the labor agreements for Fiscal Year 2008, MEA and Local 127 received a pay increase of 4.0% effective July 1, 2007. POA received a pay increase of 6% effective July 1, 2007 and will received an additional 2% effective December 29, 2007. DCAA and Local 145 did not reach agreement and the City imposed its last, best and final offer which contained no pay increase.

Pension Plan

The Fiscal Year 2006 actuarial report, dated January 12, 2007, prepared by SDCERS's actuary 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 January 10, 2008, the unfunded actuarial liability was calculated to be \$1.183 billion under the Entry Age Normal ("EAN") funding method. The City had an actuarial report prepared for its other post-employment benefits, and that report, dated June 1, 2007, showed an UAAL for retiree healthcare of approximately \$1.097 Billion. The challenges posed by the unfunded pension liability are significant and, together with significant costs related to the post-employment healthcare benefits, pose a threat to the future fiscal health of the City.

The unfunded actuarial liabilities and funding ratios set forth in the Fiscal Year 2003 and 2004 CAFRs 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.

Additional information on the City's Pension Plan for Fiscal Years 2003 and 2004 are contained in the attached Fiscal Year 2003 and 2004 CAFRs. This information will be supplemented by the Fiscal Year 2005 Draft Audited CAFR.

On October 26, 2007, Macias Gini and O'Connell LLP, the outside auditor, issued a clean audit opinion of the City's Fiscal Year 2005 CAFR and the City's Audit Committee began its review of said financial statements on November 27, 2007. On December 13, 2007 the City's Chief Operating Officer notified the Audit Committee of the City's intention to re-open the 2005 CAFR for the limited purpose of analyzing the disclosures related to the Preservation of Benefits discussion of footnote 18. Once the 2005 CAFR is received and filed by the City Council, the continuing disclosure annual reports for Fiscal Year 2005 will be prepared and filed with the NRMSIRs. Macias, Gini & O'Connell has been engaged to audit the City's financial statements for Fiscal Years 2006 and 2007 and it is not known as this time when such audits will be completed.

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) 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.

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, 2004 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.

Investment of Funds

The Treasurer of the City, in accordance with the Charter of the City and authority granted by

the City Council, is responsible for investing the unexpended cash in the Treasurer's pooled operating investment fund (the "City Pool"). Responsibility for the daily investment of funds in the City Pool is delegated to the City's Chief Investment Officer. The City and certain related entities are the only participants in the City Pool; there are no other City Pool participants either voluntary or involuntary. The investment objectives of the City Pool are preservation of capital, liquidity and return.

Oversight and Reporting Requirements

Effective January 2006, San Diego changed to a Strong Mayor form of Government from its previous Council-Manager format. Under the Strong Mayor structure, the Mayor is the City's Chief Executive Officer with an eight (8) member City Council acting as the legislative body. This change was approved by the citizens of San Diego in 2004 for a five (5) year trial basis upon its implementation in 2006. The Strong Mayor provisions expire on December 31, 2010 unless extended or otherwise amended by a vote of the citizens of San Diego.

Prior to January 2006, under the Council-Manager form of Government, the City Treasurer provided investment reports on a monthly basis to the City Manager, the City Auditor and Comptroller and the City Council and annually presented a statement of investment policy (the "Investment Guidelines") to the City Manager, the City Council and the City Manager's Investment Advisory Committee. Under the Strong Mayor form of Government, the City Treasurer provides an investment report on a monthly basis to the Chief Financial Officer, the City Auditor and Comptroller and the City Council and annually presents the Investment Guidelines to the Chief Financial Officer, the City Council, and the City Mayor's Investment Advisory Committee. The Investment Advisory Committee established in 1990, which was comprised of the City Auditor and Comptroller, a Deputy City Manager and three investment professionals from the private sector under the Council-Manager form of Government, is now comprised of the Financial Management Director, the Chief Financial Officer and three investment professionals from the private sector under the Strong Mayor form of Government. The Committee is charged with oversight responsibility to review on an ongoing basis the Investment Guidelines and practices of the City Treasurer and recommend changes. Investments in the City Pool are audited by an independent firm of certified public accountants as part of the overall audit of the City's financial statements.

The City's investment section uses outside services to provide investment portfolio valuations and accounting and reporting services. The service provides monthly portfolio valuation, investment performance statistics and other statistical security reports, which are distributed to the City Treasurer accounting section and the City Auditor and Comptroller's office for review and reconciliation. The City Treasurer's Department accounting section prepares a series of monthly reports, which includes portfolio market valuation, and distributes these to the Mayor, City Council, Chief Financial Officer and other officials.

Authorized Investments

Investments in the City Pool are governed by State law and further restricted by the City's Investment Guidelines. The Guidelines have been written with safety of principal being the foremost objective. Permitted investments include U.S. Treasury securities, U.S. Agency securities, U.S. Agency mortgage backed securities, corporate medium term notes, money market instruments and the Local Agency Investment Fund (California State Pool). Reverse repurchase agreements ("reverse repos") are restricted to 20% of the base value of the portfolio and are governed by various maturity restrictions as well. The main operating funds of the City are being managed in two separate portfolios. In its management of the "Liquidity" portfolio, comprising about 35% of total funds, the

City invests in a variety of debt securities with maturities ranging from one day to one year. The remaining 65% of funds are managed in a separate "Core" portfolio that consists of a variety of debt securities ranging from one day to five years; performance is measured against the Merrill Lynch 1 to 3 year U.S. Treasury Index. Safety of principal and liquidity are the paramount considerations in the management of both portfolios.

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.

Investment of Funds (As of June 30, 2003)

Pool Liquidity and Other Characteristics

The City Pool (including both the "Liquidity" and the "Core" portfolios) is highly liquid. As of June 30, 2003 (on a cumulative basis), approximately 16% of the pool investments mature within 62 days, 20% within 92 days and 26% within 184 days, 48% within 1 year, 85% within 2 years, 88% within 3 years, and 100% within 5 years. As of June 30, 2003, the Pool had a weighted average maturity of 1.28 years (466 days) and its weighted yield was 2.00%. 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 0.34 years and the Core portfolio had a duration of 1.43 years as of June 30, 2003. 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 0.34% for every 1% increase in market interest rates while the Core portfolio should decrease in market value by 1.43% 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 ⁽¹⁾
at June 30, 2003
(In Thousands)

<u>Investment Instrument</u>	<u>Book Value</u>	<u>Market Value</u>	<u>Percent of Total ⁽¹⁾</u>
U.S. Treasury Bills and Notes	\$736,606	\$739,151	57.78%
Federal Agency Securities	366,077	368,150	28.71
Medium Term Notes (Corporate) ⁽²⁾	88,594	88,560	6.95
Money Market Instruments ⁽³⁾	58,499	58,501	4.59
Local Agency Investment Fund	20,448	20,506	1.61
Federal Agency Mortgage Backed Securities	4,576	4,560	0.36
Total Pooled Investment Fund	<u>\$1,274,800</u>	<u>\$1,279,428</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 2003 Comprehensive Annual Financial Report, Comptroller's Office

Investment of Funds (As of June 30, 2004)

Pool Liquidity and Other Characteristics

The City Pool (including both the "Liquidity" and the "Core" portfolios) is highly liquid. As of June 30, 2004 (on a cumulative basis), approximately 20% of the pool investments mature within 62 days, 22% within 92 days and 33% within 184 days, 50% within 1 year, 76% within 2 years, 90% within 3 years, and 100% within 5 years. As of June 30, 2004, the Pool had a weighted average maturity of 1.29 years (472 days) and its weighted yield was 2.11%. 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 0.30 years and the Core portfolio had a duration of 1.73 years as of June 30, 2004. 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 0.30% for every 1% increase in market interest rates while the Core portfolio should decrease in market value by 1.73% 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 ⁽¹⁾
at June 30, 2004
(In Thousands)

<u>Investment Instrument</u>	<u>Book Value</u>	<u>Market Value</u>	<u>Percent of Total ⁽¹⁾</u>
U.S. Treasury Bills and Notes	\$365,283	\$363,011	28.75%
Federal Agency Securities	616,170	614,270	48.49%
Medium Term Notes (Corporate) ⁽²⁾	146,782	142,658	11.55%
Money Market Instruments ⁽³⁾	119,174	119,178	9.38%
Local Agency Investment Fund	20,880	20,847	1.64%
Federal Agency Mortgage Backed Securities	<u>2,456</u>	<u>2,364</u>	<u>0.19%</u>
Total Pooled Investment Fund	<u>\$1,270,745</u>	<u>\$1,262,328</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 2004 Comprehensive Annual Financial Report , Comptroller's Office

Investment of Funds (As of June 30, 2005)

Pool Liquidity and Other Characteristics

The City Pool (including both the "Liquidity" and the "Core" portfolios) is highly liquid. As of June 30, 2005 (on a cumulative basis), approximately 11% of the pool investments mature within 62 days, 19% within 92 days and 31% within 184 days, 51% within 1 year, 78% within 2 years, 91% within 3 years, and 100% within 5 years. As of June 30, 2005, the Pool had a weighted average maturity of 1.39 years (507 days) and its weighted yield was 3.86%. 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 1.69 years as of June 30, 2005. 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 1.69% 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 ⁽¹⁾
at June 30, 2005
(In Thousands)
(Unaudited)

<u>Investment Instrument</u>	<u>Book Value</u>	<u>Market Value</u>	<u>Percent of Total ⁽¹⁾</u>
U.S. Treasury Bills and Notes	\$464,255	\$463,004	35.80%
Federal Agency Securities	\$617,921	\$616,819	47.65%
Medium Term Notes (Corporate) ⁽²⁾	\$74,260	\$72,917	5.73%
Money Market Instruments ⁽³⁾	\$117,643	\$117,886	9.07%
Local Agency Investment Fund	\$21,076	\$21,076	1.63%
Federal Agency Mortgage Backed Securities	<u>\$1,610</u>	<u>\$1,545</u>	<u>0.12%</u>
NET ASSETS	<u>\$1,296,765</u>	<u>\$1,293,247</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 with a maturity of less than 1 year.

Source: Office of the City Treasurer

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

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 16D
CITY OF SAN DIEGO POOLED OPERATING INVESTMENT FUND ⁽¹⁾
at June 30, 2006
(In Thousands)
(Unaudited)

<u>Investment Instrument</u>	<u>Book Value</u>	<u>Market Value</u>	<u>Percent of Total ⁽¹⁾</u>
U.S. Treasury Bills and Notes	\$362,572	\$357,997	25.76%
Federal Agency Securities	\$825,883	\$822,650	58.68%
Medium Term Notes (Corporate) ⁽²⁾	\$71,376	\$70,041	5.07%
Money Market Instruments ⁽³⁾	\$125,880	\$125,989	8.94%
Local Agency Investment Fund	<u>\$21,805</u>	<u>\$21,805</u>	<u>1.55%</u>
NET ASSETS	<u>\$1,407,516</u>	<u>\$1,398,482</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

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City of San Diego
auditor
comptroller



a&c | comprehensive annual financial report
fiscal year ending june 30, 2003

Principal Authors:

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Tracy McCraner, Director of Financial Reporting

Principal Reviewer:

Jay M. Goldstone, Chief Financial Officer

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Lakshmi Kommi, Director of Debt Management (City Debt Obligations and Disclosures)

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cafr | introductory section



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THE CITY OF SAN DIEGO

MAYOR JERRY SANDERS

Certification of the Chief Financial Officer and the Deputy Comptroller

The undersigned, Jay M. Goldstone, Chief Financial Officer of the City of San Diego, and Gregory Levin, CPA, Deputy Comptroller of the City of San Diego, hereby certify that the information contained in the Fiscal Year 2003 Comprehensive Annual Financial Report fairly presents, in all material respects, the financial condition of the City and the results of operations of the City, as of, and for, the period presented in the Comprehensive Annual Financial Report and that the Comprehensive Annual Financial Report does not make any untrue statement of material fact or omit to state a material fact necessary in order to make the financial statements, in light of the circumstances under which they are made, not misleading.

SIGNED: Gregory Levin

Gregory Levin, CPA
Deputy Comptroller

SIGNED: Jay M. Goldstone

Jay M. Goldstone
Chief Financial Officer

DATE: 3/12/07

DATE: 3/12/07



Chief Financial Officer • Department of Finance

202 C Street, MS 9 • San Diego, CA 92101

Tel (619) 236-5941 Fax (619) 236-6606

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JERRY SANDERS
MAYOR

Monday, March 12, 2007

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

The City Charter requires the City Auditor and Comptroller to submit an annual report, including a Statement of Net Assets and requires that all of the 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, 2003, is hereby submitted. The audit firm of KPMG 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 and the completeness of the data as well as the 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. To this extent, the City has started construction of a comprehensive internal control framework that will achieve the objectives of the public in 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, 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.

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.
- **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

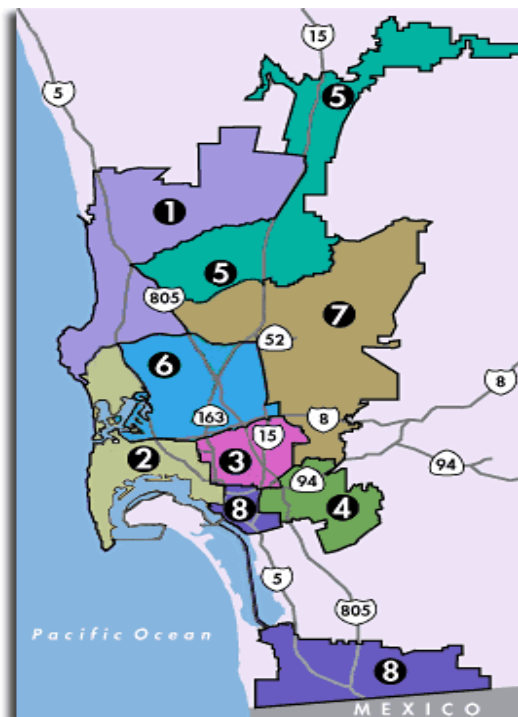
City Profile

The City of San Diego was incorporated in 1850. The City comprises an area of 403 square miles and, as of July 1, 2005, the US Census Bureau estimates the population to be 1,255,540, making San Diego the eighth most populous city in the United States and the second largest in the State of California. The City provides a full range of 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 expansion, 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. During the period reported in this report, the City employed a council-manager form of government. Under this form of government, the City Council was comprised of eight members elected by district to serve overlapping four-year terms. The City Council, which acted as the City's legislative and policy-making body, appointed the City Manager, who was the City's chief administrator and was responsible for implementing the policies and programs adopted by the City Council. The Mayor, who presided over the City Council, was elected at large to serve a four-year term and had the ability to vote with the City Council.

City of San Diego Council District Map



During the fiscal year ended June 30, 2005 and prior to the issuance of this CAFR, the electorate of the City of San Diego approved the strong-mayor form of government on a trial basis which took effect during the fiscal year ended June 30, 2006. 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 and City Attorney departments. Contrasting the council-manager form of government, under the strong-mayor form of government the Mayor does not have the ability to vote with City Council.

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 vote of the Council. The Mayor presides over Council in closed session meetings of the Council. The Council retains its legislative authority; however, most Council actions are subject to a veto of the Mayor and an enactment over veto process.

Current Elected Officials
(as of March 12, 2007)



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

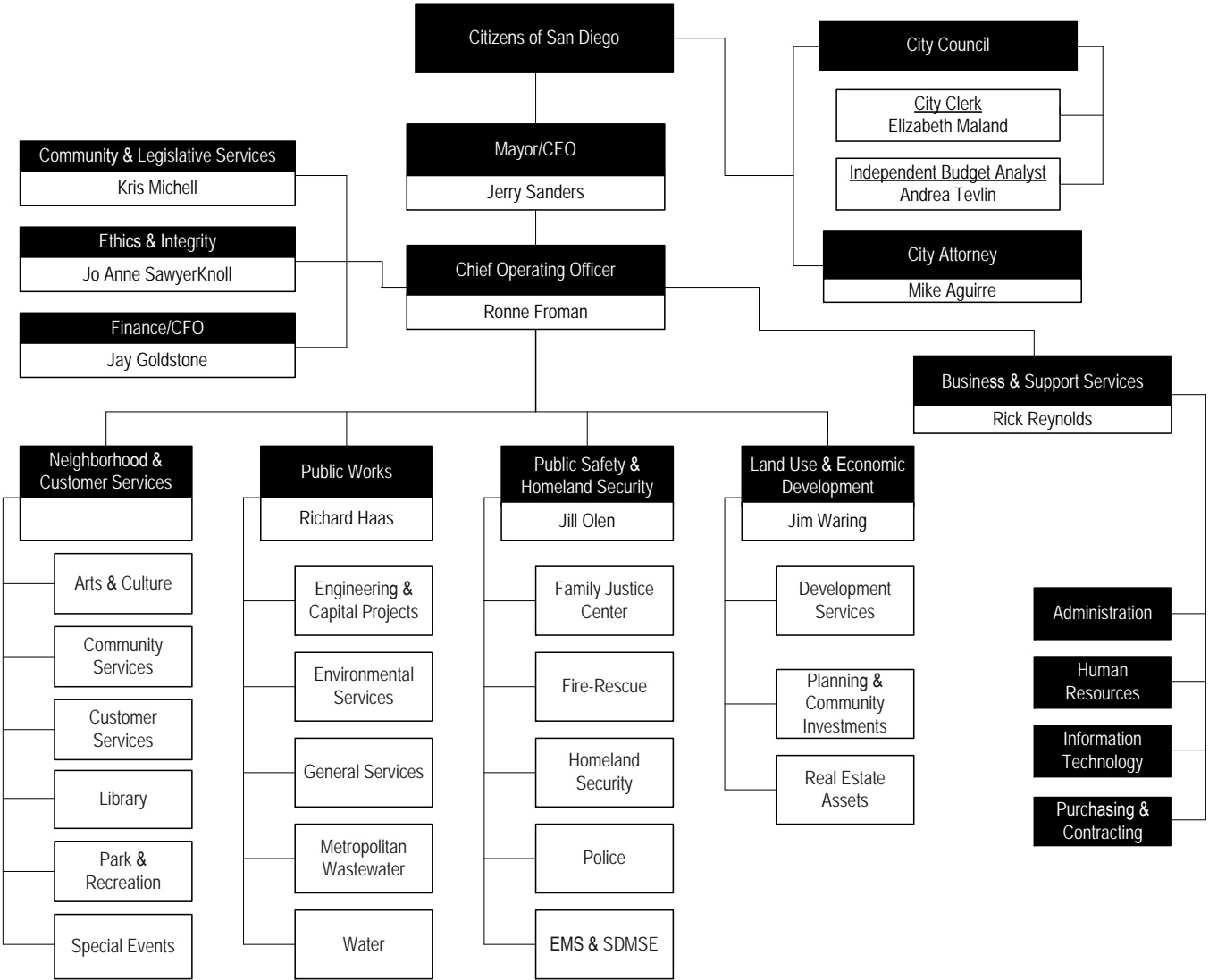


District 8
Councilmember Ben Hueso



City Attorney
Michael Aguirre

Current Organization Chart (as of March 12, 2007)



Financial Reporting Entity

In accordance with Governmental Accounting Standard 14, the following materially significant component units are incorporated into the accompanying financial statements:

- Centre City Development Corporation
- City of San Diego Metropolitan Transit Development Board Authority
- Redevelopment Agency of the City of San Diego
- San Diego Data Processing Corporation
- San Diego Housing Commission
- San Diego Open Space Park Facilities District #1
- Convention Center Expansion Financing Authority
- San Diego City Employees' Retirement System
- Public Facilities Financing Authority
- San Diego Convention Center Corporation
- San Diego Facilities and Equipment Leasing Corporation
- San Diego Industrial Development Authority
- Southeastern Economic Development Corporation

Additionally, the City participates in a joint venture operation with a private company to provide emergency medical and medical transportation services. This joint venture is a limited liability company named San Diego Medical Services Enterprise LLC. 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 to the City Council for adoption. Set forth in this budget are the anticipated revenues and expenditures of the general fund, certain special revenue 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). A copy of the City's Fiscal Year 2007 Budget is available at the Financial Management Department, 202 C Street, 8th floor, San Diego, California 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 will be honored in subsequent periods.

FACTORS AFFECTING FINANCIAL CONDITION

Regional Economic Factors

Unemployment

The unemployment rate is a critical indicator of the relative strength in the local economy. According to the Bureau of Labor Statistics, the City of San Diego's unemployment rate was 4.3% for the calendar year 2005. This reflects a .9% decrease from a 10 year high of 5.2% in the calendar year 2003 and a .4% decrease from calendar year 2004. The City of San Diego's unemployment rate is .8% below the national average and 1.1% below the average for the State of California during this same period.

Income

A June 2006 report by the San Diego Association of Governments (SANDAG) indicates that between 2000 and 2005, the median household income in the San Diego region rose by 10.2% from \$47,360 to \$52,192. For the City proper, SANDAG estimates the median household income is \$50,415, an approximate 10% increase over the year 2000 census reports.

Housing and Construction

According to a report by the National Association of Realtors, the median residential home price in the San Diego area rose by 17% from calendar year 2002 to 2003 and 68% from calendar years 2002 to 2005. Growth in the median home price has resulted in stronger than average property tax receipts for the City and has fueled increased activity in the construction sector. During the first half of calendar year 2006, the San Diego housing market has experienced a slow down, with most experts predicting a soft landing where prices remain stable and price growth returns to historical levels or remains flat. The slowing real estate market will likely impact future growth in the construction sector, as well as growth in property tax and related revenues for the City.

Financial Information

The City has not issued audited financial statements since the fiscal year ended June 30, 2002. The statements issued in 2002 were found to have numerous material misstatements (these misstatements are explained in the notes to the financial

statements) and as a result, the City filed a voluntary disclosure with the Nationally Recognized Municipal Securities Information Repositories in January 2004.

In November 2006, and prior to the issuance of these financial statements, the Securities and Exchange Commission entered an order sanctioning the City of San Diego for committing securities fraud by failing to disclose to the investing public important information about its pension and retiree health care obligations relating to its municipal bonds in 2002 and 2003. 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.

Prior to settlement with the SEC, the City voluntarily hired a number of firms to review the City's disclosure practices and to investigate potential illegal acts. The independent investigations concluded when the Report of the Audit Committee of the City of San Diego was presented to the City on August 8, 2006. Due to the delay in issuance of the financial statements, and in an effort to provide enhanced disclosure on the status of the City's retirement obligations, included below is information from the June 30, 2005 actuarial valuation performed for SDCERS and modified data to show what the City believes to be its correct funded position in the retirement system. In January 2007, SDCERS received its June 30, 2006 valuation; this valuation can be obtained from SDCERS at 401 B Street, Suite 400 San Diego, CA 92101-4298.

Pension Benefits

In fiscal year 1927, the City established SDCERS, a public employee retirement system. The pension 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 for an annual actuarial valuation to be performed based on the assumptions adopted by the SDCERS Board. The actuarial valuation performed for the fiscal year ended June 30, 2005 reported the following indicators of the retirement plan's fiscal health:

June 30, 2005	
<u>SDCERS Membership</u>	
Total Members (active, disabled, beneficiaries and retired)	17,429
Annual Benefits Paid	\$ 188,991,695
 <u>SDCERS Assets and Liabilities</u>	
Total Actuarial Liability	\$ 4,377,092,948
Market Value of Assets	3,205,721,975
Actuarial Value of Assets	2,983,079,852
Unfunded Actuarial Liability	\$ 1,394,013,096
Funding Ratio	68.2%

The actuarial valuation information presented above does not include information on certain liabilities that were deemed by the SDCERS board of trustees to be contingent in nature, or based on other determinations by the SDCERS Board. Additionally, of the liabilities presented below, SDCERS has established reserves of assets in an amount approximately equivalent to the related liability for the following items: Supplemental Cost of Living Adjustment, Employee Contribution Rate Increase Liability and the Deferred Retirement Option Plan Liability. The assets placed in these reserves have also been excluded from the actuarial valuation.

For the benefit of the reader we have included the balances of all liabilities excluded from the actuarial value performed for SDCERS below.

SDCERS Other Liabilities

Corbett Settlement	\$ 58,923,978
13th Check	56,686,313
Supplemental Cost of Living Adjustment	17,839,967
Employee Contribution Rate Increase Liability	8,905,418
Deferred Retirement Option Plan Liability	227,223,791
Total Other Liabilities	<u>\$ 369,579,467</u>

A detailed explanation of the liabilities and their related assets can be found in the 2005 actuarial valuation which is located at SDCERS, 401 B Street, San Diego, CA 92101-4298.

For the purposes of calculating the City's net pension obligation (NPO), calculated amounts include the effects from the Corbett Settlement Liability and the employee contribution rate increase liability. To reiterate, the City's position is that its unfunded actuarial liability should include amounts related to the Corbett Settlement. As such the following schedule details what the City believes to be the corrected unfunded actuarial liability for the valuation period ended June 30, 2005.

Revised Calculation of City's Unfunded Actuarial Liability

Total Actuarial Liability (Cheiron*)	\$ 4,377,092,948
Corbett Settlement (Cheiron*)	<u>58,923,978</u>
Revised Unfunded Actuarial Liability	4,436,016,926
Actuarial Value of Assets (Cheiron*)	<u>2,983,079,852</u>
Revised Unfunded Actuarial Liability	<u>\$ 1,452,937,074</u>
Revised Funding Ratio	67.2%

*SDCERS Actuary

On October 20, 2006, the SDCERS Board of Trustees voted unanimously, with one member absent, to approve the inclusion of both the Corbett Liability and the 13th Check Liability in its June 30, 2006 Actuarial Valuation. Since the City views the previous exclusion of the Corbett Liability from the Actuarial Liability as an error, it has already restated its Net Pension Obligation and reported Annual Required Contributions.

The City views the SDCERS Board of Trustees decision regarding the 13th Check Liability as a change in accounting estimate and therefore will account for it prospectively beginning with its June 30, 2008 financial statements. This treatment reflects the City's management policy of valuing and reporting pension liabilities using the actuarial valuation from the fiscal year ending two years prior to the date of its financial statements.

Additional information on the City's Net Pension Obligation, Annual Required Contribution, and the Corbett Liability is discussed in Notes 12 and 23 of the notes to the financial statements contained in the financial section of the CAFR.

Changes to Governmental Structure and Actuarial Assumptions

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

- Effective fiscal year 2009, Unfunded Actuarially Accrued Liability will be amortized using a 15 year assumption; for the 2005 actuarial valuation, Unfunded Actuarial Accrued Liabilities were amortized over 28 years reflecting the resetting of the amortization period pursuant to the Gleason v. City of San Diego lawsuit. (Gleason v. City of San Diego is discussed in the notes to the financial statements).

- 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.
 - 1 member who is an active employee in the fire safety group.
 - 2 members who are active employees in the general member group.
 - 1 member who is a retired member of the system and is elected by the retired members of the system.
 - 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.

A review of the aforementioned charter revisions concerning SDCERS is currently underway. This includes establishing the legality of changes to the City's amortization assumption made by way of revisions to the City Charter. California State Attorney General Opinion 04-710 concludes that such revisions to the system's actuarial assumptions can not be made by way of revisions to the City Charter. Furthermore, recent legal rulings by the California Superior Court have ruled that the SDCERS Board has "plenary authority" in its administrative capacity. This suggests that for the revised amortization assumptions to be implemented, they would still need to be adopted by the SDCERS Board. Given the size of the City's unfunded actuarially accrued liability, changes to the amortization assumption would likely have significant impacts on future annual required contributions.

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 primarily are 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.

In accordance with SDMC Sections 24.1502 and 24.1203, amounts have been transferred from annual realized earnings of SDCERS pension assets to the employer contribution reserve for the purposes of funding retiree health benefits. An equivalent amount has been paid by the City into a SDCERS reserve for post employment healthcare benefits. It is from this reserve that post employment healthcare benefits are paid. Expenses for post employment healthcare benefits are currently made on a pay-as-you-go basis. In fiscal year 2003, approximately 3,200 retirees received either City paid insurance, or were reimbursed for other health insurance costs incurred. For the year ended June 30, 2003, expenditures of approximately \$11.5 million were recognized by SDCERS and paid from the SDCERS reserve for such healthcare benefits (see additional information in Note 12). This reserve was depleted in fiscal year 2005. In October 2004, the City Council voted to have the remaining retiree health benefits expense, estimated to be \$6.5 million for fiscal year 2005, directly funded from City funds and not the SDCERS pension trust fund. In fiscal year 2006 the amount budgeted to pay for the annualized cost of retiree health benefits was \$16.8 million. For fiscal year 2007, the City included \$21 million of appropriations in its budget for funding of current retiree health costs and also appropriated \$5 million to begin establishing a reserve to cover the future costs of this benefit.

The following schedule details employer payments for retirement health benefits:

	<u>Retiree Health Care Costs</u> (In Thousands)						
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
City Retiree Health Expenditures	\$ 5,413	\$ 7,208	\$ 8,882	\$ 11,450	\$ 12,829	\$ 14,859	\$ 17,544
Amount Paid from 401(h) Reserve	5,413	7,208	8,882	11,450	12,829	7,910	-

GASB has recently 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 expenses/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. Nevertheless, the City conducted an actuarial valuation of its postretirement welfare benefit plans for the purpose of determining its annual cost in accordance with GASB 45.

During the period reported, the City had taken a "pay-as-you-go" approach to funding retiree health costs. Since a trust had not been set up for the express purpose of accumulating assets for the payment of future liabilities related to retiree health costs, the City used actuarial assumptions consistent with a "pay-as-you-go" approach to funding retiree health benefits. Specifically, for valuation purposes, the City used a 4% earnings assumption, which approximated the average annual return of the City's investment pool, an inflation factor of 3%, and a 30 year amortization period. 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 2006 had the City implemented GASB 45 early.

Retiree Healthcare Liabilities

Actuarial Accrued Liability	\$ 1,382,200,953
Annual Required Contribution	160,634,217
Estimated Level Percent of Payroll	24.70%

Defined Contribution Plans

Pursuant to the City's withdrawal from the Federal Social Security System effective January 8, 1982, and 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 ("SPSP"), a defined contribution plan administered by Ameriprise Trust Company, formerly American Express Trust Company, Minneapolis, MN, 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. State legislation requires that both the employee and the City contribute an amount at least equal to 3% of the employee's total salary each pay period.

The City also established a 401(k) Plan effective July 1, 1985. The plan is a defined contribution plan also administered by Ameriprise Trust Company, formerly American Express Trust Company, Minneapolis, MN, to provide pension benefits for all eligible employees.

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.

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 Section 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 unforeseen emergency.

OTHER FINANCIAL INFORMATION

Independent Audits

The City Charter requires an annual independent 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 misstatement. 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. The City originally engaged the firm of Caporicci and Larson LLC to audit its fiscal year 2003 financial statements. This firm provided an opinion on the City's financial statements, however, prior to their release, it was determined that the City's fiscal year 2002 financial statements were materially incorrect. In response to the identification of material misstatements, the

City engaged KPMG LLP to re-audit its fiscal year 2003 balances. The report presented contains numerous restatements to the fiscal year 2002 ending balances.

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 to determine the adequacy of the internal control structure, including that portion related to federal financial assistance programs, as well as to determine the City's compliance with applicable laws, regulations, contracts and grants.

The City has identified the need to re-perform its Single Audit for fiscal year 2003. To accomplish this, the City has engaged the firm Macias Gini & O'Connell LLP to perform the audit. This firm has also been engaged to perform the City's financial statement audits for fiscal years 2004 through 2007.

As reported in the Auditor and Comptroller's Annual Report on Internal Controls, presented to the City Council in January 2006, the City's internal control framework requires significant improvements in order to produce timely and accurate financial statements in a cost effective manner. The internal control weaknesses identified in that report were a primary contributor to the need for restated fiscal year 2002 ending balances. These conclusions are supported by the findings and recommendations on the internal control structure and compliance with applicable laws and regulations provided by the City's independent auditors.

Cash Management

The City Treasurer is responsible for investment of the City's cash. The City's investment policy has an objective to minimize credit and market risks while maintaining a competitive yield on its portfolio. Eligible investments include: 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 State Government Code. The City's cash is invested under a pooled money concept, with maturities planned to coincide with projected needs, with the primary objective of preserving principal. During fiscal year 2003, the average daily pooled portfolio balance was approximately \$1.28 billion, with a weighted average maturity of 519 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 4.462%, as compared to 5.200% in the prior year.

Additional information on the City of San Diego's cash management activity can 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 maintained contracts with various insurance companies to manage excessive risk.

Additional information on the City of San Diego's risk activity may be found in Note 15 of the notes to the financial statements.

Sincerely,



Ronne Froman
Chief Operating Officer



Jay M. Goldstone
Chief Financial Officer



Gregory Levin, CPA
Deputy Comptroller

City of San Diego Officials
As of June 30, 2003

Mayor and Council Members

Dick Murphy, Mayor

Scott Peters, Councilmember District 1

Michael Zucchet, Councilmember District 2

Toni Atkins, Councilmember District 3

Charles Lewis, Councilmember District 4

Brian Maienschein, Councilmember District 5

Donna Frye, Councilmember District 6

Jim Madaffer, Councilmember District 7

Ralph Inzunza, Councilmember District 8

City Officials

Michael T. Uberuaga, City Manager

Ed Ryan, Auditor and Comptroller

Mary Vattimo, Treasurer

Casey Gwinn, City Attorney

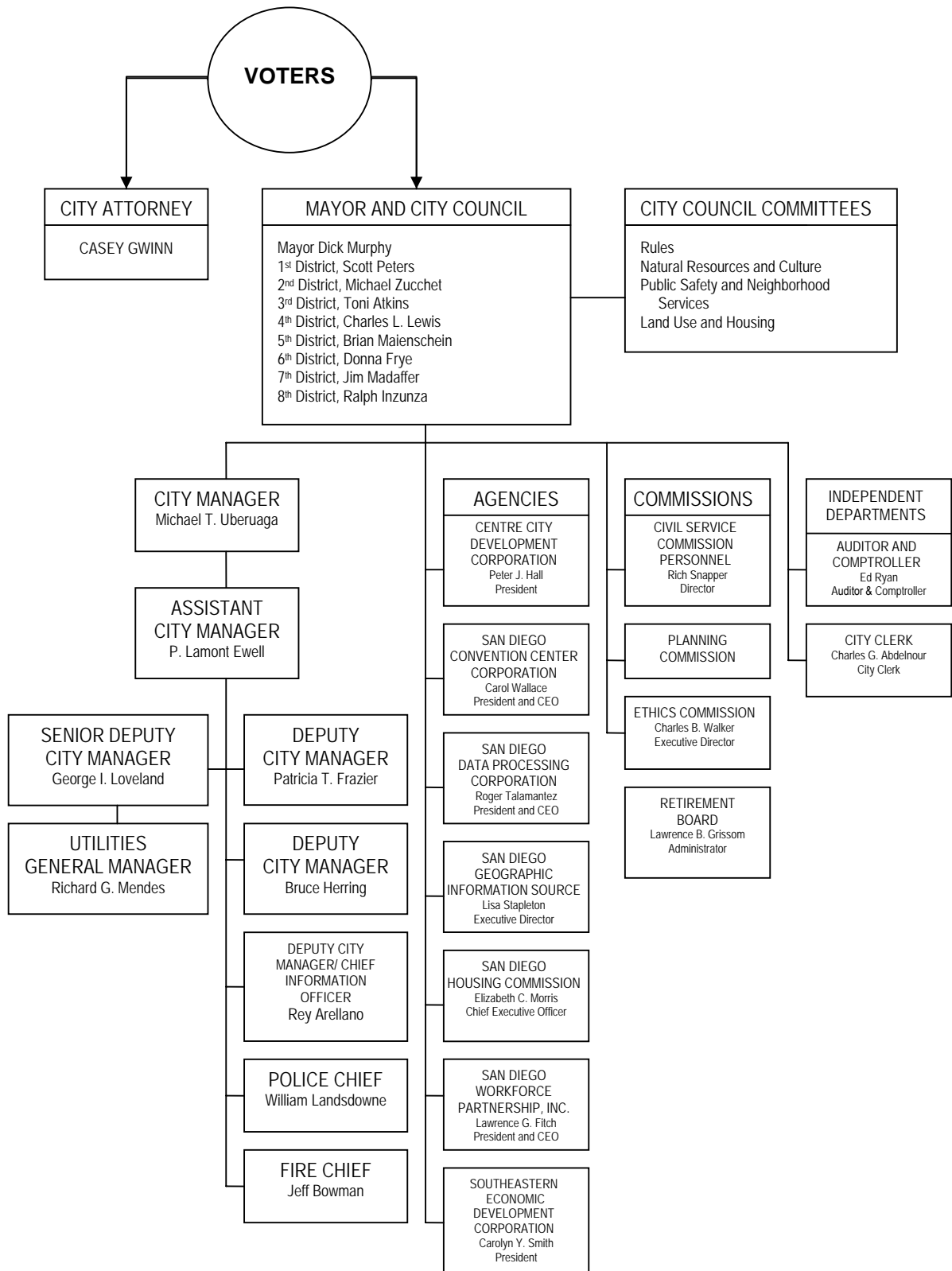
George I. Loveland, Senior Deputy City Manager

Richard Mendes, Utilities General Manager

Charles G. Abdelnour, City Clerk

Organization Chart

As of June 30, 2003





City of San Diego
auditor
comptroller

cafr | financial section



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KPMG LLP
55 Second Street
San Francisco, CA 94105

Independent Auditors' 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, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of San Diego'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 total assets constituting 88% and total revenues constituting 82% 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 solely 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. 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 of San Diego, California, as of June 30, 2003, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.



As described in note 23, the net assets of the governmental activities, the business-type activities, the sewer utility, the water utility, the other enterprise funds, the internal service funds, the San Diego Convention Center Corporation, and the San Diego Housing Commission and the fund balances of the general fund, the other governmental funds, the pension and employee savings trust fund, and the investment trust fund have been restated as of June 30, 2002.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2007 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 accompanying management's discussion and analysis, schedules of trend information, and general fund budgetary information on pages 27 through 38, 184 through 188, and 191 through 194, respectively, are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of San Diego'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 197 through 219, 234 through 235, 240 through 247, 250 through 251, 258 through 259, 261, and 272, has 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, the budgetary schedules referred to above, and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

March 12, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)
(In Thousands)
June 30, 2003

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, 2003.

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 required 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 fiscal year 2003. 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 cost 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; police; 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 and San Diego Housing Commission. 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 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
- 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 Employee's Retirement System

The government-wide financial statements can be found beginning on page 42 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 Fund Balance Sheet and the Governmental Fund 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 Fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, which is a major fund. Data for the other governmental funds are combined into a single, aggregated presentation.

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.

The governmental fund financial statements can be found beginning on page 46 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, and print shop, 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 predominately 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 fund financial statements provide separate information for the Water and Sewer funds, which are considered to be major funds of the City. Data from other enterprise funds are combined into a single, aggregated presentation. Internal Service Funds are combined into a single, aggregated presentation in the proprietary fund financial statements.

The proprietary funds financial statements can be found beginning on page 50 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 fiduciary funds financial statements can be found beginning on page 53 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 55 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 and General Fund budgetary information. This required supplementary information can be found on page 184 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

CITY OF SAN DIEGO'S SUMMARY OF NET ASSETS

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2003	2002 (Restated)*	2003	2002 (Restated)*	2003	2002 (Restated)*
Capital Assets	\$ 4,063,018	\$ 3,885,262	\$ 4,158,903	\$ 3,909,036	\$ 8,221,921	\$ 7,794,298
Other Assets	1,249,243	1,257,852	813,268	796,754	2,062,511	2,054,606
Total Assets	5,312,261	5,143,114	4,972,171	4,705,790	10,284,432	9,848,904
Net Long-Term Liabilities	1,528,114	1,488,439	1,775,877	1,540,544	3,303,991	3,028,983
Other Liabilities	235,989	181,009	100,463	105,472	336,452	286,481
Total Liabilities	1,764,103	1,669,448	1,876,340	1,646,016	3,640,443	3,315,464
Net Assets:						
Invested in Capital Assets, Net of						
Related Debt	3,106,168	3,013,292	2,624,846	2,348,754	5,731,014	5,362,046
Restricted	495,978	454,924	97,842	94,396	593,820	549,320
Unrestricted	(53,988)	5,450	373,143	616,624	319,155	622,074
Total Net Assets	\$ 3,548,158	\$ 3,473,666	\$ 3,095,831	\$ 3,059,774	\$ 6,643,989	\$ 6,533,440

*Amounts have been restated in a manner consistent with the matters discussed in Note 23 - Restatements

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 \$6,643,989 at June 30, 2003, an increase of \$110,549 over fiscal year 2002, as restated.

Of the Total Net Assets, \$5,731,014, or approximately 86%, represents the City's investment in capital assets (e.g., land, easements, rights of way, 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 are generally not used to liquidate these liabilities.

Of the Total Net Assets, \$593,820, or approximately 9%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$319,155, or approximately 5%, is available to finance ongoing services and obligations to the City's citizens and creditors. The deficit balance of (\$53,988) in Governmental Unrestricted Net Assets reflects the fact that the governmental activities raise resources based on when liabilities are expected to be paid rather than when they are incurred. 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.

Unrestricted Net Assets decreased \$302,919, or approximately 49%, due to current operating resources being utilized in the acquisition and construction of capital assets, the accrual of probable losses of pending litigation, increases in actuarially determined workers compensation liabilities, and an increase in net pension obligation (approximately \$32,000).

CITY OF SAN DIEGO'S SUMMARY OF CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2002		2002		2002	
	2003	(Restated) *	2003	(Restated) *	2003	(Restated) *
Revenues:						
Program Revenues						
Charges for Current Services	\$ 203,258	\$ 192,552	\$ 595,137	\$ 557,786	\$ 798,395	\$ 750,338
Operating Grants and Contributions	95,882	99,541	3,616	5,981	99,498	105,522
Capital Grants and Contributions	115,748	136,461	143,444	170,943	259,192	307,404
General Revenues						
Property Taxes	248,659	222,778	-	-	248,659	222,778
Sales Taxes	223,594	233,864	-	-	223,594	233,864
Franchise Taxes	54,547	56,239	-	-	54,547	56,239
Other Local Taxes	149,499	145,659	-	-	149,499	145,659
Grants and Contributions not Restricted to						
Specific Programs	91,556	93,824	-	-	91,556	93,824
Investment Income	84,448	90,073	31,760	34,918	116,208	124,991
Other	46,782	44,622	6,141	(1,036)	52,923	43,586
Total Revenues	1,313,973	1,315,613	780,098	768,592	2,094,071	2,084,205
Expenses:						
General Government and Support	204,072	181,722	-	-	204,072	181,722
Public Safety-Police	334,461	298,176	-	-	334,461	298,176
Public Safety-Fire and Life Safety	147,897	139,699	-	-	147,897	139,699
Parks, Recreation, Culture and Leisure	202,567	181,762	-	-	202,567	181,762
Transportation	154,603	153,002	-	-	154,603	153,002
Sanitation and Health	37,615	57,227	-	-	37,615	57,227
Neighborhood Services	95,267	116,397	-	-	95,267	116,397
Interest on Long-Term Debt	68,410	59,952	-	-	68,410	59,952
Airports	-	-	4,281	3,085	4,281	3,085
City Store	-	-	731	731	731	731
Development Services	-	-	47,278	46,920	47,278	46,920
Environmental Services	-	-	40,306	35,684	40,306	35,684
Golf Course	-	-	6,963	6,433	6,963	6,433
Recycling	-	-	19,141	16,161	19,141	16,161
Sewer Utility	-	-	352,075	277,833	352,075	277,833
Water Utility	-	-	267,855	255,160	267,855	255,160
Total Expenses	1,244,892	1,187,937	738,630	642,007	1,983,522	1,829,944
Change in Net Assets Before Transfers:	69,081	127,676	41,468	126,585	110,549	254,261
Transfers	5,411	47,953	(5,411)	(47,953)	-	-
Net Change in Net Assets	74,492	175,629	36,057	78,632	110,549	254,261
Net Assets - July 1, as Restated	3,473,666	3,298,037	3,059,774	2,981,142	6,533,440	6,279,179
Net Assets - June 30	\$ 3,548,158	\$ 3,473,666	\$ 3,095,831	\$ 3,059,774	\$ 6,643,989	\$ 6,533,440

*Amounts have been restated in a manner consistent with the matters discussed in Note 23 - Restatements

GOVERNMENTAL ACTIVITIES

Governmental activities increased the City's net assets by \$74,492 during fiscal year 2003.

Capital Grants and Contributions decreased by \$20,713, or approximately 15%, primarily due to a \$25,000 decrease in developer contributions from Facilities Benefit Assessment (FBA) credits during 2003 compared to 2002.

Property Tax Revenue increased by \$25,881, or approximately 12%, primarily due to the increase in assessed property valuations for both City and Redevelopment properties. The City's share of the increase was approximately \$15,947, and Redevelopment's share was approximately \$9,934.

General Government and Support Expense increased by \$22,350, or approximately 12%, primarily due to an increase in annual pension cost, increases in negotiated salary and benefits for General Fund support departments, increases in workers compensation claim liabilities, increases in public liability claims, refunds to property owners for completed Special Assessment District projects, and increases to taxing agency payments, planning and survey expenditures, and City and non-City administrative costs for Redevelopment Agency projects.

Public Safety-Police Expense increased by \$36,285, or approximately 12%, primarily due to increased security at special events such as the Super Bowl, increases in workers compensation claim liabilities and an increase in annual pension cost.

Parks, Recreation, Culture and Leisure Expense increased by \$20,805, or approximately 11%, primarily due to increases in workers compensation claim liabilities and an increase in annual pension cost.

Sanitation and Health Expense decreased by \$19,612, or approximately 34%, primarily due to Environmental Services Department public liability claims closed during the fiscal year and revised estimates of open public liability claims.

Neighborhood Services Expense decreased by \$21,130, or approximately 18% primarily due to greater costs incurred by the Redevelopment Agency related to the downtown ballpark project during fiscal year 2002.

Interest on Long-term Debt Expense increased by \$8,458, or approximately 14%, primarily due to the initial debt service payments of lease revenue bonds issued in fiscal year 2002 for construction of the downtown ballpark project and construction and improvements of fire and lifeguard facilities.

BUSINESS-TYPE ACTIVITIES

Business-type activities increased the City's net assets by \$36,057 during fiscal year 2003.

Operating Grants and Contributions Revenue decreased by \$2,365, or approximately 40%, primarily due to sewer utility receiving approximately \$3,300 in grant revenue for the South Bay Ocean Outfall in the prior fiscal year. This is partially offset by water utility receiving approximately \$1,100 in grant revenue primarily from the Water for Industry grant in fiscal year 2003.

Capital Grants and Contributions Revenue decreased by \$27,499, or approximately 16%, primarily due to the decrease of approximately \$42,000 in sewer utility developer contributed infrastructure in fiscal year 2003. This is partially offset by a water utility increase of approximately \$22,200 in developer contributed infrastructure and a decrease of approximately \$6,400 in capacity charges.

Airports Expense increased by \$1,196, or approximately 39%, primarily due to a one time claim payment related to Brown Field in fiscal year 2003.

Environmental Services Expense increased by \$4,622, or approximately 13%, primarily due to an increase in depreciation expense from several completed capital improvement projects at the Miramar Landfill.

Fiscal year 2003 was the first full year of citywide curbside recycling resulting in an increase of \$2,980, or approximately 18%, in expenses for the recycling program.

Sewer Utility Expense increased by \$74,242, or approximately 27%, primarily due to the following: An increase in accrued liability claims of \$40,000 for the Shames litigation; increased depreciation expense of \$8,000 from completed capital improvement

projects; increased costs for the televising program of mains and laterals of \$7,700; increased pump station maintenance expense of \$4,500; increased data processing expenses of \$3,000; increased costs of \$2,600 due to the first full year of operation at the South Bay Reclamation Plant; increased central support facility expenses of \$2,300; increased costs of \$1,300 at the Point Loma Plant, mainly due to the cleaning of the digester, which occurs every 2 to 4 years; and increased capitalized interest of \$1,042 in the prior year.

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 the current fiscal year, the City's governmental funds reported combined ending fund balances of \$915,839, a decrease of \$82,245 from the prior year (See page 46). This decrease is primarily attributed to continued construction and draw down of bond funds for the downtown ballpark, and construction commencing on fire and lifeguard facilities.

The General Fund is the primary operating fund of the City. At the end of fiscal year 2003, undesignated fund balance of the General Fund was \$43,893 while total fund balance was \$67,052. This represents a \$2,168 decrease from the prior year's 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 2003, Unrestricted Net Assets of the Sewer Utility Fund are \$158,980 (See page 50). The Sewer Utility's unrestricted net assets decreased approximately \$144,791, mainly due to continued cash expenditures of current operating resources on capital improvement projects. As a result, the Sewer Utility's investment in capital assets increased approximately \$124,848.

As of the end of fiscal year 2003, Unrestricted Net Assets of the Water Utility Fund are \$183,662 (See page 50). The Water Utility's unrestricted net assets decreased approximately \$59,680, mainly due to continued cash expenditures for capital improvement projects (CIPs). As a result, the Water Utility's investment in capital assets increased approximately \$112,785 primarily due to cash expenditures for CIPs, as well as developer constructed assets which are contributed to the City.

GENERAL FUND BUDGETARY HIGHLIGHTS

The original budget was increased during the year by \$31,927, due to increases in appropriations for expenditures and transfers primarily attributed to the following:

For General Government and Support, \$4,436. This increase was due to Memoranda of Understanding executed by both the Attorney's and Facilities Maintenance departments to provide increased services to various City departments and agencies during the fiscal year. These increases were funded by current services revenue generated by the work provided.

For Public Safety-Police, \$9,264. The majority of this increase was due to services provided for grant programs and services for special events, funded by \$7,300 of current services revenue generated by the work performed. There was also an increase in workers' compensation rates, funded by \$2,000 of unanticipated property transfer tax.

For Public Safety-Fire and Life Safety, \$8,336. This increase was due to the following: additional services performed for the Emergency Medical Services department, funded by \$4,700 of current services revenue generated by the work performed; higher than anticipated overtime costs, funded by a \$2,300 transfer from the emergency medical services fund and \$1,200 received from the Federal Emergency Management Agency (FEMA) for disaster assistance reimbursements; and an increase in workers' compensation rates, funded by unanticipated property transfer tax revenue.

For Neighborhood Services, \$3,302. This increase was primarily due to additional services provided to the Redevelopment Agency and other city funds. The increase was funded by current services revenue generated by the work provided.

During the year, General Fund revenues received were lower than budgeted estimates by \$10,339. This was attributed to a combination of surpluses and shortfalls in several categories. Property tax and sales tax revenues were under budget by \$4,565, and \$5,626, respectively, primarily due to actual growth rates being lower than budgeted growth rates. Franchise fees were under budget by \$8,613. **This was caused by SDG&E reducing payments to the City in fiscal year 2003 to recover their franchise fee overpayments made in fiscal year 2002.** In addition, the 2003 franchise fees budget was overstated as a result of **SDG&E's overpayments in fiscal year 2002.** Investment earnings were under budget by \$5,836, due to changes in market value. Revenue from other Agencies was over budget by \$12,395, due to unbudgeted tobacco revenues received, which were intended to establish general fund reserves.

Actual expenditures for the General Fund were lower than the final budget by \$21,762. This savings amount was primarily attributed to \$16,200 in impounds (temporary encumbrances) imposed on all General Fund departments by the City Manager as part of the Manager's Expenditure Savings Plan. These encumbrances were management's way to ensure budgetary compliance in a fiscal year where General Fund revenues were projected to be under budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2002		2002		2002	
	2003	(Restated) *	2003	(Restated) *	2003	(Restated) *
Land, Easements, Rights of Way	\$ 1,602,247	\$ 1,556,455	\$ 85,986	\$ 86,404	\$ 1,688,233	\$ 1,642,859
Structures and Improvements	557,143	525,886	1,200,023	1,113,518	1,757,166	1,639,404
Equipment	142,231	146,959	139,233	154,540	281,464	301,499
Distribution and Collection Systems	-	-	2,358,324	2,190,154	2,358,324	2,190,154
Infrastructure	1,470,294	1,380,042	-	-	1,470,294	1,380,042
Construction-in- Progress	291,103	275,920	375,337	364,420	666,440	640,340
Total	<u>\$ 4,063,018</u>	<u>\$ 3,885,262</u>	<u>\$ 4,158,903</u>	<u>\$ 3,909,036</u>	<u>\$ 8,221,921</u>	<u>\$ 7,794,298</u>

*Amounts have been restated in a manner consistent with the matters discussed in Note 23 - Restatements

CAPITAL ASSETS

In accordance with GASB Statement No. 34, all major infrastructure assets (such as streets, signals, bridges, medians, alleys, and drains) are capitalized by the City in the government-wide financial 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 continue to be reported on a modified accrual basis at the fund level. Differences between fund level and government-wide 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 for the fiscal year ended June 30, 2003 amounts to \$8,221,921 (net of accumulated depreciation). The total increase in the City's investment in Capital Assets for the fiscal year 2003 is \$427,623.

HIGHLIGHTS OF FISCAL YEAR 2003 CAPITAL IMPROVEMENT ACTIVITIES

Governmental Activities

Construction continued on the James Edgar and Jean Jessop Hervey/Point Loma Branch Library. The facility includes a community room, outdoor patios, lounge areas, computer room, and seminar rooms. The City's fiscal year 2003 capital expenditures for this project were \$6,300. Completion of this 26,000 square foot branch library occurred in September of 2003.

The land acquisition for the Northwestern Area Station and Community Service Center was completed in fiscal year 2003. This project acquired a four-acre site, and will construct a 22,000 square foot facility to house a police command, light vehicle maintenance facility and community service center. The project's expenditures for fiscal year 2003 were \$3,100, which consisted of the cost to acquire the land. Construction of the facility began in May 2005 and is expected to be completed in fiscal year 2007.

Construction of the PETCO Park Ballpark Project was completed on target and budget in fiscal year 2004. The Ballpark Project consists of the Ballpark Facility, the acquisition of certain land for the facility, and other related land acquisitions, infrastructures, and improvements. The City's fiscal year 2003 expenditures for the Ballpark Project were \$109,000. The Ballpark opened in April 2004.

Construction of the final section of the SR-56 Transportation Improvement project was completed in July 2004. SR-56 is the only east-west freeway in the 25-mile gap between SR-78 and SR-52 in North San Diego County. The City's fiscal year 2003 capital expenditures for the SR-56 project were \$13,700.

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 2003 capital expenditures for this project were \$2,400. Construction began in fiscal year 2001 and continued through fiscal year 2005. The project will be completed by CalTrans.

Construction was completed for the West Mission Bay Drive Bridge Seismic Retrofit Project, over Mission Bay Channel. This project provides for the seismic retrofit of the bridge, which consists of stabilizing the existing piers and joining the paired piers together at the waterline to increase support during seismic events. The City's fiscal year 2003 capital expenditures for this project were \$6,200. The retrofit was completed in September 2003.

The City's fiscal year 2003 capital expenditures for the Multiple Species Conservation Program (MSCP) were \$1,600. As of the end of the 2003 (December 31, 2003), a total of 32,942 acres were conserved under the City's MSCP. This includes pre-MSCP (baseline) conserved lands totaling 22,141 acres. As such, 62.5% of the City's conservation goal of 52,727 acres was met as of the end of calendar year 2003. Habitat conservation is one of the requirements of the City's 1997 MSCP Implementing Agreement (R28455) and U.S. Fish and Wildlife Service incidental take permit (PRT-830421).

Business-Type Activities

During fiscal year 2003 the Sewer Utility added approximately \$128,700 in capital improvement projects. Metropolitan Wastewater construction costs were approximately \$34,300 and included the following major projects: South Metro Downtown Tunnel Rehabilitation; South Bay Water Reclamation Plant; Otay River Pump Station; and the Environmental Monitoring & Technical Services Laboratory. Municipal construction costs were approximately \$94,200 and included pump station restorations and sewer main replacements, as well as Sewer Pump Station 30 A and Pipeline Rehabilitation in the Right of Way Phase A.

During fiscal year 2003 the Water Utility added approximately \$94,500 in capital improvement projects. The 4.5 mile Mid-City pipeline was completed in late summer and dedicated in early fall of fiscal year 2003. This pipeline will provide a needed backup supply of water, increased water capacity, and enhanced service reliability for the area's residents. Also completed in the fall of fiscal year 2003 was the 11 mile South San Diego Pipeline No. 2 project, which will help to enhance system reliability and increase the capacity for the area and its future growth.

CITY OF SAN DIEGO'S OUTSTANDING DEBT

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2003	2002 (Restated) *	2003	2002 (Restated) *	2003	2002 (Restated) *
Capital Lease Obligations	\$ 37,701	\$ 38,345	\$ 6,465	\$ 7,612	\$ 44,166	\$ 45,957
Contracts Payable	1,882	3,714	-	-	1,882	3,714
Notes Payable	8,416	15,521	-	-	8,416	15,521
Loans Payable	2,851	1,876	69,093	59,842	71,944	61,718
SANDAG Loans	17,341	18,805	-	-	17,341	18,805
Section 108 Loans	25,925	25,005	-	-	25,925	25,005
Bank Line-of-Credit	-	3,944	-	-	-	3,944
General Obligation Bonds	52,165	58,095	-	-	52,165	58,095
Revenue Bonds/Lease Revenue Bonds/COP's	609,785	609,235	1,612,200	1,433,465	2,221,985	2,042,700
Special Assessment/ Special Tax Bonds	123,130	125,955	-	-	123,130	125,955
Tax Allocation Bonds	283,310	271,446	-	-	283,310	271,446
Total	<u>\$ 1,162,506</u>	<u>\$ 1,171,941</u>	<u>\$ 1,687,758</u>	<u>\$ 1,500,919</u>	<u>\$ 2,850,264</u>	<u>\$ 2,672,860</u>

*Amounts have been restated in a manner consistent with the matters discussed in Note 23 – Restatements.

LONG-TERM DEBT

At the end of the fiscal year 2003, the City, including blended component units, had total debt outstanding of \$2,850,264. Of this amount, \$52,165 is comprised of debt backed by the full faith and credit of the government. The remainder of the City's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds), 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.

During fiscal year 2003, the City, including blended component units, issued the following bonds:

- Parking Revenue Bonds to finance the construction of parking facilities in the Centre City area, \$20,515.
- Lease Revenue Bonds to refund City MTDB Lease Revenue Bonds, Series 1993, \$15,255.
- Certificates of Participation to refund the Balboa Park/Mission Bay FELC Certificates of Participation, Series 1993, \$17,425.
- Tax Allocation Bonds to finance various redevelopment activities in the Mount Hope project area, \$3,055.
- Tax Allocation Bonds to refund the remaining outstanding Centre City Tax Allocation Refunding Bonds, Series 1992 and finance land acquisition, demolition, public improvements, and other redevelopment activities in the Centre City Redevelopment project area, \$31,000.
- Water Revenue Bonds to partially advance refund the outstanding Water Certificates of Undivided Interest, Series 1998, and to finance the acquisition, construction, installation, and improvement of its water system, \$286,945.

The following are credit ratings changes that have occurred since July 1, 2003, pertaining to the City of San Diego's outstanding general obligation bonds, General Fund backed lease revenue obligations, and enterprise system based revenue obligations:

Moody's Investor's Service							
	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

Fitch Ratings					
	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

Standard & Poor's			
	July 1, 2003	Feb 23, 2004	Sept 20, 2004
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

Section 90 of the City Charter provides that the general obligation (GO) 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 are significantly less than the current debt limitations for water and other purposes, which are \$16,324,126 and \$10,882,751, respectively.

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, beginning with Note 5.

ECONOMIC FACTORS

As of June 30, 2004 the City's Unrestricted Net Assets are currently projected to decrease approximately \$345,000, due to City resources being utilized in the acquisition and construction of capital assets, the accrual of probable losses of pending litigation, increases in actuarial determined workers compensation liabilities, and an increase in net pension obligation (approximately \$70,000).

In November 2006, and prior to the issuance of these financial statements, the Securities and Exchange Commission entered an order sanctioning the City of San Diego for committing securities fraud by failing to disclose to the investing public important information about its pension and retiree health care obligations relating to its municipal bonds in 2002 and 2003. 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.

Prior to settlement with the SEC, the City voluntarily hired a number of firms to review the City's disclosure practices and to investigate potential illegal acts. The independent investigations concluded when the Report of the Audit Committee of the City of San Diego was presented to the City on August 8, 2006.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government'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. This financial report is also available on the City's website at www.sandiego.gov, under the Auditor and Comptroller department.



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STATEMENT OF NET ASSETS
June 30, 2003
(In Thousands)

	Primary Government			Component Units	
	Governmental Activities	Business - Type Activities	Total	San Diego Convention Center Corporation	San Diego Housing Commission
ASSETS					
Cash and Investments	\$ 745,581	\$ 459,692	\$ 1,205,273	\$ 4,999	\$ 31,102
Receivables:					
Taxes	69,934	-	69,934	-	-
Accounts, net of Allowance for Uncollectibles (Governmental Activities \$7,012, Business-Type Activities \$1,864)	26,962	70,952	97,914	1,473	1,062
Claims	67	-	67	-	-
Contributions	287	-	287	-	-
Special Assessments	722	-	722	-	-
Notes	27,599	-	27,599	-	88,420
Accrued Interest	2,583	2,478	5,061	-	8,858
Grants	37,896	1,055	38,951	-	-
Due from Primary Government	-	-	-	460	311
Due from Other Agencies	1,224	-	1,224	303	3,303
Investment in Joint Venture	2,007	-	2,007	-	-
Advances to Fiduciary Funds	1,621	358	1,979	-	-
Advances to Other Agencies	2,781	-	2,781	-	-
Internal Balances	(330)	330	-	-	-
Inventories of Water in Storage	-	28,614	28,614	-	-
Inventories	3,327	356	3,683	-	30
Land Held for Resale	40,896	-	40,896	-	-
Prepaid Expenses	3,568	39	3,607	1,200	11
Cash and Investments for TANS Repayment	96,229	-	96,229	-	-
Cash and Investments in Trust Funds	168,669	236,306	404,975	4,161	856
Deferred Charges	17,620	13,088	30,708	-	-
Capital Assets - Non-Depreciable	1,893,350	461,323	2,354,673	-	33,569
Capital Assets - Depreciable	2,169,668	3,697,580	5,867,248	16,156	50,730
TOTAL ASSETS	\$ 5,312,261	\$ 4,972,171	\$ 10,284,432	\$ 28,752	\$ 218,252

STATEMENT OF NET ASSETS
June 30, 2003
(In Thousands)

	Primary Government			Component Units	
	Governmental Activities	Business - Type Activities	Total	San Diego Convention Center Corporation	San Diego Housing Commission
LIABILITIES					
Accounts Payable	\$ 29,102	\$ 45,742	\$ 74,844	\$ 1,218	\$ 2,022
Accrued Wages and Benefits	34,908	12,108	47,016	1,268	1,927
Other Accrued Liabilities	3,125	13	3,138	1,150	1,502
Interest Accrued on Long-Term Debt	19,064	17,965	37,029	-	42
Long-Term Liabilities Due Within One Year	108,077	46,455	154,532	1,000	206
Due to San Diego Convention Center Corporation	460	-	460	-	-
Due to San Diego Housing Commission	311	-	311	-	-
Due to Other Agencies	543	17	560	-	764
Unearned Revenue	23,061	7,527	30,588	1,500	118
Land Acquisition Credit	24,200	-	24,200	-	-
Contract Deposits	-	11,347	11,347	-	-
Sundry Trust Liabilities	4,963	-	4,963	-	-
Interfund Interest Payable	456	-	456	-	-
Customer Deposits Payable	-	5,695	5,695	-	-
Deposits/Advances from Others	-	49	49	5,750	976
Short-Term Notes Payable	95,796	-	95,796	-	-
Long-Term Liabilities Due After One Year:					
Arbitrage Liability	363	1,812	2,175	-	-
Compensated Absences	42,242	9,308	51,550	-	-
Liability Claims	127,954	44,915	172,869	-	-
Capital Lease Obligations	26,843	5,008	31,851	-	-
Contracts Payable	1,715	-	1,715	-	-
Notes Payable	6,382	-	6,382	6,500	12,423
Loans Payable	1,852	65,396	67,248	-	-
SANDAG Loans Payable	14,584	-	14,584	-	-
Section 108 Loans Payable	23,810	-	23,810	-	-
Net Bonds Payable	1,032,580	1,570,407	2,602,987	-	-
Estimated Landfill Closure and Postclosure Care	-	11,674	11,674	-	-
Net Pension Obligation	141,712	20,902	162,614	-	-
TOTAL LIABILITIES	1,764,103	1,876,340	3,640,443	18,386	19,980
NET ASSETS					
Invested in Capital Assets, net of Related Debt	3,106,168	2,624,846	5,731,014	8,656	71,671
Restricted for:					
Capital Projects	250,452	-	250,452	1,710	-
Debt Service	154,926	72,567	227,493	-	-
Permanent Endowments:					
Nonexpendable	11,857	-	11,857	-	-
Other	78,743	25,275	104,018	-	51,593
Unrestricted (Deficit)	(53,988)	373,143	319,155	-	75,008
TOTAL NET ASSETS	\$ 3,548,158	\$ 3,095,831	\$ 6,643,989	\$ 10,366	\$ 198,272

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

STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2003
(In Thousands)

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government:				
Governmental Activities:				
General Government and Support	\$ 204,072	\$ 80,782	\$ 10,069	\$ 1,091
Public Safety - Police	334,461	21,498	27,498	537
Public Safety - Fire and Life Safety	147,897	21,014	3,028	36
Parks, Recreation, Culture and Leisure	202,567	9,187	20,305	31,222
Transportation	154,603	44,020	512	57,543
Sanitation and Health	37,615	9,009	1,025	290
Neighborhood Services	95,267	17,748	32,755	9,874
Interest on Long-Term Debt	68,410	-	690	15,155
TOTAL GOVERNMENTAL ACTIVITIES	1,244,892	203,258	95,882	115,748
Business-Type Activities:				
Airports	4,281	3,461	8	1,464
City Store	731	771	-	-
Development Services	47,278	46,656	-	-
Environmental Services	40,306	36,889	782	-
Golf Course	6,963	10,311	21	-
Recycling	19,141	17,640	-	-
Sewer Utility	352,075	256,947	1,172	55,604
Water Utility	267,855	222,462	1,633	86,376
TOTAL BUSINESS-TYPE ACTIVITIES	738,630	595,137	3,616	143,444
TOTAL PRIMARY GOVERNMENT	\$ 1,983,522	\$ 798,395	\$ 99,498	\$ 259,192
Component Units:				
San Diego Convention Center Corporation	\$ 30,600	\$ 26,471	\$ 4,216	\$ -
San Diego Housing Commission	130,601	10,426	124,624	2,537
TOTAL COMPONENT UNITS	\$ 161,201	\$ 36,897	\$ 128,840	\$ 2,537
General Revenues:				
Property Taxes				
Sales Taxes				
Franchise Taxes				
Other Local Taxes				
Developer Contributions and Fees				
Grants and Contributions not Restricted to Specific Programs				
Investment Income				
Gain/(Loss) on Sale of Capital Assets				
Net Income from Joint Venture				
Miscellaneous				
Transfers				
TOTAL GENERAL REVENUES AND TRANSFERS				
CHANGE IN NET ASSETS				
Net Assets at Beginning of Year, as Restated (Note 23)				
NET ASSETS AT END OF YEAR				

Net Revenues (Expenses) and Changes in Net Assets				
Primary Government			Component Units	
Governmental Activities	Business-Type Activities	Total	San Diego Convention Center Corporation	San Diego Housing Commission
\$ (112,130)	\$ -	\$ (112,130)	\$ -	\$ -
(284,928)	-	(284,928)	-	-
(123,819)	-	(123,819)	-	-
(141,853)	-	(141,853)	-	-
(52,528)	-	(52,528)	-	-
(27,291)	-	(27,291)	-	-
(34,890)	-	(34,890)	-	-
(52,565)	-	(52,565)	-	-
(830,004)	-	(830,004)	-	-
-	652	652	-	-
-	40	40	-	-
-	(622)	(622)	-	-
-	(2,635)	(2,635)	-	-
-	3,369	3,369	-	-
-	(1,501)	(1,501)	-	-
-	(38,352)	(38,352)	-	-
-	42,616	42,616	-	-
-	3,567	3,567	-	-
\$ (830,004)	\$ 3,567	\$ (826,437)	\$ -	\$ -
\$ -	\$ -	\$ -	\$ 87	\$ -
-	-	-	-	6,986
\$ -	\$ -	\$ -	\$ 87	\$ 6,986
248,659	-	248,659	-	-
223,594	-	223,594	-	-
54,547	-	54,547	-	-
149,499	-	149,499	-	-
39,577	-	39,577	-	-
91,556	-	91,556	-	-
84,448	31,760	116,208	-	2,584
92	(1,761)	(1,669)	-	-
870	-	870	-	-
6,243	7,902	14,145	-	4,149
5,411	(5,411)	-	-	-
904,496	32,490	936,986	-	6,733
74,492	36,057	110,549	87	13,719
3,473,666	3,059,774	6,533,440	10,279	184,553
\$ 3,548,158	\$ 3,095,831	\$ 6,643,989	\$ 10,366	\$ 198,272

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

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2003
(In Thousands)**

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and Investments	\$ 29,660	\$ 822,814	\$ 852,474
Receivables:			
Taxes	61,319	8,615	69,934
Accounts, net of Allowance for Uncollectibles (General Fund \$5,049, Other Governmental \$1,963)	12,242	10,634	22,876
Claims	25	38	63
Special Assessments	-	722	722
Notes	-	27,599	27,599
Accrued Interest	477	2,094	2,571
Grants	-	37,896	37,896
Due From Other Funds	11,880	66,200	78,080
Due From Other Agencies	857	367	1,224
Investment in Joint Venture	2,007	-	2,007
Advances to Other Funds	1,790	3,081	4,871
Advances to Other Agencies	352	2,429	2,781
Land Held for Resale	-	40,896	40,896
Prepaid Expenses	585	1,398	1,983
Cash and Investments for TANS Repayment	96,229	-	96,229
TOTAL ASSETS	<u>\$ 217,423</u>	<u>\$ 1,024,783</u>	<u>\$ 1,242,206</u>
LIABILITIES			
Accounts Payable	\$ 3,438	\$ 17,961	\$ 21,399
Accrued Wages and Benefits	29,615	1,859	31,474
Other Accrued Liabilities	-	23	23
Due to Other Funds	-	79,684	79,684
Due to Component Units	-	771	771
Due to Other Agencies	-	543	543
Unearned Revenue	-	23,061	23,061
Deferred Revenue	23,212	38,384	61,596
Advances from Other Funds	906	3,309	4,215
Sundry Trust Liabilities	-	4,963	4,963
Interfund Loan Payable	-	2,386	2,386
Interfund Interest Payable	-	456	456
Short-Term Notes Payable	93,200	2,596	95,796
TOTAL LIABILITIES	<u>150,371</u>	<u>175,996</u>	<u>326,367</u>
FUND BALANCES:			
Reserved for Land Held for Resale	-	39,569	39,569
Reserved for Encumbrances	17,333	157,627	174,960
Reserved for Advances and Deposits	2,142	3,777	5,919
Reserved for Permanent Endowments	-	11,857	11,857
Reserved for Debt Service	-	173,822	173,822
Reserved for Investment in Joint Venture	2,007	-	2,007
Unreserved, Reported in General Fund:			
Designated for Unrealized Gains	871	-	871
Designated for Subsequent Years' Expenditures	806	-	806
Undesignated	43,893	-	43,893
Unreserved, Reported in:			
Special Revenue Funds	-	185,219	185,219
Debt Service Funds	-	864	864
Capital Projects Funds	-	275,591	275,591
Permanent Funds	-	461	461
TOTAL FUND BALANCE	<u>67,052</u>	<u>848,787</u>	<u>915,839</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 217,423</u>	<u>\$ 1,024,783</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.	3,966,917
Certain long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(1,361,496)
Liabilities for retention payable and land acquisition credits, which are earned by developers but not due and payable in the current period, are not reported in the funds.	(25,935)
Other assets and liabilities used in governmental activities are not financial resources, and therefore, are not reported on the fund balance sheet.	79,216
Internal Service Funds are used by management to charge the costs of activities such as Central Garage and Machine Shop, Print Shop, 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.	(26,383)
Net Assets of Governmental Activities	<u>\$ 3,548,158</u>

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

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2003
(In Thousands)

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Property Taxes	\$ 184,641	\$ 63,635	\$ 248,276
Special Assessments	-	25,748	25,748
Sales Taxes	129,262	93,761	223,023
Other Local Taxes	109,241	94,252	203,493
Licenses and Permits	22,655	6,613	29,268
Fines, Forfeitures and Penalties	25,373	1,306	26,679
Revenue from Use of Money and Property	30,539	56,250	86,789
Revenue from Federal Agencies	1,706	55,145	56,851
Revenue from Other Agencies	90,355	46,004	136,359
Revenue from Private Sources	-	82,410	82,410
Charges for Current Services	97,365	26,096	123,461
Other Revenue	2,587	8,007	10,594
TOTAL REVENUES	693,724	559,227	1,252,951
EXPENDITURES			
Current:			
General Government and Support	138,017	55,963	193,980
Public Safety - Police	268,168	33,671	301,839
Public Safety - Fire and Life Safety	131,588	10,379	141,967
Parks, Recreation, Culture and Leisure	93,982	83,602	177,584
Transportation	20,996	68,657	89,653
Sanitation and Health	35,888	2,143	38,031
Neighborhood Services	29,196	68,854	98,050
Capital Outlay	-	229,496	229,496
Debt Service:			
Principal Retirement	1,825	48,033	49,858
Interest	2,801	62,415	65,216
TOTAL EXPENDITURES	722,461	663,213	1,385,674
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(28,737)	(103,986)	(132,723)
OTHER FINANCING SOURCES (USES)			
Transfers from Proprietary Funds	5,480	6,180	11,660
Transfers from Other Funds	39,028	203,282	242,310
Transfers to Proprietary Funds	(7,080)	(1,596)	(8,676)
Transfers to Other Funds	(19,011)	(223,299)	(242,310)
Net Income from Joint Venture	870	-	870
Payment to Escrow Agent	-	(53,974)	(53,974)
Proceeds from Loans Payable	-	975	975
Proceeds from Revenue Bonds	-	55,079	55,079
Proceeds from Tax Allocation Bonds	-	34,055	34,055
Proceeds from SANDAG Loan	-	216	216
Proceeds from Capital Leases	7,282	85	7,367
Proceeds from Section 108 Loans	-	2,700	2,700
Discount on Bonds Issued	-	(124)	(124)
Premium on Bonds Issued	-	330	330
TOTAL OTHER FINANCING SOURCES (USES)	26,569	23,909	50,478
NET CHANGE IN FUND BALANCES	(2,168)	(80,077)	(82,245)
Fund Balances at Beginning of Year, as restated (Note 23)	69,220	928,864	998,084
FUND BALANCES AT END OF YEAR	\$ 67,052	\$ 848,787	\$ 915,839

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
For the Fiscal Year Ended June 30, 2003
(In Thousands)**

Net change in fund balances - total governmental funds (page 47)	\$ (82,245)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	158,373
The net effect of various miscellaneous transactions involving capital assets (i.e., donations, retirements, and transfers) is to increase net assets.	22,800
Revenues in the Statement of Activities that do not provide current financial resources are reported as deferred revenue in the funds.	12,813
Revenue recognized at the fund level provides a current financial resource to governmental funds, while an offsetting land acquisition credit results in a decrease to net assets.	(2,700)
Expenditures recognized at the fund level consume the current financial resources of governmental funds, while the offsetting reduction to land acquisition credits results in an increase to net assets.	5,550
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.	5,251
Certain expenses reported in the Statement of Activities do not require the use of current financial resources (i.e., compensated absences, net pension obligation, amortization of bond premiums and discounts), and therefore are not accrued as expenses in governmental funds.	(37,452)
Internal service funds are used by management to charge the costs of activities such as central garage and machine shop, print shop, central stores, and others to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.	<u>(7,898)</u>
Change in net assets of governmental activities (page 45)	<u><u>\$ 74,492</u></u>

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

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**PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2003
(In Thousands)**

	Business-Type Activities - Enterprise Funds				
	Sewer Utility	Water Utility	Other Enterprise Funds	Total	Internal Service Funds
ASSETS					
Current Assets:					
Cash and Investments	\$ 215,357	\$ 180,526	\$ 60,287	\$ 456,170	\$ 65,298
Receivables:					
Accounts, net of Allowance for Uncollectibles (Water \$1,247, Sewer \$617)	31,850	34,751	4,351	70,952	4,086
Claims	-	-	-	-	4
Contributions	-	-	-	-	287
Accrued Interest	724	1,495	253	2,472	18
Grants	30	338	687	1,055	-
Due From Other Funds	-	-	1,804	1,804	-
Inventories of Water in Storage	-	28,614	-	28,614	-
Inventories	-	265	91	356	3,327
Prepaid Expenses	30	3	6	39	1,585
Total Current Assets	247,991	245,992	67,479	561,462	74,605
Non-Current Assets:					
Cash and Investments in Trust Funds	20,518	190,480	25,308	236,306	-
Advances to Other Funds	496	696	38	1,230	93
Deferred Charges	7,706	5,382	-	13,088	-
Interfund Receivable	-	2,386	-	2,386	-
Capital Assets - Non-Depreciable	206,507	227,654	27,162	461,323	1,984
Capital Assets - Depreciable	2,505,319	1,114,887	76,378	3,696,584	95,113
Total Non-Current Assets	2,740,546	1,541,485	128,886	4,410,917	97,190
TOTAL ASSETS	2,988,537	1,787,477	196,365	4,972,379	171,795
LIABILITIES					
Current Liabilities:					
Accounts Payable	17,578	26,321	1,780	45,679	6,031
Accrued Wages and Benefits	5,397	2,728	3,130	11,255	4,287
Other Accrued Liabilities	-	-	13	13	3,102
Interest Accrued on Long-Term Debt	6,502	11,463	-	17,965	168
Long-Term Liabilities Due Within One Year	32,098	10,319	3,585	46,002	36,275
Due to Other Funds	-	-	200	200	-
Due to Other Agencies	-	16	1	17	-
Unearned Revenue	1,939	1,552	4,036	7,527	-
Contract Deposits	1,911	9,208	228	11,347	-
Current Liabilities Payable from Restricted Assets:					
Customer Deposits Payable	-	5,695	-	5,695	-
Total Current Liabilities	65,425	67,302	12,973	145,700	49,863
Non-Current Liabilities:					
Deposits/Advances from Others	-	-	49	49	-
Arbitrage Liability	14	1,798	-	1,812	-
Compensated Absences	3,324	2,444	2,918	8,686	4,778
Liability Claims	42,240	2,675	-	44,915	127,954
Capital Lease Obligations	-	-	5,008	5,008	15,498
Loans Payable	65,396	-	-	65,396	-
Net Revenue Bonds Payable	992,703	577,704	-	1,570,407	-
Estimated Landfill Closure and Postclosure Care	-	-	11,674	11,674	-
Net Pension Obligation	7,100	5,705	6,500	19,305	3,681
Total Non-Current Liabilities	1,110,777	590,326	26,149	1,727,252	151,911
TOTAL LIABILITIES	1,176,202	657,628	39,122	1,872,952	201,774
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	1,632,706	894,269	96,875	2,623,850	74,706
Restricted for Debt Service	20,649	51,918	-	72,567	-
Restricted for Other	-	-	25,275	25,275	-
Unrestricted	158,980	183,662	35,093	377,735	(104,685)
TOTAL NET ASSETS	\$ 1,812,335	\$ 1,129,849	\$ 157,243	3,099,427	\$ (29,979)
Adjustment to reflect the consolidation of Internal Service Fund activities related to Enterprise Funds				(3,596)	
Net assets of Business-type Activities				<u>\$ 3,095,831</u>	

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

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2003
(In Thousands)

	Business-Type Activities - Enterprise Funds				Internal Service Funds
	Sewer Utility	Water Utility	Other Enterprise Funds	Total	
OPERATING REVENUES					
Sales of Water	\$ -	\$ 206,383	\$ -	\$ 206,383	\$ -
Charges for Services	253,437	887	59,784	314,108	162,538
Revenue from Use of Property	-	4,075	-	4,075	-
Usage Fees	-	1,239	52,834	54,073	39,007
Other	3,510	9,878	3,110	16,498	2,853
TOTAL OPERATING REVENUES	<u>256,947</u>	<u>222,462</u>	<u>115,728</u>	<u>595,137</u>	<u>204,398</u>
OPERATING EXPENSES					
Benefit and Claim Payments	-	-	-	-	58,838
Maintenance and Operations	154,053	94,345	101,159	349,557	43,411
Cost of Materials Issued	-	-	242	242	27,413
Cost of Water Purchased	-	100,094	-	100,094	-
Taxes	-	1,260	-	1,260	-
Administration	84,152	30,134	9,105	123,391	68,867
Depreciation	62,072	19,045	8,421	89,538	21,044
TOTAL OPERATING EXPENSES	<u>300,277</u>	<u>244,878</u>	<u>118,927</u>	<u>664,082</u>	<u>219,573</u>
OPERATING LOSS	<u>(43,330)</u>	<u>(22,416)</u>	<u>(3,199)</u>	<u>(68,945)</u>	<u>(15,175)</u>
NONOPERATING REVENUES (EXPENSES)					
Earnings on Investments	16,322	11,590	3,793	31,705	2,813
Federal Grant Assistance	864	565	29	1,458	-
Other Agency Grant Assistance	308	1,068	782	2,158	-
Gain (Loss) on Sale/Retirement of Capital Assets	(475)	(707)	(725)	(1,907)	2,194
Interest Expense	(51,712)	(23,075)	(292)	(75,079)	(932)
Other	5,389	857	1,650	7,896	1,512
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(29,304)</u>	<u>(9,702)</u>	<u>5,237</u>	<u>(33,769)</u>	<u>5,587</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	<u>(72,634)</u>	<u>(32,118)</u>	<u>2,038</u>	<u>(102,714)</u>	<u>(9,588)</u>
Capital Contributions	55,604	86,376	1,464	143,444	-
Transfers In	565	1,204	329	2,098	5,678
Transfers from Governmental Funds	264	14	1,131	1,409	7,267
Transfers Out	(1,856)	(422)	(252)	(2,530)	(5,246)
Transfers to Governmental Funds	(1,762)	(1,021)	(3,459)	(6,242)	(5,418)
CHANGE IN NET ASSETS	<u>(19,819)</u>	<u>54,033</u>	<u>1,251</u>	<u>35,465</u>	<u>(7,307)</u>
Net Assets at Beginning of Year, as Restated (Note 23)	<u>1,832,154</u>	<u>1,075,816</u>	<u>155,992</u>		<u>(22,672)</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,812,335</u>	<u>\$ 1,129,849</u>	<u>\$ 157,243</u>		<u>\$ (29,979)</u>
Adjustment to reflect the consolidation of Internal Service Fund activities related to Enterprise Funds				592	
Change in Net Assets of Business-type Activities				<u>\$ 36,057</u>	

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

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2003
(In Thousands)**

	Business-Type Activities - Enterprise Funds				
	Sewer Utility	Water Utility	Other Enterprise Funds	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from Customers and Users	\$ 263,590	\$ 226,633	\$ 117,167	\$ 607,390	\$ 206,562
Payments to Suppliers	(135,874)	(173,911)	(48,238)	(358,023)	(78,871)
Payments to Employees	(72,000)	(57,667)	(61,363)	(191,030)	(108,162)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	55,716	(4,945)	7,566	58,337	19,529
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers In	565	1,204	329	2,098	5,678
Transfers from Governmental Funds	264	14	1,131	1,409	7,267
Transfers Out	(1,856)	(422)	(252)	(2,530)	(5,246)
Transfers to Governmental Funds	(1,762)	(1,021)	(3,459)	(6,242)	(5,418)
Operating Grants Received.....	1,679	1,347	509	3,535	-
Proceeds from Advances and Deposits	-	278	131	409	1
Payments for Advances and Deposits	(341)	(565)	-	(906)	-
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES	(1,451)	835	(1,611)	(2,227)	2,282
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from Revenue Bonds	-	215,132	-	215,132	-
Proceeds from Contracts, Notes and Loans	12,541	-	-	12,541	-
Proceeds from Contributed Capital	18,443	18,328	1,464	38,235	-
Acquisition of Capital Assets	(134,509)	(98,730)	(6,083)	(239,322)	(16,108)
Proceeds from the Sale of Capital Assets	3	190	-	193	2,116
Principal Payments on Capital Leases	-	-	(1,214)	(1,214)	(7,037)
Principal Payments on Contracts, Notes and Loans.....	(3,291)	-	-	(3,291)	(3,944)
Principal Payments on Revenue Bonds.....	(24,000)	(7,055)	-	(31,055)	-
Interest Expense	(50,883)	(17,918)	(292)	(69,093)	(1,086)
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	(181,696)	109,947	(6,125)	(77,874)	(26,059)
CASH FLOWS FROM INVESTING ACTIVITIES					
Sales of Investments	76,060	1,167,681	-	1,243,741	-
Purchases of Investments	(76,053)	(1,321,402)	-	(1,397,455)	-
Interest and Dividends Received on Investments	17,653	9,501	3,886	31,040	3,685
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	17,660	(144,220)	3,886	(122,674)	3,685
Net Increase (Decrease) in Cash and Cash Equivalents	(109,771)	(38,383)	3,716	(144,438)	(563)
Cash and Cash Equivalents at Beginning of Year, as Restated	325,128	218,686	81,879	625,693	65,861
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 215,357	\$ 180,303	\$ 85,595	\$ 481,255	\$ 65,298
Reconciliation of Cash and Cash Equivalents at End of Year to the Statement of Net Assets:					
Cash and Investments	\$ 215,357	\$ 180,526	\$ 60,287	\$ 456,170	\$ 65,298
Cash & Investments in Trust Funds	20,518	190,480	25,308	236,306	-
Less Investments not meeting the definition of cash equivalents	(20,518)	(190,703)	-	(211,221)	-
Total Cash and Cash Equivalents at End of Year	\$ 215,357	\$ 180,303	\$ 85,595	\$ 481,255	\$ 65,298
Reconciliation of Operating Loss to Net Cash Provided by (Used For) Operating Activities:					
Operating Income (Loss)	\$ (43,330)	\$ (22,416)	\$ (3,199)	\$ (68,945)	\$ (15,175)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:					
Depreciation	62,072	19,045	8,421	89,538	21,044
Changes in Assets and Liabilities:					
(Increase) Decrease in Receivables:					
Accounts - Net	1,546	3,295	169	5,010	648
Claims - Net	-	-	-	-	7
From Other Funds.....	-	-	(159)	(159)	-
(Increase) Decrease in Inventories	-	2,424	(56)	2,368	772
(Increase) Decrease in Prepaid Expenses	(30)	(3)	(1)	(34)	281
Increase (Decrease) in Accounts Payable	(6,282)	(10,440)	401	(16,321)	(2,181)
Increase (Decrease) in Accrued Wages and Benefits	892	260	323	1,475	(203)
Increase (Decrease) in Other Accrued Liabilities	-	-	6	6	290
Increase (Decrease) in Liability Claims	39,402	2,468	-	41,870	12,719
Increase (Decrease) in Due to Other Funds	-	-	(154)	(154)	-
Increase (Decrease) in Due to Other Agencies	(3,237)	1	-	(3,236)	-
Increase (Decrease) in Unearned Revenue	60	(458)	(208)	(606)	-
Increase (Decrease) in Contract Deposits	(352)	1,323	(13)	958	-
Increase (Decrease) in Arbitrage Liability.....	1	(845)	-	(845)	-
Increase (Decrease) in Net Pension Obligation	(415)	(455)	(467)	(1,337)	(185)
Increase (Decrease) in Estimated Landfill Closure and Postclosure Care.....	-	-	853	853	-
Other Nonoperating Revenue (Expenses)	5,389	857	1,650	7,896	1,512
Total Adjustments	99,046	17,471	10,765	127,282	34,704
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	\$ 55,716	\$ (4,945)	\$ 7,566	\$ 58,337	\$ 19,529
Noncash Investing, Capital, and Financing Activities:					
Capital Leases.....	\$ -	\$ -	\$ 66	\$ 66	\$ 2,981
Developer Contributed Assets.....	37,161	68,048	-	105,209	-

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

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2003
(In Thousands)

	Pension and Employee Savings Trust	Investment Trust	Agency
ASSETS			
Cash or Equity in Pooled Cash and Investments	\$ 3,528	\$ 12,078	\$ 28,691
Cash with Custodian/Fiscal Agent	309,000	-	-
Investments at Fair Value:			
Short Term Investments	70,935	-	-
Domestic Fixed Income Securities (Bonds)	465,658	-	-
International Fixed Income Securities (Bonds)	118,326	-	-
Domestic Equity Securities (Stocks)	1,122,228	-	-
International Equity Securities (Stocks)	382,783	-	-
Mortgages	669	-	-
Real Estate Equity and Real Estate Securities	230,151	-	-
Defined Contribution Investments (Mutual Funds & Collective Funds):			
Fixed Income Mutual Funds.....	11,325	-	-
Balanced Mutual Funds.....	19,742	-	-
International Mutual	24,492	-	-
Equity Mutual Funds.....	81,803	-	-
Managed Income Fund.....	291,296	-	-
Balanced Collective Funds.....	4,676	-	-
Equity Collective Funds.....	65,566	-	-
Receivables:			
Accounts - Net	-	-	337
Contributions	19,478	-	-
Accrued Interest	9,398	29	2
Loans	24,294	-	-
Securities Sold	50,804	-	-
Prepaid Expenses	53	-	-
Securities Lending Collateral	209,549	-	-
Cash and Investments in Trust Funds	-	-	11,976
Capital Assets - Depreciable	191	-	-
TOTAL ASSETS	3,515,945	12,107	41,006
LIABILITIES			
Accounts Payable	2,947	-	9,608
Accrued Wages and Benefits	568	-	-
Advances from Other Funds	-	-	1,979
Deposits/Advances from Others	-	-	9,215
Sundry Trust Liabilities	-	-	20,204
Net Pension Obligation	436	-	-
DROP Liabilities	136,741	-	-
Securities Lending Obligations.....	209,549	-	-
Securities Purchased	97,540	-	-
TOTAL LIABILITIES	447,781	-	\$ 41,006
NET ASSETS			
Held in Trust for Pension Benefits and Other Purposes	3,046,352	-	
Held in Trust for Postemployment Healthcare Benefits	21,812	-	
Held in Trust for Pooled Participants	-	12,107	
TOTAL NET ASSETS	\$ 3,068,164	\$ 12,107	

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

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
For the Year Ended June 30, 2003
(In Thousands)

	Pension and Employee Savings Trust	Investment Trust	Total
ADDITIONS			
Employer Contributions	\$ 128,288	\$ -	\$ 128,288
Employee Contributions	109,886	-	109,886
Net Employee Contributions	238,174	-	238,174
Earnings on Investments:			
Investment Income	149,570	490	150,060
Investment Expense	(12,048)	-	(12,048)
Net Investment Income	137,522	490	138,012
Contributions to Pooled Investments.....	-	16,953	16,953
Securities Lending:			
Gross Earnings	3,178	-	3,178
Borrow Rebates	(2,089)	-	(2,089)
Administrative Expenses (Lending Agent)	(321)	-	(321)
Net Securities Lending Income	768	-	768
TOTAL OPERATING ADDITIONS	376,464	17,443	393,907
DEDUCTIONS			
Benefit and Claim Payments	208,815	-	208,815
DROP Interest Expense	9,219	-	9,219
Administration	8,039	-	8,039
Depreciation	100	-	100
Distribution from Pooled Investments.....	-	17,769	17,769
TOTAL OPERATING DEDUCTIONS	226,173	17,769	243,942
CHANGE IN NET ASSETS (Includes a decrease of \$10,223 for Post Employment Healthcare Benefits)	150,291	(326)	149,965
Net Assets at Beginning of Year, as Restated (Note 23)	2,917,873	12,433	2,930,306
NET ASSETS AT END OF YEAR	\$ 3,068,164	\$ 12,107	\$ 3,080,271

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

NOTES TO THE FINANCIAL STATEMENTS**YEAR ENDED JUNE 30, 2003****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. During the period reported, the City was governed by an elected nine member City Council, including the Mayor. 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 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 data from these units are combined with data of 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
- 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

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. Complete stand-alone financial statements can be requested from the 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 currently acquires and constructs mass transit guide ways, public transit systems, and related transportation facilities primarily benefiting the City. 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. Complete stand-alone financial statements can be requested from the Office of the City Auditor and Comptroller, 202 C Street, San Diego, California 92101.
- The Convention Center Expansion Financing Authority (The "CCEFA") was established in 1996 to acquire and construct the expansion of 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. Complete stand-alone 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. The PFFA is governed by a five member board appointed by the primary government. PFFA provides services exclusively to the primary government. The PFFA is reported as a governmental fund. Financing for governmental funds is reported as a governmental activity and financing for business-type funds is reported as a business-type activity. Complete stand-alone 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 a governmental fund. Complete stand-alone 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 the benefit is exclusively to the primary government. The SDFELC is reported as a governmental fund. Financing for governmental funds is reported as a governmental activity and financing for proprietary funds is reported as a business-type activity. Complete stand-alone 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. Complete stand-alone 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. Complete stand-alone 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. Complete stand-alone 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 Trustees, 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. 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.

The City of San Diego has elected to present all information required by Governmental Accounting Standards Board Statements 25, 26, 27 and 34 (GASB 25) when an employers plan has not issued a publicly available stand alone financial report. The City chose to do this because the fiscal year 2003 SDCERS' financial statements did not present other post employment benefits (retiree health) in a separate column of combining financial statements as required by GASB 26. Additionally, restatements related to unreported liabilities were identified subsequent to the issuance of the SDCERS' fiscal year 2003 CAFR. In response to the aforementioned reporting deficiencies, the conclusions brought forth in numerous illegal acts investigations, and our own analysis of available information, the City has determined not to rely solely on the work of the SDCERS' actuary as it relates to trend schedules, the City's net pension obligation, annually required contributions and other required supplementary schedules for the City of San Diego's participation in SDCERS.

SDCERS is reported as a pension and employee savings trust fund. The Schedule of Fiduciary Net Assets and Schedule of Changes in Fiduciary Net Assets for the fiscal year ending June 30, 2003 for the Pension and Employee Savings Trust Fund can be found in the fiduciary fund financial statements starting on page 53. Additionally, schedules of funding progress and schedules of plan sponsors' (employers') contributions can be found in the required supplementary information starting on page 184.

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 citizenry and not solely on behalf of the City. 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 citizenry. 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 separately 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 is offset by program revenues. Direct expenses are those that are clearly identifiable with 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 government-wide and proprietary funds financial statements apply all effective pronouncements of the Governmental Accounting Standards Board ("GASB"). In addition, these statements apply all 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 sub-ventures, 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, other governmental units, and/or other funds, 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 general 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 wastewater 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, 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, other governments and/or funds, including federal and state income taxes withheld from employees, parking citation revenues, and 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 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 March 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 raise 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. For governmental funds, property tax revenue is recognized in the fiscal year for which the taxes have been levied, provided the taxes are received within 60 days of year end. Property taxes received after this date 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 flow purposes are considered to be cash on hand, demand deposits, cash held in trust funds, and investments held by the City Treasurer in a cash management investment pool and reported at fair value.

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 fair market values on a monthly basis. The value of the shares in the pool is equal to the fair market value of the pool.

The pool participates in the 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, 2003, approximately \$5,000 in interest was assigned from various funds to the general fund. In addition, the Water and Sewer funds received interest earned by other funds amounting to approximately \$257 and \$699, respectively. These transactions caused an increase to the "transfers from" amount for the fund receiving the interest 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 fund receiving the negative interest.

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's Investment Policy and other policies applicable to the cash and investments reported herein.

SDCERS' Board discharges their fiduciary duties in accordance with Article XVI, Section 17 of the California State Constitution and the "Prudent Expert Rule" under the Employee Retirement Income Security Act of 1974 (ERISA). 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 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 cost. 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 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 because such assets are not available to finance the 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 \$5. This reflects a change from the previous limit of \$3, the resulting effect of which will have no effect on the financial statements as changes will be applied prospectively beginning with fiscal year ending June 30, 2003. 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 2003, \$4,435 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. During the preparation of the financial statements contained herein, the City identified certain assets that were not capitalized during previous reporting periods. When available, assets were capitalized using historical data. When historical data was not available, estimated carrying values were calculated using the historical cost of comparative assets and consumer price index deflators. More information on the restatements to beginning net assets for the period reported is available in Note 23. Depreciation of capital assets is computed using the straight-line method over the estimated useful life of the asset as follows:

Assets	Estimated Useful Life (Years)
Structures and Improvements	
Buildings	40 - 50
Building improvements	15 - 25
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. 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 not met the recognition criteria based on the modified accrual basis of accounting.

k. Interfund Transactions

The City has the following types of interfund transactions:

Loans - amounts provided with a requirement for repayment. Interfund loans are 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.

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 in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

Transfers – flows of assets (such as cash or goods) without equivalent flows of assets in return, including payments in lieu of taxes, 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.

l. 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.

m. 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.

In addition, sick leave earned through August 1981 by employees hired prior to July 1, 1975 is payable upon separation under the following conditions: (1) 50% of the employee's accrued amount upon retirement or death, or (2) 25% of the employee's accrued amount upon resignation.

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.

n. 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.

o. 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 said assets, the City often provides developers with credits for future permit fees (see discussion of FBA credits in Note 23). These credits are earned by the developer upon successful completion of construction phases and 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.

p. 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, net of any related liabilities, with restrictions imposed on them by external creditors, grantors, contributors, or laws or regulations of other governments. 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.

q. 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.

r. 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.

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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 is as follows:

	Total Governmental Funds (Page 46)	Capital Assets	Long-Term Liabilities	Retention Payable and Land Acquisition Credits	Other Assets and Liabilities	Internal Service Funds	Cash Held in Trust Funds and Eliminations	Governmental Activities Net Assets Totals (Page 43)
ASSETS								
Cash and Investments	\$ 852,474	\$ -	\$ -	\$ -	\$ -	\$ 61,776	\$ (168,669)	\$ 745,581
Receivables:								
Taxes - Net	69,934	-	-	-	-	-	-	69,934
Accounts	22,876	-	-	-	-	4,086	-	26,962
Claims	63	-	-	-	-	4	-	67
Contributions	-	-	-	-	-	287	-	287
Special Assessments	722	-	-	-	-	-	-	722
Notes	27,599	-	-	-	-	-	-	27,599
Accrued Interest	2,571	-	-	-	-	12	-	2,583
Grants	37,896	-	-	-	-	-	-	37,896
From Fiduciary Funds	-	-	-	-	-	-	-	-
Due From Other Funds	78,080	-	-	-	-	-	(78,080)	-
Due From Other Agencies	1,224	-	-	-	-	-	-	1,224
Investment in Joint Venture	2,007	-	-	-	-	-	-	2,007
Advances to Fiduciary Funds	4,871	-	-	-	-	59	(3,309)	1,621
Advances to Other Agencies	2,781	-	-	-	-	-	-	2,781
Internal Balances	-	-	-	-	-	4,566	(4,896)	(330)
Inventories	-	-	-	-	-	3,327	-	3,327
Land Held for Resale	40,896	-	-	-	-	-	-	40,896
Prepaid Expenses	1,983	-	-	-	-	1,585	-	3,568
Cash and Investments for TANS Repayment	96,229	-	-	-	-	-	-	96,229
Cash & Investments in Trust Funds	-	-	-	-	-	-	168,669	168,669
Deferred Charges	-	-	-	-	17,620	-	-	17,620
Capital Assets	-	3,966,917	-	-	-	96,101	-	4,063,018
TOTAL ASSETS	\$ 1,242,206	\$ 3,966,917	\$ -	\$ -	\$ 17,620	\$ 171,803	\$ (86,285)	\$ 5,312,261
LIABILITIES								
Accounts Payable	\$ 21,399	\$ -	\$ -	\$ 1,735	\$ -	\$ 5,968	\$ -	\$ 29,102
Accrued Wages and Benefits	31,474	-	-	-	-	3,434	-	34,908
Other Accrued Liabilities	23	-	-	-	-	3,102	-	3,125
Interest Accrued on Long-Term Debt	-	-	18,896	-	-	168	-	19,064
Long-Term Liabilities Due Within One Year	-	-	72,255	-	-	35,822	-	108,077
Due to Other Funds	79,684	-	-	-	-	-	(79,684)	-
Due to Component Units	771	-	-	-	-	-	-	771
Due to Other Agencies	543	-	-	-	-	-	-	543
Unearned Revenue	23,061	-	-	-	-	-	-	23,061
Land Acquisition Credit	-	-	-	24,200	-	-	-	24,200
Deferred Revenue	61,596	-	-	-	(61,596)	-	-	-
Advances from Other Funds	4,215	-	-	-	-	-	(4,215)	-
Sundry Trust Liabilities	4,963	-	-	-	-	-	-	4,963
Interfund Loan Payable	2,386	-	-	-	-	-	(2,386)	-
Interfund Interest Payable	456	-	-	-	-	-	-	456
Short term Notes Payable	95,796	-	-	-	-	-	-	95,796
Long-Term Liabilities:								
Arbitrage Liability	-	-	363	-	-	-	-	363
Compensated Absences	-	-	38,086	-	-	4,156	-	42,242
Liability Claims	-	-	-	-	-	127,954	-	127,954
Capital Lease Obligations	-	-	11,345	-	-	15,498	-	26,843
Contracts Payable	-	-	1,715	-	-	-	-	1,715
Notes Payable	-	-	6,382	-	-	-	-	6,382
Loans Payable	-	-	1,852	-	-	-	-	1,852
SANDAG Loans Payable	-	-	14,584	-	-	-	-	14,584
Section 108 Loans Payable	-	-	23,810	-	-	-	-	23,810
Net Bonds Payable	-	-	1,032,580	-	-	-	-	1,032,580
Net Pension Obligation	-	-	139,628	-	-	2,084	-	141,712
TOTAL LIABILITIES	326,367	-	1,361,496	25,935	(61,596)	198,186	(86,285)	1,764,103
FUND BALANCES/NET ASSETS:								
Total Fund Balance/Net Assets	915,839	3,966,917	(1,361,496)	(25,935)	79,216	(26,383)	-	3,548,158
TOTAL LIABILITIES AND FUND BALANCE	\$ 1,242,206	\$ 3,966,917	\$ -	\$ -	\$ 17,620	\$ 171,803	\$ (86,285)	\$ 5,312,261

- 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 Equity-Governmental Funds" and "Total Net Assets-Governmental Activities" as reported in the Government-wide Statement of Net Assets. One element of that reconciliation explains, "Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds." The details of this \$3,966,917 difference are as follows:

Capital Assets, net, July 1, 2002, as restated	\$ 3,787,559
Capital Outlay (Including capital projects, in-kind contributions, and equipment)	282,521
Miscellaneous Capital Outlay Transactions	(5,068)
Depreciation Expense	<u>(98,095)</u>
Net adjustment to increase Total Fund Balances-Governmental Funds to arrive at Total Net Assets of Governmental Activities	<u>\$ 3,966,917</u>

Another element of the reconciliation states, "Certain long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this (\$1,361,496) difference are as follows:

Accrued Interest Payable	\$ (18,896)
Arbitrage Liability	(363)
Compensated Absences	(63,704)
Capital Leases Payable	(15,310)
Contracts Payable	(1,882)
Notes Payable	(8,416)
Loans Payable	(2,851)
SANDAG Loans Payable	(17,341)
Section 108 Loans Payable	(25,925)
Bonds Payable	(1,067,180)
Net Pension Obligation	<u>(139,628)</u>
Net Adjustment to decrease Total Fund Balances-Governmental Funds to arrive at Total Net Assets of Governmental Activities	<u>\$ (1,361,496)</u>

Another element of the reconciliation states, "Liabilities for retention payable and land acquisition credits, which are earned by developers, but are not due and payable in the current period, are not reported in the funds." The details of this (\$25,935) difference are as follows:

Retention Payable	\$ (1,735)
Land Acquisition Credits	<u>(24,200)</u>
Net adjustment to decrease Total Fund Balances-Governmental Funds to arrive at Total Net Assets of Governmental Activities	<u>\$ (25,935)</u>

Another element of the reconciliation states, "Other assets and liabilities used in governmental activities are not financial resources, and therefore, are not reported in the funds." The details of this \$79,216 difference are as follows:

Deferred Charges, net, July 1, 2002, as restated	\$ 15,966
Issuance Costs	2,257
Amortization Expense	(603)
Deferred Charges, net, June 30, 2003	<u>17,620</u>
Deferred Revenue related to:	
Grants and Other Receivables	35,851
Taxes Receivable	6,946
Sales Taxes Receivable	5,092
Special Assessments Receivable	1,001
Tobacco Receipts Receivable	5,009
Sales of Properties Receivable	<u>7,697</u>
Deferred Revenue June 30, 2003	<u>61,596</u>
Net Adjustment to increase Total Fund Balances-Governmental Funds to arrive at Total Net Assets of Governmental Activities	<u>\$ 79,216</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 these assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$158,373 difference are as follows:

Capital Outlay	\$ 229,496
Other Capital Activities	26,972
Depreciation Expense	<u>(98,095)</u>
Net adjustment to increase Net Changes in Fund Balances-Total Governmental Funds to arrive at Changes in Net Assets of Governmental Activities	<u>\$ 158,373</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 increase net assets." The details of this \$22,800 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, change in net assets differs from the change in fund balances by the cost of the capital assets sold.	\$ (2,956)
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.	33,731
The Statement of Activities reports a gain on sales of capital assets. The Governmental Funds report total proceeds on sales. The difference, i.e. book value of capital assets, is a reconciling item.	<u>(7,975)</u>
Net adjustment to increase Net Change in Fund Balances-Total Governmental Funds to arrive at Changes in Net Assets of Governmental Activities	<u>\$ 22,800</u>

Another element of the reconciliation states that revenue earned but not meeting the City's recognition criteria of available within 60 days is deferred in the governmental funds. However, in the statement of activities these revenues only need to be earned to be recorded. The detail of the \$12,813 increase to net assets is as follows:

Property Taxes	\$ 383
Sales Taxes	571
Special Assessments	(379)
Tobacco Receipts	(1,055)
Notes Issued Less Payments Received	1,364
Grants	9,215
Charges for Services/Revenue from Other Agencies/Franchise Revenue	<u>2,714</u>
Net adjustment to increase Net Change in Fund Balances-Total Governmental Funds to arrive at Changes in Net Assets of Governmental Activities	<u>\$ 12,813</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 \$5,251 difference are as follows:

Debt Issued or Incurred:	
Capital Leases	\$ (7,367)
SANDAG Loans	(2,100)
Section 108 Loans	(2,700)
Loans	(975)
Revenue Bonds	(53,195)
Tax Allocation Bonds	(34,055)
Principal Repayments:	
Capital Leases	3,955
Contracts Payable	265
Notes Payable	7,105
SANDAG Loans	3,564
Section 108 Loans	1,780
General Obligation Bonds	5,930
Revenue Bonds/COP's	18,140
Special Assessment Bonds	2,825
Tax Allocation Bonds	6,295
Refundings:	
Revenue Bonds	34,505
Tax Allocation Bonds	17,455
Forgiven Debt:	
Contracts Payable	1,567
Issuance Costs	2,257
Net Adjustment to increase Net Changes in Fund Balances-Total Governmental Funds to arrive at Changes in Net Assets of Governmental Activities	<u>\$ 5,251</u>

Another element of the reconciliation states that "Certain expenses reported in the statement of activities do not require the use of current financial resources (i.e., compensated absences, net pension obligation, employee offset liability, amortization of bond premiums and discounts) and therefore are not accrued as expenses in governmental funds." The details of this (\$37,452) difference are as follows:

Accrued Interest	\$ (637)
Arbitrage Liability	(363)
Compensated Absences	(2,289)
Amortization of Bond Premiums/Discounts and Gains/Losses on Refundings	(207)
Amortization of Deferred Charges	(641)
Net Pension Obligation	<u>(33,315)</u>
Net adjustment to decrease Net Changes in Fund Balances-Total Governmental Funds to arrive at Changes in Net Assets of Governmental Activities	<u>\$ (37,452)</u>

3. CASH AND INVESTMENTS (In Thousands)

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

	Governmental Activities	Business-Type Activities	Subtotal	Fiduciary Funds	Total
Cash & Cash or Equity in Pooled					
Cash & Investments	\$ 751,772	\$ 484,777	\$ 1,236,549	\$ 44,297	\$ 1,280,846
Cash & Investments with Fiscal Agent	158,394	73,909	232,303	320,976	553,279
Investments at Fair Value	100,313	137,312	237,625	2,889,650	3,127,275
Securities Lending Collateral	-	-	-	209,549	209,549
Total	\$ 1,010,479	\$ 695,998	\$ 1,706,477	\$ 3,464,472	\$ 5,170,949

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

Cash & Cash or Equity in Pooled Cash & Investments represents petty cash and cash at the bank in demand deposit and/or savings accounts. 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	\$ 218
Cash	1,200
Pooled Investments in the City Treasury	1,279,428
Total Cash & Cash or Equity in Pooled Cash & Investments	\$ 1,280,846

A summary of the investments held by the City's investment pool as of June 30, 2003 is as follows:

Investment	Fair Value	Cost	Interest Rate % Range	Maturity Range
U.S. Treasury Bills	\$ 114,917	\$ 114,723	0.91 - 1.135	** 7/10/03 - 9/25/03
U.S. Treasury Notes & Bonds	624,234	621,883	1.5 - 6.75	8/31/2003 - 5/15/2008
Commercial Paper	50,000	49,998	1.31	** 7/1/2003
Corporate Notes & Bonds	88,560	88,594	4.88 - 7.875	3/19/04 - 10/01/2004
Repurchase Agreements	8,501	8,501	1.2	** 7/1/2003
U.S. Agency Notes & Bonds	368,150	366,077	.9 - 5.375	8/14/2003 - 1/29/2007
Mortgage Backed Securities	4,560	4,576	4.5	3/1/2008
Local Agency Investment Fund	20,506	20,448	1.77	N/A
Total Investments	\$ 1,279,428	\$ 1,274,800		

** Discount Rates

The following represents a summary of net assets and changes in net assets for the City's investment pool as of June 30, 2003:

Summary of Net Assets

Net Assets Held for Pool Participants	\$ 1,279,428
Equity of Internal Pool Participants	1,267,350
Equity of External Pool Participants (SanGIS, ARJIS & AVA)**	12,078
Total Equity	\$ 1,279,428

**Voluntary participation

Summary of Changes in Net Assets

Net Assets Held for Pool Participants at July 1, 2002	\$ 1,385,018
Net Change in Investments by Pool Participants	(105,590)
Total Net Assets Held for Pool Participants at June 30, 2003	\$ 1,279,428

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 are invested overnight by SDCERS custodial bank. Also included in **Cash & Investments with Fiscal Agents** are various cash and investments held for the defeasance of contract retention payables. These amounts are held in the name of the City and invested in a variety of manners and the investments are often directed by the "beneficial owner" pursuant to the California Public Contract Code § 22300. These amounts are titled Other Investments - Contract Retention in the table in Section f of this note.

c. Investments at Fair Value

Investments at Fair Value represent investments of the City's Supplemental Pension Savings Plan, 401(k) Plan, 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 has agreed with a fiscal agent, currently SDCERS' custodial bank, 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 party, the lender or borrower. The maximum amount of a loan on any individual security is 95%. This enables SDCERS to be notified of corporate actions such as proxy voting actions, stock splits or dividends.

The fiscal agent 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. 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. The fiscal agent will indemnify SDCERS by agreeing to purchase replacement securities or return cash collateral in the event borrower failed to return a loaned security or pay distributions thereon. 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, 2003 had a fair value of \$199,026 and a collateral value of \$209,549, which are reported in the assets and liabilities in the Statement of Plan Net Assets for the City Employees' Retirement System in accordance with GASB 28. The securities lending transactions collateralized by securities or irrevocable letters of credit had a fair value of \$7,650 and a collateral value of \$7,934, which are not reported in the assets or liabilities in the accompanying statement of fiduciary net assets for the City Employees' Retirement System per GASB 28. The total collateral pledged to SDCERS at fiscal year end for its securities lending activities was \$217,483.

The cash collateral received on each loan was invested by SDCERS' fiscal agent, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. As of June 30, 2003, such investment pool had an average duration of 70 days and an average weighted maturity of 438 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 of San Diego Investment Policy

In accordance with the Charter 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 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 Council. 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.

In reviewing the Policy, 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.

In addition to the Policy, authorized cash deposits and investments are governed by state law. Within the context of these limitations, permissible investments include:

- (1) Obligations of the U.S. government and federal agencies with a maximum maturity of five years,
- (2) Commercial paper rated A-1+ by Standard & Poor's, P-1 by Moody's, or F-1 by Fitch,
- (3) Banker's acceptances,
- (4) Negotiable certificates of deposit issued by a nationally or state chartered bank or a state or federal savings and loan institution or a state-licensed branch of a foreign bank,
- (5) Repurchase and reverse repurchase agreements,
- (6) The local agency investment fund established by the State Treasurer,
- (7) Financial futures transactions to hedge against changes in market conditions for the reinvestment of bond proceeds,
- (8) Government agency mortgage-backed securities and other AAA rated asset-backed securities with a maximum maturity of five years,
- (9) Medium-term corporate notes of a maximum of three years maturity issued by corporations operating within the United States,
- (10) Shares of beneficial interest issued by diversified management companies, as defined in Section 23701(m) of the California Revenue and Taxation Code,
- (11) Non-negotiable time deposits collateralized in accordance with California Government Code,
- (12) Floating rate notes whose coupon resets are based upon a single fixed income index,
- (13) Structured notes issued by U.S. government agencies that contain imbedded calls or options as long as those securities are not inverse floaters, range notes, interest only strips or a security that could result in a zero or negative accretion of interest if held to maturity, and
- (14) Financial futures given they are only used to hedge against changes in market conditions for the reinvestment of bond proceeds when deemed appropriate.

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.

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 Policy can be requested from the City Treasurer, 1200 3rd Avenue, Suite 1624, San Diego, California, 92101.

San Diego City Employee 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 the Charter of the City. The Board has restricted the authorized investments to those believed by independent investment counsel to be appropriate for investment by trust funds operating under the "prudent expert" rule as set forth under United States Code, Title 29, Chapter 18, Employee Retirement Income Security Act of 1974 (ERISA). SDCERS investments include, but are not limited to, bonds, notes and other obligations, real estate investments, repurchase agreements, common stock, preferred stock and pooled vehicles.

Additionally, investment policies permit the pension trust fund to invest in financial futures contracts and non-marketable real estate investments. Financial futures contracts, which are recorded at fair value, are not hedges of existing assets, and changes in the market value of the contract result in recognition of a gain or loss. Non-marketable real estate investments are periodically appraised by independent third party appraisers. 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 systems investment activities can be requested from the Retirement Office, 401 B Street, Suite 400, San Diego, California, 92101.

Other Investment Policies

The City currently has a Funds Commission who is responsible for overseeing the investment of various funds that have been given to the City for the benefit of specific groups. 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's Investment Policy. Additionally, the City and its component units have funds invested in accordance with various bond indenture and trustee agreements.

f. Custodial Credit Risk

Deposits

At June 30, 2003, the carrying amount of the City's deposits was approximately \$1,200 and the bank balance was approximately \$6,233, the difference of which is substantially due to deposits in transit and outstanding checks. Of the balance in financial institutions, approximately \$679 was covered by federal depository insurance and approximately \$5,554 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, \$4,600 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. Approximately \$751 in deposits relating to San Diego Data Processing Corporation, \$11 in deposits relating to Southeastern Economic Development Corporation, Inc. and \$192 in deposits relating to Centre City Development Corporation, Inc. are uninsured and uncollateralized.

Discretely Presented Component Units

Deposits – San Diego Convention Center Corporation (SDCCC)

On June 30, 2003, the carrying amount of SDCCC's cash, investments and restricted cash, less petty cash, change funds and clearing accounts, is \$8,500 and the bank balance is \$10,098. Of the bank balance, \$200 was covered by federal depository insurance. The remaining balance was uninsured and uncollateralized (uncollateralized deposits include bank balances that are collateralized with securities held by the pledging financial institution or an affiliate of the pledging financial institution).

Deposits – San Diego Housing Commission (SDHC)

On June 30, 2003, the carrying amounts of SDHC's cash demand deposits were \$371 and the bank balances were \$977. The bank balances were fully insured and/or collateralized with securities held by the pledging financial institutions in SDHC's name. The California Government Code requires California banks and savings and loan associations to secure SDHC's cash 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 SDHC's name.

The fair value of the pledged securities must equal at least 110% of SDHC's cash deposits. California law also allows institutions to secure Commission deposits by pledging first trust deed mortgage notes having a value of 150% of the Commission's total cash deposits. SDHC may waive collateral requirements for cash deposits that are fully insured up to \$100,000 (in whole dollars) by the Federal Deposit Insurance Corporation, but has not waived the collateralization requirements.

Investments

The City's investments at June 30, 2003 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.

The following summary of investments includes other legally separate entities, namely the San Diego Graphic Information Source (SanGIS), the Automated Regional Justice Information System (ARJIS), and the Abandoned Vehicle Abatement (AVA), and also SDCERS which qualifies as a component unit.

	Category 1	Category 2	Category 3	Non Categorized	Carrying Value
Pooled Investment in the City Treasury:					
U.S. Treasury Bills	\$ 114,917	\$ -	\$ -	\$ -	\$ 114,917
U.S. Treasury Notes & Bonds	624,234	-	-	-	624,234
U.S. Agency Notes & Bonds	368,150	-	-	-	368,150
Repurchase Agreement	8,501	-	-	-	8,501
Commercial Paper	50,000	-	-	-	50,000
Corporate Notes & Bonds	88,560	-	-	-	88,560
Mortgage Backed Securities	4,560	-	-	-	4,560
Local Agency Investment Fund	-	-	-	20,506	20,506
Total Pooled Investment in the City Treasury	\$ 1,258,922	\$ -	\$ -	\$ 20,506	\$ 1,279,428
Retirement System:					
Short-Term Investments					
U.S. Government and Agency Obligations	\$ 12,693	\$ -	\$ -	\$ -	\$ 12,693
Commercial Paper	58,242	-	-	-	58,242
Domestic Fixed Income					
U.S. Government and Agency Obligations	185,906	-	-	-	185,906
U.S. Corporate Bonds	217,716	-	-	-	217,716

(continued from previous page)

	Category 1	Category 2	Category 3	Non Categorized	Carrying Value
Domestic Equity Securities					
U.S. Corporate Stocks	743,029	-	-	-	743,029
International Fixed Income - Bonds	114,942	-	-	-	114,942
International Equity - Stocks	284,445	-	-	-	284,445
Real Estate Investment Trust Securities (REITs)	91,660	-	-	-	91,660
Cash and Cash Equivalents with Custodial Bank (Pooled)	-	84,912	-	-	84,912
Cash with Prime Brokers (Market Neutral Strategy)	-	224,088	-	-	224,088
Domestic Equity Alternative Investments	-	-	-	293,693	293,693
International Equity Alternative Investments	-	-	-	42,587	42,587
Securities on Loan for Cash and Securities Collateral					
Domestic Fixed Income - U.S. Government and Agency Obligations	-	-	-	44,889	44,889
Domestic Fixed Income - U.S. Corporate Bonds	-	-	-	17,147	17,147
Domestic Equity - U.S. Corporate Stocks	-	-	-	85,505	85,505
International Fixed Income - Bonds	-	-	-	3,384	3,384
International Equity - Stocks	-	-	-	55,751	55,751
Real Estate Equity Investments	-	-	-	134,633	134,633
Real Estate Commingled Funds	-	-	-	3,858	3,858
Mortgage Notes	-	-	-	669	669
Securities Lending Collateral					
Pooled Investment Vehicle with State Street Bank and Trust Co. (Cash)	-	-	-	209,549	209,549
Total Investment in Retirement Plans	\$ 1,708,633	\$ 309,000	\$ -	\$ 891,665	\$ 2,909,298
Other Funds:					
U.S. Treasury Bills	\$ 10,630	\$ 8,051	\$ -	\$ -	\$ 18,681
U.S. Treasury Notes & Bonds	13,547	169	1,548	-	15,264
U.S. Government Securities	236,547	-	829	-	237,376
Repurchase Agreements	14,149	-	-	-	14,149
State & Local Government Securities	32,651	-	-	-	32,651
Corporate Notes & Bonds	-	-	2,660	-	2,660
Mortgage Backed Securities	-	-	658	-	658
Asset Backed Securities	-	-	237	-	237
Common Stock - Equity	-	-	2,621	-	2,621
Annuity	-	-	-	329	329
Local Agency Investment Fund	-	-	-	541	541
Guaranteed Investment Contract	-	-	-	49,104	49,104
Mutual Funds & Collective Funds	-	-	-	594,558	594,558
Other Investments - Contract Retention	-	-	11,976	-	11,976
	\$ 307,524	\$ 8,220	\$ 20,529	\$ 644,532	\$ 980,805
Total Investments	\$ 3,275,079	\$ 317,220	\$ 20,529	\$ 1,556,703	\$ 5,169,531
Total Deposits					1,200
Total Cash on Hand					218
Total Deposits, Investments, and Cash on Hand					\$ 5,170,949

Total Cash and Investments Summary:

Total Governmental Activities	\$ 1,010,479
Total Business-Type Activities	695,998
Total Fiduciary Activities	3,464,472
Total Cash and Investments	<u>\$ 5,170,949</u>
Total Unrestricted Cash and Investments	\$ 4,657,769
Total Cash & Investments in Trust Funds	416,951
Total Cash Held for a Specific Purpose	96,229
Total Cash and Investments	<u>\$ 5,170,949</u>

Discretely Presented Component UnitsSummary of Investments – San Diego Housing Commission

Classification of deposits (with the exception of demand deposits which were discussed above) and investments by credit risk are as follows:

Deposits:

- Category 1: Insured or collateralized with securities held by the Commission or its agent in the Commission's name.
- Category 2: Collateralized with securities held by the pledging financial institutions trust department or agent in the Commission's name.
- Category 3: Deposits which are uninsured and uncollateralized.

Investments:

- Category 1: Insured or registered, with securities held by the Commission or its agent in the Commission's name.
- Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Commission's name.
- Category 3: Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Commission's name.
- Non-Categorized: Investments in LAIF are not categorized, as GASB 3 does not require categorization of investment pools managed by another agency.

	Category 1	Non-Categorized	Carrying Value
Cash Equivalents:			
Money Market Funds	<u>\$ 9,719</u>	<u>\$ -</u>	<u>\$ 9,719</u>
Investments:			
California Local Agency Investment Fund	<u>-</u>	<u>21,008</u>	<u>21,008</u>
Total Cash & Investments	<u>9,719</u>	<u>21,008</u>	<u>30,727</u>
Restricted Cash & Cash Equivalents:			
Money Market Funds	<u>-</u>	<u>856</u>	<u>856</u>
Total	<u>\$ 9,719</u>	<u>\$ 21,864</u>	<u>\$ 31,583</u>
Total Demand Deposits:			371
Total Cash on Hand:			4
Total Deposits, Investments, and Cash on Hand:			<u>\$ 31,958</u>

g. Cash & Investments in Trust Funds

Cash and investments at June 30, 2003 that are held in trust due to legal or contractual requirements are comprised of the following:

Basic Financial Statements

Governmental Activities	\$	168,669
Business-Type Activities		236,306
Fiduciary Funds		11,976
Total Cash & Investments in Trust Funds	\$	416,951

Nonmajor Other Enterprise Funds

Funds set aside for landfill site closure and maintenance costs		25,308
Total Environmental Services Ent. Fund		25,308

Water Enterprise Fund

Customer deposits		5,695
Interest and redemption funds		53,390
Acquisition funds		131,395
Total Water Enterprise Fund		190,480

Sewer Enterprise Fund

Interest and redemption funds		20,518
Total Sewer Enterprise Fund		20,518

Miscellaneous Agency Funds

Retention held in escrow		11,976
Total Miscellaneous Agency Funds		11,976

h. Cash Held for a Specific Purpose

Cash and investments at June 30, 2003 that is held for a specific purpose is comprised of the following:

General Fund

Funds set aside to repay Tax Anticipation Notes (TANS)	\$	96,229
Total General Fund		96,229
Total Cash Held for a Specific Purpose	\$	96,229

i. Derivative Instruments

Certain of SDCERS' investment managers 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 portfolio 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 nonperformance 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, 2003 were as follows:

Money Market Futures	\$	19,750
Government Bond Futures		13,100
Options - Calls sold		57,000
Options - Puts sold		210,200
SWAPS		11,300

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 predominately 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 nonperformance by counterparties.

4. CAPITAL ASSETS (In Thousands)

The City previously reported a beginning balance of \$4,118,023 in governmental activities capital assets, net of accumulated depreciation. Subsequent to the issuance of fiscal year 2002 financial statements, numerous adjustments were identified which overall decreased the governmental activities net capital assets beginning balance by \$232,761.

The City previously reported a beginning balance of \$3,754,344 in business-type activities capital assets, net of accumulated depreciation. Subsequent to the issuance of fiscal year 2002 financial statements, numerous adjustments were identified which overall increased the business-type activities net capital assets beginning balance by \$154,692.

The schedule below identifies the restatements found in Note 23 which relate to capital assets and reflect the change in the appropriate activity level and asset category.

Capital asset activity for the year ended June 30, 2003 was as follows:

Primary Government											
	Beginning Balance, As Previously Reported	Capital Asset Restatements (Note 23)									
		#1	#2	#3	#4	#5	#6	#7	#8	#9	
GOVERNMENTAL ACTIVITIES:											
Non-Depreciable Capital Assets											
Land, Easements, Rights of Way	\$ 1,560,954	\$ -	\$ -	\$ -	\$ -	\$ (15,828)	\$ -	\$ -	\$ 6,633	\$ -	
Construction in Progress	607,049	-	-	(147,164)	-	-	(45,188)	(10,805)	-	-	
Total Non-Depreciable Capital Assets	2,168,003	-	-	(147,164)	-	(15,828)	(45,188)	(10,805)	6,633	-	
Depreciable Capital Assets											
Structures and Improvements	774,518	-	-	-	-	-	-	(147,879)	8,107	-	
Equipment	331,965	-	-	-	-	-	-	(45,873)	-	-	
Infrastructure	2,330,044	-	-	-	-	-	-	-	-	-	
Total Depreciable Capital Assets	3,436,527	-	-	-	-	-	-	(193,752)	8,107	-	
Less Accumulated Depreciation For:											
Structures and Improvements	(230,834)	-	(5,652)	-	-	-	-	71,563	(203)	-	
Equipment	(185,643)	-	-	-	-	-	-	27,256	-	-	
Infrastructure	(1,070,030)	-	(6,059)	-	-	-	-	-	-	-	
Total Accumulated Depreciation	(1,486,507)	-	(11,711)	-	-	-	-	98,819	(203)	-	
Governmental Activities Capital Assets, Net	\$ 4,118,023	\$ -	\$ (11,711)	\$ (147,164)	\$ -	\$ (15,828)	\$ (45,188)	\$ (105,738)	\$ 14,537	\$ -	
BUSINESS-TYPE ACTIVITIES:											
Non-Depreciable Capital Assets											
Land, Easements, Rights of Way	\$ 73,395	\$ 12,354	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Construction in Progress	1,858,518	-	-	-	-	-	(126,566)	-	-	-	
Total Non-Depreciable Capital Assets	1,931,913	12,354	-	-	-	-	(126,566)	-	-	-	
Depreciable Capital Assets											
Structures and Improvements	705,062	-	-	-	-	-	-	-	-	-	
Equipment	164,250	-	-	-	-	-	-	-	-	-	
Distribution and Collection Systems	1,566,241	-	-	-	-	-	-	-	-	255,770	
Total Depreciable Capital Assets	2,435,553	-	-	-	-	-	-	-	-	255,770	
Less Accumulated Depreciation For:											
Structures and Improvements	(131,175)	-	(51,779)	-	-	-	-	-	-	-	
Equipment	(92,284)	-	(79,927)	-	-	-	-	-	-	-	
Distribution and Collection Systems	(389,663)	-	(15,654)	-	39,138	-	-	-	-	(6,734)	
Total Accumulated Depreciation	(613,122)	-	(147,360)	-	39,138	-	-	-	-	(6,734)	
Business-Type Activities Capital Assets, Net	\$ 3,754,344	\$ 12,354	\$ (147,360)	\$ -	\$ 39,138	\$ -	\$ (126,566)	\$ -	\$ -	\$ 249,036	

Primary Government												
Capital Asset Restatements (Note 23)											Total Restatements (Note 23)	Beginning Balance, As Restated
#10	#11	#12	#13	#14	#15	#16	#17	#18	#19	#20		
\$ -	\$ -	\$ 2,454	\$ -	\$ -	\$ -	\$ -	\$ 109	\$ 145	\$ 1,988	\$ -	\$ (4,499)	\$ 1,556,455
-	3,952	-	(2,437)	3,462	-	-	-	(132,949)	-	-	(331,129)	275,920
-	3,952	2,454	(2,437)	3,462	-	-	109	(132,804)	1,988	-	(335,628)	1,832,375
-	-	-	-	13	-	-	-	57,160	6,389	-	(76,210)	698,308
-	-	-	-	-	-	-	-	-	67,084	-	21,211	353,176
-	-	-	51,080	75	-	-	-	75,644	-	-	126,799	2,456,843
-	-	-	51,080	88	-	-	-	132,804	73,473	-	71,800	3,508,327
-	-	-	-	-	-	-	-	-	(7,296)	-	58,412	(172,422)
-	-	-	-	-	-	-	-	-	(47,830)	-	(20,574)	(206,217)
-	-	-	(712)	-	-	-	-	-	-	-	(6,771)	(1,076,801)
-	-	-	(712)	-	-	-	-	-	(55,126)	-	31,067	(1,455,440)
\$ -	\$ 3,952	\$ 2,454	\$ 47,931	\$ 3,550	\$ -	\$ -	\$ 109	\$ -	\$ 20,335	\$ -	\$ (232,761)	\$ 3,885,262
\$ (1,227)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (6,831)	\$ 10,701	\$ (1,988)	\$ -	\$ 13,009	\$ 86,404
-	-	-	-	3,798	(14,788)	384	-	(1,360,871)	-	3,945	(1,494,098)	364,420
(1,227)	-	-	-	3,798	(14,788)	384	(6,831)	(1,350,170)	(1,988)	3,945	(1,481,089)	450,824
-	-	-	-	2,686	14,788	(10,720)	-	545,732	(6,389)	42,490	588,587	1,293,649
-	-	-	-	-	-	2,178	-	180,256	(67,084)	-	115,350	279,600
-	-	-	-	2,648	-	2,439	-	624,182	-	119,473	1,004,512	2,570,753
-	-	-	-	5,334	14,788	(6,103)	-	1,350,170	(73,473)	161,963	1,708,449	4,144,002
-	-	-	-	-	(2,350)	1,627	-	-	7,296	(3,750)	(48,956)	(180,131)
-	-	-	-	-	-	(679)	-	-	47,830	-	(32,776)	(125,060)
-	-	-	-	-	-	(396)	-	-	-	(7,290)	9,064	(380,599)
-	-	-	-	-	(2,350)	552	-	-	55,126	(11,040)	(72,668)	(685,790)
\$ (1,227)	\$ -	\$ -	\$ -	\$ 9,132	\$ (2,350)	\$ (5,167)	\$ (6,831)	\$ -	\$ (20,335)	\$ 154,868	\$ 154,692	\$ 3,909,036

	Primary Government				
	Beginning Balance, As Restated	Increases	Decreases	Transfers	Ending Balance
GOVERNMENTAL ACTIVITIES:					
Non-Depreciable Capital Assets					
Land, Easements, Rights of Way	\$ 1,556,455	\$ 48,682	\$ (2,956)	\$ 66	\$ 1,602,247
Construction in Progress	275,920	203,103	-	(187,920)	291,103
Total Non-Depreciable Capital Assets	1,832,375	251,785	(2,956)	(187,854)	1,893,350
Depreciable Capital Assets					
Structures and Improvements	698,308	1,224	(837)	46,831	745,526
Equipment	353,176	30,428	(19,634)	3,126	367,096
Infrastructure	2,456,843	18,067	-	141,019	2,615,929
Total Depreciable Capital Assets	3,508,327	49,719	(20,471)	190,976	3,728,551
Less Accumulated Depreciation For:					
Structures and Improvements	(172,422)	(17,819)	193	1,665	(188,383)
Equipment	(206,217)	(31,961)	17,986	(4,673)	(224,865)
Infrastructure	(1,076,801)	(68,834)	-	-	(1,145,635)
Total Accumulated Depreciation	(1,455,440)	(118,614)	18,179	(3,008)	(1,558,883)
Governmental Activities Capital Assets, Net	<u>\$ 3,885,262</u>	<u>\$ 182,890</u>	<u>\$ (5,248)</u>	<u>\$ 114</u>	<u>\$ 4,063,018</u>
BUSINESS-TYPE ACTIVITIES:					
Non-Depreciable Capital Assets					
Land, Easements, Rights of Way	\$ 86,404	\$ -	\$ (420)	\$ 2	\$ 85,986
Construction in Progress	364,420	230,467	(1,717)	(217,833)	375,337
Total Non-Depreciable Capital Assets	450,824	230,467	(2,137)	(217,831)	461,323
Depreciable Capital Assets					
Structures and Improvements	1,293,649	3,980	-	112,889	1,410,518
Equipment	279,600	2,233	(4,218)	4,220	281,835
Distribution and Collection Systems	2,570,753	107,150	(1,219)	97,597	2,774,281
Total Depreciable Capital Assets	4,144,002	113,363	(5,437)	214,706	4,466,634
Less Accumulated Depreciation For:					
Structures and Improvements	(180,131)	(30,364)	-	-	(210,495)
Equipment	(125,060)	(23,600)	3,047	3,011	(142,602)
Distribution and Collection Systems	(380,599)	(36,099)	741	-	(415,957)
Total Accumulated Depreciation	(685,790)	(90,063)	3,788	3,011	(769,054)
Business-Type Activities Capital Assets, Net	<u>\$ 3,909,036</u>	<u>\$ 253,767</u>	<u>\$ (3,786)</u>	<u>\$ (114)</u>	<u>\$ 4,158,903</u>

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	Major Enterprise Funds					
	Beginning Balance, As Previously Reported	Capital Asset Restatements (Note 23)				
		#1	#2	#4	#6	#9
SEWER UTILITY:						
Non-Depreciable Capital Assets						
Land, Easements, Rights of Way	\$ 19,956	\$ 2,494	\$ -	\$ -	\$ -	\$ -
Construction in Progress	1,254,808	-	-	-	(85,475)	-
Total Non-Depreciable Capital Assets	1,274,764	2,494	-	-	(85,475)	-
Depreciable Capital Assets						
Structures and Improvements	571,563	-	-	-	-	-
Equipment	47,463	-	-	-	-	-
Distribution and Collection Systems	938,887	-	-	-	-	103,752
Total Depreciable Capital Assets	1,557,913	-	-	-	-	103,752
Less Accumulated Depreciation For:						
Structures and Improvements	(75,746)	-	(20,946)	-	-	-
Equipment	(18,093)	-	(78,403)	-	-	-
Distribution and Collection Systems	(218,952)	-	(7,959)	33,334	-	4,423
Total Accumulated Depreciation	(312,791)	-	(107,308)	33,334	-	4,423
Sewer Utility Capital Assets, Net	\$ 2,519,886	\$ 2,494	\$ (107,308)	\$ 33,334	\$ (85,475)	\$ 108,175
WATER UTILITY:						
Non-Depreciable Capital Assets						
Land, Easements, Rights of Way	\$ 36,902	\$ 9,860	\$ -	\$ -	\$ -	\$ -
Construction in Progress	514,133	-	-	-	(39,425)	-
Total Non-Depreciable Capital Assets	551,035	9,860	-	-	(39,425)	-
Depreciable Capital Assets						
Structures and Improvements	101,074	-	-	-	-	-
Equipment	25,802	-	-	-	-	-
Distribution and Collection Systems	627,354	-	-	-	-	152,018
Total Depreciable Capital Assets	754,230	-	-	-	-	152,018
Less Accumulated Depreciation For:						
Structures and Improvements	(36,407)	-	(7,080)	-	-	-
Equipment	(17,433)	-	(1,524)	-	-	-
Distribution and Collection Systems	(170,711)	-	(7,695)	5,804	-	(11,157)
Total Accumulated Depreciation	(224,551)	-	(16,299)	5,804	-	(11,157)
Water Utility Capital Assets, Net	\$ 1,080,714	\$ 9,860	\$ (16,299)	\$ 5,804	\$ (39,425)	\$ 140,861

Major Enterprise Funds								
Capital Asset Restatements (Note 23)							Total Restatements (Note 23)	Beginning Balance, As Restated
#10	#14	#15	#16	#17	#18	#20		
\$ -	\$ -	\$ -	\$ -	\$ (6,737)	\$ 9,722	\$ -	\$ 5,479	\$ 25,435
-	2,589	(7,545)	384	-	(1,035,270)	1,843	(1,123,474)	131,334
-	2,589	(7,545)	384	(6,737)	(1,025,548)	1,843	(1,117,995)	156,769
-	2,662	7,545	(10,720)	-	426,217	40,364	466,068	1,037,631
-	-	-	2,178	-	175,542	-	177,720	225,183
-	926	-	2,439	-	423,789	106,496	637,402	1,576,289
-	3,588	7,545	(6,103)	-	1,025,548	146,860	1,281,190	2,839,103
-	-	(1,191)	1,627	-	-	(3,675)	(24,185)	(99,931)
-	-	-	(679)	-	-	-	(79,082)	(97,175)
-	-	-	(396)	-	-	(7,030)	22,372	(196,580)
-	-	(1,191)	552	-	-	(10,705)	(80,895)	(393,686)
\$ -	\$ 6,177	\$ (1,191)	\$ (5,167)	\$ (6,737)	\$ -	\$ 137,998	\$ 82,300	\$ 2,602,186
\$ (1,227)	\$ -	\$ -	\$ -	\$ 114	\$ 979	\$ -	\$ 9,726	\$ 46,628
-	1,209	(7,243)	-	-	(250,302)	2,102	(293,659)	220,474
(1,227)	1,209	(7,243)	-	114	(249,323)	2,102	(283,933)	267,102
-	-	7,243	-	-	44,216	2,126	53,585	154,659
-	-	-	-	-	4,714	-	4,714	30,516
-	1,722	-	-	-	200,393	12,977	367,110	994,464
-	1,722	7,243	-	-	249,323	15,103	425,409	1,179,639
-	-	(1,159)	-	-	-	(75)	(8,314)	(44,721)
-	-	-	-	-	-	-	(1,524)	(18,957)
-	-	-	-	-	-	(260)	(13,308)	(184,019)
-	-	(1,159)	-	-	-	(335)	(23,146)	(247,697)
\$ (1,227)	\$ 2,931	\$ (1,159)	\$ -	\$ 114	\$ -	\$ 16,870	\$ 118,330	\$ 1,199,044

Major Enterprise Funds					
	Beginning Balance, As Restated	Increases	Decreases	Transfers	Ending Balance
SEWER UTILITY:					
Non-Depreciable Capital Assets					
Land, Easements, Rights of Way	\$ 25,435	\$ -	\$ -	\$ -	\$ 25,435
Construction in Progress	131,334	128,702	(37)	(78,927)	181,072
Total Non-Depreciable Capital Assets	156,769	128,702	(37)	(78,927)	206,507
Depreciable Capital Assets					
Structures and Improvements	1,037,631	3,110	-	25,023	1,065,764
Equipment	225,183	1,667	(418)	5,010	231,442
Distribution and Collection Systems	1,576,289	38,808	(53)	48,062	1,663,106
Total Depreciable Capital Assets	2,839,103	43,585	(471)	78,095	2,960,312
Less Accumulated Depreciation For:					
Structures and Improvements	(99,931)	(21,381)	-	-	(121,312)
Equipment	(97,175)	(19,031)	99	656	(115,451)
Distribution and Collection Systems	(196,580)	(21,660)	10	-	(218,230)
Total Accumulated Depreciation	(393,686)	(62,072)	109	656	(454,993)
Sewer Utility Capital Assets, Net	\$ 2,602,186	\$ 110,215	\$ (399)	\$ (176)	\$ 2,711,826
WATER UTILITY:					
Non-Depreciable Capital Assets					
Land, Easements, Rights of Way	\$ 46,628	\$ -	\$ (19)	\$ 2	\$ 46,611
Construction in Progress	220,474	94,535	-	(133,966)	181,043
Total Non-Depreciable Capital Assets	267,102	94,535	(19)	(133,964)	227,654
Depreciable Capital Assets					
Structures and Improvements	154,659	245	-	82,926	237,830
Equipment	30,516	317	(2,999)	(498)	27,336
Distribution and Collection Systems	994,464	68,342	(1,166)	49,535	1,111,175
Total Depreciable Capital Assets	1,179,639	68,904	(4,165)	131,963	1,376,341
Less Accumulated Depreciation For:					
Structures and Improvements	(44,721)	(2,690)	-	-	(47,411)
Equipment	(18,957)	(1,916)	2,573	1,984	(16,316)
Distribution and Collection Systems	(184,019)	(14,439)	731	-	(197,727)
Total Accumulated Depreciation	(247,697)	(19,045)	3,304	1,984	(261,454)
Water Utility Capital Assets, Net	\$ 1,199,044	\$ 144,394	\$ (880)	\$ (17)	\$ 1,342,541

Governmental activities capital assets net of accumulated depreciation at June 30, 2003 are comprised of the following:

General Capital Assets, Net	\$ 3,966,917
Internal Service Funds Capital Assets, Net	96,101
Total	<u>\$ 4,063,018</u>

Business-Type activities capital assets net of accumulated depreciation at June 30, 2003 are comprised of the following:

Enterprise Funds Capital Assets, Net	\$ 4,157,907
Internal Service Funds Capital Assets, Net	996
Total	<u>\$ 4,158,903</u>

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

Governmental Activities:

General Government and Support	\$ 2,858
Public Safety - Police	7,820
Public Safety - Fire and Life Safety	2,398
Parks, Recreation, Culture and Leisure	19,277
Transportation	64,995
Sanitation and Health	96
Neighborhood Services	651
Subtotal	98,095
Internal Service (Except Special Engineering)	20,519
Total Depreciation Expense	<u>\$ 118,614</u>

Business-Type Activities:

Airports	\$ 486
City Store	1
Development Services	498
Environmental Services	5,535
Golf Course	769
Recycling	1,132
Sewer Utility	62,072
Water Utility	19,045
Subtotal	89,538
Internal Service (Special Engineering)	525
Total Depreciation Expense	<u>\$ 90,063</u>

Impairment of Capital Assets

The City has determined that the San Pasqual Water Reclamation Plant/Treatment Facility has a temporary impairment for its structures and improvements associated with the site as of the end of fiscal year 2002 and is still impaired at the end of fiscal year 2003. The facility was taken off line in December of 2001 due to a lack of use and termination of a test program. Since that time it has been determined that the facility will be used in another capacity in the near future. The new use for this facility has yet to be fully determined. The current carrying value of the facility that could be used in the new capacity is \$12,438 for the structures and improvements.

Discretely Presented Component Units

Capital Asset Activities for the City's Discretely Presented Component Units for the fiscal year ending 06/30/03 are as follows:

Discretely Presented Component Unit- San Diego Convention Center Corp.				
	Beginning Balance	Increases	Decreases	Ending Balance
Depreciable Capital Assets:				
Structures and Improvements	\$ 17,363	\$ 1,427	\$ (1)	\$ 18,789
Equipment	9,310	411	(406)	9,315
Total Depreciable Capital Assets	26,673	1,838	(407)	28,104
Less Accumulated Depreciation for:				
Structures and Improvements	(4,532)	(1,320)	1	(5,851)
Equipment	(5,163)	(1,340)	406	(6,097)
Total Accumulated Depreciation	(9,695)	(2,660)	407	(11,948)
Capital Assets, Net	\$ 16,978	\$ (822)	\$ -	\$ 16,156

Discretely Presented Component Unit- San Diego Housing Commission				
	Beginning Balance, as Restated*	Increases	Transfers	Ending Balance
Non-Depreciable Capital Assets:				
Land	\$ 27,097	\$ -	\$ -	\$ 27,097
Construction-in-Progress	7,895	1,600	(3,023)	6,472
Total Non-Depreciable Capital Assets	34,992	1,600	(3,023)	33,569
Depreciable Capital Assets:				
Structures and Improvements	82,219	-	2,783	85,002
Equipment	832	35	105	972
Total Depreciable Capital Assets	83,051	35	2,888	85,974
Less Accumulated Depreciation	(32,257)	(2,987)	-	(35,244)
Total Depreciable Capital Assets, Net	50,794	(2,952)	2,888	50,730
Capital Assets, Net	\$ 85,786	\$ (1,352)	\$ (135)	\$ 84,299

* The amounts have been restated in a manner consistent with the matters discussed in Note 23

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

a. Long-Term Liabilities

Governmental long-term liabilities as of June 30, 2003 are comprised of the following:

Type of Obligation	Interest Rates	Final Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2003
Arbitrage Liability				\$ 363
Compensated Absences				70,654
Liability Claims (Note 15)				154,089
Capital Lease Obligations (Note 10)				37,701
<u>Contracts Payable:</u>				
Contract Payable to the City of National City, Dated March 1987	7.5	2004	2,171	167
Contract Payable to San Diego State University Foundation, Dated December 1991	7.02	-	1,715	1,715
Total Contracts Payable				<u>1,882</u>
<u>Notes Payable:</u>				
Note Payable to Lorren Daro, Dated March 1995	8.0	2005	257	64
Note Payable to Wal-Mart, Dated June 1998	10.0	2017	1,308	1,037
Note Payable to Forest City West, Inc., Dated August 1998	0.0	2004	4,000	2,000
Note Payable to San Diego Revitalization Corporation, Dated April 2001	5.0	2032	5,115	5,115
Note Payable to San Diego Revitalization Corporation, Dated October 2001	7.0	2032	200	200
Total Notes Payable				<u>8,416</u>
<u>Loans Payable:</u>				
International Gateway Associates, LLC, Dated October 2001	10.0	2032	1,876	1,876
Route 252 Joint Venture - Southcrest, Dated August 2002	0.0	2005	300	300
San Diego Interfaith Housing Foundation, Dated April 2003	5.0	2004	675	675
Total Loans Payable				<u>2,851</u>
SANDAG Loans Payable				17,341
Section 108 Loans Payable				25,925
<u>General Obligation Bonds:</u>				
Public Safety Communications Project, Series 1991	5.0 - 8.0%*	2012	25,500	15,690
Open Space Park Refunding Bonds, Series 1994	5.0 - 6.0*	2009	64,260	36,475
Total General Obligation Bonds				<u>52,165</u>

(continued on next page)

Type of Obligation	Interest Rates	Final Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2003
<u>Revenue Bonds / Lease Revenue Bonds / COPs:</u>				
MTDB Authority Lease Revenue Refunding Bonds, Series 1994	4.25 - 5.625*	2010	\$ 66,570	\$ 28,320
Public Facilities Financing Authority Stadium Lease Revenue Bonds, Series 1996 A	6.2 - 7.45*	2027	68,425	63,945
San Diego Facilities and Equipment Leasing Corp., Certificates of Participation, Series 1996 A	4.0 - 5.6*	2011	33,430	22,880
San Diego Facilities and Equipment Leasing Corp., Certificates of Participation, Series 1996 B	4.0 - 6.0*	2022	11,720	10,150
Convention Center Expansion Financing Authority Lease Revenue Bonds, Series 1998 A	3.8 - 5.25*	2028	205,000	196,810
Centre City Parking Revenue Bonds, Series 1999 A	4.5 - 6.4*	2026	12,105	11,625
Public Facilities Financing Authority, Reassessment District Refunding Revenue Bonds, Series 1999 A	2.75 - 4.75*	2018	30,515	22,490
Public Facilities Financing Authority Reassessment District Refunding Revenue Bonds, Series 1999 B	3.5 - 5.10*	2018	7,630	5,615
Public Facilities Financing Authority Ballpark Lease Revenue Bonds, Series 2002	7.15 - 7.7*	2032	169,685	169,685
Public Facilities Financing Authority Fire and Life Safety Lease Revenue Bonds, Series 2002 B	3.55 - 7.0*	2032	25,070	25,070
Centre City Parking Revenue Bonds, Series 2003 B	3.00 - 5.30*	2027	20,515	20,515
MTDB Authority Lease Revenue Refunding Bonds, Series 2003	2.00 - 4.375*	2023	15,255	15,255
San Diego Facilities Equipment Leasing Corp., Certificates of Participation, Refunding Series 2003	1.0 - 4.0*	2024	17,425	17,425
Total Revenue Bonds / Lease Revenue Bonds / COPs				609,785
<u>Special Assessment / Special Tax Bonds</u>				
1915 Act De La Fuente Business Park, Phase I Improvement Bonds, Series 1989	7.0 - 7.7%*	2014	4,897	2,800
1915 Act International Business Center Project Improvement Bonds, Series 1990	6.1 - 7.4*	2016	4,172	2,495
1915 De La Fuente Business Park Phase II Improvement Bonds, Series 1992	4.0 - 7.1*	2018	5,987	4,335
1915 Act Otay Mesa Industrial Park Improvement Bonds, Series 1992	5.5 - 7.95*	2013	2,235	505
Miramar Ranch North Special Tax Refunding Bonds, Series 1998	3.75 - 5.375*	2021	59,465	52,745
Santaluz, Special Tax Bonds, Series 2000 A	4.75 - 6.375*	2031	56,020	55,925
Santaluz, Special Tax Bonds, Series 2000 B	4.5 - 6.2*	2031	4,350	4,325
Total Special Assessment / Special Tax Bonds				123,130
<u>Tax Allocation Bonds:</u>				
Centre City Redevelopment Project Tax Allocation Bonds, Series 1993 A	5.5 - 6.5*	2011	27,075	15,500
Centre City Redevelopment Project Tax Allocation Bonds, Series 1993 B	4.875 - 5.4*	2017	27,275	19,655
Gateway Center West Redevelopment Project Tax Allocation Bonds, Series 1995	7.8 - 9.75*	2014	1,400	995

(continued on next page)

Type of Obligation	Interest Rates	Final Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2003
Mount Hope Redevelopment Project Tax Allocation Bonds, Series 1995 A	4.4 - 6.0*	2020	\$ 1,200	\$ 995
Mount Hope Redevelopment Project Tax Allocation Bonds, Series 1995 B	6.9 - 8.2*	2021	3,955	3,495
Southcrest Redevelopment Project Tax Allocation Bonds, Series 1995	4.75 - 6.592*	2020	3,750	2,755
Horton Plaza Redevelopment Project Tax Allocation Refunding Bonds, Series 1996 A	3.8 - 6.0*	2016	12,970	10,140
Horton Plaza Redevelopment Project Tax Allocation Refunding Bonds, Series 1996 B	4.3 - 7.0*	2007	9,830	1,490
Centre City Redevelopment Tax Allocation Bonds, Series 1999 A	3.0 - 5.125*	2019	25,680	25,420
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	13,040
City Heights Redevelopment Tax Allocation Bonds, Series 1999 A	4.5 - 5.8*	2029	5,690	5,690
City Heights Redevelopment Tax Allocation Bonds, Series 1999 B	Various**	2029	10,141	34,080
Central Imperial Redevelopment Project Tax Allocation Bonds, Series 2000	4.45 - 6.6*	2031	3,395	3,305
Centre City Redevelopment Project Tax Allocation Bonds, Series 2000 A	4.0 - 5.6*	2025	6,100	5,815
Centre City Redevelopment Project Tax Allocation Bonds, Series 2000 B	3.95 - 5.35*	2025	21,390	20,985
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2000	4.25 - 5.8%*	2022	15,025	14,800
North Bay Redevelopment Project Tax Allocation Bonds, Series 2000	4.25 - 5.875*	2031	13,000	12,535
North Park Redevelopment Project Tax Allocation Bonds, Series 2000	4.1 - 5.9*	2031	7,000	6,755
Southcrest Redevelopment Project Tax Allocation Bonds, Series 2000	4.45 - 6.5*	2026	1,860	1,785
Centre City Redevelopment Tax Allocation Bonds, Series 2001 A	Various ***	2027	58,425	85,545
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	31,000
Total Tax Allocation Bonds				330,195
Adjustment to reconcile to FY 2003 accreted value (see notes below)				(46,885)
Total Adjusted Tax Allocation Bonds				283,310
Total Bonds Payable				1,068,390
Net Pension Obligation (Note 12)				141,712
Total Governmental Activities Long - Term Liabilities				\$ 1,529,324

*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, 2003 includes an accreted amount of \$2,951. The principal amount at full maturity will be \$34,080.

*** 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, 2003 includes an accreted amount of \$1,223. The principal amount at full maturity will be \$85,545.

Liability claims are primarily liquidated by the Self Insurance Fund and General Fund, respectively. Compensated absences are paid out of the operating funds and the miscellaneous 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 that are 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 large-scale physical development projects.

SANDAG loans are comprised of two components: repayment of debt service on bonds, and repayment of proceeds from commercial paper. The City received 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. The City recognizes repayment of the principal and interest on these bonds as an increase in TransNet revenues and an offsetting debt service expenditure. 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. The interest rates used are based on a floating rate that changes daily, averaging 3.5 percent during fiscal year 2003.

b. Amortization Requirements

The annual requirements to amortize such long-term debt outstanding as of June 30, 2003, including interest payments to maturity, are as follows:

Year Ending June 30	Capital Lease Obligations		Contracts Payable		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 10,858	\$ 1,385	\$ 167	\$ 18	\$ 2,034	\$ 892
2005	9,357	952	-	-	30	375
2006	7,830	595	-	-	33	373
2007	4,850	318	-	-	56	373
2008	2,531	161	-	-	62	373
2009-13	2,275	84	-	-	413	1,867
2014-18	-	-	-	-	473	1,764
2019-23	-	-	-	-	-	1,349
2024-28	-	-	-	-	-	1,349
2029-33	-	-	-	-	5,315	1,079
Unscheduled*			1,715	-	-	-
Total	\$ 37,701	\$ 3,495	\$ 1,882	\$ 18	\$ 8,416	\$ 9,794

* The contract payable to San Diego State University Foundation in the amount of \$1,715 does not have an annual repayment schedule. Annual payments on this debt are based on the availability of tax increment net of the low-moderate and taxing agency set-asides as well as project area administration costs.

Year Ending June 30	SANDAG Loans Payable		Section 108 Loans Payable		Loans Payable		General Obligation Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 2,757	\$ 548	\$ 2,115	\$ 1,641	\$ 999	\$ 397	\$ 6,390	\$ 3,135
2005	4,556	449	1,505	1,525	14	188	6,885	2,761
2006	2,702	466	1,740	1,425	15	188	7,440	2,337
2007	5,091	280	2,000	1,308	17	188	8,045	1,878
2008	2,235	109	2,436	1,167	18	188	8,225	1,388
2009-13	-	-	6,905	4,388	123	938	15,180	1,544
2014-18	-	-	7,665	1,758	199	938	-	-
2019-23	-	-	1,559	169	320	938	-	-
2024-28	-	-	-	-	515	938	-	-
2029-33	-	-	-	-	631	750	-	-
Total	\$ 17,341	\$ 1,852	\$ 25,925	\$ 13,381	\$ 2,851	\$ 5,651	\$ 52,165	\$ 13,043

Year Ending June 30	Revenue Bonds Lease Revenue Bonds / COPs		Special Assessment/Special Tax Bonds		Tax Allocation Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 17,895	\$ 35,233	\$ 2,640	\$ 6,906	\$ 7,675	\$ 13,113
2005	20,275	34,272	3,035	6,771	7,931	12,631
2006	21,450	33,391	3,265	6,614	8,316	12,285
2007	19,895	32,429	3,515	6,444	8,744	11,919
2008	20,885	31,450	3,785	6,258	9,179	11,531
2009-13	96,750	141,830	23,650	27,797	56,651	50,100
2014-18	97,280	116,081	29,110	20,281	73,773	34,639
2019-23	120,770	85,242	24,480	12,365	78,560	19,353
2024-28	138,555	45,942	16,805	6,887	70,235	6,420
2029-33	56,030	10,765	12,845	1,260	9,131	443
Total	\$ 609,785	\$ 566,635	\$ 123,130	\$ 101,583	\$ 330,195	\$ 172,434

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.

Subsequent to the issuance of fiscal year 2002 financial statements, numerous adjustments were identified which restated the City's long-term liabilities. The schedule below identifies the restatements found in Note 23 which relate to long-term liabilities.

The following is a summary of changes in governmental activities long-term liabilities for the year ended June 30, 2003. The effect of bond accretion, bond premium, discounts and deferred amounts on bond refunds are amortized as adjustments to long-term liabilities.

	Governmental Activities						
	Long-term Liabilities Restatements (Note 23)						
Beginning Balance, as Previously Reported	#1	#2	#3	#4	#5	#6	#7
Arbitrage Liability	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Compensated Absences	62,618	-	-	-	-	-	-
Liability Claims	98,061	40,457	-	-	-	-	-
Capital Lease Obligations	38,345	-	-	-	-	-	-
Contracts Payable	3,597	-	-	-	-	-	-
Notes Payable	15,521	-	-	-	-	-	-
Loans Payable	3,250	-	-	-	-	(3,250)	1,876
SANDAG Loans Payable	-	-	-	18,805	-	-	-
Section 108 Loans Payable	25,005	-	-	-	-	-	-
Bank Line of Credit	-	-	-	-	-	-	-
General Obligation Bonds	58,095	-	-	-	-	-	-
Revenue Bonds/Lease Revenue Bonds/COPs	609,235	-	-	-	-	-	-
Unamortized Bond Premiums, Discounts and Deferred Amounts on Refunding	-	-	68	-	-	-	-
Net Revenue Bonds/Lease Revenue Bonds/COPs	609,235	-	68	-	-	-	-
Special Assessment / Special Tax Bonds	125,955	-	-	-	-	-	-
Tax Allocation Bonds	275,471	-	-	-	-	-	-
Accretion	-	-	2,615	-	-	-	-
Balance with Accretion	275,471	-	2,615	-	-	-	-
Unamortized Bond Premiums, Discounts and Deferred Amounts on Refunding	-	-	371	-	-	-	-
Net Tax Allocation Bonds	275,471	-	2,986	-	-	-	-
Net Pension Obligation	33,048	-	-	74,515	-	1,081	-
Total	\$ 1,348,201	\$ 40,457	\$ 3,054	\$ 74,515	\$ 18,805	\$ 1,081	\$ (3,250) \$ 1,876

Governmental Activities									
Long-term Liabilities Restatements (Note 23)									
#8	#9	#10	#11	Beginning Balance, as Restated	Additions	Reductions	Ending Balance	Due Within One Year	
\$ -	\$ -	\$ -	\$ -	\$ -	363	\$ -	363	\$ -	-
-	-	4,887	1,392	68,897	49,278	(47,521)	70,654	28,412	
-	-	-	-	138,518	49,681	(34,110)	154,089	26,135	
-	-	-	-	38,345	10,348	(10,992)	37,701	10,858	
117	-	-	-	3,714	-	(1,832)	1,882	167	
-	-	-	-	15,521	-	(7,105)	8,416	2,034	
-	-	-	-	1,876	975	-	2,851	999	
-	-	-	-	18,805	2,100	(3,564)	17,341	2,757	
-	-	-	-	25,005	2,700	(1,780)	25,925	2,115	
-	-	-	3,944	3,944	-	(3,944)	-	-	
-	-	-	-	58,095	-	(5,930)	52,165	6,390	
-	-	-	-	609,235	53,195	(52,645)	609,785	17,895	
-	-	-	-	68	(1,240)	94	(1,078)	-	
-	-	-	-	609,303	51,955	(52,551)	608,707	17,895	
-	-	-	-	125,955	-	(2,825)	123,130	2,640	
-	(6,640)	-	-	268,831	34,055	(23,750)	279,136	7,675	
-	-	-	-	2,615	1,559	-	4,174	-	
-	(6,640)	-	-	271,446	35,614	(23,750)	283,310	7,675	
-	-	-	-	371	(543)	40	(132)	-	
-	(6,640)	-	-	271,817	35,071	(23,710)	283,178	7,675	
-	-	-	-	108,644	34,036	(968)	141,712	-	
\$ 117	\$ (6,640)	\$ 4,887	\$ 5,336	\$ 1,488,439	\$ 236,507	\$ (196,832)	\$ 1,528,114	\$ 108,077	

d. Defeasance of Debt

The Redevelopment Agency issued \$31,000 of Centre City Subordinate Tax Allocation Bonds, Series 2003A. A portion of the bond proceeds was used to advance refund the remaining outstanding Centre City Tax Allocation Refunding Bonds, Series 1992. The refunded bonds are defeased and the corresponding liability has been removed from the Statement of Net Assets. The refunding transaction resulted in a total economic gain of approximately \$639. In addition, the refunding resulted in a cash flow savings of approximately \$700. The refunded bonds were redeemed at a call date prior to the end of the fiscal year and, accordingly, there was no balance outstanding as of June 30, 2003.

The San Diego Facilities and Equipment Leasing Corporation issued \$17,425 in 2003 Certificates of Participation Refunding Bonds to advance refund the remaining outstanding Certificates of Participation (Balboa Park and Mission Bay Park Capital Improvements Program), Series 1993. The proceeds were placed in an irrevocable trust that is to be used to service the future debt requirements of the old debt. Accordingly, the trust assets and the defeased bonds have been removed from the Statement of Net Assets. The reacquisition price exceeded the carrying amount of the refunded debt by approximately \$589. This amount is being netted against the new debt and is being amortized over the remaining life of the refunded debt, which was shorter than the life of the new bonds. The refunding transaction resulted in a total economic gain of approximately \$3,976. In addition, the refunding resulted in a cash flow savings of approximately \$4,953.

The Metropolitan Transit Development Board Authority issued \$15,255 of Lease Revenue Refunding Bonds, Series 2003. The bond proceeds were used to advance refund the remaining outstanding Metropolitan Transit Development Board Authority Lease Revenue Bonds, Series 1993. The refunded bonds are defeased and the corresponding liability has been removed from the Statement of Net Assets. The refunding transaction resulted in a total economic gain of approximately \$1,328. In addition, the refunding resulted in a cash flow savings of approximately \$3,588. The refunded bonds were redeemed at a call date prior to the end of the fiscal year and, accordingly, there was no balance outstanding as of June 30, 2003.

As of June 30, 2003, principal amounts payable from escrow (irrevocable trust) funds established for defeased bonds are as follows:

Defeased Bonds	Amount
Centre City Redevelopment Project Tax Allocation Bonds, Series 1993 B	\$ 7,620
Certificates of Participation (Balboa Park and Mission Bay Park Capital Improvements Program), Series 1993	18,500
Horton Plaza Redevelopment Project Subordinate Tax Allocation Refunding Bonds, Series 1996 B	6,640
Miramar Ranch North Special Tax Bonds, Series 1995 B	20,155
Total Defeased Bonds Outstanding	<u>\$ 52,915</u>

6. BUSINESS-TYPE ACTIVITIES LONG-TERM LIABILITIES (In Thousands)

a. Long-Term Liabilities

Business-type activities long-term liabilities as of June 30, 2003 are comprised of the following:

Type of Obligation	Interest Rates	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2003
Arbitrage Liability				\$ 1,812
Compensated Absences				16,106
Liability Claims (Note 15)				47,043
Capital Lease Obligations (Note 10)				6,465
<u>Loans Payable:</u>				
Loans Payable to San Diego County Water Authority	-	-	100	100
Loans Payable to State Water Resources Control Board, issued February 9, 2000	2.42%**	2020	10,606	9,020
Loans Payable to State Water Resources Control Board, issued February 9, 2000	2.42%**	2022	6,684	6,352
Loans Payable to State Water Resources Control Board, issued March 30, 2001	2.42%**	2022	33,254	31,592
Loans Payable to State Water Resources Control Board, issued May 17, 2001	2.42%**	2022	7,742	7,355
Loans Payable to State Water Resources Control Board, issued May 17, 2001	2.42%**	2021	860	774
Loans Payable to State Water Resources Control Board, issued June 11, 2001	2.42%**	2021	2,525	2,274
Loans Payable to State Water Resources Control Board, issued October 3, 2002	2.42%**	2020	3,767	3,558
Loans Payable to State Water Resources Control Board, issued October 3, 2002	2.42%**	2023	8,068	8,068
Total Loans Payable				69,093
<u>Revenue Bonds Payable:</u>				
Sewer Revenue Bonds, Series 1993	2.8 – 5.25*	2023	250,000	201,655
Sewer Revenue Bonds, Series 1995	3.9 – 6.0*	2025	350,000	309,225
Sewer Revenue Bonds, Series 1997 A	3.7 – 5.375*	2027	183,000	164,065
Sewer Revenue Bonds, Series 1997 B	3.7 – 5.375*	2027	67,000	60,065
Water Certificates of Undivided Interest, Series 1998	4.0 – 5.375*	2029	385,000	294,010
Sewer Revenue Bonds, Series 1999 A	3.5 – 5.125*	2029	203,350	190,885
Sewer Revenue Bonds, Series 1999 B	3.5 – 5.125*	2029	112,060	105,350
Subordinated Water Revenue Bonds, Series 2002	2.0 – 5.0*	2033	286,945	286,945
Total Bonds Payable				1,612,200
Estimated Landfill Closure and Postclosure Care				11,674
Net Pension Obligation (Note 12)				20,902
Total Business-Type Activities Long-Term Liabilities				\$ 1,785,295

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

** Effective rate

b. Amortization Requirements

Annual requirements to amortize long-term debt as of June 30, 2003, including interest payments to maturity, are as follows:

Year Ending June 30	Capital Lease Obligations		Loans Payable		Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 1,457	\$ 235	\$ 3,697	\$ 739	\$ 32,375	\$ 79,537
2005	1,514	178	3,697	739	33,765	78,151
2006	1,454	120	3,697	739	35,355	76,558
2007	1,046	69	3,697	739	41,645	74,789
2008	841	30	3,697	739	43,615	72,825
2009-13	153	3	18,483	3,698	250,270	331,914
2014-18	-	-	18,484	3,698	319,755	262,368
2019-23	-	-	13,541	2,708	408,335	172,431
2024-28	-	-	-	-	341,990	69,803
2029-33	-	-	-	-	105,095	9,466
Unscheduled*	-	-	100	-	-	-
Total	\$ 6,465	\$ 635	\$ 69,093	\$ 13,799	\$ 1,612,200	\$ 1,227,842

* 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. Defeasance of Debt

The Water Utility issued \$286,945 in Subordinated Water Revenue Bonds, Series 2002, of which \$77,155 of the proceeds were used to partially advance refund the outstanding Water Certificates of Undivided Interest, Series 1998. The \$77,155 was placed in an irrevocable trust that is to be used to service future debt requirements of the defeased portion of the Water Certificates of Undivided Interest, Series 1998. Accordingly, the trust account assets and the defeased debt have been removed from the Water Utility Fund in the Proprietary Fund Statement of Net Assets. The reacquisition price exceeded the net carrying amount of the refunded debt by approximately \$10,155. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which was shorter than the life of the new bonds. This transaction resulted in an economic gain of \$2,613. In addition, the refunding resulted in a cash flow savings (difference in cash flows between the refunded bonds and the new bonds) of \$2,873 in future debt service payments. At June 30, 2003, \$77,155 of defeased Water Certificates of Undivided Interest, Series 1998 remains outstanding.

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d. Change in Long-Term Liabilities

Subsequent to the issuance of fiscal year 2002 financial statements, numerous adjustments were identified which restated the City's long-term liabilities. The schedule below identifies the restatements found in Note 23 which relate to long-term liabilities

The following is a summary of changes in long-term liabilities for the year ended June30, 2003. The effect of bond premiums, discounts and deferred amounts on refunding are reflected as adjustments to long-term liabilities.

		Business-Type Activities			
		Long-term Liabilities Restatements (Note 23)			
	Beginning Balance, As Previously Reported	#1	#3	#5	#10
Arbitrage Liability	\$ -	\$ -	\$ -	\$ -	\$ -
Compensated Absences	15,805	-	-	-	1,151
Liability Claims	5,173	2,463	-	-	-
Capital Lease Obligations	7,612	-	-	-	-
Loans Payable	59,842	-	-	-	-
Bank Line of Credit	3,944	-	-	-	-
Revenue Bonds Payable	1,433,465	-	-	-	-
Unamortized Bond Premiums, Discounts and Deferred Amounts on Refunding	(19,232)	-	-	-	-
Net Revenue Bonds Payable	1,414,233	-	-	-	-
Estimated Landfill Closure and Postclosure Care	10,821	-	-	-	-
Net Pension Obligation	6,082	-	15,867	230	-
Total	\$ 1,523,512	\$ 2,463	\$ 15,867	\$ 230	\$ 1,151

Business-Type Activities						
#11	#12	Beginning Balance, As Restated	Additions	Reductions	Ending Balance	Due Within One Year
\$ -	\$ 2,657	\$ 2,657	\$ 1	\$ (846)	\$ 1,812	\$ -
(1,392)	-	15,564	12,283	(11,741)	16,106	6,798
-	-	7,636	44,313	(4,906)	47,043	2,128
-	-	7,612	65	(1,212)	6,465	1,457
-	-	59,842	12,542	(3,291)	69,093	3,697
(3,944)	-	-	-	-	-	-
-	-	1,433,465	286,945	(108,210)	1,612,200	32,375
-	-	(19,232)	8,084	1,730	(9,418)	-
-	-	1,414,233	295,029	(106,480)	1,602,782	32,375
-	-	10,821	853	-	11,674	-
-	-	22,179	7,526	(8,803)	20,902	-
<u>\$ (5,336)</u>	<u>\$ 2,657</u>	<u>\$ 1,540,544</u>	<u>\$ 372,612</u>	<u>\$ (137,279)</u>	<u>\$ 1,775,877</u>	<u>\$ 46,455</u>

Major Enterprise Funds				
Long-term Liabilities Restatements (Note 23)				
	Beginning Balance, As Previously Reported	#3	#5	#10
Sewer Utility:				
Arbitrage Liability	\$ -	\$ -	\$ -	\$ -
Compensated Absences	5,014	-	-	402
Liability Claims	3,848	-	-	-
Loans Payable	59,842	-	-	-
Revenue Bonds Payable	1,055,245	-	-	-
Unamortized Bond Premiums, Discounts and Deferred Amounts on Refunding	(14,146)	-	-	-
Net Revenue Bonds Payable	1,041,099	-	-	-
Net Pension Obligation	2,117	5,321	77	-
Total	\$ 1,111,920	\$ 5,321	\$ 77	\$ 402

Major Enterprise Funds				
Long-term Liabilities Restatements (Note 23)				
	Beginning Balance, As Previously Reported	#3	#5	#10
Water Utility:				
Arbitrage Liability	\$ -	\$ -	\$ -	\$ -
Compensated Absences	3,928	-	-	316
Liability Claims	1,325	-	-	-
Revenue Bonds Payable	378,220	-	-	-
Unamortized Bond Premiums, Discounts and Deferred Amounts on Refunding	(5,086)	-	-	-
Net Revenue Bonds Payable	373,134	-	-	-
Net Pension Obligation	1,705	4,391	63	-
Total	\$ 380,092	\$ 4,391	\$ 63	\$ 316

Major Enterprise Funds						
#12	Beginning Balance, As Restated	Additions	Reductions	Ending Balance	Due Within One Year	
\$ 13	13	\$ 1	\$ -	\$ 14	\$ -	
-	5,416	4,307	(4,038)	5,685	2,361	
-	3,848	42,000	(2,598)	43,250	1,010	
-	59,842	12,542	(3,291)	69,093	3,697	
-	1,055,245	-	(24,000)	1,031,245	25,030	
-	(14,146)	-	634	(13,512)	-	
-	1,041,099	-	(23,366)	1,017,733	25,030	
-	7,515	2,612	(3,027)	7,100	-	
<u>\$ 13</u>	<u>\$ 1,117,733</u>	<u>\$ 61,462</u>	<u>\$ (36,320)</u>	<u>\$ 1,142,875</u>	<u>\$ 32,098</u>	

Major Enterprise Funds						
#12	Beginning Balance, As Restated	Additions	Reductions	Ending Balance	Due Within One Year	
\$ 2,644	\$ 2,644	\$ -	\$ (846)	\$ 1,798	\$ -	
-	4,244	3,323	(3,267)	4,300	1,856	
-	1,325	4,776	(2,308)	3,793	1,118	
-	378,220	286,945	(84,210)	580,955	7,345	
-	(5,086)	8,084	1,096	4,094	-	
-	373,134	295,029	(83,114)	585,049	7,345	
-	6,159	2,006	(2,460)	5,705	-	
<u>\$ 2,644</u>	<u>\$ 387,506</u>	<u>\$ 305,134</u>	<u>\$ (91,995)</u>	<u>\$ 600,645</u>	<u>\$ 10,319</u>	

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

Discretely presented component units long-term debt as of June 30, 2003 is comprised as follows:

San Diego Convention Center Corporation

Type of Obligation	Interest Rate	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2003	Due Within One Year
Note Payable to San Diego Unified Port District, dated 1999	0.00%	2010	\$ 10,000	\$ 7,500	\$ 1,000

SDCCC will repay the note at the rate of zero percent (0.0%) per annum with principal payable as follows:

Fiscal Year	Amount
2004	\$ 1,000
2005	1,000
2006	1,000
2007	1,000
2008	1,000
2009-2013	2,500
Total	\$ 7,500

San Diego Housing Commission

Type of Obligation	Interest Rate	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2003	Due Within One Year
Note Payable to Bank of America, dated February 1985	5.0 – 10.2%	2025	\$ 3,789	\$ 3,308	\$ 44
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	4,071	162
Note Payable to State of California (RHCP)	0.0	2015	3,149	3,149	-
Note Payable to State of California (RHCP)	0.0	2013	1,405	1,405	-
Total Notes Payable				\$ 12,629	\$ 206

* The interest rate as of June 30, 2003 was 4.08%

Annual requirements to amortize such long-term debt as of June 30, 2003 to maturity are as follows:

Year Ending June 30	Principal	Interest
2004	\$ 206	\$ 502
2005	265	318
2006	260	306
2007	271	294
2008	283	282
2009-2013	2,868	1,288
2014-2018	4,957	943
2019-2023	2,237	514
2024-2028	1,282	32
Total	\$ 12,629	\$ 4,479

8. SHORT-TERM NOTES PAYABLE (In Thousands)

The City issues Tax Anticipation Notes (TANS) in advance of property tax collections, depositing the proceeds in its 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, 2003, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Tax Anticipation Notes	\$ 73,000	\$ 93,200	\$ (73,000)	\$ 93,200

The \$73,000 (FY02) TANS issue had an interest rate of 3.25% and was repaid on August 1, 2002.

The \$93,200 (FY03) TANS issue had an interest rate of 3.0% and was repaid on August 1, 2003

The Redevelopment Agency issues short-term promissory notes to finance various redevelopment activities. These promissory notes may be repaid with set-aside housing funds, in-lieu and land payment funds, and/or discretionary tax increment funds.

Short-term debt activity for the year ended June 30, 2003 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Notes Payable to San Diego Revitalization Corporation, dated February 2003	\$ -	\$ 2,596	\$ -	\$ 2,596

9. JOINT VENTURE (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 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 June 30, 2002 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. The City reported SDMSE as a discretely presented component unit in previous fiscal years. A subsequent analysis of the City's financial reporting entity identified that while SDMSE has a majority of its board appointed by the City, it is not fiscally dependent on the City, and the City cannot impose its will on SDMSE. Based on these facts and the substance of the operating agreement, SDMSE was reclassified to a joint venture (See Note 23; General Restatement #25). 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. 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 \$4,400 as of June 30, 2003. 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, 2003, SDMSE reported operating income of \$3,023, a distribution to partners of \$1,283 and ending net assets of \$4,014. This resulted in an increase to Net Assets of \$1,741.

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, 2003.

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

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, 2003:

Year Ending June 30	Amount
2004	\$ 12,406
2005	11,937
2006	11,405
2007	11,199
2008	10,293
2009-2013	52,916
2014-2018	6,089
2019-2023	37
2024-2028	7
Total	<u>\$ 116,289</u>

Rent expense as related to operating leases was \$12,851 for the year ended June 30, 2003.

Capital Leases

The City has entered into various capital leases for equipment, vehicles and property. These capital leases have maturity dates ranging from April 1, 2004 through April 1, 2010, and interest rates ranging from 1.7649% to 7.8200%. A schedule of future minimum lease payments under capital leases as of June 30, 2003 is provided in Notes 5 and 6.

Lease Revenues

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

Year Ending June 30	Amount
2004	\$ 25,276
2005	24,030
2006	23,522
2007	22,943
2008	22,671
2009-2013	109,279
2014-2018	101,077
2019-2023	92,663
2024-2028	87,816
2029-2033	81,773
2034-2038	74,162
2039-2043	61,691
2044-2048	44,879
2049-2053	7,771
2054-2058	2,500
2059-2063	1,500
Total	<u>\$ 783,553</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 \$60,361 for the year ended June 30, 2003, which includes contingent rentals amounting to \$35,368.

11. DEFERRED COMPENSATION PLAN (In Thousands)

City of San Diego

The City offers its employees a deferred compensation plan, created in accordance with Internal Revenue Service Code Section 457, State and Local Government Deferred Compensation Plans. The plan, available to eligible City employees, permits them to defer, in pre-tax dollars, 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.

San Diego Convention Center Corporation (SDCCC)

SDCCC offers its employees a deferred compensation plan, created in accordance with Internal Revenue Service Code Section 457, State and Local Government Deferred Compensation Plans. The plan, available to eligible employees, permits them to defer, in pre-tax dollars, a portion of their salary until future years. Deferred compensation is not available to employees until termination, retirement, death, disability or an unforeseeable emergency.

San Diego Data Processing Corporation (SDDPC)

SDDPC offers its employees a deferred compensation plan, created in accordance with Internal Revenue Service Code Section 457, State and Local Government Deferred Compensation Plans. The plan, available to all employees, permits them to defer, in pre-tax dollars, a portion of their salary until future years. Deferred compensation is not available to employees until termination, retirement, death, disability or an unforeseeable emergency.

San Diego Housing Commission (SDHC)

SDHC offers its employees a deferred compensation plan, created in accordance with Internal Revenue Service Code Section 457, State and Local Government Deferred Compensation Plans. The plan, available to all full-time employees, permits them to defer, in pre-tax dollars, a portion of their salary until future years. Deferred compensation is not available to employees until termination, retirement, death, disability or an unforeseeable emergency.

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. The financial statements for these plans are as follows:

FIDUCIARY FUNDS
PENSION AND EMPLOYEE SAVINGS TRUST FUNDS
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2003
(In Thousands)

	San Diego City Employees' Retirement System				
	Defined Benefit Pension Plan	Post- Employment Healthcare Benefits	Supplemental Pension Savings Plan	401(k) Plan	Total
ASSETS					
Cash or Equity in Pooled Cash and Investments	\$ 3,044	\$ -	\$ 42	\$ 442	\$ 3,528
Cash with Custodian/Fiscal Agent	309,000	-	-	-	309,000
Pooled Investments	(21,867)	21,867	-	-	-
Investments at Fair Value:					
Short Term Investments	70,935	-	-	-	70,935
Domestic Fixed Income Securities (Bonds)	465,658	-	-	-	465,658
International Fixed Income Securities (Bonds)	118,326	-	-	-	118,326
Domestic Equity Securities (Stocks)	1,122,228	-	-	-	1,122,228
International Equity Securities (Stocks)	382,783	-	-	-	382,783
Mortgages	669	-	-	-	669
Real Estate Equity and Real Estate Securities	230,151	-	-	-	230,151
Defined Contribution Investments (Collective Funds & Mutual Funds)					
Fixed Income Mutual Funds.....	-	-	7,761	3,564	11,325
Balanced Mutual Funds.....	-	-	14,906	4,836	19,742
International Mutual	-	-	16,973	7,519	24,492
Equity Mutual Funds.....	-	-	56,857	24,946	81,803
Managed Income Fund.....	-	-	226,816	64,480	291,296
Balanced Collective Funds.....	-	-	3,359	1,317	4,676
Equity Collective Funds.....	-	-	48,606	16,960	65,566
Receivables:					
Contributions	17,092	-	2,386	-	19,478
Accrued Interest	9,398	-	-	-	9,398
Loans	-	-	18,635	5,659	24,294
Securities Sold	50,804	-	-	-	50,804
Prepaid Expenses	53	-	-	-	53
Securities Lending Collateral	209,549	-	-	-	209,549
Capital Assets - Depreciable	191	-	-	-	191
TOTAL ASSETS	2,968,014	21,867	396,341	129,723	3,515,945
LIABILITIES					
Accounts Payable	2,927	20	-	-	2,947
Accrued Wages and Benefits	548	20	-	-	568
Net Pension Obligation	421	15	-	-	436
DROP Liabilities	136,741	-	-	-	136,741
Securities Lending Obligations.....	209,549	-	-	-	209,549
Securities Purchased.....	97,540	-	-	-	97,540
TOTAL LIABILITIES	447,726	55	-	-	447,781
NET ASSETS					
Held in Trust for Pension Benefits and Other Purposes	2,520,288	-	396,341	129,723	3,046,352
Held in Trust for Postemployment Healthcare Benefits	-	21,812	-	-	21,812
TOTAL NET ASSETS	\$ 2,520,288	\$ 21,812	\$ 396,341	\$ 129,723	\$ 3,068,164

(See Unaudited Required Supplementary Information on page 184 for the Pension Trust Funds schedule of funding progress.)

FIDUCIARY FUNDS
PENSION AND EMPLOYEE SAVINGS TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
For the Year Ended June 30, 2003
(In Thousands)

	San Diego City Employees' Retirement System				
	Defined Benefit Pension Plan	Post- Employment Healthcare Benefits	Supplemental Pension Savings Plan	401(k) Plan	Total
ADDITIONS					
Employer Contributions	\$ 104,165	\$ -	\$ 24,123	\$ -	\$ 128,288
Employee Contributions	60,935	-	24,023	24,928	109,886
Total Contributions	165,100	-	48,146	24,928	238,174
Investment Income	132,900	1,588	11,437	3,645	149,570
Investment Expense	(11,956)	(92)	-	-	(12,048)
Net Investment Income	120,944	1,496	11,437	3,645	137,522
Securities Lending:					
Gross Earnings	3,178	-	-	-	3,178
Borrow Rebates	(2,089)	-	-	-	(2,089)
Administrative Expenses (Lending Agent)	(321)	-	-	-	(321)
Net Securities Lending Income	768	-	-	-	768
TOTAL OPERATING ADDITIONS	286,812	1,496	59,583	28,573	376,464
DEDUCTIONS					
Benefit and Claim Payments	147,775	11,450	40,681	8,909	208,815
DROP Interest Expense	9,219	-	-	-	9,219
Administration	7,770	269	-	-	8,039
Depreciation	100	-	-	-	100
TOTAL OPERATING DEDUCTIONS	164,864	11,719	40,681	8,909	226,173
CHANGE IN NET ASSETS	121,948	(10,223)	18,902	19,664	150,291
Net Assets at Beginning of Year, as Restated	2,412,657	17,718	377,439	110,059	2,917,873
Transfer of Plan Assets	(14,317)	14,317	-	-	-
NET ASSETS AT END OF YEAR	\$ 2,520,288	\$ 21,812	\$ 396,341	\$ 129,723	\$ 3,068,164

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 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. Adoption and amendment of the City's benefit provisions requires City Council approval and a majority vote by members and 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. 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 officers, unclassified and unrepresented employees.

	General	Safety	Total by Classification
Active Members	7,416	2,684	10,100
Terminated Vested Members	1,513	210	1,723
Retirees, disabled and Beneficiaries	3,223	2,244	5,467
Total Members, as of 6/30/03	12,152	5,138	17,290

As a defined benefit plan, retirement benefits are determined primarily by a member's class, age at retirement, number of years of service credit earned, and the member's final compensation based on the highest salary earned over a consecutive one-year period. The City provides cost of living adjustments of 2% to retirees, which is factored into the actuarial assumptions. The City 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.

The City also has a Deferred Retirement Option Program (DROP). If a SDCERS member participates in DROP, they have access to a lump sum benefit or periodic distributions in addition to their normal monthly retirement allowance when they leave employment with the City. DROP was initially offered by SDCERS' plan sponsors on a trial basis for a three-year period ending March 31, 2000, and subsequently became a permanent benefit. SDCERS' members are eligible to participate in DROP when they are eligible for a service retirement. A DROP participant continues to work for the City and receives a regular paycheck. The DROP participant makes reduced retirement

contributions to SDCERS and the DROP participant stops earning creditable service. A DROP participant continues to receive most of the employer offered benefits available to regular employees.

A SDCERS member must select a retirement option when they enter DROP. If the DROP participant elects to leave a continuance to a beneficiary, the DROP participant must name a beneficiary at that time as well. The selection of a retirement option and the designation of a beneficiary for a continuance are irrevocable; the DROP participant cannot change these designations once the first payment is made into a DROP account.

SDCERS' members electing to enter DROP must agree to participate in the program for a specific period of time, 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.

When a SDCERS member participates in DROP, a DROP account is set up for that individual. The money credited to a DROP account comes from six sources:

1. A DROP participant's contributions – 3.05% of salary each pay period of participation in DROP (no retirement contributions are made to SDCERS during this time);
2. The City's contributions – 3.05% of salary each pay period of participation in DROP (no employer retirement contributions are made to SDCERS at this time) ;
3. A DROP participant's monthly retirement allowance, as determined when entering DROP;
4. The COLA (cost of living adjustment) increases to a monthly retirement allowance that occur while participating in DROP;
5. The SDCERS' Supplemental Benefit (13th Check) payments made while participating in DROP; and
6. Interest credited to a DROP account each quarter, at the rate determined by the Retirement Board.

The DROP benefit is the value of a DROP participant's account at the end of the DROP participation period. It is available either in a lump sum or periodic distributions. Once a participant leaves DROP, they begin receiving their monthly retirement allowance directly.

SDCERS will distribute the funds in a participant's DROP account when they leave employment and begin retirement, unless they choose to delay distribution of these funds. The distribution is made as a single lump sum, periodic payments, in 240 equal monthly payments, or as otherwise allowed by the Board, subject to the applicable provisions of the Internal Revenue Code. Outstanding liabilities for DROP of approximately \$137,000 are shown on the Statement of Fiduciary Net Assets in the basic financial statements.

b. 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 as reported in the actuarial valuation reports. Instead, employer contributions were less than the full actuarial rates and were in accordance with an agreement between the City and SDCERS; the agreement subsequently became known as Manager's Proposal 1 (MP-1). The MP-1 agreement provided that the City would make annual payments according to a contractually fixed formula of slowly increasing percentages of total payroll instead of payments computed using 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 occur until fiscal year 2007, at which time, the City's contribution would return to the full ARC rate as determined by the actuary.

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 allowing the City to avoid a balloon payment if the trigger was reached, allowing instead that the City increase its funding until the full ARC was reached. This provision of MP-2 required that funding be increased over a period of five years. (See Contingencies Note 18 for additional background on MP-1 and MP-2)

The City's Audit Committee concluded that "MP-1 was illegal under the Municipal Code, the City Charter, and California Constitution." In addition, the Audit Committee concluded that "MP-2 violated the applicable provisions of the California Constitution [and] the San Diego City Charter." The City Attorney has also concluded that MP-1 and MP-2 were illegal, and challenged such agreements in a case brought against SDCERS in the Superior Court of California, County of San Diego. The court, at the conclusion of phase one of a three phase trial, determined on December 14, 2006, without ruling on the legality of MP-1 and MP-2, that (1) the City cannot challenge MP-1 because "those benefits were replaced by the City's creation of benefits for all pension participants in the Corbett judgment", and (2) "the failure of the City to challenge the MP-1 and MP-2 transactions in the Gleason case, when the City had a legal duty to do so, prohibits the City from litigating the issue now." The City is allowed to pursue its claims that MP-2 is illegal with respect to certain benefits granted to persons who retired after July 2004. In addition, the December 14, 2006 decision has not been made final and the City is objecting to it in the lower court. If the City does not prevail, it will go to the court of appeal either by writ or by appeal.

The actuarial valuation as of June 30, 2002, received in January 2003, which applies to contributions made in fiscal year 2004, stated 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).

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 made payments to offset some of the employee's portion of retirement costs. Subsequent to June 30, 2003, the City engaged in meet and confer with its employee unions. The agreement in the MOUs (agreements with the police union were not reached) was to reduce the amount of individual employees' pension costs 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, AFSCME Local 127 negotiated a 1.9% salary reduction in lieu of additional employee pension contribution and a benefit freeze.

The agreements with the bargaining units explicitly indicate that savings to the City must be used to address the 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 \$8,000 from the remaining balance in the employee “pick-up” amount as part of meeting its negotiated commitment. (These agreements are also discussed in Subsequent Events Note 22). In order to create a \$600,000 reduction in the UAAL, the City would need to pursue a pension obligation bond issuance or other financing. However, the City Attorney and the Audit Committee have recommended that pension obligation bonds not be issued.

Funding Commitments Related to Legal Settlements

Subsequent to MP-2, the City entered into the Gleason Settlement Agreement (the Settlement), which governs contributions made in fiscal years 2006 through 2008. Pursuant to this Settlement the City agreed that it would:

1. Contribute \$130,000 in fiscal year 2005.
2. Pay its full ARC beginning in 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 Settlement also stipulated that certain actuarial assumptions be fixed in place; 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. On July 1, 2005 the City made the agreed upon contribution of \$163,000 for fiscal year 2006. On July 1, 2006 the City made another agreed upon contribution of \$162,000. The contributions for fiscal years 2005 and 2006 did not include the effects of the Corbett settlement because the SDCERS' Board viewed those benefits as contingent. Subsequent to those payments, the SDCERS' Board and the City determined that the Corbett settlement benefits are not contingent. As such, the benefits will be included in actuarial liabilities beginning with the valuation period dated June 30, 2006.

In August 2006, the City settled McGuigan v. City of San Diego and the agreement was approved by the Court in December 2006. The agreement stipulated that the City pay \$173,000, plus interest on amounts outstanding, into the San Diego City Employees Retirement System (SDCERS) over a period of 5 years. An additional requirement of the settlement is that the City provides SDCERS real property collateral totaling \$100,000. This collateral in addition to that required by the Gleason settlement is to be released upon the full payment of the settlement.

The City has also reached a settlement on a separate civil action: Newsome v. City of San Diego Retirement System, City of San Diego. As part of this settlement, the plaintiff has dismissed the lawsuit without prejudice and agreed to dismiss the lawsuit with prejudice 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 v. City of San Diego. Per the Newsome settlement, should the City not provide the additional funding, the plaintiff then has the right to re-file the lawsuit after giving the City 60 days notice.

The City has already contributed \$100,000 pursuant to the McGuigan settlement agreement through the securitization of future tobacco revenue and transfers of actual tobacco revenue receipts.

c. **Funding Policy and Contribution Rates**

City Charter Article IX Section 143 requires employees and employers to contribute to the Plan. The Charter section, which was amended in fiscal year 2005, subsequent to the period reported on but prior to the issuance of these financial statements, 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 Plan. Prior to the amendment in 2005, the Charter required that employer contributions simply match that of employee contributions. 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 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 2003, provided by the actuary as of June 30, 2001, expressed as percentages of active payroll:

	Employer Contribution Rates				
	General Members		Safety Members		
	General	Legislative	Police	Fire	Lifeguard
Normal Cost*	9.12%	21.65%	17.06%	19.17%	16.40%
Amortization Payment*	2.25%	44.95%	7.83%	7.83%	7.83%
Normal Cost Adjusted for Amortization Payment*	11.37%	66.60%	24.89%	27.00%	24.23%
City Contribution Rates Adjusted for Payment at the Beginning of the Year	10.94%	64.09%	23.94%	25.98%	23.32%

* 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 pensionable salary to the Plan on a biweekly basis. Contributions vary according to age at entry into the defined Plan and salary. For fiscal year 2003, the City employee contribution rates as a percentage of annual covered payroll, average 10.01% for general members and ranges from 10.55% to 16.32% 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 7% to 8% of covered payroll for general members and 10% for safety members. Of this, 1.6% came from the retirement fund employee rate reserve, the other 5.4%-6.4% was paid by the City. The range for safety plan members is 9% to 10%. Of this, 2.7% came from the retirement fund employee rate reserve and all remaining payments were made from the appropriate City operating budget. The amount paid on behalf of employees has been renegotiated through the meet and confer process and reduced the amount of the employee contribution paid for by the City. Any and all savings realized by these agreements must be set aside and ultimately leveraged to reduce the UAAL of the pension fund.

Annually a cash basis calculation is required by SDMC Sections 24.1501 and 24.1502 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. A transfer to the Employer Contribution Reserve for funded retiree health in accordance with SDMC Section 24.1203. When a transfer of realized earnings to the Employer Contribution Reserve occurs under SDMC Section 24.1203, the City allocates an equivalent amount of its' annual contribution to the 401 (h) Fund for healthcare benefits (ceased after July 2004, SDCERS no longer pays for retiree health care from pension assets).
2. Annual Supplement Benefit Payment ("13th Check") paid to retirees generally equal to approximately \$30-\$75 (in whole dollars and based on retirement date) times the number of years of service credit and paid only when there are sufficient annual realized earnings.
3. Corbett Settlement Payment paid to retirees who retired prior to July 1, 2000 and were not currently in the DROP program (Corbett Settlement payments not paid in any one year accrue to the next year and remain an obligation of SDCERS until paid).
4. Crediting interest to the Reserve for Employee Contribution Rate Increases and the Reserve for Supplemental Cost of Living Adjustment (SCOLA).

After the above noted distribution, any remaining realized earnings are transferred to the Employer Contribution Reserve which increases system assets.

The impact of paying supplemental or contingent payments out of realized earnings is to decrease system assets which increases the UAAL and decreases the funded ratio. This negative impact to the UAAL and funded ratio results from diverting earnings that would otherwise be retained. Another related impact is on the net rate of interest earned 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. Beginning in fiscal year 2005 when the reserve was depleted, the City funded the remaining retiree health benefits expense for fiscal year 2005 and the expenses for fiscal years 2006 and 2007 directly from the general and non-general funds. 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, which is being considered by the SDCERS board.

d. **Annual Pension Cost and Net Pension Obligation**

As reported in the table below, the City's annual pension cost includes amounts different from those reported in the notes to previously issued financial statements. Errors that resulted in the recalculation of historical annual pension cost are discussed in Restatement Note 23.

Annual Pension Costs

The normal cost and UAAL amortization cost were determined using the Projected Unit Credit (PUC) actuarial funding method. The actuarial assumptions included:

- (a) An 8.0% investment rate of return.**
- (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).
- (d) A 30 Year closed amortization period.

**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. The UAAL for funding purposes, as approved by SDCERS, was being amortized, using a level percentage of projected payroll method, over a fixed 30-year period on a closed basis and the resulting annual amount is herein called the full actuary rate. As of June 30, 2001, the valuation year used to compute the annually required contribution, there were 20 years remaining in the amortization period. As discussed above, the closed amortization period was reset in fiscal year 2006. Pursuant to the settlement of Gleason v. City of San Diego, the amortization period was reset to 29 years for fiscal year 2006 (valuation period ending June 30, 2004). Beginning in valuation year 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.

The following table shows the City's Annual Pension Cost ("APC") and the percentage of APC contributed for the fiscal year ended June 30, 2003 and two preceding years:

Fiscal Year Ending June 30	APC	Percentage Contributed	Net Pension Obligation*
2001	\$ 57,311	51.59%	\$ 105,608
2002	66,500	61.45%	131,246
2003	90,454	64.84%	163,050

* Net Pension Obligation has been recalculated in all fiscal years shown. See Restatement Note 23 for additional information.

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, 2003, the City's NPO is approximately \$163,000 in accordance with GASB 27 (Governmental Activities \$141,712; Business-type Activities \$20,902; Fiduciary Funds \$436).

The change to the NPO is derived by first calculating the City's Annual Required Contribution (ARC). The ARC is calculated by actuarially determining the normal cost of pension benefits accrued during the year and adding to that, the amortized UAAL as reported by the actuary. The ARC is then decreased by the City's contributions for the fiscal year. The remainder of the ARC less the contributions is then increased by interest accruing to 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:

ARC [Fiscal Year 2003]	\$ 91,947
Contributions Adjusted for Health Expenses [Fiscal Year 2003]	(58,650)
Interest on NPO	10,499
ARC Adjustment	(11,992)
Change in NPO	31,804
NPO Beginning of Year [Fiscal Year 2002, as restated]	131,246
NPO End of Year [Fiscal Year 2003]	\$ 163,050
[Governmental Activities \$141,712; Business-type Activities \$20,902; and Fiduciary Funds \$436]	

The City interpreted GASB 27 to require that the amortization methods used in calculating funding for the Plan (determination of the ARC) be consistent with the method used to calculate Plan expense (determination of NPO and related annual pension cost). Thus, the City's use of a previous amortization method of 40 years open was found to be incorrect. The impact on the NPO related to Corbett as of June 30, 2003 is approximately \$10,000.

The amount of the City's contribution in fiscal year 2003 was less than the full actuarial amount due to the impacts of the Corbett Litigation and retiree healthcare payments mentioned above, however, the Sewer Utility and the Water Utility paid the amount initially thought to be the amount required by the actuarial valuation. These additional payments were calculated before the impacts of Corbett and retiree health; the payment made by the Sewer Utility was \$3,000 and the Water Utility paid \$2,500 in fiscal year 2003 to the SDCERS pension trust fund in partial payment of the respective pro-rata share of the Citywide NPO. The Citywide NPO amount for fiscal year 2003 was \$163,000, therefore the Sewer Utility's remaining pro-rata share, after the additional \$3,000 payment, was \$7,100 and the Water Utility's remaining pro-rata share, after the \$2,500 additional payment, was \$6,500.

NPO Components related to Retiree Health

The City's annual contribution to SDCERS Pension Trust Fund, for the fiscal years ended June 30, 2001, 2002, 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 the law firm of Ice Miller to make several filings to the IRS to voluntarily correct this operational failure and IRC violation. (See Contingencies Note 18 for additional disclosures). The amounts taken from the Pension Trust Fund for healthcare benefits were approximately \$11,500 in fiscal year 2003, \$8,900 in fiscal year 2002, and \$7,200 in fiscal year 2001. These payments have been removed from the City contribution amounts and resulted in an increase to the City's NPO. The cumulative increase to the City's NPO related to retiree health is approximately \$54,000. (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 \$35,000 in funds from the Pension Trust Fund's undistributed earnings to fund the Employee Contribution Rate Reserve, and annually added 8% interest earnings to this reserve. This Employee Contribution Reserve was to pay for the City's share of the employee's retirement contribution. The amount of NPO related to the employee offset as of June 30, 2003 is \$4,500. 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 the City "pick-up" of the employee pension contribution.

NPO Components related to Corbett Settlement and Subsequent Benefit Increases

In 1998 a lawsuit was filed by retired employees who alleged that the City's method of calculating retiree pension benefits improperly excluded the value of certain benefits such as vacation and sick leave when computing the employees' pensionable salaries. The City settled in May of 2000, known as the Corbett Settlement. This settlement provided for a flat increase of 7% in benefits payable to eligible retirees from annual realized earnings of SDCERS pension assets, if sufficient. To the extent earnings are insufficient, the unpaid amount is carried forward. For employees active at the time of the settlement who joined the Retirement System before July 1, 2000 and not in DROP, San Diego Municipal Code sections 24.0402 and 24.0403 allow for two options in calculating his/her unmodified service retirement allowance:

1. The unmodified factors in effect on July 1, 2000 ("Corbett Factors"), as shown in the tables below, with no increase to the member's final compensation, or
2. The unmodified factors in effect on June 30, 2000 ("Old Factors"), as shown in the tables below, with a 10% increase to the member's final compensation.

In effect on July 1, 2002 ("New Factors"), additional increases related to MP-2 were granted, as shown in the table below, with no increase to the general member's final compensation.

GENERAL MEMBER RETIREMENT CALCULATION FACTORS

Retirement Age	Unmodified Factors Effective 6/30/00 (Old Factors)	Unmodified Factors Effective 7/1/00 (Corbett Factors)	Unmodified Factors Effective 7/1/02 (New Factors)
55	2.00%	2.25%	2.50%
56	2.00%	2.25%	2.50%
57	2.00%	2.25%	2.50%
58	2.00%	2.25%	2.50%
59	2.08%	2.25%	2.50%
60	2.16%	2.30%	2.55%
61	2.24%	2.35%	2.60%
62	2.31%	2.40%	2.65%
63	2.39%	2.45%	2.70%
64	2.47%	2.50%	2.75%
65 and older	2.55%	2.55%	2.80%

SAFETY MEMBER RETIREMENT CALCULATION FACTORS

Retirement Age	Unmodified Factor* Effective 1/01/97 - 6/30/00		Unmodified Factor* Effective 7/01/00
	Lifeguard	Police & Fire	
50	2.20%	2.50%	3.00%
51	2.32%	2.60%	3.00%
52	2.44%	2.70%	3.00%
53	2.57%	2.80%	3.00%
54	2.72%	2.90%	3.00%
55	2.77%	2.99%	3.00%

* Unmodified Factor utilized to calculate the maximum service retirement allowance.

e. Actions taken on behalf of the City to address Pension Funding

As part of the agreements with the labor unions, several benefits were eliminated for all employees hired on or after July 1, 2005. These changes include the elimination of the following benefits: the Deferred Retirement Option Plan

(DROP), the 13th Check, the option to purchase years of service credits ("air-time"), and the elimination of retiree healthcare benefits; however, the retirement formula 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. The employer/employee contributions for such a plan have not been determined as of the issuance of this report. The City is exploring the consolidation of 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 of San Diego to receive 100% of the retiree health benefit and five years of service to receive 50% of the retiree health benefit.

The economic benefits from the labor agreements have created an opportunity for the City to begin addressing the unfunded liability issue of the Retirement System. In June 2006, the amount from labor concessions that was committed to address the pension's unfunded liability was \$17,400 (General Fund and non-General Fund). The City has already contributed \$100,000 pursuant to the McGuigan settlement agreement through the securitization of future tobacco revenue and transfers of actual tobacco revenue receipts. The contribution will have the effect of reducing the NPO in fiscal year 2006. The City is also exploring other financing options as a means to eliminate its NPO.

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"). 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 Plans are defined contribution plans administered by Ameriprise Trust Company, formerly American Express Trust Company, Minneapolis, MN, which provide pension benefits for eligible employees. There are no plan members who belong to an entity other than the City of San Diego. 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 for fiscal year 2003:

<u>Plan</u>	<u>Participants</u>
SPSP	2,081
SPSP – M	7,591
SPSP – H	4,559

The SPSP and SPSP-M plans require 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 two plans 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 these plans, 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.

The City and the covered employees contributed approximately \$48,146 in fiscal year 2003. As of June 30, 2003, the fair value of plan assets totaled approximately \$396,341. SPSP is considered part of the City of San Diego's financial reporting entity and is reported as a pension trust fund. The SPSP and SPSP-M Plans were merged into a single plan ("SPSP") on November 12, 2004 for administrative simplification, without a change in the benefit.

b. **401(k) Plan - City**

The City established a 401(k) Plan effective July 1, 1985. The Plan is a defined contribution plan administered by Ameriprise Trust Company, formerly American Express Trust Company, Minneapolis, MN, to provide pension benefits for all employees. Employees are eligible to participate from the date of employment. Employees make contributions to their 401(k) 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 \$24,929 during the fiscal year ended June 30, 2003. There is no City contribution towards the 401(k) Plan.

As of June 30, 2003, the fair value of Plan assets totaled approximately \$129,723. The 401(k) Plan is considered part of the City of San Diego's financial reporting entity and is reported as a pension trust fund.

c. **Pension Plan - Centre City Development Corporation (CCDC)**

CCDC has a Money Purchase Pension Plan covering all full-time permanent employees. The 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 quarterly 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 2003 was approximately \$2,843. CCDC contributions were calculated using the base salary amount of approximately \$2,672. CCDC made the required 8% contribution amounting to approximately \$214 (net of forfeitures) for fiscal year 2003.

In addition, CCDC has a Tax Deferred Annuity Plan covering current and previous eligible employees. The 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 13% 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 September 18, 2002. 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 Plan.

CCDC's total payroll in fiscal year 2003 was approximately \$2,843. CCDC contributions were calculated using the base salary amount of approximately \$2,672. CCDC made the required 13% contribution amounting to approximately \$347 for fiscal year 2003.

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 CAFR.

The fair value of the Plan assets totaled \$5,956 at June 30, 2003.

d. **Pension Plan - San Diego Convention Center Corporation (SDCCC)**

SDCCC's Money Purchase Pension Plan (the "Plan") became effective January 1, 1986. The Plan is a qualified defined contribution plan and as such, benefits depend on amounts contributed to the Plan plus investment earnings less allowable plan expenses. The 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 Plan expenses are allocated in accordance with Plan provisions. A trustee bank holds the 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 CAFR.

For the year ended June 30, 2003, pension expenditures for the Plan amounted to \$1,077. 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, 2003, the balance in the account was \$125.

The balance at June 30, 2003 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 "Plan") covering substantially all employees. The 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 CAFR.

SDDPC's total payroll in fiscal year 2003 was \$25,000. As all employees are substantially covered, SDDPC

contributions were calculated using this base salary amount. SDDPC made the required 20% contribution, amounting to approximately \$4,735 for fiscal years 2003.

f. **Pension Plan - San Diego Housing Commission (SDHC)**

SDHC provides pension benefits for all its full-time employees through a defined contribution 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 SDHC's current-period contribution requirement. The City does not act in a trustee or agency capacity for the SDHC plan; therefore, these assets are not reported within the CAFR.

SDHC's covered payroll in fiscal year 2003 was \$11,154. SDHC made the required 14% contribution, amounting to approximately \$1,562 for fiscal year 2003.

g. **Pension Plan - Southeastern Development Corporation (SEDC)**

SEDC has an optional Simplified Employee Pension Plan covering all full-time permanent employees. The Plan is a defined contribution plan administered by Morgan Stanley Dean Witter. Per provision 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 2003 was approximately \$803. SEDC contributions were calculated using the base salary amount of approximately \$713. SEDC made the required contributions, amounting to approximately \$98 for fiscal year 2003. Plan members contributed an additional \$1.

13. OTHER POST EMPLOYMENT BENEFITS (In Thousands)**a. Plan Description**

The City provides certain healthcare insurance benefits to a variety of retired employees, as provided for in San Diego Municipal Code (SDMC) Sections 24.1201 through 24.1204. Currently, the benefits primarily are 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 per year.

b. Contributions

In accordance with SDMC Sections 24.1502 and 24.1203 as in effect for fiscal year 2003 (such sections having been subsequently repealed), amounts were transferred from annual realized earnings of SDCERS' pension assets to the Employer Contribution Reserve for the purposes of funding the retiree health benefits that would have otherwise been paid by the City. It is from this Reserve that post-employment healthcare benefits were paid. This was found to be in violation of IRC Section 401(a) and SDCERS hired the law firm of Ice Miller to make several filings to the IRS to voluntarily correct this operational failure and IRC violation. (See Contingencies Note 18 for additional disclosures). The City was credited against the Annually Required Contribution (ARC) for payments made to fund retiree healthcare benefits, with the net result that the City paid the basic ARC with no additional amount for post-employment healthcare benefits.

Expenses for post-employment healthcare benefits are on a pay-as-you-go basis. In fiscal year 2003 approximately 3,200 retirees received either City paid insurance, or were reimbursed for other health insurance costs incurred. For the year ended June 30, 2003, expenditures of approximately \$11,500 were recognized by SDCERS, and paid from the SDCERS reserve for such healthcare benefits (see the fiduciary fund financial statements beginning on page 302 for the Statement of Fiduciary Net Assets and Statement of Changes in Fiduciary Net Assets for Post-Employment Healthcare Benefits. Additional information is also presented in Pension Plan Note 12 section d). The book value of the remaining balance in the reserve at June 30, 2003 was approximately \$20,700, as compared to the fair market value of \$21,800 reported in the Fiduciary Funds Statement of Net Assets. Payments for fiscal year 2004 of approximately \$12,800 were also paid from this Reserve; the Reserve was depleted in January 2005.

In October 2004, the City Council voted to have the remaining retiree health benefits expense, estimated to be \$6,900 for fiscal year 2005, directly funded from City funds and not the SDCERS Pension Trust Fund. In February 2005 the City Council adopted Ordinance O-19354 which requires retiree healthcare premiums to be paid out of the General Fund and non-general funds of the City.

In July 2004, GASB issued GASB 45, *Accounting and Financial Reporting by Employers for Postemployment 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. 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

a. Interfund Receivable and Payable

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 the NonMajor governmental loans, \$50,000, are the Redevelopment Agency loans between their special revenue funds and their capital projects funds. Interfund receivable/payable balances at June 30, 2003 are as follows:

Contributing Fund (Receivable)	Benefiting Fund (Payable)		
	NonMajor Governmental	NonMajor Enterprise	Total
General Fund	\$ 11,880	\$ -	\$ 11,880
NonMajor Governmental	66,200	-	66,200
NonMajor Enterprise	1,604	200	1,804
Total	<u>\$ 79,684</u>	<u>\$ 200</u>	<u>\$ 79,884</u>

b. Interfund Working Capital Advance

Interfund Working Capital Advance (WCA) balances are the result of loans between funds that are expected to be repaid over a period of time in excess of one year. The major advance is a \$2,000 advance from the Redevelopment Agency to the HUD Section 108 grant funds. Interfund WCA balances at June 30, 2003 are as follows:

Contributing Fund (Receivable)	Benefiting Fund (Payable)			
	General Fund	NonMajor Governmental	Fiduciary	Total
General Fund	\$ -	\$ 300	\$ 1,490	\$ 1,790
NonMajor Governmental	-	3,009	72	3,081
Sewer Utility	341	-	155	496
Water Utility	565	-	131	696
NonMajor Enterprise	-	-	38	38
Internal Service	-	-	93	93
Total	<u>\$ 906</u>	<u>\$ 3,309</u>	<u>\$ 1,979</u>	<u>\$ 6,194</u>

c. Interfund loan transaction between the Water Utility and Capital Outlay

The Water Utility Major Fund has an interfund loan receivable of \$2,386, and the Capital Outlay NonMajor Governmental Fund has a corresponding interfund loan payable of \$2,386 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 is expected to be sold to the Redevelopment Agency in fiscal year 2007. The purchase price of the land is expected to be \$6,380, of which \$2,840 (which includes accrued interest) will be repaid to the Water Utility fund and the remainder will be placed in the Capital Outlay Fund.

d. Due to / Due from

Due to / due from discretely presented component units at June 30, 2003 are as follows:

Primary Government and Discretely Presented Component Units	
	Benefiting Fund (Payable)
Contributing Fund (Receivable)	NonMajor Governmental
San Diego Convention Center Corporation	\$ 460
San Diego Housing Commission	311
Total	<u>\$ 771</u>

e. Interfund Transfers

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 they be collected to 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 (approximately \$99,400) and debt service (approximately \$60,000) needs during the fiscal year. Interfund transfer balances at June 30, 2003 are as follows:

Contributing Fund	Benefiting Fund						Total
	General Fund	NonMajor Governmental	Sewer Utility	Water Utility	NonMajor Enterprise	Internal Service	
General Fund	\$ -	\$ 19,011	\$ -	\$ -	\$ -	\$ 7,080	\$ 26,091
NonMajor Governmental	39,028	184,271	264	14	1,131	187	224,895
Sewer Utility	170	1,592	-	-	-	1,856	3,618
Water Utility	89	932	-	-	-	422	1,443
NonMajor Enterprise	2,887	572	-	-	-	252	3,711
Internal Service	2,334	3,084	565	1,204	329	3,148	10,664
Total	<u>\$ 44,508</u>	<u>\$ 209,462</u>	<u>\$ 829</u>	<u>\$ 1,218</u>	<u>\$ 1,460</u>	<u>\$ 12,945</u>	<u>\$ 270,422</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 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) whereby the City pays the first \$1,000 per occurrence. For fiscal year 2003, amounts in excess of \$1,000 up to \$54,000 per occurrence were covered by the excess insurers. Any amounts over \$54,000 per occurrence would be the responsibility of the City. 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.

The City, which offers a cafeteria-style flexible benefits plan to its employees, is not self-insured for life, health, dental or vision. The flexible benefits plan offered to employees requires them 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 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, 2003 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 showing current and prior year activity is presented below:

	Public Liability, as Previously Reported	Long-Term Liabilities Restatements (Note 23) #1	Public Liability, as Restated
Balance, July 1, 2001	\$ 52,008	\$ (21,944)	\$ 30,064
Claims and Changes in Estimates	21,714	-	21,714
Claim Payments	(13,088)	-	(13,088)
Balance, June 30, 2002	<u>\$ 60,634</u>	<u>\$ (21,944)</u>	<u>38,690</u>
Claims and Changes in Estimates			57,675
Claim Payments			(11,292)
Balance, June 30, 2003			<u>\$ 85,073</u>

	Workers' Comp & Long-Term Disability, as Previously Reported	Long-Term Liabilities Restatements (Note 23) #1	Workers' Comp & Long-Term Disability, as Restated
Balance, July 1, 2001	\$ 37,366	\$ 60,977	\$ 98,343
Claims and Changes in Estimates	30,144	3,887	34,031
Claim Payments	(24,910)	-	(24,910)
Balance, June 30, 2002	<u>\$ 42,600</u>	<u>\$ 64,864</u>	<u>107,464</u>
Claims and Changes in Estimates			36,139
Claim Payments			(27,544)
Balance, June 30, 2003			<u>\$ 116,059</u>

	Total Liability Claims, as Previously Reported	Long-Term Liabilities Restatements (Note 23) #1	Total Liability Claims, as Restated
Balance, July 1, 2001	\$ 89,374	\$ 39,033	\$ 128,407
Claims and Changes in Estimates	51,858	3,887	55,745
Claim Payments	(37,998)	-	(37,998)
Balance, June 30, 2002	<u>\$ 103,234</u>	<u>\$ 42,920</u>	<u>146,154</u>
Claims and Changes in Estimates			93,814
Claim Payments			(38,836)
Balance, June 30, 2003			<u>\$ 201,132</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 \$400,000 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 \$75,000, 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 \$500 minimum, effective March 31, 2004. 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 current year, 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 DEFICIT (In Thousands)

The Self Insurance Fund has a net deficit of approximately (\$140,612) at June 30, 2003, which represents unfunded estimated claims and claim settlements related to workers' compensation (\$106,971), public liability (\$32,033), and long-term disability (\$1,608). 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 November 2006, the Mayor's office presented a five-year financial plan to the City Council that outlines a funding commitment to the Self Insurance Fund over and above amounts needed to fund current year expenditures in future periods.

17. COMMITMENTS (In Thousands)

As of June 30, 2003, the City's business-type activities contractual commitments are as follows:

Airports	\$	1,416
Environmental Services		9,334
Sewer Utility		105,532
Water Utility		68,862
Other		1,501
Total Contractual Commitments	\$	<u>186,645</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 revenue bonds secured by system revenues.

Proposed 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 seeks 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 contests 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 have reached an agreement on the additional requirements to reduce sewer spills, which will be set forth in a Proposed Consent Decree (the "Proposed Consent Decree"). The Proposed Consent Decree will require 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 \$163,000 per year in capital projects and \$50,000 per year in operational maintenance to the sewer system through the term of the settlement. No civil penalty payment will be 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 Proposed Consent Decree.

The compliance elements of the Proposed Consent Decree present substantial financial commitments for improved wastewater capital improvement projects as outlined above. The City has been prevented from obtaining public financing for these projects. Consequently, the parties agreed to a First Partial Consent Decree, which allowed the City to proceed with all the key components of the Proposed Consent Decree without committing to the major capital projects that require financing. The First Partial Consent Decree expired on June 30, 2006. A Second Partial Consent Decree has been approved by the City Council, the EPA and the environmental groups, and has been lodged with the District Court for approval. The Second Partial Consent Decree mirrors the First Partial Consent Decree, bridging the gap until the City can obtain sufficient financing to commit to the Proposed Consent Decree. The Second Partial Consent Decree would expire on June 30, 2007.

Sewer rate increases will be necessary to fulfill the obligations of the Proposed Consent Decree, and the City is currently reviewing its sewer rate structure. As mentioned previously, the estimated annual cost is \$163,000/year in capital projects and \$50,000/year in operations and maintenance. The City is also investigating private financing to fund the capital projects in the Proposed Consent Decree in anticipation that there will not be sufficient time to obtain public financing prior to the expiration of the Second Partial Consent Decree.

18. CONTINGENCIES (In Thousands)**FEDERAL AND STATE GRANTS**

The City recognizes as 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.

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 has not yet released its audited financial statements for the fiscal years ending June 30, 2003, 2004, 2005, and 2006. 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.

INVESTIGATIONS INTO POTENTIAL ILLEGAL ACTSTimeline and Description of Events - Pension

The City of San Diego is subject to numerous federal and state investigations, as of March 2007, regarding alleged illegal acts by current and former City officials. The following timeline outlines significant events regarding the occurrence, disclosure and investigation of illegal acts.

In June 1996, the San Diego City Employee's Retirement System (SDCERS) board approved a pension funding proposal entitled Manager's Proposal 1 (MP-1). This proposal had the effect of reducing the City's annual pension costs but protected the pension fund by imposing a minimum funding ratio of 82.3%. If the funding ratio fell below 82.3%, the City was required to make payments sufficient to bring the funding ratio back to 82.3%.

In July 1996, the City adopted an ordinance to authorize the placement of a ballot measure to amend the San Diego City Charter to authorize the City Council to pay retiree health insurance benefits through SDCERS. The amendment was approved by the voters the following November.

In November 2002, the SDCERS board and City Council approved a proposal to modify MP-1. This agreement was entitled Manager's Proposal 2 (MP-2). MP-2 allowed the City to make contractually determined contributions to SDCERS and provided a ramp-up period to meet its full actuarially required contribution.

In January 2004 the City filed a Voluntary Disclosure with the Nationally Recognized Municipal Securities Information Repositories concerning omissions in a number of Official Statements delivered by the City in connection with City public bond offerings.

In February 2004, as a result of the January 2004 Voluntary Disclosure, the Securities and Exchange Commission initiated an investigation into the City's disclosure practices, particularly regarding the under-funding of SDCERS.

In April 2004, prior to the release of the City's already completed and audited fiscal year 2003 financial statements, the City determined that the statements contained numerous errors and omissions of material fact. As a result, the City terminated its original independent auditor and engaged KPMG LLP to conduct a re-audit of its fiscal year 2003 CAFR. The restatements identified during this re-audit are detailed in Note 23 to the basic financial statements.

In December 2004, the U.S. Attorney for the Southern District of California issued subpoenas for its own investigation into the City's and SDCERS' disclosure practices. The investigations were later expanded to include the City's sewer rate schedule.

In May 2005, the San Diego District Attorney charged six former City and SDCERS officials with violations of California conflict of interest laws stemming from agreements to under-fund the City's pension plan.

In January 2006 a federal grand jury indicted five former City and SDCERS officials on various criminal charges. The federal investigations are ongoing. None of the illegal acts discussed below have led to the conviction of any individuals; those individuals who have been charged are currently awaiting trial as of March 2007.

In June 2006, SDCERS filed a voluntary disclosure with the IRS regarding violations of the plan qualification provisions of Internal Revenue Code Sections 401(a) and 401(h). The voluntary disclosure related to the use of pension plan assets in funding retiree health benefits.

In November 2006, the Securities and Exchange Commission entered an Order sanctioning the City of San Diego for committing securities fraud by failing to disclose to the investing public important information about its pension and retiree health care obligations.

Timeline and Description of Events - Wastewater

In September 1994 the City was instructed by the State Water Resources Control Board (SWRCB) to modify agreements with participating agencies to include the incremental cost associated with removing organics from the wastewater.

In May 1998, the City was made aware through a Cost of Service Study (COS) performed by independent consultants that its sewer rate structure did not comply with standards set by the SWRCB.

In October 1999 a Deputy City Manager informed a Councilmember that the COS did not warrant changing the rate structure.

In November 1999 a Deputy City Attorney informed a Councilmember that the COS did in fact indicate that the rate structure should be revised.

In January 2002, the City Council was notified in closed session that the City's Sewer Rate structure was not in compliance with the noticing and proportionate billing requirements set forth in State Proposition 218. The City Council took no affirmative action to remediate non-compliance and requested further review by the City Attorney's office.

In March 2002, the City filed a continuing disclosure that does not discuss any facts related to non-compliance with SWRCB guidelines and that non-compliance may result in potential liabilities to the City.

In November 2002, Senior City Officials are provided a memorandum detailing the nature of and potential impacts of Sewer Rate non-compliance. This memorandum indicates that the City had not experienced any regulatory action from the SWRCB because of the Boards confusion over the true nature of the City's rate structure. It also detailed City staff member's beliefs as to why the rate structure was not brought into conformance with SWRCB guidelines.

In February 2003, the City was granted a \$12,000 loan for sewer improvements. This loan included covenants that required compliance with the Clean Water Act and applicable state guidelines including those set by the SWRCB.

In June 2003, City officials met with bond rating agencies to discuss a proposed sewer bond offering. City officials led bond rating agencies to believe that the City was in compliance with state and federal regulations concerning its sewer rate structure. However, the City never issued the 2003 bond offering.

In November 2003, the SWRCB gave the City a 90 day deadline to submit the ordinance enacting a compliant rate structure.

In March 2004, SWRCB requested the City implement revised rates for fiscal year 2005 and gave the City 90 days to submit an adopted ordinance or resolution providing for a revised rate structure.

In June 2004, the City Council adopted Resolution R-299322, authorizing revisions to the existing wastewater fees and charges to bring the City into full compliance with the SWRCB's requirements.

In June 2004, a lawsuit against the City was filed alleging residential users were overcharged for sewer services.

In June 2004, SWRCB notified the City that its rate structure was now compliant with State guidelines.

In October 2004 the City's new compliant rate structure took effect.

Regulatory and Other Independent Investigations into Pension and Wastewater Matters

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 to the investing public important information about its pension and retiree healthcare obligations. 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 dramatically increase.
- 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 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 \$260,000 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 Commission's investigation is ongoing as to individuals and other entities that may have violated the federal securities laws.

Prior to settlement with the SEC, the City voluntarily hired 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 first V&E report were adopted by the City in October 2004. However, the report did not provide a sufficient basis to conclude that all questions necessary were resolved. In response, the City engaged a professional consulting firm, Kroll Inc., to act in the capacity of an Audit Committee. The Audit Committee took over the investigatory process. The independent investigations concluded when the Audit Committee presented its final report to the City on August 8, 2006. The excerpt below includes the following sections of the Audit Committee's report:

- Section IV - Violations of Law: Pension
- Section VII – Violations of Law: Wastewater
- Section XV – Disclosure-related Deficiencies and Violations of Law: Pension and Wastewater

All footnote references contained in the Report, which include additional factual and legal analysis, are omitted for purposes of brevity.

- A hard copy of the Report of the Audit Committee of San Diego, including interview summaries and footnotes, as well as the V&E report, are available at the City Clerk's office at 202 C street, 2nd floor San Diego, CA 92101. The excerpts below are solely the findings of the independent Audit Committee; they have not been adopted by the SEC or a court of law.

Excerpt from the City of San Diego Audit Committee (Kroll, Inc.) report

"VIOLATIONS OF LAW: PENSION

The "Waterfall"

As discussed above, we believe the Waterfall – the City's practice of tapping Surplus Earnings to pay a growing list of retirement-related benefits – rested on a potentially dangerous conceptual error. However, it was not, standing alone, necessarily illegal or improper. The conceptual error is that Surplus Earnings are not truly "surplus." If the SDCERS actuary bases his actuarial calculations on an assumed average rate of investment return, then so-called "Surplus Earnings" (returns exceeding this assumed average in any particular year) are necessary to offset returns in below-average years. In this way, the desired average can be achieved over the long term. To illustrate, if SDCERS's investment returns consistently alternate between years with 9% returns and years with 7% returns, and if the assumed average return is 8%, then there are no truly "surplus" earnings at all, since the 9% years are needed to offset the 7% years. The City, however, treated the entire amount above 8% as Surplus Earnings in all years, for example, when there were 9% returns.

On the other hand, SDCERS could experience consistent, long-term returns in excess of the 8% target. In that case, it would be accurate to describe these as "surplus" earnings, because it had selected an assumption for investment returns that was too conservative. This would occur, for example, if the SDCERS returns consistently alternated between 7% and 11%. Some of its earnings, in this case, would be "surplus," but the amount of surplus would be different from (and smaller than) all returns in excess of 8%.

In 1980, when the City first began to tap Surplus Earnings to pay specific, pension-related expenses, it may (or may not) have had earnings that were truly "surplus," that is, accumulated earnings that consistently exceeded the 8% target over the long term. To the extent it had such "surplus" earnings, commitment of these earnings to pay, initially the 13th Check, then a series of additional benefits, may not have been imprudent. The problem is that neither the City nor SDCERS ever made a determination of whether SDCERS had truly "surplus" earnings to begin with, never calculated what portion, if any, of returns in excess of 8% in any given year after 1980 were truly "surplus," and acted in the mistaken belief that all earnings in excess of 8% were "surplus."

Until 1996, SDCERS had built-in protection against the consequences of this kind of miscalculation. To the extent that it was depleting earnings needed to maintain the long-term stability of the retirement system by using them to pay

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current benefits, the effect of this profligacy would show up in a growing pension funding gap. Although this situation was not ideal, it at least required City payments to increase in direct response to any depletion of SDCERS assets. This automatic rebalancing mechanism was eliminated in 1996.

Manager's Proposal 1

By mid-2002, two years of weak and even negative investment returns, combined with significant new unfunded pension benefit obligations, had pushed SDCERS and the City to a crisis. The temporary, badly-flawed "fix" for the crisis – MP-2 – won grudging approval only at the cost of a lot of short tempers and frayed nerves, and the "fix" itself quickly came undone under the pressure of litigation, a wave of disclosures of alarming financial information, and increasingly strident criticism of the City's management of its pension obligations. It is tempting to look at 2002 and 2003 as a period in which a "perfect storm" of unpredictable events came together to create a crisis, to which different parties then responded with different degrees of candor, professionalism, and regard for the public interest.

In fact, what brought SDCERS and the City to a crisis in 2002 and 2003 was not a "perfect storm" of unpredictable catastrophes, but a number of completely foreseeable financial challenges to a system debilitated by years of reckless mismanagement. The bear market of 2000 to 2003 was no more unusual in its intensity and duration than the eight-year long bull market that preceded it, and San Diego's package of employee retirement benefits does not appear to be unusually generous or expensive. Moreover, the whole point of financial planning is to be able to weather hard economic times. External events beyond the City Manager's control do not explain the crisis of 2002. Deliberate illegal and imprudent actions taken years before do.

The starting point is MP-1. We conclude that, for any one of a number of independent reasons, the SDCERS Board and the City acted illegally and improperly in enacting MP-1, which allowed the City, with the full knowledge and acquiescence of all participants in the approval process, to avoid financial obligations imposed by state and local law and the fiduciary duties of the SDCERS Board.

The California Constitution, which trumps all other state and local legislation, guarantees to public employees an "actuarially sound retirement system." Although whether or not a retirement system is actuarially sound is a question of fact to be determined under the circumstances of each case, the Wilson court struck down as unconstitutional a proposed change in the State's method of funding the retirement system for State employees that bears strong similarities to MP-1. In Wilson, the State, because of budgetary constraints, sought to reduce its annual contributions to the retirement system by switching from a level contribution system, like that employed by San Diego before MP-1, under which retirement obligations were fully funded on a current basis, to one in which retirement obligations were funded one year in arrears. The California Supreme Court held that it could not constitutionally do so.

In reaching this conclusion, the Wilson court relied expressly on a declaration by Richard Roeder, the father of the SDCERS actuary. Richard Roeder maintained in Wilson that a change in funding that deferred the employer's payment obligation by one year undermined the actuarial soundness of the system because, in light of the deferral, "greater contributions would be required from future taxpayers." In short, what Wilson found decisive was that the State's funding proposal had the effect of shifting present retirement costs onto future taxpayers. This feature made the proposal actuarially unsound and, as a result, unconstitutional.

Wilson did not purport to announce a universal standard of actuarial soundness, and there is no single, settled definition of the term in either the law or the actuarial literature. Actuarial soundness requires funding the current costs of future obligations fully in the present, rather than leaving them to be absorbed by future contributors. The Navigant Report quotes with approval one working definition:

The financial objective of the pension plan shall be to establish and receive contributions which will remain approximately level from year to year and will not have to be increased for future generations of citizens. The objective is achieved when contributions received each year by the pension fund are sufficient both, (1) to fully cover the costs of benefit commitments being made to employees for their service being rendered in such year and, (2) to make a level payment which, if paid annually over a reasonable period of future years, will fully cover the unfunded costs of benefit commitments for service previously rendered.

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This definition echoes the standard employed in Wilson. By this standard, SDCERS became actuarially unsound with the adoption of MP-1, and this unsoundness rendered MP-1 unconstitutional.

In Wilson, the State legislature acted to reduce (through delay) its annual pension contributions without approval of, or actuarial input from, the retirement board, which challenged the legislation on the ground that it would undermine the system's actuarial soundness. With MP-1, the SDCERS Board, by contrast, agreed to the City's proposal, and its actuary expressly found that the system continued to be actuarially sound. Nonetheless, there are significant similarities between MP-1 and the proposal found to be unconstitutional in Wilson, and we conclude the SDCERS actuary was wrong in finding that the system remained actuarially sound.

SDCERS and the City both understood that, under MP-1, greater contributions would be "borne by the future generation" of taxpayers to make up for the rate relief granted to the City for the term of MP-1. Under the logic of Richard Roeder's Wilson declaration, adopted by the Wilson court, this feature would render SDCERS actuarially unsound and MP-1 unconstitutional. While SDCERS actuary Rick Roeder expressly concluded, as of June 30, 1997, through June 30, 2001, that SDCERS was actuarially sound, for reasons stated below, we conclude he was either mistaken or was pressured into declaring a belief that he did not in fact have.

Even if MP-1 were permitted by the California Constitution, however, it would still need to be lawful under the San Diego City Charter, and the argument is quite strong that it was not. The City Charter provides in relevant part:

The retirement system herein provided for shall be conducted on the contributory plan, the City contributing jointly with employees affected thereunder. Employees shall contribute according to the actuarial tables adopted by the Board of Administration for normal retirement allowances . . . The City shall contribute annually an amount substantially equal to that required of the employees for normal retirement allowances, as certified by the actuary . . . The mortality, service experience or other table calculated by the actuary and the valuation determined by him and approved by the board shall be conclusive and final, and any retirement system established under this article shall be based thereon.

The Charter sets out two requirements: (1) the City's contributions must be "substantially equal" to employee contributions; and (2) the employee contributions, that the City must match, must be calculated "according to the actuarial tables adopted by the Board." And, the Charter concludes, the entire system must be "based" on conclusive and final tables and valuations determined by the actuary and approved by the Board.

The requirement that the City's contributions be "substantially equal," rather than "identical," to employee contributions arguably gives the City some flexibility to "smooth" its payments by agreement with the Board, provided that these payments approximate the actuarial calculation used to set employee rates. The payment rates under MP-1, however, involved more than "smoothing." They were intended to be, and were, consistently and substantially below actuarially determined rates. Although the precise issue has not been tested in court, it is difficult to square MP-1 with the requirements of the City Charter.

It is even more difficult to square MP-1 with the requirements of the Municipal Code. The Municipal Code in effect prior to November 18, 2002 provided:

[T]he City shall contribute to the Retirement Fund in respect to members a percentage of earnable compensation as determined by the System's Actuary pursuant to the annual actuarial evaluation required by Section 24.0901.

MP-1 cannot be made consistent with this legal requirement. The negotiated rates the City paid under MP-1 were not "determined by the System's actuary," and they certainly were not calculated "pursuant to the annual actuarial evaluation." The whole point of MP-1 was to avoid a payment calculated according to an "annual actuarial evaluation."

In November 2002, the City amended Section 24.0801 of the Municipal Code to provide:

The City will contribute to the Retirement Fund, on behalf of Members employed by the City, the amount agreed to in the governing Memorandum of Understanding between the City and the Board.

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This Code amendment, enacted as part of MP-2, cannot salvage MP-1. Moreover, the amendment itself is legal only if it is consistent with the City Charter and the California Constitution. It is inconsistent with both.

In summary, MP-1 was illegal under the Municipal Code, the City Charter, and California Constitution. Remarkably, no one at either the City or SDCERS appears even to have considered the question of MP-1's legality under the Municipal Code, City Charter, or California Constitution, much less to have come up with a plausible affirmative answer to the question. While this remarkable oversight may be relevant to the question of whether anyone acted deliberately in violation of law, it does not alter the conclusion that MP-1 was illegal.

To state that MP-1 was illegal is not to state that the retirement benefits granted by the City in connection with MP-1 are illegal and unenforceable. While it is undeniable that the circumstances under which the 1996 "meet and confer" was conducted carried the taint of MP-1's illegality, it cannot be said that the benefit agreements themselves were invalid.

Though the conferral of enhanced benefits was conditioned upon the approval of the "rate stabilization plan" component of MP-1, the new pension benefits granted in 1996 were nonetheless authorized through the ordinary course of the labor negotiation process. The approval of the Manager's Proposal by the SDCERS Board did not in and of itself authorize the benefit enhancements, as the proposal noted that "[t]he following benefit changes do not require any action by the CERS Board, but rather are presented as part of the overall proposal." The City Council approved by resolution the tentative agreements reached between the City and the labor unions. Subsequently, the City Council adopted ordinances approving the Memoranda of Understanding ("MOUs") between the City and labor unions and amending the Municipal Code with the new benefit provisions contained in those MOUs. Pursuant to the San Diego City Charter, these retirement benefit amendments did not become effective until SDCERS approved them in April 1997. Despite the illegality of the City's arrangement to underfund the pension fund through MP-1, the benefit enhancements granted in connection with this scheme were implemented through valid MOUs and approved by both the City and SDCERS in accordance with the City Charter and Municipal Code.

Moreover, many City employees likely relied to their detriment (if the extensive benefit enhancements were to be considered void) in either choosing to retire (to start collecting their pensions) or maintaining positions with the City (because of the handsome pension benefits available). A court is likely to place great weight on this detrimental reliance before sweeping aside benefits that had been on the books for years, particularly considering the effect on City employees and retirees who had no part in crafting or approving the illegal components of the proposals.

Most importantly, the benefit enhancements conferred through the MOUs (and corresponding Municipal Code amendments) became vested in SDCERS members as contractual rights protected by both the California and United States Constitutions. As the California Supreme Court has stated, "[a]n employee's contractual pension expectations are measured by benefits which are in effect not only when employment commences, but which are thereafter conferred during the employee's subsequent tenure." Moreover, an employee's "pension right may not be destroyed, once vested, without impairing a contractual obligation of the employing public entity." In other words, there are constitutional limits placed on the City's ability to eliminate retirement benefits after they have been granted. The City must provide comparable new advantages to members of the pension system if it seeks to modify or terminate the new benefits conferred in 1997 or thereafter. Thus, the City cannot unilaterally terminate vested pension benefits without granting concessions to plan members in return. It is likely a court engaging in a careful analysis of the competing interests would inevitably conclude the City's contractual pension obligations to its public employees is an impediment to, if indeed, it does not preclude, voiding benefits that SDCERS members have been relying upon for almost a decade.

Further, regardless of what employees are legally entitled to, the City is, of course, free to agree to provide its employees with whatever salary and benefits, including retirement benefits, it chooses.

SDCERS Board members, City officials, the City Council and the then-Mayor may claim that they did not know they were violating specific statutory and Constitutional requirements when they enacted MP-1. Separate and apart from these requirements, however, fiduciary principles rooted in the California Constitution, common law, and common sense also place strict limitations on how the SDCERS Board may act. Unlike the specific statutory and constitutional restrictions discussed above, SDCERS Board members cannot credibly claim to have been unaware of these fiduciary

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principles. We conclude the SDCERS Board also violated its fiduciary duty in enacting MP-1, that City officials encouraged it to do so, and that decision-makers in both camps (including those with a foot in each) knew what they were doing, as discussed further below.

The California Constitution, article XVI, section 17, provides:

[T]he retirement board of a public pension or retirement system shall have plenary authority and fiduciary responsibility for investment of moneys and administration of the system . . .

The retirement board of a public pension or retirement system shall have the sole and exclusive fiduciary responsibility over the assets of the public pension or retirement system. The retirement board shall also have sole and exclusive responsibility to administer the system in a manner that will assure prompt delivery of benefits and selected services to the participants and their beneficiaries. The assets of a public pension or retirement system are trust funds and shall be held for the exclusive purposes of providing benefits to participants in the pension or retirement system and their beneficiaries and defraying reasonable expenses of administering the system . . .

A retirement board's duty to its participants and their beneficiaries shall take precedence over any other duty. . . .

The Constitutional provisions giving retirement boards "plenary" authority over, and "sole and exclusive fiduciary responsibility" for, the assets and administration of the retirement system and declaring that the Board's duty to its participants and their beneficiaries "shall take precedence over any other duty" were added by Constitutional amendment in 1992. The "Findings and Declarations" accompanying the proposed (and later adopted) amendment include the following:

- *Politicians have undermined the dignity and security of all citizens who depend on pension benefits for their retirement by repeatedly raiding their pension funds.*
- *. . . To protect the financial security of retired Californians, politicians must be prevented from meddling in or looting pension funds.*
- *Raids by politicians on public pension funds will burden taxpayers with massive tax increases in the future.*
- *To protect pension systems, retirement board trustees must be free from political meddling and intimidation.*

It is difficult to imagine a clearer declaration of Constitutional intent that retirement boards function independently of the political process and act solely in the interests of their members. In approving MP-1, the SDCERS Board failed to satisfy this standard.

The SDCERS Board has no proper role in setting retirement benefits. That job belongs to the City. The SDCERS Board's job is to ensure the payment of benefits determined by others by determining annual contribution requirements for the City and its employees and by managing the assets under its control. Although the California Constitution also obligates the SDCERS Board to keep employer (City) contributions to a minimum, this obligation may not conflict with the Board's primary obligation to provide secure funding for members' benefits. If two possible courses of action provide the same financial security for members' benefits, the Board should choose the one that requires the lower City contribution, but the Board may not impair the financial security of members' benefits in order to reduce the City's payment obligations.

MP-1 did just that: it reduced the flow of funds to the retirement system, an obvious negative for SDCERS, in order to benefit the City, which had its payment obligations reduced, while creating no compensating benefit whatsoever for SDCERS. This was a violation of the Board's duty. Neither of the supposed benefits of MP-1 – rate relief for the City, and benefit increases made possible by the rate relief – was a benefit the SDCERS Board was entitled to consider. It could press for lower contribution rates for the City, but not if, as in the case of MP-1, these lower rates came at the direct expense of funds available to SDCERS. And SDCERS is not in the business of promoting increases in

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retirement benefits: it is in the business of funding whatever level of benefits the City, through the political process, elects to confer on its employees.

Both the SDCERS actuary, Rick Roeder, of Gabriel, Roeder, Smith & Company, and its fiduciary counsel, Dwight Hamilton, of Hamilton and Faatz, “approved” MP-1. Mr. Roeder was reported to have said that MP-1 was a sound proposal. Mr. Hamilton said: “[T]he Board [is] acting within the discretion granted to [it] and discharging its fiduciary duties set forth in Article XVI, Sec. 17, of the California Constitution.” For a variety of reasons, we think that neither the SDCERS Board nor the City officials who pressed the adoption of MP-1 can take any comfort in this “approval.”

Neither Mr. Roeder nor Mr. Hamilton identified a specific benefit that SDCERS received from MP-1 that would have allowed the Board to approve it. One can imagine circumstances in which there might have been such a benefit. If the City had been on the verge of a general default on its obligations, for example, the SDCERS Board might reasonably have traded a lower payment amount for a greater certainty that payment would actually be made: half a loaf is better than none. In other words, payments below actuarial rates in early years might reasonably have been traded for payments above actuarial rates – perhaps funded by anticipated future increases in City revenues – in later years. But neither of these possible situations was in fact the case, and neither Mr. Roeder nor Mr. Hamilton addressed any other specific benefit to SDCERS from MP-1.

Moreover, neither Mr. Roeder nor Mr. Hamilton concluded that MP-1 was in the interests of retirement system members. Instead, they indicated the SDCERS Board could find that MP-1 was in the interests of retirement system members. We could not find evidence demonstrating the SDCERS Board actually made such a finding, or could have done so in good faith. Certainly the Board was no more successful than Mr. Roeder or Mr. Hamilton in identifying a benefit to SDCERS that offset the detriment of reduced funding and permitted the Board to approve MP-1.

Put another way, the conclusion SDCERS’s counsel reached, after the fact, about MP-2 – that the Board violated its fiduciary duty in approving it – applies with the same force, for the same reasons, to MP-1. In each case, the SDCERS Board gave up something of significant value to its members and got nothing in return. Similarly, Morrison & Foerster concluded in 1995 that approval of a much more limited predecessor of MP-1 was not within the Board’s fiduciary discretion. The opinions of the professionals who approved MP-1 cannot be squared with, and have no satisfactory answer for, the arguments advanced by Morrison & Foerster in 1995 and Seltzer Caplan in 2003.

In summary, we conclude the SDCERS Board violated its fiduciary duties in approving MP-1. But the SDCERS Board is not the only party that bears responsibility for MP-1. The City officials who proposed, advocated, and helped approve MP-1 in their dual capacity as SDCERS Board members, knew the sole purpose of MP-1 was to provide short-term financial relief for the City and created no benefit whatsoever for retirement system members. These City officials caused a funding scheme to be adopted which, whether they knew it or not, was in violation of the California Constitution, the City Charter, the Municipal Code, and a breach of the SDCERS Board’s fiduciary duty.

Manager’s Proposal 2

Although much of the prior examination of San Diego’s pension crisis has focused on events leading up to, and culminating in, MP-2, our discussion of MP-2 will be much briefer. We conclude the SDCERS Board, at the instigation of the City, first abandoned its obligations to retirement system members not in 2002, but in 1996. We have concluded MP-1 was illegal and a violation of the Board’s fiduciary duties. MP-2 did nothing to correct these illegalities. Some City Council and SDCERS Board members may have believed that, under at least some possible circumstances, MP-2 would have provided increased City funding of pension obligations than was required under MP-1. As we discuss throughout this report, this belief, if anyone held it, was false. The only circumstance under which MP-2 might have benefited SDCERS, compared with what it was entitled to receive under MP-1, was if the funding ratio floor of 82.3% was not hit as of June 30, 2002, and this did not turn out to be the case. Even if MP-2 had provided, or was expected to provide, benefits to SDCERS, it would not have corrected fully the illegality of the MP-1 funding mechanism, and the SDCERS Board members who approved or acquiesced in the continuation of City funding at rates below the Annual Required Contribution would have violated the California Constitution, the City Charter, and their fiduciary duties for all of the reasons discussed in detail above in connection with MP-1.

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Moreover, to the extent MP-2 was in fact expected to have an impact on the City's payments to SDCERS, the expected impact was to reduce those payments compared with what was required under MP-1, not increase them. MP-2 removed one of the primary protections for SDCERS contained in MP-1, and to this extent it not only perpetuated a funding mechanism that was already illegal and improper, but also aggravated it. MP-2, thus, also represented a new and independent illegal act by the SDCERS Board, at the instigation of the City.

As with MP-1, MP-2 did not benefit SDCERS at all. By the time MP-2 was formally approved by the City Council in November 2002, the fiscal year ending June 30, 2002 was already over. Although the result was not yet "official," it was obvious to everyone that the funded ratio floor of 82.3% – the MP-1 trigger – would be breached as of the fiscal year ending on June 30, 2002. Mr. Grissom and Ms. Webster knew no later than April 2002 that the funded ratio was likely to be 80%. Since that time, nothing had happened to shrink SDCERS's liabilities or increase the City's funding, and the financial markets had continued their slide. The fact that the MP-1 trigger was in fact hit as of June 30, 2002, and that this was obvious to everyone in November 2002, made a mockery of the only argument that SDCERS received some benefit from MP-2, namely, increased payments from the City if the trigger was not hit. In light of the fact that the trigger had in fact been hit, MP-2 served solely to give the City relief from its obligations under MP-1, which in turn had served solely to give it relief from its obligation to make a full ARC each year. In consequence, for the reasons discussed under our analysis of MP-1, MP-2 violated the applicable provisions of the California Constitution, the San Diego City Charter, and the fiduciary duties of the SDCERS Board members who voted to approve it. Our conclusion about MP-2 is confirmed by the public disclosure in late 2005 that SDCERS's own counsel concluded, in evaluating possible responses to the Gleason litigation in early 2003, that MP-2 was a violation of the Board's fiduciary duties, violations which were instigated by the City.

Violations of the Internal Revenue Code

SDCERS operates as a retirement system trust fund under Section 401(a) of the Internal Revenue Code of 1986, as amended ("IRC"). As a plan qualified under Section 401(a), SDCERS receives a tax exemption, pursuant to IRC Section 501(a), on monies accruing within the pension trust fund. The City has demonstrated a history of noncompliance with the IRC in the manner in which it funds and administers healthcare benefits for employees. Between 1982 and 2005, the use of SDCERS Surplus Earnings to fund retiree healthcare benefits and the administration of the retirement healthcare program through SDCERS contravened the qualification requirements of IRC Section 401(a) and IRC Section 401(h). The Internal Revenue Service ("IRS") may disqualify a retirement plan for failure to comply with the requirements of Section 401(a) and other provisions of federal laws.

Most prominently, the City's direct use of SDCERS Surplus Earnings to fund retiree healthcare benefits starting in fiscal year 1983 through fiscal year 1992 violated IRC Section 401(a)(2), or the "exclusive benefit rule." In particular, this provision provides that, in order for a pension plan to be considered a qualified plan, it must be impossible "for any part of the corpus or income to be (within the taxable year or thereafter) used for, or diverted to, purposes other than for the exclusive benefit of [the employer's] employees or their beneficiaries." U.S. Treasury Department regulations specify that, pursuant to this requirement, assets of a retirement plan must only be used for traditional retirement type benefits, a category which does not include payments for medical expenses. Plainly, the City's direct reliance on SDCERS to pay for retiree healthcare benefits between 1982 and 1993 violated IRC Section 401(a). The IRS could disqualify the SDCERS Plan for this egregious violation of the "exclusive benefit rule."

The City's creation of a 401(h) account was, in theory, a valid exercise of its powers. However, as implemented, the use of this trust to circumvent the "exclusive benefit rule" arguably violated the requirements of IRC Section 401(h) and, in turn, continued the violation of IRC Section 401(a). The City was supposed to fund the 401(h) account independently to meet the required yearly premium payments for retirees' insurance policies (plus additional reserve amounts) in order to prevent the use of SDCERS assets for non-pension-related purposes. However, the credit the City received from SDCERS toward its pension contribution – in the amount of the City's contribution to the Section 401(h) fund – arguably resulted in an indirect diversion of pension funds to cover retiree healthcare premiums. Thus, the System's Surplus Earnings, which were otherwise earmarked as pension assets, continued to bear the cost of the City's healthcare "contribution." While the IRC does permit transfers of "excess pension assets" in the pension fund to a 401(h) account under IRC Section 420, the Surplus Earnings were not sufficient to qualify as "excess" for purposes of an IRC Section 420 transfer exception. The funding scheme arguably violated the Section 401(h) exception and the

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Section 401(a) requirements. Thus, the entire plan is subject to disqualification as a qualified defined benefit pension plan.

The City will likely argue that, as a technical matter, its bifurcated payment scheme implemented and developed between fiscal years 1993 and 2005 precluded the direct diversion of System assets to fund retiree healthcare, and thus avoided violating IRC Section 401(a)(2). However, even if the IRS were to agree, the City and SDCERS would necessarily have been violating the SDCERS "Plan Documents" during the relevant time period, which would be considered an "Operational Failure" pursuant to IRS Rev. Proc. 2006-27. In particular, both the City Charter and the Municipal Code require the City to contribute to the System at rates calculated by the SDCERS actuary. By entering into MP-1 and MP-2, through which the City was able to avoid making contributions to SDCERS at actuarially calculated rates, the City caused its pension contribution to be deficient, violating the funding requirements of the Plan Documents. The City exacerbated this Operational Failure through the bifurcated payment plan – by allocating a portion of its annual pension contribution toward the retiree healthcare cost and relying on Surplus Earnings to make up the shortfall, the City fell even further below the ARC, based on the SDCERS actuary's annual valuations. Given the knowledge and intent with which City officials implemented this scheme over an extended period of time to reduce the City's annual pension contribution – or, put otherwise, to avoid paying for retiree healthcare – it is likely the IRS would view this Operational Failure as both significant and egregious. Under whichever theory the IRS were to proceed, the SDCERS Plan could be disqualified and its tax-exempt status revoked.

The IRS's Employee Plans Compliance Resolution System ("EPCRS") enables a plan sponsor to communicate with the IRS as to the validity of any aspect of a plan or the effectiveness of a correction made by the sponsor on account of a past violation. Two components of EPCRS facilitate this type of voluntary compliance monitoring: the Self-Correction Program ("SCP") and the Voluntary Correction Program ("VCP"). The third component, the Audit Closing Agreement Program ("Audit CAP"), arises after an audit has already begun.

Notably, SDCERS has already submitted several compliance requests pursuant to VCP regarding, among other things, an Operational Failure related to the Presidential Leave benefit. However, the components of EPCRS are "not available to correct failures relating to the diversion or misuse of plan assets." Considering the willfulness of the City's use of SDCERS Surplus Earnings in the past to fund the "pay-as-you-go" retiree healthcare benefit – not to mention the contrivances of the City to skirt the requirements of the IRC by amending the Municipal Code and, later, the City Charter, upon the misgivings of tax counsel – it is unlikely the IRS would decline to pursue a full investigation of the City's breach of the most important requirement of IRC Section 401(a): the preservation and protection of System assets.

Moreover, the IRS could proceed against SDCERS and, in turn, the City on the basis of several "prohibited transactions" implicated by the MP-1, MP-2, and healthcare funding schemes. A qualified plan may lose its tax exemption if it "lends any part of its income or corpus, without the receipt of adequate security and a reasonable rate of interest" to the creator of the trust. More broadly, the plan may lose its exemption if it "engages in any other transaction which results in a substantial diversion of its income or corpus" to the creator of the trust. The IRS could find that, by allowing the City (the creator of the SDCERS Trust) to reduce its contributions to SDCERS (the plan) through MP-1 and MP-2 below the legally-required rates, SDCERS provided the City with an unsecured loan and pushed this liability off into the future. At the very least, the use of SDCERS Surplus Earnings to fund retiree healthcare benefits resulted in a "substantial diversion" of System assets from their intended purpose, the funding of pension obligations. Thus, the IRS has several grounds on which it could disqualify SDCERS from tax-exempt status.

However, it is unlikely the IRS would disqualify SDCERS from the tax exemption it has taken advantage of since inception. Because the City is a governmental, not-for-profit entity, it has no taxable income from which to deduct its contributions to the System, one of the advantages of tax-exempt status. Rather, the primary tax advantage SDCERS has received is the deferral of taxes on the benefits accruing to its participants. Thus, the disqualification of the Plan would primarily hurt the beneficiaries of the system while not adversely affecting the City in any direct manner.

The IRS has a considerable amount of discretion in regard to actions it may take against the City for violations of the IRC. In a recent IRS investigation into the operations of several pension funds of the City of New York ("New York"), the IRS entered into a Closing Agreement with New York that waived monetary sanctions against the municipality for similar violations of the IRC's governmental retirement plan qualification requirements and maintained the qualified

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status of the pension funds. In particular, New York had amended three separate pension trust funds (serving police officers, firefighters, and general employees, respectively) to allow for the transfer of trust assets to a Variable Supplement Fund ("VSF") established within each pension fund. Since the VSFs provided non-pension-related supplemental benefits to retirees in addition to regular pension benefits, the IRS concluded that the diversion of pension trust assets – in excess of \$176 million – into the VSFs and to New York violated IRC Section 401(a)(2), the "exclusive benefit rule." The IRS did not contend that the trust arrangements constituted prohibited transaction violations, which would have implicated the disqualification provision of IRC Section 503(a)(1)(B). In lieu of disqualifying the pension trusts from tax-exempt status, the IRS mandated that New York repay the amount of the transferred assets. The IRS also required that New York timely submit legislation to the New York State Legislature to amend the statutes governing the City pension trusts at issue to ensure future compliance with the qualification requirements of IRC Section 401(a)(2).

Although it is unlikely the IRS would disqualify SDCERS and punish its beneficiaries, the fact that it could do so provides considerable leverage to the IRS in shaping a remedy. Similar to its resolution of New York's pension fund violations, the IRS will likely exercise its authority to negotiate a closing agreement with the City pursuant to IRC Section 7121. At the very least, it is likely that, like New York, the City will have to repay to SDCERS the assets (plus accrued interest) that it used directly from SDCERS Surplus Earnings to fund retiree healthcare benefits between fiscal years 1983 and 1992. Moreover, the IRS may well contend that the City must repay to SDCERS the monies (plus accrued interest) that were transferred out of Surplus Earnings as a credit to the City's pension contribution against the retiree healthcare cost between fiscal years 1993 and 2005. The IRS may also hold the City accountable – based on both Operational Failures and prohibited transactions – for the repayment of monies withheld from SDCERS below the actuarially calculated rates through the implementation of MP-1 and MP-2. The IRS will likely require that the City amend the Municipal Code and, if necessary, the City Charter, to ensure that SDCERS remains in compliance with the requirements of IRC Section 401(a) and IRC Section 401(h) in the future. It is unclear whether the IRS would pursue obtaining a large, non-statutory penalty against the City, in excess of the total amount of funds diverted and withheld from SDCERS. As mentioned above, however, SDCERS has already manifested a willingness to cooperate with the IRS in order to correct past failures.

VIOLATIONS OF LAW: WASTEWATER

Clean Water Act

The Clean Water Act requires municipalities to structure their rates in a proportionate manner, to ensure that each user pays his fair share. Although the Clean Water Act does not define proportionality, the SWRCB, which promulgates regulations interpreting the Act, does, and it explicitly requires that COD be included in the sewer rate structure. Because the City's rate structure for the ten-year period from 1995 to 2004 did not fairly allocate the significantly higher cost of treating wastewater discharged by certain industrial users, resulting in residential users subsidizing the rates of industrial ones by millions of dollars per year, the City's rates were not proportionate and thus violated the Clean Water Act's proportionality requirement.

Enforcement authority for such violations is generally limited to the EPA and, through express delegation to the State, the SWRCB. The agencies have broad authority and discretion to impose wide-ranging sanctions on a city, as extreme as terminating its grants and loans, suspending a city's work on a project, or rendering a city ineligible to receive future federal assistance. The SWRCB's standard practice, however, is to pursue violations through less formal means like sending a notice of violation letter, as it did here. The SWRCB typically escalates its enforcement action only when it deems it necessary to correct a violation. Here, the EPA, and the SWRCB as its delegate, had the authority to take more aggressive action against the City than it did, in order to enforce the Clean Water Act and to remedy the violation. The agencies exercised their discretion not to do so. Nevertheless, the City was still liable for breaching the Clean Water Act, and the parties who caused the violation were also responsible for knowingly causing the City to persist in its violation of federal law and placing the City in jeopardy of being made the subject of a federal enforcement action.

(Continued from the excerpt of the City of San Diego Audit Committee (Kroll Inc.) report)

Proposition 218

Similar to the Clean Water Act, Prop 218 also contains a proportionality component, requiring that fees imposed upon "any parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to the parcel." Although the issue is not settled, there is authority suggesting that Prop 218's proportionality requirement applies to sewer charges, and, if so, the evidence shows the City violated this requirement.

DISCLOSURE-RELATED DEFICIENCIES AND VIOLATIONS OF LAW: PENSION AND WASTEWATER

The City and SDCERS provided public disclosures about pension obligations and wastewater compliance that were incomplete, inaccurate, and misleading from 1996 through 2003. The following describes those deficiencies.

Pension Disclosure Deficiencies

From the time that MP-1 was adopted in June 1996, through January 2004, when the City made a corrective voluntary disclosure, the City's various disclosure documents omitted or presented in an inaccurate or misleading fashion material information concerning the City's pension funding arrangement and its potential impact on the City's financial health. The disclosure deficiencies, ranging in importance from critical to mundane, are detailed in Appendix L to this [Kroll] Report. What follows is a brief summary of the more significant deficiencies affecting the City's pension disclosure.'

In the discussion that follows, we consider each category of disclosure document previously described for the six major disclosure deficiencies we have identified: (1) MP-1; (2) the Corbett litigation and settlement; (3) the MP-1 funding trigger and the City's financial crisis; (4) MP-2; (5) post-retirement healthcare liability, and (6) the City's net pension obligation.

Disclosure Failures Related to the Terms of MP-1

As noted above, MP-1 was adopted on June 21, 1996. Despite the significance of MP-1, both in terms of the risks inherent in underfunding the City's pension system and the City's decision to abandon accepted actuarial principles in calculating its pension contribution obligations, the City did not disclose anything about MP-1 in either its CAFR or any other publicly-filed financial document until its 1998 CAFR (filed on November 25, 1998). In the interim, the City's 1997 CAFR, which was issued in late 1997 and was the first CAFR that should have incorporated the changes implemented with MP-1, contained the following disclosure with respect to the City's pension obligations:

SDCERS' funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and actuarial accrued liability are determined using the projected unit credit actuarial funding method. Unfunded actuarial accrued liabilities are being amortized as a level percent of payroll over a period of 30 years (25 years remaining) . . . The City and the District contribute a portion of the employees' share and the remaining amount necessary to fund the system based on an actuarial valuation at the end of the preceding year under the projected unit credit method of actuarial valuation . . .

This disclosure was inaccurate because MP-1 changed the City's pension funding policy. Under MP-1, the City and the SDCERS Board agreed the City would be permitted to contribute to SDCERS in an amount less than what would have been required had actuarially determined rates been used. The City, however, falsely claimed that it continued to contribute to SDCERS at actuarially determined rates when, in fact, it did not. This statement remained substantially unchanged in the City's CAFRs for fiscal years 1997 through 2002.

It was not until late 1998 – more than two years after the adoption of MP-1 – that the City first disclosed the existence of MP-1 in a footnote to its CAFR for fiscal year 1998. Even then, the disclosure was insufficient in numerous respects:

(Continued from the excerpt of the City of San Diego Audit Committee (Kroll Inc.) report)

In 1996 the City Council approved proposed changes to [SDCERS] which included changes to retiree health insurance, plan benefits, employer contribution rates and system reserves. The proposal included a provision to assure the funding level of the system would not drop below a level the Board's actuary deems reasonable in order to protect the financial integrity of the SDCERS. . . . The San Diego Municipal Code was then amended to reflect the changes. The changes provide the employer contribution rates be "ramped up" to the actuarially recommended rate in .50 percent increments over a ten year period at such time it was projected that the Projected Unit Credit (PUC) and Entry Age Normal (EAN) rates would be equal and the SDCERS would convert to EAN. The actuary calculated the present value of the difference between the employer contribution rate and actuarial rates over the ten-year period and this amount was funded in a reserve. This "Corridor" funding method is unique to the SDCERS and therefore is not one of the six funding methods formally sanctioned by the [GASB] for expending purposes. As a result for June 30, 1998, the actuary rates are reported to be \$5,975,000 more than paid by the City which, technically per GASB 27 . . . is to be reported as a [NPO] even though the shortfall is funded in a reserve. The actuary believes the Corridor funding method is an excellent method for the City and that it will be superior to the PUC funding method. The actuary is in the process of requesting the GASB to adopt the Corridor funding method as an approved expending method which would then eliminate any reported NPO.

The City's disclosure omitted several key components of the MP-1 agreement. The disclosure noted that the agreement implemented changes in benefits and employer contributions, but it did not disclose that employer contribution rates were set at rates lower than actuarially required, in violation of a condition required by the City Charter, nor did it disclose what additional benefits were granted. It also failed to disclose that the benefit enhancements granted in MP-1 were contingent upon the SDCERS Board approving contribution relief for the City, estimated at the time to be a reduction in funding payments of approximately \$110 million through the end of the agreement.

Moreover, the disclosure failed to discuss the effect of the trigger and the fact that, if the SDCERS funded ratio declined below the trigger, the City would have to make a large lump-sum payment to SDCERS – or begin contributing at a substantially higher rate – and that either outcome posed a potential risk to the City's future financial health. The indirect reference to the trigger ("a provision to assure the funding level would not drop below a level the Board's actuary deems reasonable") was insufficient to describe the risk to the City if the funded level fell below the trigger.

The description of the funding method was likewise misleading. It stated, "the Corridor funding method is an excellent method . . . it will be superior to the PUC funding method. The actuary is in the process of requesting the GASB to adopt the Corridor funding method as an approved expending method which would then eliminate any reported NPO." The City's disclosure suggested that its funding method was no more than a technical accounting matter that would be resolved as soon as the GASB adopted "Corridor" funding as an approved method. In fact, there was no certainty that such a thing would ever happen and, as it turned out, it never did.

The City also failed to disclose the possibility that MP-1 could be found to be illegal if challenged in court. Although the City stated that "the San Diego Municipal Code was then amended to reflect the changes" initiated by MP-1, this statement was inaccurate: the City never amended the Municipal Code to accommodate MP-1. Moreover, the City did not disclose that because of MP-1 its contributions to the pension system were not in compliance with either the City Charter or the Municipal Code, which required contributions at actuarially determined rates, and that the City's failure to contribute to SDCERS at actuarially determined rates could subject it to future liability to SDCERS or cause the entire MP-1 arrangement to be voided – another potential risk to the City's future financial health.

Finally, the City failed to disclose the conflicts of interest of SDCERS Board members, most of whom were, at that time, also City employees, voting on a proposal that provided contribution relief to the City in exchange for enhanced benefits that would accrue to them personally.

(Continued from the excerpt of the City of San Diego Audit Committee (Kroll Inc.) report)

The City's disclosure in its 1998 CAFR about MP-1 generally remained the same from year to year after 1998. It violated the specific disclosure standards in GASB 27, Accounting for Pensions by State and Local Government Employers, which governed the City's disclosures in 1997 and subsequent years, because it failed to disclose (i) the changes in retirement benefits, (ii) that City contribution rates were less than actuarially required, (iii) the trigger threshold of 82.3%, and (iv) the potential financial implications to the City of breaching the trigger threshold, among other things. Despite the specific requirements of GASB 27, these matters were either inaccurately disclosed or only partially disclosed in the City CAFRs from 1997 through 2002.

None of the disclosure deficiencies in the City's CAFR were corrected in the corresponding SDCERS CAFR, if anyone had thought to look there for more detailed or accurate information. For fiscal years 1997 through 2002, the SDCERS CAFR repeated the following false and misleading statements about the system's pension funding mechanism:

SDCERS' funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. . . .

The City and the District contribute a portion of the employees' share and the remaining amount necessary to fund the system based on an actuarial valuation at the end of the preceding year under the projected unit credit method of actuarial valuation. . .

The statements in the SDCERS CAFR throughout this period that the City's payments were "actuarially determined" or "based on an actuarial valuation" were simply false.

Finally, the City's disclosures in connection with bond offerings during the relevant time period were similarly deficient with respect to MP-1. From 1996 through 2003, while MP-1 came and went and MP-2 was adopted, the City's discussion of SDCERS in the Pension Plan note to the bond offering remained essentially unchanged. It said (in 1996):

Pension Plan

All City full-time employees participate with the full-time employees of the San Diego Unified Port District in the City Employees' Retirement System ("CERS"). CERS is a multiple-employer public employee retirement system that acts as a common investment and administrative agent for the City and the District. Through various benefit plans, CERS provides retirement benefits to all general and safety (police and fire) members.

The CERS plans are structured as defined benefit plans in which benefits are based on salary, length of service and age. City employees are required to contribute a percentage of their annual salary to CERS. State legislation requires the City to contribute to CERS at rates determined by actuarial valuations.

The City's last annual valuation dated June 30, 1995 stated that the funding ratio (Net Assets available for Benefits to Pension Benefit Obligation) of the SDCERS fund to be 86.8%. However, as there are some on-going meet and confer items being discussed, the Actuarial Report has not been ratified by the Retirement Board but is expected to be ratified in the near future. The CERS fund has an Unfunded Actuarial Accrued Liability (UAAL) of \$96.3 million as of June 30, 1995. The UAAL is the difference between total actuarial accrued liabilities of \$1.477 billion and assets allocated to funding of \$1.380 billion. The UAAL is amortized over a 30 year period which started July 1, 1991, with each year's amortization payment reflected as a portion of the percentage of payroll representing the employer's contribution rate. As of June 30, 1995, there were 26 years remaining in the amortization period.

(Continued from the excerpt of the City of San Diego Audit Committee (Kroll Inc.) report)

With the exception of certain financial information, such as the funded ratio and UAAL which changed over time, the above statement remained essentially the same from 1996 through the last bond offering by the City in 2003.

Throughout this time, the City's description of its pension plan in its Preliminary Official Statements and Official Statements was misleading. The statement that "State legislation requires the City to contribute to CERS at rates determined by actuarial valuation," while literally true, failed to disclose that the City was not, in fact, contributing to SDCERS at actuarially calculated rates due to the contribution relief afforded by MP-1 and, later, MP-2.

The fact that the City and SDCERS had entered into MP-1, the nature of this agreement, and its potential implications for the funded level of SDCERS, were material information that should have been disclosed. This funding mechanism implicated the primary concern of a bondholder – the ability of the issuer to pay its debts as they come due. Although SDCERS's funded ratio was more than 90% when MP-1 was adopted, by fixing the City's contributions, MP-1 virtually ensured an eroded funded ratio and a higher UAAL in the future. A higher UAAL would require the City, once it returned to actuarially-driven contributions, to make significantly increased payments to the pension system in future years. If the City were ultimately unable to make all of its legally-required payments, it may have had no choice but to default on its bond obligations. The City's intentional underfunding of its pension system would therefore have been an important factor to a reasonable investor considering whether to purchase the City's bonds.

In summary, neither the City nor SDCERS properly disclosed MP-1 in any of their financial disclosure documents. Specifically, and most importantly, the SDCERS CAFR and the City's bond offering disclosures falsely stated or implied that the City was continuing to fund SDCERS at actuarially determined rates when in fact contributions were far below these rates. The City CAFR alluded to a difference between City contribution rates and actuarially determined rates but obscured and downplayed the nature and amount of the difference. As a result of these deficiencies, neither citizens nor investors were alerted properly to the fact that the City was not funding its pension system at actuarially required rates.

Disclosure Failures Related to the Corbett Litigation and Settlement

The Corbett action was filed on July 16, 1998. City officials knew that a virtually identical claim had been successfully asserted in another California jurisdiction and that if the Corbett litigation were successful, it could result in a significant increase to the City's pension obligations. Nonetheless, the City failed to disclose the existence of this litigation in its 1998 and 1999 CAFRs.

By March 2000, the City had quantified the financial impact of the Corbett litigation and knew that it could be well over seven hundred million dollars. The Corbett settlement was approved by the court on May 17, 2000. Nonetheless, the City continued to fail to disclose properly either the litigation, its settlement, or its potential financial impact in any of its CAFRs or its Preliminary Official Statements and Official Statements for all bond offerings after the Corbett settlement. The SDCERS CAFRs in fiscal years 2000 and 2001 contained a description of the terms of the Corbett settlement in the Subsequent Events section that was incomplete and misleading. This disclosure was wholly inadequate because it failed to disclose the changes to the calculation of retirement benefits, the resulting additional liability created at SDCERS, and the overall financial impact the settlement would have on the City.

While the City's CAFRs were mostly silent about Corbett, the City did discuss Corbett in a Continuing Disclosure Annual Report ("Annual Report") issued on April 5, 2000, but in a misleading way. The Annual Report stated that a tentative settlement of Corbett had been reached, pursuant to which:

[A]dditional benefits to be paid to retired employees will be paid from sources other than [the] City's General Fund (or its enterprise funds). Active City employees will receive increased benefit payments to CERS commencing in the Fiscal Year ending June 30, 2001, which will represent an increase of 0.5% in the cost of benefits payable by the City from the General Fund and other funds of the City, in accordance with the current funding mechanism.

(Continued from the excerpt of the City of San Diego Audit Committee (Kroll Inc.) report)

By stating that the cost of the settlement related to retired employees would not be borne by the City's "General Fund," the City implied that the Corbett settlement would have no financial impact on the City. In fact, because a portion of the cost of the Corbett benefits would be borne by SDCERS Surplus Earnings, these costs would reduce SDCERS assets by an equivalent amount, thereby increasing the System's UAAL and the City's Annual Required Contribution, which includes an amortized portion of the UAAL.

The biggest failing in all of the disclosures by the City and SDCERS about Corbett concerned the Corbett "contingent" liabilities. As discussed above, the City and SDCERS decided that the City's new obligations under the Corbett settlement to employees who had already retired could be treated as "contingent" because they were to be paid out of Surplus Earnings, with payment deferred if Surplus Earnings were inadequate. The City and SDCERS then concluded that these "contingent" liabilities could be ignored in calculating the SDCERS UAAL. As we have seen, this treatment of Corbett "contingent" liabilities was completely improper. No one reading the City's or SDCERS's disclosure documents would have been alerted to the fact that the Corbett settlement created a huge new unrecorded and unfunded liability.

Disclosure Failures Related to the MP-1 Trigger

The descriptions of MP-1 in the City CAFRs, the SDCERS CAFRs, and the City's bond offering documents did not adequately disclose the significance of the funded ratio floor (the "trigger") contained in MP-1. If that floor was breached, the City would have had to make a large balloon payment and/or significantly increase its annual contribution to SDCERS. The likelihood of this breach would have been of particular significance to purchasers of the City's debt because it could have impaired the City's ability to make its debt payments.

City and SDCERS officials became aware of sharply diminishing investment earnings as early as October 2001, and they were sensitive by this time, if not earlier, of the need to take steps to "ride through the next few years and keep a fiscally sound funding ratio." In February 2002, the June 30, 2001 actuarial valuation was officially released, and City and SDCERS officials learned that the funded ratio had dropped from 97.3% to 89.9%. City and SDCERS officials explicitly acknowledged the risk of hitting the trigger, especially in light of a continued slump in investment earnings – "The 82% trigger point is looking WAY too close" – and considered ways to obtain a more current estimate of the funded ratio. The actuarial valuation in February 2002 alerted City and SDCERS officials to a significant risk that a further decline in the funded ratio could cause the MP-1 trigger to be breached and created a duty to disclose the financial impact on the City if this should occur.

Three bond offerings occurred during the first half of 2002, including the Ballpark Bond offering. The Ballpark Bond offering was particularly significant. In August and September 2004, Terri Webster had explicitly expressed her concern about this offering, noting that the BRC Report should not "mess w/ballpark bonds," i.e., the BRC Report, which would negatively describe the City's pension funding, should be delayed so it would not harm the Ballpark Bond offering. She was well aware that the disclosure of a potential large drop in the funded ratio would negatively impact the City's credit rating, and chose not to disclose this negative information.

In the period leading up to MP-2, the sharp decline in SDCERS's investment earnings and the imminent risk of blowing through the trigger were material facts that should have been disclosed. As discussed above, the risks to the City's fiscal health, inherent in MP-1, would have taken on additional significance as the funded ratio dropped toward the floor. The risk that the City would have to make a large balloon payment within a short period of time posed a threat to the City's ability to generate enough revenue in the year the balloon payment was due to satisfy all of its obligations for that year. That risk would have been material to an investor contemplating a purchase of the City's bonds.

The City issued two additional bond offerings in June 2002. By this time, City and SDCERS officials had obtained additional information that projected the trigger would be breached as of June 30, 2002, and began discussing alternative funding proposals to either change or remove the trigger. By not disclosing the risk of the MP-1 trigger or even its existence in these bond offerings, City officials concealed material information from the investing public and violated the requirements to disclose factors that significantly affect the identification of trends in amounts reported under GASB 27.

(Continued from the excerpt of the City of San Diego Audit Committee (Kroll Inc.) report)

Disclosure Failures Related to MP-2 and Its Aftermath

The SDCERS Board and the City approved MP-2 in November 2002, prior to the issuance of the City's 2002 CAFR. MP-2 and its consequences for the financial condition of the City should have been disclosed in the City's 2002 CAFR. Moreover, by the time the City filed its 2002 CAFR, some of the risks to the City's financial health posed by MP-1 were no longer potential – they had, in fact, been realized. Among these risks was the significant decline in SDCERS's funded ratio, which was widely believed to have already breached MP-1's trigger of 82.3% for the June 30, 2002 actuarial valuation. Nevertheless, the City's 2002 CAFR pension disclosure was essentially unchanged from that of prior years. MP-2 was not mentioned at all, and the discussion of MP-1, which continued to be misleading and incomplete, was now also obsolete. The City's 2002 CAFR was materially deficient under GASB 27's standard for describing pension information because the City failed to disclose the MP-2 agreement and its key components.

The City's 2002 CAFR pension disclosure differed from prior years in only one significant respect – the statement referring to GASB's consideration of whether to add the "corridor funding" method to the list of approved expending methods was deleted. This statement was removed because the City, in late 2002, for the first time decided to confirm with the SDCERS actuary that this statement was correct, and was told by the actuary to remove the statement. However, the City did not ask Mr. Roeder to verify the accuracy of any other statements in the pension footnote and it was not until September 2003 that Mr. Roeder became aware of other false statements in the City's disclosures. Mr. Roeder wrote Mr. Grissom and Mr. Barnett an e-mail to inform them of the errors, and stated he would no longer agree that the "corridor funding" method is "excellent," because the City modified the trigger by implementing MP-2.

The City bond offering documents from mid-2002 through 2003 were also completely silent about MP-2. Appendix A of the bond offering documents continued to describe the funding of SDCERS in the same manner as it had even prior to MP-1. Depending upon the bond offering, Appendix B contained excerpts from the City's 2001 or 2002 CAFR, which, as described above, were similarly deficient. Notwithstanding its significance, there was no relevant disclosure of MP-2 at all in the City's disclosure documents.

SDCERS reported MP-2 as a subsequent event in its 2002 CAFR, and described the terms of MP-2 in detail in its 2003 CAFR. These descriptions, however, were silent as to the reasons for the MP-2 agreement. By June 30, 2003, it was known by SDCERS and the City that the SDCERS funded ratio had fallen below the 82.3% trigger, but the SDCERS CAFR for fiscal year 2003 failed to report this fact and the resulting impact on the City's contribution rate as required under GASB 25.

As with the City's other disclosure deficiencies discussed above, the adoption and nature of MP-2 would have been material information for a reasonable investor. That the City's adoption of MP-2 was designed to avoid the impending balloon payment required by MP-1 demonstrates the severe fiscal strain increased pension contributions would have presented to the City at that time. Under the ramp-up funding provided for by MP-2, the UAAL would take longer to be paid off than under the balloon payment contemplated by MP-1, burdening the City's fiscal health for years to come. While City officials at the time of MP-2 were concerned only with short-term budget relief, the City's bondholders would have taken a long-term view of the City's ability to pay its debts. Pushing pension contributions onto future taxpayers would have been seen by investors as a material risk to the City's ability to repay its bonds in future years.

Disclosure Failures Related to Post-Retirement Healthcare

The City's disclosure related to its post-retirement healthcare liabilities was misleading in that it did not disclose that this benefit was paid, in part, using Surplus Earnings of SDCERS, and that the City's General Fund would bear the financial burden of financing the benefit in the event SDCERS Surplus Earnings were insufficient. The footnote for the 1996 CAFR included the following statement:

Currently, expenses for post-employment healthcare benefits are recognized as they are paid. For the fiscal year ended June 30, 1996, expenditures of approximately \$4,949,000 were recognized for such health care benefits.

This statement was included in all City CAFRs from fiscal years 1996 through 2002, with appropriate updates to the current year cost. This disclosure is incomplete because it fails to provide important details about the funding mechanism used to pay for this benefit. Additionally, it failed to describe the potential impact on the General Fund in

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the event SDCERS Surplus Earnings were insufficient. Since this benefit was first established, a significant portion of the cost was paid for either out of SDCERS's Surplus Earnings or from the City's regular pension contributions.

The City chose to ignore the recommendations of the 1989 Buck Report, the Blue Ribbon Committee, and its disclosure counsel that it should do an actuarial valuation of the retiree healthcare benefit. Terri Webster in particular appears to have persistently resisted the notion of analyzing future retiree healthcare costs. As outside disclosure counsel, Paul Webber pointed out in a December 10, 2003 e-mail to Lakshmi Kommi, "[i]t seems somewhat unusual that the City wouldn't have some idea what the general fund exposure might be for such an enormous amount of exposure, notwithstanding that there is not yet a requirement for actuarially determining the exposure." Terri Webster, in response to Mr. Webber's concerns, informed him that the City Auditor's Office knows it will be "a big number" but neither SDCERS nor the City has conducted an actuarial valuation to determine the actual liability because it was not yet required to do so by GASB.

Today, retiree healthcare benefits are no longer paid out of Surplus Earnings. In February 2005, the City Council adopted a recommendation of the Pension Reform Committee when it passed an ordinance requiring the use of the City's General Fund to pay for retiree healthcare costs.

GASB did not require the City to disclose its post-retirement healthcare liability. Still, as discussed among the remediation measures, disclosure of this amount was and continues to be a preferable practice.

Accounting Failures Related to Reporting the Net Pension Obligation

A Net Pension Obligation is created when an employer fails to fully fund the Annual Required Contribution for its pension plan. Under MP-1, the City contributed toward its pension obligations at predetermined, negotiated rates which were less than a GASB-approved ARC. GASB guidance directed the City to disclose this divergence and report the cumulative difference between actual payments and payments determined under a GASB-approved actuarial funding method – the NPO – in its financial statements. In the CAFR for the fiscal year ended June 30, 1997, the City falsely stated: "There is no Net Pension Obligation at year end as Annual Required Contributions and Contributions Made have always been identical during the three year period [fiscal years 1995 through 1997]." In fact, the City should have recorded an NPO of at least \$6 million at this date because the City's contribution to SDCERS for that fiscal year was less than the ARC. In all subsequent years, the NPO figures reported by the City were out of date by a full year, which understated the NPO in those years.

Although the City included an NPO in its CAFRs for the fiscal years ending June 30, 1998, through June 30, 2002, its disclosure remained misleading. The CAFR pension footnote suggested that the NPO resulted from an accounting technicality that would be eliminated after the GASB adopted "Corridor" funding as an approved funding method. In fact, the GASB never adopted "Corridor" funding as an acceptable actuarial cost method. By the June 30, 2002 CAFR, this statement was misleading and should have been removed.

When the City initially reported an NPO at the end of 1998, more than two years after MP-1 was adopted, it attempted to minimize its significance. The City CAFR stated the NPO was "funded in a reserve," a misleading statement repeated in all subsequent City CAFRs. The "reserve" was simply an amount equal to the City's annual NPO which was carved out of SDCERS Surplus Earnings and placed in a separate account at SDCERS (and included in actuarial assets). The reserve account was increased each year in an amount equal to the increase in the City's reportable NPO. In 2003, the funds sitting in the NPO reserve account were transferred into the Employer Contribution reserve account. This transfer had no effect on the funded status of SDCERS because both the NPO reserve account and the Employer Contribution Reserve account were included in actuarial assets. In fact, had the NPO reserve account not been created, the funds would have gone into the Employer Contribution Reserve instead. This "reserve" also did not reduce the gap, which continued to grow year by year, between what the City actually paid for retirement benefits and what it would have paid under a GASB-approved actuarial funding method. Furthermore, it is not clear how, even in theory, a reserve account at SDCERS could have offset a City liability.

In addition to the misleading disclosure of the existence of an NPO and whether it was funded in a "reserve," several factors also resulted in a questionable calculation of the City's NPO when an NPO was disclosed at all:

(Continued from the excerpt of the City of San Diego Audit Committee (Kroll Inc.) report)

- The characterization of a portion of the Corbett settlement as “contingent” for purposes of the actuarial valuation also understated the City’s NPO. If the “contingent” liabilities had been accounted for properly, they would have significantly increased the SDCERS UAAL, which, in turn, would have increased the City’s Annual Required Contribution each year. Because the City’s actual contribution was fixed by MP-1, any increase in the ARC would have increased its NPO. The improper treatment of Corbett “contingent” liabilities thus caused a systematic understatement of the NPO, reduced the City’s reported NPO, and artificially delayed the point at which the City would hit the 82.3% funded ratio trigger.
- To reduce the ARC and the reported NPO, the City used a 40-year UAAL amortization period to determine the NPO. The effect of utilizing the longer amortization period decreased the calculated ARC, and, in turn, reduced the reported NPO. However, the SDCERS actuary continued to use and report a 30-year amortization period for preparing actuarial valuations and reporting required contribution levels for SDCERS but used a 40-year amortization period for the City to calculate the NPO. The effect of utilizing the longer amortization period decreased the NPO reported by the City in 1998 by approximately \$1.3 million. Although not violative of any GASB rule, the use of different amortization periods to calculate essentially the same thing for the sole purpose of making the City’s NPO appear less dramatic was certainly not good practice.
- Since the mid-1980s, the City used a variety of methods to apply a portion of its annual contribution to SDCERS to post-retirement healthcare benefits. This effectively reduced the City’s net contribution for pension benefits each year and decreased total plan assets. The NPO calculation should have included, but did not, annual amounts diverted for post-retirement healthcare payments. As a result, the NPO was further understated by an amount equivalent to payments for retiree healthcare.

The materiality of the City’s false and misleading statements and omissions regarding the NPO, as well as other important facts about the pension system, is amply demonstrated by the City’s deliberate efforts to conceal this information from the rating agencies. Indeed, prior to 2003, no information whatsoever regarding SDCERS was provided to any of the four rating agencies. Because the pension system was not discussed at all during presentations to the rating agencies, the agencies were unaware of (i) SDCERS’s declining funded ratio; (ii) the City’s concern over the MP-1 trigger being breached and the likely financial consequences to the City if it were; and (iii) the City’s proposal that SDCERS agree to amend the MP-1 trigger in order to avoid those financial consequences. By failing to inform the rating agencies of the magnitude of the financial problems plaguing the SDCERS system, the City avoided the credit downgrade it feared, and the rating agencies left the City’s high credit rating unchanged. The evidence suggests these omissions were not inadvertent, but rather were motivated by a concern that such disclosure could affect the City’s credit rating and cause the cost of its borrowing to increase. As City Auditor Ed Ryan put it in 1998:

... [W]hen we book the NPO [showing the shortfall between the actuarially calculated contribution and what the City paid under MP-1] the rating agencies won’t like it. It will be a negative for the City. As we market a large amount of bonds it might cost us a lot of money. Not quantifiable at the moment.

As the SDCERS funding problems grew, so did concern on the part of City officials over the rating agencies’ reaction to disclosure of the magnitude of the problem. Assistant City Auditor and Comptroller and SDCERS Board member Terri Webster underscored this concern in a July 2002 e-mail to Mr. Ryan:

Regarding cathy [Lexin’s] letter my biggest suggestion to her is to eliminate any reference to fitch and rating agencies . . . This letter will be seen by press and the city does not need to telegraph its pension problems to the rating agencies who don’t research the topic to any great level now.

Ms. Webster was even more explicit in an e-mail sent earlier in 2002 to fellow SDCERS Board member Ray Garnica, in which she attempted to explain the significance of the funded ratio trigger contained in MP-1:

(Continued from the excerpt of the City of San Diego Audit Committee (Kroll Inc.) report)

Rating Agency Impacts:

The Funding Ratio is a fiscal indicator of the health of the SDCERS fund which is a major fund of the City. A large drop in funding ratio or dropping below certain benchmarks could result in a negative impact to the City's credit rating. The City has a high credit rating which is vital to keep borrowing costs down for future issuances on the horizon such as for fire stations, main library, and branch libraries, etc.

Misrepresentations of material fact made to rating agencies themselves constitute violations of the federal securities laws. Mr. Ryan's and Ms. Webster's e-mails demonstrate their intent to conceal patently material information about the City's NPO from the City's rating agencies, and therefore the City's bondholders, information they understood was critical to analyzing the City's fiscal health.

Wastewater Disclosure Deficiencies

Concealment from the Investing Public

Members of the City Manager's Office, the City Attorney's Office, the MWW and others knew the City was violating its grant and loan covenants and also knew the potential consequences for such violation. Nonetheless, this information appears to have been concealed from the investing public, the City's bond and disclosure counsel, and others until 2004.

Bond Offerings

The City issued sewer revenue bonds as an additional means of financing wastewater projects. The first sewer revenue bond offering was in 1993, with subsequent offerings in 1995, 1997, and 1999. Another offering was initiated in 2003, but in light of other events within the City, the POS was pulled shortly before the bonds were to be offered.

Preparation of the sewer POS was a collaborative and multi-disciplinary effort. The working group consisted of members of the City Attorney's Office, the Auditor and Comptroller's Office, the City Manager's Office, Financing Services, the MWW, outside counsel, outside financial advisors, and others. Paul Webber of Orrick Herrington & Sutcliffe served as outside counsel for each of the bond offerings. The drafting process entailed updating the OS from the prior offering to include any new developments. Individuals were assigned sections of the POS to update. Once they had done so, the working group met with Mr. Webber to walk through the POS page by page to discuss any changes or issues.

Once the drafting process was complete, the offering proceeded like the others, as described above, with the City Council receiving a "1472" request for Council action, approving the POS, and authorizing the offering to move forward. At some point after the City Council approved the POS, the City Manager's Office and the City Attorney's Office signed certifications verifying the accuracy of the contents of the disclosures. Outside bond counsel also issued an opinion in connection with the offerings. In the case of the sewer revenue bond offerings, Patricia Frazier signed the 1999 OS as the authorized representative of both the Public Facilities Financing Authority of the City of San Diego and the City of San Diego. City Manager McGrory signed all earlier ones. As the City Council had been told in 1997, disclosure obligations did not stop with the POS. While the POS was the bond issuance's primary disclosure document, additional "[c]ontents deemed material by the City's disclosure counsel will be included in continuing disclosure."

Since the first sewer revenue bond offering in 1993, the sewer OS contained language describing the City's sewer rate structure. The relevant language did not change in subsequent years. In 1995 and 1997, the language was likely false in light of what the City knew at the time, but by 1999 it was certainly so.

The pertinent section in the OS that describes the rate structure and related requirements is entitled "Wastewater System Regulatory Requirements." Since 1993 and in each subsequent year, the OS stated that the City was subject to regulatory requirements as a condition of the City's having received federal grant funds under the Clean Water Act. Further, it described that there is a proportionality requirement mandating that costs be recovered "in a proportionate manner according to the customer's level of use." Each offering listed the various factors that were required to be

(Continued from the excerpt of the City of San Diego Audit Committee (Kroll Inc.) report)

considered in determining "proportionality," explaining that its own rates "are established to recognize the volume and strength characteristics of wastewater contributed to the Wastewater System."

As to whether its current rate structure complies with the SWRCB requirements, since 1993 the OS stated, "[t]he City's rate structure has been reviewed by the State Board and no grant funds or costs under grant funded programs have been disallowed based on the nature of the rate structures." This language appears to have been very carefully crafted. While it is arguably technically correct, it concealed the central fact that the City knew its rate structure did not comply with the identified requirements. The City was not just omitting the significant fact of its noncompliance with the SWRCB requirements and its violation of its grant and loan covenants in making this statement. Worse, it was making an affirmative misstatement intended to give investors comfort about the status of the City's compliance.

The language regarding the City's rate structure was carried forward in each subsequent year's offerings, with slight modifications in each year. That the language changed with each offering demonstrates a conscious effort by the City to review and comment upon it. In certain respects the revisions indicate intent to muddle, rather than to clarify, the description of the City's noncompliant status.

In the 1999 sewer revenue bond offering, the Wastewater Regulatory Requirements section concludes with the statement: "The City believes that it is in compliance with all federal and state laws relating to the Wastewater System." In fact, the City was likely not in compliance with all federal laws, as its rate structure likely violated the proportionality requirement of the Clean Water Act. The City's failure to include COD had a significant adverse impact on residential users to the benefit of the industrial ones. In any event, whether or not the City actually was in violation of any federal or state laws, by 1999 it certainly thought it was. This statement was therefore made in spite of the City's belief to the contrary.

Although the 2003 sewer revenue bonds were ultimately never offered, the POS was updated by the working group and approved by the City Council, and the offering was just days away from moving forward when the POS was pulled. In the course of revising the 2003 POS, Deputy City Attorney Ted Bromfield made substantial changes to the Regulatory Requirements section and even made a change to the paragraph about the City's rate structure. Although he knew by then about the City's noncompliance, he made no changes to the false language.

The City's failure to comply with its legal obligations to have a proportional rate structure would have been material to the investing public and should have been disclosed. Indeed, Fitch, the bond rating agency, specifically inquired whether the City's rate structure was in compliance, demonstrating that this information mattered to investors. Given that a noncompliant rate structure could result in an obligation to immediately repay hundreds of millions of dollars, it is not surprising that Fitch would want to know more about the City's compliance (or lack thereof). Moreover, the City's cavalier approach to its legal obligations was itself material. Investors would want to know if City officials demonstrated a flagrant willingness to violate the law and knowingly risk disgorgement of hundred of millions of dollars in grant and loan funds. Such qualitative information about officials' integrity has been found by the SEC to be material. Particularly in 2003, on the heels of the implosions of Enron and Worldcom, investors were particularly focused on whether an entity had "tone at the top" deficiencies caused by leaders of an organization with a lack of respect for legal obligations.

The City's failure to disclose its noncompliance in the 2003 POS is especially problematic. The City Council had received an ominous presentation on the issue in January 2002 and then, just months before approving the POS, had been given a legal memorandum in November 2002 from the City Attorney's Office that detailed the significant ramifications to the City for being out of compliance. The very fact that the City Council and City Attorney's Office planned to discuss the compliance issue in closed session (on at least two separate occasions) indicates they believed the issue created "significant exposure to litigation."

City officials not only hid or failed to disclose the City's noncompliance from the investing public, they also concealed it from their own bond and disclosure counsel. The weight of the evidence supports the conclusion that Mr. Webber was never told the City did not have a compliant rate structure nor that it was violating certain grant and loan covenants in its agreements with the State. When Mr. Webber was finally informed of the issue by Councilmember Frye in February 2004, a Voluntary Disclosure was prepared and filed shortly thereafter, disclosing what Mr. Webber believed to be the material facts.

(Continued from the excerpt of the City of San Diego Audit Committee (Kroll Inc.) report)

Bond Offerings and Proposition 218

The City's bond disclosures were also inadequate with respect to Prop 218. Starting in 1997, the City took the position that Prop 218 did not likely apply to sewer charges, but that the City would nevertheless follow its requirements, since doing otherwise could have had a negative impact on its bond issuances. Under current case law, sewer charges may in fact be subject to the proportionality requirement of Prop 218.

The Prop 218 disclosure was added to the OS in 1997 at Mr. Webber's urging. It was carried forward in the 1999 OS and again in the 2003 POS. It quite thoroughly describes Prop 218 and its requirements and asserts, "[w]ithout conceding that its sewer rates and charges are subject to [Prop 218], the City believes that its rates comply with the foregoing standards." As described above, like the Clean Water Act, Prop 218 contains a proportionality requirement but does not detail how to set rates to satisfy that requirement. The City took the position in its March 2004 Voluntary Disclosure that, notwithstanding its failure to include COD in its rates, it believed it still met the proportionality requirements of Prop 218. The City also acknowledged in the Voluntary Disclosure the possible contrary conclusion, since the charges were "disproportionately better for certain commercial and industrial customers . . . and disproportionately worse for other customers." Although there is little case law on point, like the Clean Water Act analysis, since some users were adversely affected to the benefit of others, it seems clear that the City violated the proportionality requirement of Prop 218, and the disclosure should have reflected as much.

There was an additional discrepancy in the City's sewer rate structure that also could be found to have violated Prop 218. Prior to incorporating COD into its rate structure, the City calculated its residential users' charges on one basis (how much water they used in winter months) while it charged its industrial users on a different basis. It is likely that this disparate treatment also violated the proportionality requirement of Prop 218.

Continuing Disclosures

In addition to issuing bonds, the City also filed periodic sewer bond continuing disclosure annual reports, for which Patricia Frazier and Mary Vattimo were largely responsible. On February 28, 2001, for example, Mary Vattimo and Patricia Frazier each signed a continuing disclosure that made no mention of the rate issue. The following year, on March 4, 2002, Ms. Vattimo and Lakshmi Kommi each signed the continuing disclosure. Just as the one before it, this continuing disclosure failed to alert the public to either the City's noncompliance or of its potential liability. This omission is particularly glaring given that, just one month prior to Ms. Vattimo signing the disclosure in March 2002, she and Ms. Frazier received the piercing e-mail from Dennis Kahlie, described above, in which he warned that he believed the City was in breach of eight grant and loan contracts, totaling \$410 million. He cautioned: "As to when the hammer drops, it could literally happen at any time after [the] SWRCB concludes the City has begun to drag its feet." This e-mail apparently had no effect on Ms. Vattimo or Ms. Frazier when they shortly thereafter prepared the continuing disclosure, and recklessly failed to disclose the City's noncompliance.

Annual Financial Reports (City and Utilities)

Like the bond offerings, the City's CAFRs also failed to disclose the City's noncompliance with grant and loan conditions and its violations of law. NCGA Interpretation 6, applicable during the time period of the City's noncompliance, required the City to disclose in its financial statements "material violations of finance-related legal and contractual provisions." SAB 99 states "the omission or misstatement of an item in a financial report is material if, in the light of surrounding circumstances, the magnitude of the item is such that it is probable that the judgment of a reasonable person relying upon the report would have been changed or influenced by the inclusion or correction of the item." Misstatements are not immaterial simply because they fall beneath a quantitative threshold, and a misstatement of even a relatively small amount could have a material effect on a financial statement.

The City's violation of conditions of its grant and loan agreements with the State was material and should have been disclosed in the City's CAFR. In fact, the CAFR footnotes contain a section dedicated to "Contingencies" designed with such disclosure in mind. This note, which was repeated year after year, stated:

The City has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed

(Continued from the excerpt of the City of San Diego Audit Committee (Kroll Inc.) report)

under terms of the grant. City management believes such disallowances, if any, would not have a material effect on the City's financial position.

Disclosure of the City's noncompliance was never made in the City's "Contingencies" note. In fact, a disclosure about Prop 218 was added to the note for the CAFR for fiscal year 1997, but the note still omitted any disclosure about the City's violation of conditions of its grants and loans. Likewise, the "Commitments" note of the City's CAFR contained an annual disclosure about the Sewer Utility's construction plans. The note described the City's intention to finance construction projects "with approved State and Federal grants," making no mention of the City's noncompliance with regard to these funds.

The MWWD also files its own financial report (the "MWWD Financials") on an annual basis. Like the CAFR, these financials should have disclosed the City's violation of contractual provisions. Yet year after year, the MWWD Financials were silent on the issue. These financials, like the CAFR, included a letter from Ed Ryan in which he recklessly certified the financials were accurate in all material respects. Moreover, beginning in 1998, the MWWD Financials contained a note directly addressing sewer rate billing and describing that the PA's billing structure included an allocation to COD. The note failed to mention that (1) the City's own users were not billed in that manner, and (2) the City was out of compliance with the SWRCB's Guidelines precisely because of the way the City's users were being billed.

Communications with Rating Agencies

On top of making misrepresentations to and withholding information from investors, the City similarly withheld information from rating agencies and made knowing misrepresentations to them. In June 2003, in anticipation of the upcoming bond offering, the City made a series of presentations to rating agencies. The City listed as one of its "Management Goals" in its presentation that it intends to "Continue to comply with State and Federal Regulations." In fact, while Mr. Kahlie, Mr. Hanley, and others who had the opportunity to revise the presentation knew the City was not meeting that goal, contrary affirmative misrepresentations were made to the rating agencies anyway.

Moreover, in the same time period, a Fitch representative posed five direct questions to the City, one of which was: "I understand the state board must 'approve' MWWD's rate structure. Is this correct and if so, has the board ever not approved or had any significant input into MWWD's rate structure?" The fact that the rating agency included this question as one of only five questions it asked strongly suggests both that it was important to the rating agency, and the City was specifically aware of the importance of the issue. Mr. Kahlie and Mr. Hanley concocted a misleading response which Mr. Hanley then e-mailed to Fitch. The response was: "The Board has periodically provided input to MWWD concerning its rate structure and changes thereto, but has never disapproved the structure or any component thereof." Mr. Hanley candidly admitted he was intentionally "sidestepping" the issue of the City's lack of an approved rate structure. He was concerned that if the rating agency knew the City was not in compliance, it could have had a negative impact on the upcoming 2003 bond offering and might affect how much money the City could raise.

Mr. Hanley's testimony on this point likely explains why the noncompliance had not been disclosed in any public context at all over the course of the prior decade. The belief that the issue could potentially harm the City caused it to withhold the information.

The March 2004 Voluntary Disclosure: Concerns About the City's Wastewater Disclosures Come to Light

On February 11, 2004, Mr. Webber appeared before the City Council in closed session, and, following that meeting, had a conversation with Councilmember Frye in which she told him about the City's noncompliance and the State's demand. That was the first Mr. Webber had heard of it and he immediately inquired further.

As a result of Mr. Webber's inquiries, the City made a corrective disclosure. On March 26, 2004, when the City issued its Sewer Revenue Bond Annual Report pursuant to the City's regular continuing disclosure obligations, it disclosed that it did not have an approved sewer rate structure that was a condition of its receipt of approximately \$266 million in Clean Water Act grants and loans. The City further disclosed: "If the City does not bring the Wastewater System's user charge system into compliance, the City could be forced to repay the aggregate amount of the Clean Water Grants and repay the outstanding principal amount of the SRF loans."

(Continued from the excerpt of the City of San Diego Audit Committee (Kroll Inc.) report)

The Annual Report also addressed whether the City's sewer rates were in compliance with Prop 218's proportionality requirement. The City stated that it believed its sewer rates complied, but recognized: "An argument could be made, however, that the sewer service charges do not comply with the Proportionality Requirement because those charges are disproportionately better for certain commercial and industrial customers of the Wastewater System that discharge large volumes of organic material, and disproportionately worse for other customers that do not." The Annual Report also attempted to quantify the City's liability should its sewer rate structure be found to violate Prop 218:

[I]n such event potential remedies could include a court order correcting the rate structure and a potential refund to customers who were overcharged, subject to any applicable statute of limitations. On the latter point, the City believes that the maximum annual revenue that could be subject to a refund is approximately \$2.5 million per year. The City Attorney is of the opinion that only claimants who make claims for refunds within four years of payment would be entitled to bring an action against the City.

These issues should have been disclosed years earlier. It is plain that Paul Webber, the City's outside disclosure counsel, believed that the City's noncompliance was an important fact to disclose. Had he been told of the noncompliance years earlier, the issue would likely never have been hidden from the investing public."

(end of Kroll excerpt)

INDEPENDENT INVESTIGATIONS INTO SERVICE LEVEL AGREEMENTS

On April 25, 2006, the San Diego Grand Jury completed its report regarding the use of service level agreements (SLAs) by the City's water district and wastewater district. The Grand Jury found that there was no City Council policy governing the use of SLAs, and that the use of SLAs lack internal management checks and balances to ensure that City departments appropriately bill the enterprise funds for services provided. The Grand Jury found that the City had used SLAs to improperly divert enterprise funds to subsidize City services that should have been funded by the City's General Fund. In response to the Grand Jury report, the Mayor on May 15, 2006 announced the implementation of various measures to improve internal controls for the use of SLAs. In addition, the Mayor announced the refund of approximately \$2,000 to the Sewer and Water Utility Funds.

As a separate matter and in response to the Grand Jury report on Service Level Agreements, a follow up investigation was conducted by Mayer Hoffman McCann P.C. ("Mayer Hoffman"), an independent firm performing an agreed upon procedures engagement. Mayer Hoffman found that during fiscal years 1996 to 2003, City staff in the City Attorney's office was directly instructed by management to bill their time based on their budgeted area of responsibility, regardless of the actual work performed. This resulted in the enterprise funds being overcharged. The findings indicate that they were not significantly overcharged, but it should be noted that the available evidence does not support a definitive conclusion regarding the amount of any overcharges. Other entities, including the California Attorney General, are currently investigating the billing practices of the City Attorney's office. The City concurs with all findings of Mayer Hoffman and has accrued payment in the General Fund to reimburse the Water Utility and Sewer Utility funds in the fiscal year 2003 financials.

CITY ATTORNEY INVESTIGATIONS INTO PENSION AND WASTEWATER MATTERS

The City Attorney has conducted several investigations into pension disclosures and the potential for illegal acts. These investigations have thus far resulted in 14 "interim reports" detailing the City Attorney's conclusions on pension disclosures and other illegal acts. Please note that the City Attorney's findings have not been adopted by the Audit Committee, the SEC, or any Court of Law. The City Attorney's findings do not necessarily agree with the individual positions of the City Councilmembers.

The City Attorney's reports concluded that City staff and City officials, including certain current City Council members, violated federal, state and local laws as described below. It should be noted that the City Attorney's findings of violations of law covered a wider array of illegal conduct and identified a greater number of individuals, including specifically certain current members of the City Council, than were identified in either the V&E or Kroll reports.

It is the City Attorney's opinion that City officials, City employees and SDCERS' board members and management engaged in illegal acts concerning the City's funding of SDCERS beginning with the adoption in 1996 of MP-1. In summary, the City Attorney believes that the City negotiated an agreement with its unions whereby pension benefits to retired City employees would be increased, but only if the board of SDCERS would allow the City to fund SDCERS at a level below what would be required by generally accepted accounting and actuarial principles. The City Attorney has asserted that this agreement violated the California Constitution, the San Diego City Charter and the San Diego Municipal Code and constituted a breach of the fiduciary duties of the SDCERS' board and management.

Similarly, the City Attorney has asserted that City officials (including certain current City Council Members), City employees and SDCERS' board members and management engaged in illegal acts concerning the approval in 2002 of MP-2. The City Attorney believes that the action taken in MP-2 was again to increase pension benefits in exchange for continuing to allow the City to fund SDCERS at a reduced rate and to remove certain funding level safeguards put in place by MP-1. The City Attorney alleges that the approval and enactment of MP-2 violated the California Constitution, the San Diego City Charter, and the San Diego Municipal Code and constitutes a breach of the fiduciary duties of the board and management of SDCERS.

The City Attorney's conclusions expressly state that there was illegal conduct on the part of the City Council in approving MP-1 and MP-2 which the City Attorney believes resulted in an illegally funded pension system. The City Attorney has initiated proceedings to invalidate the benefits conferred by MP-1 and MP-2. The status of these proceedings is further discussed in the section of this note titled "Litigation and Regulatory Actions". The City Attorney believes that the City Council violated Section 10(b) and Rule 10b-5 of the Securities and Exchange Act of 1934 and Section 17(a) of the Securities Act of 1933 because they were at least reckless in approving City disclosures regarding the wastewater system and the pension fund that were materially misleading.

The City Attorney detailed his findings regarding matters identified by the County Grand Jury in his Interim Report #10. The City Attorney concluded that improper billing practices had occurred within the City Attorney's office and that the practice had been discontinued upon the current City Attorney taking office in December 2004.

Hard copies of all 14 of the City Attorney's Interim Reports are available at the City Attorney's Office at Civic Center Plaza, 1200 Third Ave, Suite 1620, San Diego, CA 92101.

REMEDIATION ON ILLEGAL ACTS

Beginning with the issuance of the V&E report, the City has taken steps to correct its control environment and initiate the remediation process concerning more specific control activities. The first action was to amend the Municipal Code by way of Ordinance (0-19320) in October 2004. The Ordinance, among other things:

- Created a Disclosure Practices Working Group.
- Required the City Attorney to designate a deputy city attorney for finance and securities.¹
- Mandated an annual review of internal controls to be conducted by the City's Auditor and Comptroller.

The City's first annual report on Internal Controls was published in January 2006 and a second annual report on Internal Controls was published in January 2007, they are available at the City Clerk's office at 202 C Street, 2nd floor, San Diego, CA 92101

In January 2006, pursuant to a Charter amendment, the City adopted a strong-mayor form of government. This form of governance places the accountability for the operations of the City principally with the Mayor. In response to the report of the Audit Committee of the City of San Diego and the SEC Administrative Order, the Mayor has proposed to the City Council a comprehensive remediation plan that addresses the deficiencies identified by Kroll and the SEC. The Mayor's plan, which is currently pending approval by the City Council as of March 2007, is proposed to be

¹ The City Attorney has hired 3 attorneys to fulfill this obligation.

implemented over the course of three years at an estimated cost of \$45,000. Additionally, some of the proposed remediation will require ballot initiatives that will need to be approved by a vote of the public. It includes:

- The appointment of an independent consultant to:
 - conduct annual reviews for a three-year period 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 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 Councilmembers regarding compliance with disclosure obligations;
 - make recommendations concerning these policies, procedures, and internal controls with a view to assuring compliance with the City's disclosure obligations under the federal securities laws; and
 - 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.
- Significant changes to the organizational structure of the City, including the centralization of the various components of the City's newly created Finance Department. This includes enhanced accountability for the City's Chief Financial Officer.
- The formation of an Audit Committee.
- The appointment of an independent Auditor General who reports to the Audit Committee.
- Guidelines and regulations over the hiring and retention of an independent audit firm.
- Modifications to the City Ethics Laws to impose criminal penalties for violations.
- The retention of an independent actuary to assist the City in reviewing the SDCERS actuarial valuation and to provide analysis of the financial effects of retirement related decisions.
- Modifications to the City's internal controls governing the disclosure process.
- The acquisition of a new information system to record and maintain records of the City's operating results.
- Increased training for employees responsible for financial management, reporting and grant management.

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 3,000 notices of claims.

The estimate of the liability for unsettled claims has been reported in the Government-wide Statement of Net Assets, and the Proprietary Fund Statement of Net Assets. 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 Anza Cove Homeowners Association, Inc. v. City of San Diego (De Anza 1) and Ernest Abbit, etc. v. City of San Diego (De Anza 2)

These cases resulted from the closure of lessee occupied property fronting Mission Bay. The City-owned land was reverted to parkland as a result of state legislation concerning the disposition of publicly owned tidelands. Prior to closure, the lessee had operated the property as a mobile home park. Upon expiration of the lease, the tenants refused to abandon the property and filed a claim against the City. The claim alleges violations of California Mobile Home Residency Laws including a failure to provide benefits upon the closure of a City-owned property. The claim also alleges various management abuses and entitlement to benefits under the California Relocation and Mello Acts. The Superior Court has dismissed relocation claims, severed the abuse claims and the case is set for trial in February 2007. The City Attorney estimates that potential exposure related to De Anza 1 will be from \$0 to \$15,000. Losses related to De Anza 2 cannot be estimated prior to the establishment of outcomes related to De Anza 1.

La Jolla Alta Master Council v. City of San Diego

This case arises from allegations that the City failed to properly design and maintain a storm drainage system. The plaintiffs allege that a privately-owned 93 acre canyon adjacent to the City's storm drainage system has experienced significant erosion and have filed a claim for inverse condemnation. The City Attorney estimates that the City's exposure ranges from \$0 to \$15,000.

William J. McGuigan v. City of San Diego (McGuigan)

In the McGuigan case, the plaintiff alleged the City has under-funded its pension plan in violation of its own Charter and Municipal code. A settlement has been reached in which the City has agreed to pay \$173,000 plus interest on amounts outstanding, into the San Diego City Employees Retirement System (SDCERS) over a period of 5 years. The City has already contributed \$100,000 pursuant to this settlement agreement through the securitization of tobacco revenue. An additional requirement of the settlement is that the City provides SDCERS real property collateral totaling \$100,000, to be returned upon the full payment of the settlement. Amounts related to this settlement were not accrued in the City's public liability fund because the settlement has not been finalized and because the City has already recorded a Net Pension Obligation in its financial statements.

William Newsome III v. San Diego City Employees Retirement System, City of San Diego (Newsome)

The Newsome case alleges a violation of fiduciary duties by the SDCERS board. It also alleges aiding, abetting and conspiracy causes of action based on the City's purported assistance to SDCERS in violating their fiduciary responsibilities. A settlement has been reached which commits the City to contribute \$100,000 dollars over and above the amounts committed in the McGuigan case, but if the City elects not to make the additional contribution, the lawsuit will be re-filed.

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 \$117,000. 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.

San Diego City Employees Retirement System v. San Diego City Attorney Michael Aguirre and City of San Diego

SDCERS filed this lawsuit in January 2005 to assert its right to independent legal counsel. The City Attorney has filed a cross complaint alleging that the pension benefits provided pursuant to the MP-1 and MP-2 agreements are illegal. The financial statements and accompanying notes presented herein are prepared under the assumption that said benefits are legal and that related liabilities are binding (see Note 12 and required supplementary information). If the City Attorney were to prevail in his cross complaint, the impact of that determination by a court could reduce the City's current Unfunded Actuarially Accrued Liability (UAAL). In a proposed statement of decision issued December 14, 2006, the court ruled that the City could not challenge the pension benefits granted by MP-1 and MP-2. This decision has not been made final and the City is objecting to it in the lower court. If the City does not prevail, it will go to the court of appeal either by writ or by appeal.

Shames v. City of San Diego, et al.

This is a class action lawsuit alleging that the City of San Diego employed an improper method in calculating residential sewer rates. As a result of the improper billing calculation, the plaintiff alleges that residential users were overcharged while industrial users were undercharged (discussed in the illegal acts section of this note). This matter has been stayed while the parties attempt to mediate liability and damage issues. The likelihood of unfavorable outcome on this case is probable and the liability is reported on the City's financial statements, however, remediation related to this case will likely result in increased rates to industrial users and offsetting credits to residential users.

Significant regulatory actions are described below (Other regulatory actions are described in Notes 17 and 22).

Internal Revenue Service Code Violations

This regulatory action relates to the City and SDCERS' practice of using pension plan assets, and later a bifurcation of City contributions to the pension plan to fund retirement healthcare benefits. The funding mechanism, which was in effect in various forms from 1982 to 2005, is alleged to have violated the provisions of Internal Revenue Code §401(a) and (h). The cumulative value of funds diverted from the pension plan assets is approximately \$8,200, not including lost interest earnings to the Pension Trust Fund. SDCERS has filed a voluntary disclosure with the IRS and the matter is still pending. The potential range of outcomes includes a disqualification of SDCERS tax exempt status and/or the City having to repay SDCERS for the funds diverted for retiree healthcare benefits. The range of loss to the City if forced to repay funds to SDCERS could be from \$10,000 to \$33,000 depending on how the effects of the funding mechanism on plan assets is calculated. It is the City's position that the diverted funds resulted in an increased Unfunded Actuarially Accrued Liability for the pension plan. Thus, the City's annually required contribution for the periods covered included the amortized cost of diverted plan assets. As a result, a significant portion of the City's liability is included in the Net Pension Obligation (NPO) as reported on the City's financial statements. The portion not already accrued within NPO is approximately \$2,000 and is separately accrued within the City's Self Insurance Fund.

Civil Actions Related to Ongoing SEC Investigations

As discussed previously in this footnote, in November 2006 the City was found by the SEC to have violated securities laws. The City Attorney has determined that the City could be subject to civil actions brought by holders of the City's bonds as a result of these sanctions. Such actions could potentially subject the City to significant liability. Specifically, the City Attorney has determined that although the City has not defaulted on its bond obligations, potential civil actions could arise from changes in the market value of the City's bonds as a result of failures to disclose the City's pension and healthcare liabilities. As of February 2007, no cases have been filed against the City and potential liabilities arising from aforementioned disclosure failures are not estimable.

See Risk Management Note 15 for additional information.

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 perceives 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 or moderate 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.

As of June 30, 2003, the status of all third party bonds issued is as follows:

	Original Amount	Balance June 30, 2003
Mortgage Revenue	\$ 132,390	\$ 126,090
Industrial Development Revenue	345,805	341,596
1911 Act Special Assessment	236	42
Total	<u>\$ 478,431</u>	<u>\$ 467,728</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 balance sheet date.

The \$11,700 reported as landfill closure and post-closure care liability at June 30, 2003 represents the cumulative amount reported to date based on the use of 68.1% of the estimated capacity of the landfill.

The City will recognize the remaining estimated cost of closure and post-closure care of \$5,500 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, 2003. 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, 2003, cash or equity in pooled cash and investments of \$25,300 was held for this purpose. This is reported as Restricted Cash and Investments 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 Geographic Information System

In fiscal year 1998, a five year services agreement was finalized between San Diego Data Processing Corporation (SDDPC) and San Diego Geographic Information System ("SanGIS"). This agreement was not renewed for fiscal year 2003.

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. The fiscal year 2003 agreement was signed on August 30, 2002.

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 are approximately \$3,100 related to ARJIS for the year ended June 30, 2003.

State of California

During fiscal year 1999, SDDPC entered into an agreement with the State of California Department of Information Technology to provide data processing services. This agreement was not renewed for fiscal year 2003.

San Diego Medical Services Enterprise, LLC

On July 1, 1997, the City entered into an operating agreement with San Diego Medical Services Enterprise, LLC ("SDMSE") to provide emergency medical services and emergency medical transportation services. On June 30, 2002, the City exercised the provision to renew the operating agreement with SDMSE for an additional three years. Under the agreement the City paid SDMSE \$685.

During the year, SDMSE made a \$1,300 profit distribution to its partners; \$642 to the City and \$641 to Rural Metro of San Diego, Inc.

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 have a 30% divided interest based upon the original facility cost estimate of \$267,500 (or \$80,250), with the City owning the balance. 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 1, 2003, the City issued \$110,900 of fiscal year 2003-2004 Tax Anticipation Notes, Series A.

Effective July 1, 2003, SDCCC established a wholly owned subsidiary to operate the Civic Theatre. The new entity, San Diego Theatres, Inc. ("SDTI") is a not-for-profit, public benefit corporation organized to market, operate, and maintain the Civic Theatre. The SDTI Board of Directors is comprised of five voting members. SDCCC appoints three voting directors from its existing Board and appoints two outside voting members. During August 2003, SDCCC provided SDTI with a \$250 operational start-up reserve. It is expected that other than the start-up reserve, SDTI will not require any further support from SDCCC in future years.

On July 9, 2003, the Redevelopment Agency of the City of San Diego issued \$18,900 of Subordinate and Junior Lien Tax Allocation Bonds, and Tax Allocation Housing Bonds for the purpose of financing the renovation of the Agency-owned Balboa Theatre and various low and moderate income housing projects pursuant to the Horton Plaza Redevelopment Plan. The Series 2003 A and B bonds are payable from and secured by pledged tax increment revenues, subordinate and junior lien, respectively, and the Series 2003 C Bonds are payable from and secured by pledged housing tax increment revenues derived from the Horton Plaza Redevelopment Project Area. The interest rates on the bonds range from 3.25 to 7.74 percent and the maturity date for each issue is November 1, 2021.

On August 1, 2003, the City paid off the \$93,200 fiscal year 2002-2003 Tax Anticipation Notes.

On August 7, 2003, the City received Section 108 loan proceeds from the U.S. Department of Housing and Urban Development totaling \$9,900. Of the total received, \$1,000 was used for the construction of the Logan Heights Library, \$2,000 for the construction of the Ocean Beach Library, \$3,200 for the construction of the College Heights Rolando Library and \$3,700 for infrastructure improvements and neighborhood revitalization projects. Interest rates on the loans range from 1.21 to 5.69 percent.

On August 13, 2003, the City issued \$8,900 of Reassessment District 2003-1 Limited Obligation Refunding Bonds. Proceeds of the bonds were used as a reserve fund for the bonds, to pay the costs of issuance of the bonds, and to refund the limited obligation improvement bonds in the outstanding principal amount of \$9,600 previously issued by the City under the Improvement Bond Act of 1915. The bonds are special limited obligations of the City payable solely from and secured by unpaid reassessments upon real property located in the Reassessment District, and other amounts held in certain funds maintained under the indenture.

Effective November 7, 2003 the City's Parks and Recreation Department assumed operations and maintenance of the City's Mission Bay Golf Course within the City's Golf Course Enterprise Fund. The course was originally developed and operated under a lease agreement with lease revenues going to the General Fund. The City will initially be investing in some improvements to the course out of the Golf Course Enterprise Fund. It is anticipated that once operations stabilize the course will produce net revenues.

On December 17, 2003, the Redevelopment Agency of the City of San Diego issued \$5,800 of Housing Set-Aside Tax Allocation Bonds for the purpose of financing low and moderate income housing redevelopment activities. The Series 2003 A and B bonds are payable from and secured by housing set-aside tax revenues derived from the City Heights Project Area. The interest rates on the Series A and B bonds range from 2.0 to 6.5 percent with maturity dates of September 1, 2033, and September 1, 2013, respectively.

On December 17, 2003, the Redevelopment Agency of the City of San Diego issued \$12,500 of Tax Allocation Bonds for the purpose of financing redevelopment activities, including the development of low and moderate income housing. The Series 2003 A and B bonds are payable from and secured by pledged tax revenues derived from the North Park Project Area. The interest rates on the Series A and B bonds range from 1.5 to 6.125 percent with maturity dates of September 1, 2027, and September 1, 2033, respectively.

On January 14, 2004, the City issued \$5,400 of Assessment District No. 4096 Limited Obligation Improvement Bonds for the purpose of acquiring certain public improvements within the Piper Ranch Assessment District. The bonds were issued pursuant to the Municipal Improvement Act of 1913 and the Improvement Bond Act of 1915, secured by and payable solely from unpaid assessments levied by the City within the assessment district. The interest rate on the bonds ranges from 2.5 to 6.2 percent, and the maturity date is September 2, 2033.

On February 25, 2004, the City issued \$5,000 of Community Facilities District No. 2 Special Tax Bonds. These bonds financed public improvements in order to meet the increased demands placed upon the City as a result of developing property within the Santaluz Improvement Area No. 1. The Series 2004 A bonds were issued pursuant to the Mello-Roos Community Facilities Act of 1982 and are special obligations of the District, payable solely from annual special taxes levied on certain taxable land within the improvement area. The interest rate on the bonds ranges from 1.7 to 5.67 percent, and the maturity date is September 1, 2030.

On February 25, 2004, the City issued \$10,000 of Community Facilities District No. 2 Special Tax Bonds. These bonds financed public improvements in order to meet the increased demands placed upon the City as a result of developing property within the Santaluz Improvement Area No. 4. The Series 2004 A bonds were issued pursuant to the Mello-

Roos Community Facilities Act of 1982 and are special limited obligations of the District, payable solely from annual special taxes levied on certain taxable land within the improvement area. The interest rate on the bonds ranges from 1.65 to 5.5 percent, and the maturity date is September 1, 2033.

On June 14, 2004, the Public Facilities Financing Authority of the City of San Diego issued \$152,000 of Non-Transferable Subordinated Sewer Revenue Bonds to finance upgrades to and expansion of its wastewater system. This was a private placement/non-public offering. The Series 2004 Bonds are secured by and payable solely from net system revenues of the Sewer Utility Fund. The bonds bear a variable interest rate and the maturity date is December 15, 2007. The bonds were restructured in February 2006, extending the maturity date to December 15, 2011.

On June 30, 2004 the City paid off the \$110,900 fiscal year 2003-2004 Tax Anticipation Notes.

On July 1, 2004, the City privately placed a Tax Revenue Anticipation Note in an amount not to exceed \$129,000. The City borrowed \$114,000 to meet its cash flow needs and repaid the borrowing by May 2005.

On July 26, 2004, the City and the San Diego Chargers football team (Chargers) entered into Supplement Number Eight to the 1995 Agreement for Partial Use and Occupancy of Qualcomm Stadium. The agreement was approved by Ordinance No. O-19302, and is on file in the City Clerk's Office as Document No. O-19302. This agreement, among other items, eliminated a ticket guarantee, whereby the City was obligated to pay the Chargers for unsold home game tickets, up to 60,000 tickets per game. The agreement also reduced the rent paid to the City by approximately 2/3; the Chargers will pay \$2,500 through the 2013 regular season, rising to \$4,000 by the 2020 regular season. Additionally, the Chargers were granted the right to negotiate with third parties to relocate the team outside of the City after the 2008 regular season; any such move under the agreement would require payment to the City of an early termination fee of approximately \$56,000 in 2009 and decreasing in subsequent years.

On July 28, 2004, the Redevelopment Agency of the City of San Diego issued \$147,700 of Subordinate Tax Allocation and Tax Allocation Housing Bonds for the purpose of financing redevelopment activities, including the development of low and moderate income housing, and to make payments pursuant to an MOU with the San Diego Padres in connection with development of the new PETCO Ballpark. A portion of the bonds were issued to refund \$33,500 of the Agency's outstanding Series 1993 Bonds. The Series 2004 A and B Bonds are payable from and secured by subordinate pledged tax revenues, and the Series 2004 C and D Bonds are payable from and secured by pledged housing tax revenues. The interest rates on the bonds range from 2.26 to 6.28 percent, with maturity dates of September 1, 2029 for the Series A, C and D Bonds and September 1, 2010 for the Series B Bonds.

On October 27, 2004, the Sewer Utility experienced several sewer overflows including a 2.26 million gallon overflow at the Point Loma Wastewater Treatment Plant, all due to extraordinary rain in the region. All overflows have been properly reported to the regulatory agencies, explaining the cause and extent of the overflows. To date no corrective action or penalty letters have been issued.

On February 14, 2005 Council authorized the sale of City Vehicle License Fee ("VLF") Receivables to the California Statewide Communities Development Authority. The use of the approximately \$20,000 in proceeds was to pay down the majority of the outstanding principal and accrued interest on the 1994 Open Space Refunding Bonds. On April 21, 2005 VLF proceeds of \$20,435 and Environmental Growth Fund 2/3 fund moneys of \$4,355 were used toward the partial redemption of the 1994 Open Space Refunding Bond principal and interest.

On July 1, 2005, the City privately placed a fiscal year 2005- 2006 Tax Revenue Anticipation Note in an amount not to exceed \$155,000. The City borrowed \$145,000 to meet its cash flow needs and repaid the borrowing by May 2006.

On July 6, 2005, the City received a State Revolving Fund Loan Disbursement from the State of California Department of Health Services totaling \$21,500 to assist in funding the Alvarado Water Treatment Plant, Earl Thomas Reservoir Replacement Project. The pay back period for the loan is 20 years with an annual interest rate of 2.5132%. Net System Revenues of the Water Utility Fund have been designated as the dedicated source of funds for repayment of the loan.

On August 15, 2005 (and March 13, 2006) approximately 1,460 active and retired employees of the San Diego Police Department filed a lawsuit in the United States District Court for the Southern District of California against the City for alleged violations of the Fair Labor Standards Act, various California Labor Code provisions, as well as breach of contract and unfair competition essentially contending that they are entitled to additional overtime pay. The court has dismissed the unfair competition claim and certain state Labor Code claims but denied a motion to dismiss the breach of contract claim. The parties have just begun to conduct extensive discovery and therefore the range of loss cannot be estimated at this time. In their initial disclosures Plaintiffs have estimated their damages at \$244,000. Plaintiffs' counsel has proposed a mediation of the dispute before a third-party mediator and the parties are currently seeking to reach agreement on the identity of the mediator and the mediation timing and procedure. Meanwhile both sides are pursuing discovery. A tentative trial date in the case has been set for September 22, 2008.

On December 20, 2005, the City received a State Revolving Fund Loan Disbursement from the State of California Water Resources Control Board totaling \$10,100 for the construction of the Environmental Monitoring & Technical Services Lab. The pay back 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 percent match for the loan, resulting in an effective interest rate of 2.42%.

On June 14, 2006, the City of San Diego established the Tobacco Settlement Revenue Funding Corporation, a California Nonprofit Public Benefit Corporation. In November 1998, the Attorney General of California signed a Master Settlement Agreement with the four major tobacco companies. The Corporation was formed to acquire future Tobacco Settlement Revenues from the City of San Diego. The Corporation has purchased from the City of San Diego the rights to receive up to the first \$10,100 annually of the tobacco settlement revenues due to the City under the Master Settlement Agreement (the "MSA"), the Memorandum of Understanding (the "MOU") entered into on August 5, 1998, among the State of California, various cities and counties in the State and certain other parties, as augmented by the Agreement Regarding Interpretation of Memorandum of Understanding (ARIMOU). On June 21, 2006, the Corporation issued \$105,400 (net proceeds \$90,800) of Tobacco Settlement Asset-Backed Bonds, Series 2006. The Series 2006 Term Bonds are limited obligations of the Corporation, payable from and secured solely by Pledged Tobacco Settlement Revenues. The Term bonds have an interest rate of 7.125 percent, and the scheduled maturity date is June 1, 2032.

On June 22, 2006, the Redevelopment Agency of the City of San Diego issued \$76,200 of Subordinate and \$33,800 of Housing Tax Allocation Bonds. The Subordinate Bonds were issued for the purpose of financing certain redevelopment activities within the Centre City Project, and to pay the costs of debt service reserve surety bonds and the costs of issuance in connection with the Series 2006A Subordinate Bonds. The Housing Bonds were issued for the purpose of financing certain improvements relating to, or increasing the development of low and moderate income housing, and to pay the costs of the debt service reserve surety bonds and the costs of the issuance for the Series 2006B Housing Bonds. The Series 2006 A and B Bonds are payable from and secured by subordinate pledged tax revenues derived from the Centre City Redevelopment Project Area. The interest rate on the bonds ranges from 4.25 to 6.20 percent and the maturity date for the 2006A issue is September 1, 2032 and for the 2006B issue is September 1, 2031.

On July 1, 2006, the City privately placed a fiscal year 2006-2007 Tax Revenue Anticipation Note in an amount not to exceed \$160,000.

On July 13, 2006, the City issued \$16,000 of Community Facilities District No. 3 Special Tax Bonds. This was a private placement/non-public offering. These bonds financed public improvements in order to meet the increased demands placed upon the City as a result of the redevelopment and reuse of the former Naval Training Center property. The Series 2006 A bonds were issued pursuant to the Mello-Roos Community Facilities Act of 1982 and are special obligations of the District, payable solely from annual special taxes levied on certain taxable land within the improvement areas. The interest rate on the bonds ranges from 5.0 to 5.75 percent, and the maturity date is September 1, 2036.

On July 18, 2006 the SDPOA filed one lawsuit and has another pending case against the City of San Diego. The SDPOA alleges several violations of state and federal law arising from failed labor negotiations between the City and SDPOA in 2005. SDPOA also alleges state and federal claims based on the City's underfunding of the City's retirement system. The City is vigorously contesting this matter and the estimated loss, if any, is not known at this time.

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 30, 2007, the Public Facilities Financing Authority of the City of San Diego issued \$57,000 of Non-Transferable Subordinated Water Revenue Notes to finance upgrades to and expansion of its water system. This was a private placement/non-public offering. The Series 2007A Notes are secured by and payable solely from net system revenues of the Water Utility Fund. The notes bear an interest rate of 4.06 percent, and the maturity date is January 30, 2009.

On March 12, 2007, the Public Facilities Financing Authority of the City of San Diego issued \$156,560 of Lease Revenue Refunding Bonds to refund the existing Public Facilities Financing Authority Ballpark Lease Revenue Bonds, Series 2002. This was a private placement/non-public offering. The Series 2007A Notes 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 is February 15, 2032.

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.

23. RESTATEMENTS (in thousands)

The City of San Diego's net assets as of June 30, 2002 have been restated as follows:

		Primary Government		Governmental Funds	
		Governmental Activities	Business-Type Activities	General Fund	Other Governmental Funds
Net Assets and Fund Balances as of June 30, 2002, as Previously Reported		\$ 3,884,366	\$ 2,960,193	\$ 70,003	\$ 1,064,615
General Restatements					
1	Adjustments for Overstatement of Allowance for Bad Debt	-	1,218	-	-
2	Defer Bond Issuance Costs	13,922	1,417	-	-
3	Utilities Energy Expense Accrual	-	(312)	-	-
4	Remove Redevelopment Cash with Custodian	(6,640)	-	-	(6,974)
5	CCDC Money Purchase Pension Plan	-	-	-	-
6	Understatement of Operating Revenue	-	9,470	-	-
7	Reclassify SDDPC as Internal Service Fund	(3,043)	3,043	-	-
8	Remove Cash with Custodian	(198)	-	-	(198)
9	Reclassify Interfund Receivables and Payables as Transfers	44,767	(44,767)	(10,728)	(11,898)
10	Overstatement of Contributions	(48,648)	-	-	(48,648)
11	Overstatement of Grants Receivable	-	(6,602)	-	-
12	Deferral of Grant Receipts	(1,540)	-	-	(1,540)
13	Recognition of Deferred Revenue, accrue sales tax and record allowance for doubtful accounts receivable	55,349	4,048	8,808	23,185
14	Unrecorded Sale of Land Held for Resale	(29,876)	-	-	(29,876)
15	Reclassification of Land Held for Resale to Land	(6,141)	-	-	(6,141)
16	Additions to Land Held for Resale	12,308	-	-	12,308
17	Abandoned Land Held for Resale Transactions	(100)	-	-	(100)
18	Incorrect Expense of Redevelopment Land Held for Resale Acquisition Costs	512	-	-	512
19	Impairment of Land Held for Resale Assets	(11,034)	-	-	(11,034)
20	Purchase Service Credit Accounts Receivable Correction	-	-	-	-
21	RDA Deferred Revenue Accrual	84	-	-	84
22	Remove PFFA Investments	(34,661)	-	-	(34,661)
23	Grant Receipt Deferral	-	-	-	(19,363)
24	Creation of Investment Trust Fund for ARJIS/SanGIS/AVA	-	-	-	-
25	Investment in SDMSE Joint Venture	1,137	-	1,137	-
26	Interfund Land Held for Resale Transaction	(1,407)	2,734	-	(1,407)
27	Retention Payable	(3,550)	(9,132)	-	-
28	RDA Land Acquisition Credits to Padres	(27,050)	-	-	-
29	Overstatement of Accrued Interest	-	804	-	-
30	Deferred Charges from Bond Discount - PFFA	2,044	-	-	-
31	Reclass 401(k) to Pension Trust Fund	-	-	-	-
32	Correction to Cash and Cash Equivalents	-	-	-	-
33	Accrual of Tobacco Revenue	6,064	-	-	-
Capital Assets Restatements					
1	Correction to Carrying Value of Land	-	12,354	-	-
2	Depreciation of Completed Capital Improvement Projects	(11,711)	(147,360)	-	-
3	Accumulated Write-off of Infrastructure Projects	(147,164)	-	-	-
4	Overstatement of Accumulated Depreciation	-	39,138	-	-
5	Correction to Carrying Value of Land	(15,828)	-	-	-
6	Write Off of Abandoned Capital Improvement Projects	(45,188)	(126,566)	-	-
7	Remove all Zoo Capital Assets	(105,738)	-	-	-
8	Understatement of RDA Capital Assets	14,537	-	-	-
9	Contributed Infrastructure	-	249,036	-	-
10	Remove Land from Water Utility's Books	-	(1,227)	-	-
11	Library Reinstatement	3,952	-	-	-
12	Land Addition	2,454	-	-	-
13	FBA Capital Assets Credit	47,931	-	-	-
14	Capitalization of Retention Payable	3,550	9,132	-	-
15	San Pasqual Treatment Facility	-	(2,350)	-	-
16	Allocation of Project Management Projects	-	(5,167)	-	-
17	Land Transfer	109	(6,831)	-	-
18	Transfer of Completed Capital Improvement Projects	-	-	-	-
19	Transfer of SDDPC	20,335	(20,335)	-	-
20	Capitalized Interest	-	154,868	-	-
Long-term Liabilities Restatements					
1	Adjustments for Liability Claims	(40,457)	(2,463)	-	-
2	Amortization of Bond Discounts, Premiums, and Accretions	(3,054)	-	-	-
3	Cumulative Adjustment of Recomputed Annual Pension Costs	(74,515)	(15,867)	-	-
4	Record SANDAG loan payable	(18,805)	-	-	-
5	Adjustment to NPO / Employee Offset Liability	(1,081)	(230)	-	-
6	Defeasance of RDA debt	3,250	-	-	-
7	Unrecorded RDA debt	(1,876)	-	-	-
8	Unrecorded Contract Payable	(117)	-	-	-
9	Tax Allocation Bonds Adjustment	6,640	-	-	-
10	Adjustment to Compensated Absences	(4,887)	(1,151)	-	-
11	Transfer of SDDPC	(5,336)	5,336	-	-
12	Unrecorded Arbitrage Liability	-	(2,657)	-	-
13	DROP Liability	-	-	-	-
Net Assets and Fund Balances as of June 30, 2002, as Restated		\$ 3,473,666	\$ 3,059,774	\$ 69,220	\$ 928,864

Enterprise Funds				Fiduciary Funds	
Sewer Utility	Water Utility	Other Enterprise Funds	Internal Service Funds	Pension and Employee Savings Trust	Investment Trust
\$ 1,771,441	\$ 979,906	\$ 209,172	\$ (466)	\$ 2,910,079	\$ -
1,218	-	-	-	-	-
1,417	-	-	-	-	-
(232)	(80)	-	-	-	-
-	-	-	-	-	-
-	-	-	-	(5,180)	-
9,470	-	-	-	-	-
-	-	3,043	(3,043)	-	-
-	-	-	-	-	-
(18,916)	(15,533)	(10,171)	67,246	-	-
-	-	-	-	-	-
(6,602)	-	-	-	-	-
-	-	-	-	-	-
4,048	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	670	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	12,433
-	-	-	-	-	-
-	2,734	-	-	-	-
(6,177)	(2,931)	(24)	-	-	-
-	-	-	-	-	-
-	804	-	-	-	-
-	-	-	-	-	-
-	-	-	-	110,059	-
-	-	-	-	-	-
-	-	-	-	-	-
2,494	9,860	-	-	-	-
(107,308)	(16,299)	(23,753)	-	-	-
-	-	-	-	-	-
33,334	5,804	-	-	-	-
-	-	-	-	-	-
(85,475)	(39,425)	(1,666)	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
108,175	140,861	-	-	-	-
-	(1,227)	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
6,177	2,931	24	-	-	-
(1,191)	(1,159)	-	-	-	-
(5,167)	-	-	-	-	-
(6,737)	114	(208)	-	-	-
-	-	-	-	-	-
-	-	(20,335)	20,335	-	-
137,998	16,870	-	-	-	-
-	-	-	(98,381)	-	-
-	-	-	-	-	-
(5,321)	(4,391)	(4,992)	(2,777)	(319)	-
-	-	-	-	-	-
(77)	(63)	(72)	(42)	(6)	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
(402)	(316)	(362)	(208)	-	-
-	-	5,336	(5,336)	-	-
(13)	(2,644)	-	-	-	-
-	-	-	-	(97,430)	-
<u>\$ 1,832,154</u>	<u>\$ 1,075,816</u>	<u>\$ 155,992</u>	<u>\$ (22,672)</u>	<u>\$ 2,917,873</u>	<u>\$ 12,433</u>

General Restatements

1. The City overstated its allowance for bad debt because a previous year's allowance total had not been reversed. In the government-wide financial statements and the fund level financial statements for the Sewer Utility Fund, the resulting adjustment was an increase in Accounts Receivable and an increase in Net Assets for business-type activities of \$1,218.
2. Certain bond issuance costs were incorrectly expensed and not deferred at the fund level for the Sewer Utility Fund and for governmental fund debt in the government-wide financial statements. The resulting adjustment was an increase in Net Assets for governmental and business-type activities of \$13,922 and \$1,417, respectively. In the fund level financial statements, the resulting adjustment was an increase in Deferred Charges and Net Assets of \$1,417 for the Sewer Utility Fund.
3. The City did not record an accrual for energy costs in its financial statements for Water Utility and Sewer Utility. In the government-wide financial statements, the resulting adjustment was an increase in Accounts Payable and a decrease in Net Assets for business-type activities of \$312. In the fund level financial statements, the resulting adjustment was an increase in Accounts Payable and a decrease in Net Assets for the following funds: \$232 in the Sewer Utility Fund and \$80 in the Water Utility Fund.
4. The City did not remove investments or related debt when defeasing a debt issuance. The City incorrectly recorded payments to defease the Horton Plaza 1996 B Tax Allocation Bond as a purchase of investments. Interest earned on escrowed funds and debt service was also recorded erroneously at the fund level, but was reversed at the government-wide with an interest adjustment. The effect of this error was to overstate Cash and Investments and Interest Earnings since fiscal year 2000. The correction of this error in the government-wide financial statements resulted in a decrease in governmental activities Net Assets of \$6,640; this is the amount of the defeasance as interest was backed out as a full accrual adjustment government-wide. In the fund level financial statements, the resulting adjustment was a decrease in Cash and Investments and a decrease in Fund Balance for other governmental funds of \$6,974, which is the amount of the defeasance and the interest earnings. (The debt is removed in long-term liability restatement #9)
5. The City incorrectly recorded the assets of a defined contribution plan for the Centre City Development Corporation (CCDC) as fiduciary fund assets even though the City did not hold these assets in a trustee or agency capacity for CCDC. In both the Statement of Fiduciary Net Assets – Pension and Employee Savings Trust and the fiduciary fund level financial statements, the resulting adjustment decreased pension trust fund net assets by \$5,180.
6. The City incorrectly recorded billings to participating agencies of the City's Sewer Utility as Unearned Revenue. In the government-wide financial statements, the resulting adjustment was a decrease in Unearned Revenue and an increase in Net Assets for business-type activities of \$9,470. In the fund level financial statements, the resulting adjustment was a decrease in Unearned Revenue and an increase in Net Assets for the Sewer Utility Fund of \$9,470.
7. The City, in error, classified San Diego Data Processing Corporation (SDDPC) as an enterprise fund instead of an internal service fund. When SDDPC was created, the intent was for them to operate as an information services provider to both the City as well as other governmental entities in the region. However, over time the City has become the primary customer providing the majority of SDDPC's revenues. As such, it should have been classified as an internal service fund/blended component unit of the City. Now that it is an internal service fund it is subject to the internal service allocation pursuant to GASB 34. In the government-wide financial statements,

the resulting change was a decrease in Net Assets for governmental activities of \$3,043 and an increase in Net Assets for business-type activities of \$3,043. In the fund level financial statements, the resulting adjustment was an overall increase in Net Assets for other enterprise funds of \$3,043 and a decrease in Net Assets for internal service funds of \$3,043.

8. The City incorrectly recorded investments being held with a custodian for the San Diego Housing Commission (SDHC), a discretely presented component unit, as an asset of other governmental funds. In the government-wide financial statements, the resulting adjustment was a decrease in Cash & Investments and Net Assets for governmental activities of \$198. In the fund level financial statements, the resulting adjustment was a decrease in Cash & Investments and Fund Balance for other governmental funds of \$198.
9. The City incorrectly recorded interfund transfers as working capital advances, giving the perception that the City funds would be repaid. These transfers represented all purchases and replacements of City vehicles made through the City's Central Garage/Equipment Division. In the government-wide financial statements, the resulting adjustment was an increase in Net Assets for governmental activities of \$44,767 and a decrease in Net Assets for business-type activities of \$44,767. In the fund level financial statements, the adjustment resulted in the following changes: a decrease in the General Fund's Fund Balance of \$10,728; a decrease in other governmental funds' Fund Balance of \$11,898; a decrease in Sewer Utility Fund Net Assets of \$18,916; a decrease in Water Utility Fund Net Assets of \$15,533; a decrease in other enterprise funds Net Assets of \$10,171; and an increase in Internal Service Funds Net Assets of \$67,246. (The difference between the government-wide amount of \$44,767 and the fund level amount of \$67,246 is the result of the GASB 34 required internal service allocation.)
10. During the construction of the PETCO ballpark, the City incorrectly recorded the San Diego Padres' cash investment in the Ballpark as capital contributions. In the government-wide financial statements, the resulting adjustment was a decrease in Cash and Investments and Net Assets for governmental activities of \$48,648. In the fund level financial statements, the resulting adjustment was a decrease in Cash and Investments and Fund Balance for other governmental funds of \$48,648.
11. The City did not reverse accruals for grant receivables for the City's Sewer Utility Fund. As a result, revenues were recorded twice when grant reimbursements were received. In the government-wide financial statements, the resulting adjustment was a decrease in grants receivable and Net Assets for business-type activities of \$6,602. In the fund level financial statements, the resulting adjustment was a decrease in grants receivable and Net Assets for the Sewer Utility Fund of \$6,602.
12. The City incorrectly recorded grant receipts that should have been unearned revenue. In the government-wide financial statements, the resulting adjustment was an increase in unearned revenue and a decrease in Net Assets for governmental activities of \$1,540. In the fund level financial statements, the resulting adjustment was an increase in unearned revenue and a decrease in Fund Balance for other governmental funds of \$1,540.
13. The City did not recognize portions of its unearned revenue balances as revenue when recognition criteria were met. In the government-wide financial statements, the resulting adjustment was a decrease in unearned revenue and an increase in Net Assets for governmental activities of \$24,363; a decrease in unearned revenue and an increase in Net Assets for business-type activities of \$4,048; and an increase in Net Assets for the Sewer Utility Fund of \$4,048.

The City did not properly accrue sales tax revenue when earned. In the fund level financial statements, the resulting adjustment was an increase in Fund Balance of \$8,808 for the General Fund; an increase in the governmental activities Net Assets of \$13,328.

The City erroneously deferred revenue received from the state in the amount of \$8,165 and also deferred loans to developers at the fund level for \$15,020. The resulting adjustment was to increase fund balance for other governmental funds by \$23,185 as well as increase governmental activities net assets by \$23,185.

The City did not record an allowance for governmental activities uncollectible accounts receivable. The result was to decrease accounts receivable and net Assets in the government-wide financial statements by \$5,527.

The net increase caused by these adjustments was to increase governmental activities Net Assets by \$55,349

14. The City did not record the sales, nor a conveyance of land between City of San Diego blended component units, for several Land Held for Resale assets related to the downtown ballpark. In the government-wide financial statements, the resulting adjustment was a decrease in Land Held for Resale and Net Assets for governmental activities of \$29,876. At the fund level financial statements, the resulting adjustment was a decrease in Land Held for Resale and Fund Balance for other governmental funds of \$29,876. The other side of the land conveyance was properly recorded as a land addition in FY 2002.
15. The City incorrectly classified various properties as Land Held for Resale that should have been classified as Land, Easements, and Rights of Way. In the government-wide financial statements, the resulting adjustment was a decrease in Land Held for Resale and Net Assets for governmental activities of \$6,141 (Capital Asset Restatement 8 contains an offset to increase net assets). In the fund level financial statements, the resulting adjustment was a decrease in Fund Balance for other governmental funds of \$6,141.
16. The City incorrectly classified various properties as Land, Easements, Rights of Way that should have been classified as Land Held for Resale (a current asset). This amount of \$6,484 increased Land Held for Resale when it was reclassified from Land, Easements, and Rights of Way to Land Held for Resale, (see Capital Asset Restatement #8.) Additionally, amounts were incorrectly expensed from Land Held for Resale that should have been capitalized. This increase was \$5,824 to Land Held for Resale. In the government-wide financial statements, the resulting adjustment was an increase in Net Assets for governmental activities of \$12,308. In the fund level financial statements, the resulting adjustment was an increase in Fund Balance for other governmental funds of \$12,308.
17. The City did not remove deferred costs related to land held for resale parcels which had been abandoned. In the government-wide financial statements, the resulting adjustment was a decrease in Land Held for Resale and Net Assets for governmental activities of \$100. In the fund level financial statements, the resulting adjustment was a decrease in Land Held for Resale and Fund Balance for other governmental funds of \$100.
18. The City did not defer expenditures for Land Held for Resale, but improperly recorded as expenditures/expenses in the period incurred. In the government-wide financial statements, the resulting adjustment was an increase in Land Held for Resale and Net Assets for governmental activities of \$512. In the fund level financial statements, the resulting adjustment was an increase in Land Held for Resale and Fund Balance for other governmental funds of \$512.
19. The City did not recognize impairment on the net realizable value of Land Held for Resale. In the government-wide financial statements, the resulting adjustment was a decrease in Land Held for Resale and Net Assets for governmental activities of \$11,034. In the fund level financial statements, the resulting adjustment was a decrease in Land Held for Resale and Fund Balance for other governmental funds of \$11,034.
20. The City, on behalf of SDCERS, incorrectly accounted for contracts entered into with employees for purchase of service credits. Specifically, SDCERS did not record a receivable for the contract; however, interest on installment

contracts had been included, and an allowance for doubtful accounts was created which reduced the receivable. In the fund level financial statements, the net impact was an increase in Net Assets for fiduciary funds of \$670.

21. The City incorrectly recorded a working capital advance receivable as deferred revenue in the financial statements of the Redevelopment Agency. In the government-wide financial statements, the resulting adjustment was a decrease in deferred revenue and an increase in Net Assets for governmental activities of \$84. In the fund level financial statements, the resulting adjustment was an increase in Fund Balance for other governmental funds of \$84.
22. The City incorrectly reported investments held with an escrow agent, solely to facilitate a refunding of several special assessment bonds of the Public Facilities Financing Authority (PFFA), a blended component unit. In the government-wide financial statements, the resulting adjustment was a decrease in Cash and Investments and Net Assets for governmental activities of \$34,661. In the fund level financial statements, the resulting adjustment was a decrease in Cash and Investments and Fund Balance for other governmental funds of \$34,661.
23. The City incorrectly recorded grant receivables as revenue in the governmental funds that should have been deferred because they were not collected within 60 days pursuant to the City's availability criteria (see Note 1 Sec. c). This was the result of recognizing grant revenues solely when grant eligibility requirements were being met. In the governmental funds the resulting adjustment was an increase in Deferred Revenue and a decrease in Fund Balance for other governmental funds of \$19,363.
24. The City incorrectly omitted an investment trust fund representing cash owned and interest earned by legally separate entities (ARJIS, SanGIS and AVA) that held cash in the City Treasurer's investment pool. The resulting adjustment was an increase in Net Assets for fiduciary funds of \$12,433.
25. The City incorrectly reported SDMSE as a discretely presented component unit. In accordance with GASB 14, it now has been changed to a joint venture arrangement. The City's equity share in the SDMSE joint venture is reported as such within the general fund as Reserved for Minority Interest in Joint Venture. The resulting adjustment is an increase in Net Assets for governmental activities and an increase in Fund Balance for the general fund of \$1,137.
26. Related to Capital Assets Restatement 10 (plus annual interest earned at 8% per year), the City incorrectly accounted for an interfund loan between the Water Utility Fund and the General Fund. As a result, an interfund receivable was not recorded for business-type activities, and an interfund payable was not recorded for governmental activities. In the government-wide financial statements, the resulting adjustment was an increase in Net Assets for business-type activities of \$2,734 and a decrease in Net Assets for governmental activities of \$1,407 (which is net of the Land Held for Resale asset received of \$1,327). See the business-type activities asset portion of the restatement at Capital Asset Restatement 10 below. In the fund level financial statements, the resulting adjustment was an increase in interfund payables and a decrease in total Fund Balance for other governmental funds of \$1,407; and an increase in interfund receivables and an increase in Net Assets for the Water Utility Fund of \$2,734.
27. Related to Capital Assets Restatement 14, Accounts Payable was also adjusted to reflect the accrual of the retention amount. In the government-wide financial statements, the resulting adjustment was an increase in Accounts Payable and a decrease in Net Assets for governmental activities of \$3,550; and an increase in Accounts Payable and a decrease in Net Assets for business-type activities of \$9,132. In the fund level financial statements, the resulting adjustment was an increase in Accounts Payable and a decrease in Net Assets for the

following funds: \$6,177 in the Sewer Utility Fund; \$2,931 in the Water Utility Fund; and \$24 in the other enterprise funds.

28. In November 1998 the Redevelopment Agency (Agency) entered into a Memorandum of Understanding with the Padres, and other entities, in which the Padres and Agency agreed to a land conveyance of various land parcels within the downtown ballpark area. The Padres agreed to advance funds to the Agency so that the Agency could buy land parcels (possibly through eminent domain) which would then be conveyed back to the Padres once certain legal requirements were met for development of the land by the Padres. From 1999 through 6/30/2002 the Padres had advanced a total of \$27,050 to the Agency. The Agency then used these monies to buy various parcels around the Ballpark area. However, these funds represented a future liability to the Agency, a commitment to convey these land parcels to the Padres. This liability was never recorded in the governmental activities; the resulting adjustment was a decrease in Net Assets for governmental activities of \$27,050.
29. The City overstated its interest accrued on long-term debt because of an incorrect payment date used for the calculation. In the government-wide financial statements and the fund level financial statements for the Water Utility Fund, the resulting adjustment was a decrease in Interest Accrued on Long-Term Debt and an increase in Net Assets for business-type activities of \$804.
30. The City did not capitalize issuance costs for the PFFA-Ballpark debt in the amount of \$2,044. In the government-wide financial statements, the resulting adjustment was an increase in Deferred Charges and an increase in Net Assets for governmental activities of \$2,044.
31. The City incorrectly recorded the assets of a defined contribution plan, the City's 401(k) Plan, as an agency fund instead of a pension trust fund even though the City held assets in a trustee capacity. In the Statement of Fiduciary Net Assets-Pension and Employee Savings Trust, the resulting adjustment increased the Pension and Employee Savings Trust Net Assets by \$110,059.
32. The City incorrectly included investments as part of cash and cash equivalents within the Statement of Cash Flows. In the Proprietary Funds Statement of Cash Flows, the resulting adjustment was a decrease in cash and cash equivalents for the Sewer Utility Fund of \$20,572, the Water Utility Fund of \$34,735, and other enterprise funds of \$850 with an offsetting entry to increase investments not meeting the definition of cash equivalents. In the government wide and fund level financial statements, the resulting correction had no effect on business-type activities net assets.
33. The City did not properly accrue for Tobacco revenue. In the government-wide financial statements, the resulting adjustment was an increase in net assets for governmental activities of \$6,064. In the fund level financial statements, the resulting adjustment was an increase in taxes receivable and deferred revenue for the general fund of \$6,064. The amount was recorded as deferred revenue in the general fund because the receivable was not received within the City's availability period.

Capital Assets Restatements

1. The City had land assets recorded at incorrect carrying values as a result of not capitalizing land additions and improvements. In the government-wide financial statements, the resulting adjustment was an increase in Land, Easements, Rights of Way assets and an increase in Net Assets for business-type activities of \$12,354. In the fund level financial statements, the resulting adjustment was an increase in Capital Assets-net and an increase in Net Assets for the following funds: \$2,494 in the Sewer Utility Fund and \$9,860 in the Water Utility Fund.

2. The City did not begin recording depreciation expense for certain capital improvement projects at the time they were placed into service. Timing differences in capitalization dates and “in service” dates, along with a failure to timely remove assets from construction in progress to a depreciable asset classification, resulted in improper depreciation expense and asset carrying values. See Capital Asset Restatement #18 for the asset portion of the adjustment. In the government-wide financial statements, the resulting adjustment for governmental activities was an increase in Accumulated Depreciation for Structures and Improvements of \$5,652 and Infrastructure of \$6,059; and in business-type activities was an increase in Accumulated Depreciation for Structures and Improvements of \$51,779, Equipment of \$79,927 and Distribution and Collection Systems of \$15,654. This resulted in decreases to Net Assets for governmental and business-type activities of \$11,711 and \$147,360, respectively. In the fund level financial statements, the resulting adjustment was a decrease in Capital Assets-net and a decrease in Net Assets for the following funds: \$107,308 in the Sewer Utility Fund; \$16,299 in the Water Utility Fund; and \$23,753 in the other enterprise funds.
3. During the City's implementation of GASB 34, the City capitalized certain infrastructure projects that were also incorrectly included as part of the City's construction in progress, resulting in an overstatement of non-depreciable capital assets. In the government-wide financial statements, the resulting adjustment was a decrease in Construction in Progress and a decrease in Net Assets for governmental activities of \$147,164.
4. Depreciation expense from prior years was recorded in error for distribution and collection system assets in business-type activities due to incorrect book values and estimates of useful lives. In the government-wide financial statements, the resulting adjustment was a decrease in Accumulated Depreciation for Distribution and Collection Systems and an increase in Net Assets for business-type activities of \$39,138. In the fund level financial statements, the resulting adjustment was an increase in Capital Assets-net and an increase in Net Assets for the following funds: \$33,334 in the Sewer Utility Fund and \$5,804 in the Water Utility Fund.
5. The City recorded parcels of land designated as “open space” twice. In the government-wide financial statements, the resulting adjustment was a decrease in Land, Easements, Rights of Way assets and a decrease in Net Assets in governmental activities of \$15,828.
6. The City did not expense certain planning, pre-design, and preliminary costs when related capital projects were later canceled or abandoned. This resulted in an overstatement of capital assets. In the government-wide financial statements, the resulting adjustment was a decrease in Construction in Progress and a decrease in Net Assets for governmental activities of \$45,188; and a decrease in Construction in Progress and a decrease in Net Assets for the business-type activities of \$126,566. In the fund level financial statements, the resulting adjustment was a decrease in Capital Assets-net and a decrease in Net Assets for the following funds: \$85,475 in the Sewer Utility Fund; \$39,425 in the Water Utility Fund; and \$1,666 in the other enterprise funds.
7. The City incorrectly capitalized leasehold improvements to Balboa Park which were made by the Zoological Society of San Diego. In the government-wide financial statements, the resulting adjustment was a decrease to Construction in Progress assets of \$10,805, Structures and Improvements of \$147,879, Equipment of \$45,873 and a decrease in Accumulated Depreciation for Structures and Improvements of \$71,563 and Equipment of \$27,256, and a decrease in Net Assets for governmental activities of \$105,738.
8. The City did not capitalize several land parcels owned by the Redevelopment Agency in the correct asset category. Related to General Restatement 15, the City incorrectly recorded Land, Easements, and Rights of Way as Land Held for Resale. The resulting adjustment increased Land, Easements, Rights of Way and Net Assets for governmental activities by \$6,141 (the offsetting entry to this adjustment is contained in General Restatement 15).

Related to General Restatement 16, the City incorrectly recorded Land Held for Resale as Land, Easements, and Rights of Way. The resulting adjustment decreased Land, Easements and Rights of Way and Net Assets for governmental activities by \$6,484 (the offsetting entry to this adjustment is contained in General Restatement 16).

The City failed to record certain capital assets and related depreciation owned by the Redevelopment Agency. The resulting adjustment increased Land, Easements, Rights of Way by \$6,976 and Structures and Improvements by \$8,107 and related Accumulated Depreciation by \$203. The total adjustment increased Net Assets for governmental activities by \$14,880. The total effect of Capital Asset Restatement #8 is an increase in Net Assets for governmental activities of \$14,537.

9. The City identified certain infrastructure assets contributed to the City by real estate developers, which were not capitalized. As a result, the City performed a reconciliation between the City's Water and Sewer Geographical Information System and the City's Fixed Asset Management Information System. The resulting reconciliation identified numerous assets that were not capitalized, of which the value was estimated using the cost of comparative infrastructure. In the government-wide financial statements, the resulting adjustments were increases in Distribution and Collection Systems and related Accumulated Depreciation of \$255,770 and \$6,734, respectively, for a total increase in Net Assets for business-type activities of \$249,036. In the fund level financial statements, the resulting adjustment was an increase in Capital Assets-net and an increase in Net Assets for the following funds: \$108,175 in the Sewer Utility Fund and \$140,861 in the Water Utility Fund.
10. A parcel of land financed by the Water Utility Fund for the General Fund was incorrectly capitalized as an asset of the Water Utility Fund. In the government-wide financial statements, the resulting adjustment was a decrease in Land, Easements, Rights of Way assets and a decrease in Net Assets for business-type activities of \$1,227. In the fund level financial statements, the resulting adjustment was a decrease in Capital Assets-net and a decrease in Net Assets for the Water Utility Fund of \$1,227.
11. The City expensed in error all costs associated with the new Main Library. It has since been determined that the library will be constructed and as such the amounts expensed have been reinstated into Construction in Progress. In the government-wide financial statements, the resulting adjustment was an increase in Construction in Progress and an increase in Net Assets for governmental activities of \$3,952.
12. The City incorrectly omitted two parcels of land. In the government-wide financial statements, the resulting adjustment was an increase in Land, Easements, Rights of Way assets and Net Assets for governmental activities of \$2,454.
13. The City incorrectly accounted for Facilities Benefit Assessment (FBA) Credit Agreements, which are reimbursement agreements entered into by the City and participating developers. The agreements allow for construction of specific infrastructure assets by developers, which are identified in various Public Facilities Financing Plans. The assets are then conveyed to the City for credits that the developer can use in lieu of paying building permit fees. The capital assets related to these agreements were recorded only when the developer used its credits by pulling permit fees. Upon review, it was determined that the amounts of unused credits earned by developers understated capital assets and net assets. The resulting adjustment was to fully record the value of the capital asset at the time of conveyance and the related revenue. In the government-wide financial statements, the resulting adjustment was a decrease in Construction in Progress of \$2,437, an increase in Infrastructure of \$51,080 and an increase in Accumulated Depreciation for Infrastructure of \$712, with a net increase to Net Assets for governmental activities of \$47,931.

14. Related to General Restatements – 27, the City did not capitalize the retention amount for its construction contracts when the invoices were being paid. In the government-wide financial statements, the resulting adjustments for governmental activities were increases in Construction in Progress of \$3,462, Structures and Improvements of \$13, Infrastructure of \$75, and a net increase in Net Assets for governmental activities of \$3,550. For business-type activities, the resulting adjustments were increases in Construction in Progress of \$3,798, Structures and Improvements of \$2,686, Distribution and Collection Systems of \$2,648 and a net increase in Net Assets of \$9,132. In the fund level financial statements, the resulting adjustment was an increase in Capital Assets-net and an increase in Net Assets for the following funds: \$6,177 in the Sewer Utility Fund; \$2,931 in the Water Utility Fund; and \$24 in the other enterprise funds.
15. The City determined the San Pasqual Treatment plant was incorrectly reported as construction in progress. As such, amounts were transferred out of Construction in Progress and into the appropriate depreciable asset category. The equipment and infrastructure associated with the original plant are included in Capital Assets Restatement #18 (see below). In the government-wide financial statements, the resulting adjustment was a decrease in Construction in Progress of \$14,788, an increase to Structure and Improvements of \$14,788 and related Accumulated Depreciation of \$2,350, and a net decrease in Net Assets for business-type activities of \$2,350. In the fund level financial statements, the resulting adjustment was a decrease in Capital Assets-net and Net Assets for the following funds: \$1,191 in the Sewer Utility Fund and \$1,159 in the Water Utility Fund.
16. The City identified three project-management programs requiring adjustments for expenditures not properly capitalized. Expenditures were initially capitalized into the Structures and Improvements category, but needed to be partially allocated to other asset categories or expensed. In the government-wide financial statements, the resulting adjustment was an increase in Construction in Progress of \$384, Equipment of \$2,178, Distribution and Collection Systems of \$2,439, and an increase in Accumulated Depreciation for Equipment of \$679 and Distribution and Collection Systems of \$396. Due to the initial capitalization into the Structures and Improvements category a related decrease in Structures and Improvements and Accumulated Depreciation of \$10,720 and \$1,627, respectively was necessary. Amounts expensed resulted in a net decrease in Net Assets for business-type activities of \$5,167. In the fund level financial statements, the resulting adjustment was a decrease in Capital Assets-net and a decrease in Net Assets for Sewer Utility Fund of \$5,167.
17. The City identified three interfund land transfers in Land, Easements, Rights of Way, which were incorrectly recorded at the purchase price on the date of transfer rather than the City's original historical cost. The first land asset transferred from the Water Utility Fund to the governmental activities overstating land by \$918 in governmental activities. In the government-wide financial statements, the resulting adjustment was a decrease in Land, Easements, Rights of Way assets and Net Assets of \$918 for governmental activities.

The second land asset transferred from the Water Utility Fund to the Sewer Utility Fund overstating land \$6,529. In the government-wide financial statements, the resulting adjustment was a decrease in Land, Easements, Rights of Way assets and Net Assets of \$6,529 for business-type activities. In the fund level financial statements, the resulting adjustment was a decrease of \$6,529 in Capital Assets-net and Net Assets for the Sewer Utility Fund.

The last land transfer, which transferred percentages of a parcel of land from the governmental activities to the Sewer Utility, Water Utility, and other enterprise funds, has three separate but related components to the restatement. First, at the time the governmental activities originally acquired the property it was not recorded at the correct purchase price. Second, additional percentage transfers from the governmental activities to the Water Utility Fund were never recorded. Third, transfers were recorded at the purchase price on the date of transfer rather than the City's original historical cost. As such, an adjustment was necessary for the land remaining in

governmental activities to correctly record the purchase price, increasing land \$1,027. In the government-wide financial statements, the resulting adjustment was an increase in Land, Easements, Rights of Way and Net Assets of \$1,027 for governmental activities and a decrease of \$302 for business-type activities. In the fund level financial statements, the resulting adjustment was a decrease in Capital Assets-net and a decrease in Net Assets for the following funds: \$208 in the Sewer Utility Fund; \$208 in the other enterprise funds and an increase in Capital Assets-net and Net Assets of \$114 in the Water Utility Fund. The total Net Asset effect of Capital Asset Restatement #17 for governmental activities is an increase of \$109 and a decrease for business-type activities of \$6,831.

18. The City identified capital improvement projects substantially completed prior to fiscal year 2003, which were incorrectly reported as construction in progress. Projects identified as substantially complete were transferred to the appropriate capital asset category. The resulting adjustment is an increase in the government-wide financial statements to Land, Easements, Rights of Way of \$145, Structures and Improvements of \$57,160, Infrastructure of \$75,644, and a decrease of \$132,949 to Construction in Progress for governmental activities (the net effect on governmental net assets, therefore, is zero). The resulting adjustment for business-type activities is an increase in the government-wide financial statements to Land, Easements, Rights of Way of \$10,701, Structures and Improvements of \$545,732, Equipment of \$180,256, Distribution and Collection Systems of \$624,182, and a decrease of \$1,360,871 to Construction in Progress (the net effect on business-type net assets, therefore, is zero). In the fund level financial statements, the resulting correction had no effect on Capital Assets-net or Net Assets for the Sewer Utility, Water Utility, and other enterprise funds. See Capital Asset Restatement #2 for the related accumulated depreciation portion of this adjustment.
19. The City previously classified San Diego Data Processing Corporation (SDDPC) as an enterprise fund instead of an internal service fund (see General Restatement #7 for further discussion). The resulting capital asset reclassification is an increase in the government-wide financial statements to Land, Easements, Rights of Way of \$1,988, Structures and Improvements of \$6,389, Equipment of \$67,084 and related Accumulated Depreciation for Structures and Improvements of \$7,296, and Equipment of \$47,830, and Net Assets for governmental activities of \$20,335. The corresponding adjustment for business-type activities is the inverse of the adjustments to governmental activities listed above. In the fund level financial statements, the resulting reclassification was an overall decrease in Net Assets for other enterprise funds of \$20,335 and an increase in Net Assets for internal service funds of \$20,335.
20. The City did not capitalize interest expense as it related to projects undergoing construction, as is required per SFAS 34 and 62. In the government-wide financial statements, the resulting adjustment was an increase in Structures and Improvements of \$42,490, an increase in Distribution and Collection Systems of \$119,473, an increase in Construction in Progress of \$3,945, an increase in Accumulated Depreciation for Structures and Improvements of \$3,750, an increase in Accumulated Depreciation for Distribution and Collection Systems of \$7,290, and a net increase in Net Assets for business-type activities of \$154,868. In the fund level financial statements, the resulting adjustment was an increase in Capital Assets-net and in Net Assets for the following funds: \$137,998 in the Sewer Utility Fund and \$16,870 in the Water Utility Fund.

Long-Term Liabilities Restatements

1. At the government wide level, the City incorrectly understated its workers compensation liability by \$64,864. Additionally, the City incorrectly overstated its public liability claims by \$21,944. The net understatement of

\$42,920 decreased reported Governmental Activities Net Assets by \$40,457 and Business-Type Activities by \$2,463.

Additionally, the City did not record public liability claims liabilities in its Self Insurance Internal Service Fund, a proprietary fund servicing governmental activities. This resulted in an overstatement of internal service: Self Insurance Fund Net Assets of \$33,517. Together with the \$64,864 of understated workers compensation liability, Net Assets of the Self Insurance Internal Service Fund decreased by a total of \$98,381.

2. Certain bond discounts, premiums, and accretions were not being amortized over the debt period. In the government-wide financial statements, the amortization of these bond discounts, premiums and accretions resulted in an increase in Net Bonds Payable and a decrease in Net Assets for governmental activities of \$3,054.
3. The City incorrectly credited payments for retiree health costs to its Annual Required Contribution (ARC) for retiree pension costs. Additionally, per assumptions adopted by the Board of the San Diego City Employees Retirement System (SDCERS), the Actuary did not recognize costs related to legal settlements relating to pension benefits (Corbett settlement) as part of the SDCERS Unfunded Accrued Actuarial Liability (UAAL). The City also corrected for a one year time lag and had the ARC re-calculated by the City's new actuary. The effect of all of these corrections was to increase the ARC retroactively and therefore increase the City's Net Pension Obligation (NPO). In the government-wide financial statements, the resulting adjustment was an increase in the City's NPO, a decrease in governmental and business-type activities Net Assets of \$74,515 and \$15,867, respectively. In the fund level financial statements, the resulting adjustment was an increase in NPO and a decrease in Net Assets for the following funds: \$5,321 in the Sewer Utility Fund; \$4,391 in the Water Utility Fund; \$4,992 in the other enterprise funds; \$2,777 in the internal service funds; and \$319 in the fiduciary funds.
4. The City incorrectly recorded loans from SANDAG, a regional transportation agency, as revenue. In the government-wide financial statements, the resulting adjustment was an increase in SANDAG Loans Payable and a decrease in Net Assets for governmental activities of \$18,805.
5. The City agreed to pay a portion of the employees share of pension costs, however the City did not make a payment into SDCERS for the agreed upon amounts, nor did the City recognize a liability for amounts owed on behalf of employees. In the government-wide financial statements, the resulting adjustment was an increase in NPO and a decrease in Net Assets for governmental and business-type activities of \$1,081 and \$230, respectively. In the fund level financial statements, the resulting adjustment was an increase in NPO and a decrease in Net Assets for the following funds: \$77 in the Sewer Utility Fund; \$63 in the Water Utility Fund; \$72 in the other enterprise funds; \$42 in the internal service funds; and \$6 in the fiduciary funds.
6. The City did not record the defeasance of a loan payable. In the government-wide financial statements, the resulting adjustment was a decrease in Loans Payable and an increase in Net Assets for governmental activities of \$3,250.
7. The City did not record a loan payable. In the government-wide financial statements, the resulting adjustment was an increase in Loans Payable and a decrease in Net Assets for governmental activities of \$1,876.
8. The City did not record an increase to a contract payable. In the government-wide financial statements, the resulting adjustment was an increase in Contracts and Notes Payable and a decrease in Net Assets for governmental activities of \$117.

9. In relation to General Restatement 4, the City did not record the defeasance of the Horton Plaza 1996B Tax Allocation bond. In the government-wide financial statements, the resulting adjustment was a decrease in tax allocation bonds payable and an increase in Net Assets for governmental activities of \$6,640.
10. The City did not include add-on pay and all employer taxes in its calculation of liabilities for Compensated Absences. Additionally, the City did not accrue for the compensated absences earned and used during the portion of the last pay period of the fiscal year that fell in the fiscal year being reported. These errors resulted in an understatement of the City's Compensated Absences liability. In the government-wide financial statements, the resulting adjustment was an increase in Compensated Absences and a decrease in Net Assets for governmental and business-type activities of \$4,887 and \$1,151, respectively. In the fund level financial statements, the resulting adjustment was an increase in Compensated Absences and a decrease in Net Assets for the following funds: \$402 in the Sewer Utility Fund; \$316 in the Water Utility Fund; \$362 in the other enterprise funds; and \$208 in the internal service funds.
11. The City previously classified San Diego Data Processing Corporation (SDDPC) as an enterprise fund instead of an internal service fund (see General Restatement #7 for further discussion). In the government-wide financial statements, the resulting adjustments were an increase in the bank line of credit (\$3,944) and an increase in compensated absences (\$1,392), for a net decrease in Net Assets of governmental activities of \$5,336. The corresponding adjustment for business-type activities is the inverse of the adjustments to governmental activities listed above. In the fund level financial statements, the resulting adjustment was an overall increase in Net Assets for Other Enterprise Funds of \$5,336 and a decrease in net assets for Internal Service Funds of \$5,336.
12. The City did not record arbitrage liability. In the government-wide financial statements, the resulting adjustment was a decrease in Net Assets for business-type activities of \$2,657. In the fund level financial statements, the resulting adjustment was an increase in Arbitrage Liability and a decrease in Net Assets for the following funds: \$13 in the Sewer Utility Fund and \$2,644 in the Water Utility Fund.
13. It was determined that SDCERS' DROP obligations should be shown as liabilities and not as part of net assets, since the obligations could be defined as due and payable in accordance with the plan terms, per GASB 25. This adjustment resulted in the creation of a new liability account titled DROP liabilities and a corresponding decrease to fiduciary Net Assets of \$97,430.

Discretely Presented Component Units Restatements

	Discretely Presented Component Units	
	San Diego Convention Center Corporation	San Diego Housing Commission
Net Assets as of June 30, 2002, as stated	\$ 11,546	\$ 188,139
1 Change in Capitalization Threshold	-	(134)
2 Transfer of Restricted Cash for Facility Restoration Fund	117	-
3 Overstatement of Operating Revenues	-	(243)
4 Reclassification of a Grant to a Loan	-	511
5 Reclassification of a Grant to a Loan	-	(4,554)
6 Reclassification of Deferred Revenue	616	-
7 Understatement of Interest Income	-	834
8 Overstatement of Charges for Services Revenues	(2,000)	
Total Net Assets as of June 30, 2002, as restated	\$ 10,279	\$ 184,553

1. A change in the capitalization threshold for the San Diego Housing Commission (SDHC) resulted in a decrease in net assets of \$134.
2. San Diego Convention Center Corporation (SDCCC) identified a transfer of restricted cash for the facility restoration fund, which resulted in an increase to net assets of \$117.
3. SDHC identified an overstatement of operating revenues, which resulted in a decrease to net assets of \$243.
4. SDHC reclassified a grant to a loan, which resulted in an increase to net assets of \$511.
5. SDHC erroneously classified a zero payment, zero interest loan from the State of California as contributed capital versus a loan. The correction resulted in a prior period adjustment reducing net assets by \$4,554.
6. SDCCC erroneously deferred revenue in fiscal year 2002 instead of recognizing those revenues when earned. The resulting adjustment was an increase to beginning net assets of \$616.
7. SDHC did not record interest income on certain notes receivable, which resulted in an increase to net assets of \$834.
8. SDCCC incorrectly recognized revenue it received from a food and beverage contract extension incentive payment in fiscal year 2002 instead of amortizing over the life of the contract which is five years. The resulting adjustment was to decrease beginning net assets by \$2,000.

Required Supplementary Information
[Unaudited]

Schedules of Funding Progress

City of San Diego
(In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets [a]	Actuarial Accrued Liability PUC ¹ [b]	UAAL ² [b-a]	Funded Ratio ² [a/b]	Covered Payroll [c]	UAAL as a Percentage of Covered Payroll [[b-a]/c]
6/30/2003	\$ 2,375,431	\$ 3,607,173	\$ 1,231,742	65.85%	\$ 533,595	231%
6/30/2002	2,448,208	3,237,947	789,739	75.61%	535,157	148%
6/30/2001	2,525,645	2,878,550	352,905	87.74%	481,864	73%
6/30/2000	2,459,815	2,592,674	132,859	94.88%	448,502	30%
6/30/1999	2,033,153	2,181,547	148,394	93.20%	424,516	35%
6/30/1998	1,852,151	1,979,668	127,517	93.56%	399,035	32%

¹ The Actuarial Accrued Liability (AAL) was revised by the City to reflect the inclusion of Corbett contingent benefit liabilities for valuation dates 6/30/2000 through 6/30/2002. See the Notes to the Schedules of Trend Information for a reconciliation between the SDCERS AAL and the City's AAL as shown in the table above. The actuary excluded certain reserves from the valuation, including the Deferred Retirement Option Plan.

² The UAAL and the Funded Ratio differ from SDCERS' calculation as a result of the City's recalculation of the AAL.

Unified Port of San Diego
(In Thousands)

Continuation Indicators

Valuation Date	Valuation Assets [a]	AAL [b]	Funded Ratio [a/b]	UAAL [b-a]	Member Payroll [c]	UAAL Ratio to Member Payroll [[b-a]/c]
12/31/2002 ³	\$ 125,619	\$ 137,824	91.1 %	\$ 12,205	\$ 33,995	35.9 %
6/30/2002	140,613	140,197	100.3	(416)	39,063	(1.1)
6/30/2001 ²	145,278	123,126	118.0	(22,152)	36,425	(60.8)
6/30/2000	133,183	97,160	137.1	(36,023)	30,621	(117.6)
6/30/1999	110,310	89,809	122.8	(20,501)	30,035	(68.3)
6/30/1998 ¹	98,007	81,633	120.1	(16,374)	26,672	(61.4)

¹ Reflects revised actuarial assumptions

² Reflects Andrecht Settlement

³ Effective January 1, 2003, the State of California established a separate agency, the San Diego County Regional Airport Authority (Airport), separate from but comprised of former Unified Port of San Diego (Port) employees and newly hired employees. An interim actuarial valuation, as of December 31, 2002, was performed by SDCERS' actuary to separate the Airport's accrued liabilities and actuarial value of assets from the Port's accrued liabilities and actuarial value of assets. All retirees remained with the Port for valuation purposes.

Note – Actuarial gains and losses reduce or increase the unfunded actuarial accrued liability which is being amortized over a closed, 30-year period which began July 1, 1991 (18.5 years remaining), as of the December 31, 2002 (interim) actuarial valuation.

San Diego County Regional Airport Authority

(In Thousands)

Valuation Date	Valuation Assets	Continuation Indicators				
		AAL	Funded Ratio	UAAL	Member Payroll	UAAL Ratio to Member Payroll
	[a]	[b]	[a/b]	[b-a]	[c]	[[b-a]/c]
12/31/02 ¹	\$ 11,028	\$ 11,526	95.7 %	\$ 498	\$ 8,871	5.6 %

AAL – Actuarial Accrued Liability

UAAL – Unfunded Actuarial Accrued Liability

¹ Effective January 1, 2003, the State of California established a separate agency, the San Diego County Regional Airport Authority (Airport), separate from but comprised of former Unified Port of San Diego (Port) employees and newly hired employees. An interim actuarial valuation, as of December 31, 2002, was performed by SDCERS' actuary to separate the Airport's accrued liabilities and actuarial value of assets from the Port's accrued liabilities and actuarial value of assets. All retirees remained with the Port for valuation purposes.

Note – Actuarial gains and losses reduce or increase the unfunded actuarial accrued liability which is being amortized over a closed, 18.5 year period which began January 1, 2003 (18.5 years remaining), as of the December 31, 2002 actuarial (interim) valuation.

Schedules of Plan Sponsors' (Employers') Contributions**City of San Diego**
(In Thousands)

	2003	2002	2001	2000	1999	1998
Annual Required Contributions (ARC) ¹	\$ 91,947	\$ 68,046	\$ 58,768	\$ 48,950	\$ 46,582	\$ 42,608
Contributions Made to SDCERS ²	58,650	40,862	29,567	33,288	29,067	26,441
Difference - Over/(Under) Contributed	(33,297)	(27,184)	(29,201)	(15,662)	(17,515)	(16,167)
Percentage Contributed	63.79%	60.05%	50.31%	68.00%	62.40%	62.06%

¹ Revised ARC as calculated by the City's actuary in accordance with GASB 25, Par. 36, including adjustment for Corbett.

² Adjusted contributions per City, including adjustment to reduce "contribution made" for health insurance expense.

Unified Port of San Diego
(In Thousands)

	2003	2002	2001	2000	1999	1998
Annual Required Contributions (ARC) ¹	\$ 2,210	\$ 219	\$ 1,213	\$ 1,302	\$ 1,434	\$ 1,518
Contributions Made to SDCERS	2,210	219	1,213	1,302	1,434	1,518
Difference - Over/(Under) Contributed	-	-	-	-	-	-
Percentage Contributed	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

¹ ARC figures provided by SDCERS' actuary; ARC calculated using actual payroll.

San Diego County Regional Airport Authority
(In Thousands)

	2003
Annual Required Contributions (ARC) ¹	N/A
Contributions Made to SDCERS	\$ 249 ²
Difference - Over/(Under) Contributed	N/A
Percentage Contributed	

¹ ARC figures provided by SDCERS' actuary; ARC calculated using actual payroll.

² Effective January 1, 2003, the State of California established a separate agency, the San Diego County Regional Airport Authority (Airport), separate from but comprised of former Unified Port of San Diego (Port) employees and newly hired employees. An interim actuarial valuation was performed as of December 31, 2002, by SDCERS' actuary to establish the actuarially calculated, required contribution rates for fiscal year 2004. fiscal year 2003 Contributions Made represents that portion of Port employer contributions made which covers Airport employees, plus one-half of fiscal year 2003 accrued employer contributions paid to SDCERS by the Airport.

Notes to the Schedules of Trend Information (In Thousands)

Actuarial Methods and Significant Assumptions

The following actuarial methods and significant assumptions were used by SDCERS for the June 30, 2003 actuarial valuation that is included in the schedules of funding progress and schedules of employer contributions:

- The projected unit credit actuarial cost method (adopted as of July 1, 1993) was used in determining age and service allowance actuarial liabilities at normal cost.
- The actuarial value of assets was determined using the net market value and net book value of plan assets. The percentage differences between net market value and net book value over the most recent five-year period were calculated. The resulting percentages were averaged for the five-year period and applied to the current year's net book value of plan assets to arrive at the actuarial value of plan assets.
- The investment rate of return in making the valuations was 8.0% per year, compounded annually, before retirement and 2.0% per year, compounded annually, after retirement. The real rate of return is the rate of investment return in excess of the inflation rate. The assumed inflation rate was 4.25%.
- The individual pay increase assumptions for fiscal year 2004 was 4.75% for members with less than 5 years of service and 2.00% for members with 5 or more years of service.
- The assumed, annual cost-of-living adjustment is generally 2% per annum, compounded. There is a closed group of special safety officers whose annual adjustment is equal to inflation (4.25% per year).
- Actuarial gains and losses reduce or increase the unfunded liability and are amortized, using a level percentage of projected payroll method, over a 30-year closed amortization period that began on July 1, 1991.

Factors that Significantly Affect the Identification of Trends

The following factors were taken from the comments of SDCERS' actuary in the actuarial valuation dated June 30, 2001 which is the basis of the fiscal year 2003 contributions.

City of San Diego

Funding Methodologies - Although MP-1 and MP-2 (MP-2 was enacted subsequent to the actuarial valuation used during the period being reported) are no longer in effect, the City's use of those agreements (detail provided in Note 12) to calculate the City of San Diego's contributions to SDCERS from fiscal year 1998 through the period reported created a net pension obligation for the City. Furthermore, the funding methodology used in MP-1 and MP-2 were not included in the list of six recognized employer contribution (actuarial cost) funding methods. In the 2001 actuarial valuation, the SDCERS' actuary noted that the MP-1 agreement, which provided for the City to make less than the annual required contribution, has fostered an environment of additional declines in the funding ratio of the plan in the absence of healthy market returns.

Investment Performance- SDCERS experienced investment losses which impact the funding ratio of the plan during the valuation period used and in valuation periods subsequent to the actuarial valuation used to calculate the balances presented in Note 12. These investment losses were offset by the asset smoothing process which delays the recognition of gains and losses over a period of five years. As a result of the asset smoothing process, the financial condition of the City's plan will be affected as significant investment losses incurred during fiscal years 2001 and 2002 were recognized in the plan through fiscal year 2007.

Pay and Benefit Increases - During the valuation period being reported on, SDCERS' actuary indicated the City experienced a significant increase (7.7%) in the average compensation of employees. Furthermore, many older plan

participants elected to retire during this period; this resulted in an over 10% increase to the average new retirant allowance.

The City settled in May of 2000, what is known as the Corbett Settlement. The terms of the settlement affected the benefit calculation for retirees and are discussed in greater detail in Note 12. Initially upon settlement, the City and SDCERS viewed certain Corbett benefits as contingent and therefore excluded them from the actuarial valuation of liabilities. Viewing certain Corbett benefits as contingent was later determined to be incorrect; as such, the City has restated the required supplementary schedules for all periods affected by the settlement. The following table details these changes:

Valuation Date	Accrued Actuarial Liability (as reported by SDCERS)	Outstanding Liability related to Corbett Benefit Increases	Revised Accrued Actuarial Liability
June 30, 2002	\$ 3,168,921	\$ 69,026	\$ 3,237,947
June 30, 2001	2,809,538	69,012	2,878,550
June 30, 2000	2,528,774	63,900	2,592,674

Subsequent to the valuation period being used for this report, the City awarded benefit increases pursuant to the MP-2 Agreement. This benefit increase was to change the basic multiplier for each year of service from 2.25% to 2.5%. The result of this change impacts the City's Actuarial Accrued Liability significantly.

Unified Port District

Investment Performance - SDCERS experienced investment losses which impact the funding ratio of the plan during the valuation periods reported in the required supplementary information and in subsequent valuation periods.

Pay and Benefit Increases – During the actuarial valuation period ended June 30, 2001, the Port District entered into the Andrecht Settlement which took effect on January 1, 2002. This settlement increased the benefits provided to current and active members in the same manner as the Corbett Settlement (as described in Note 12), with three exceptions:

1. The 7% increase conferred to Port retirees and vested deferred is NOT contingent,
2. The benefits continue to be integrated for the portion of final average compensation below \$400 (in whole dollars) a month, and
3. The Option 1 Safety formula will vary from 2.5% at 50 to 2.7% at age 55 and is subject to a 10% increase in final average compensation.

During the most recent period being reported on (June 30, 2002 valuation), SDCERS' actuary indicated the Port experienced a significant increase (7.0%) in the average compensation of employees. Additionally, the average pay increase reported in the June 30, 2001 valuation was 8.2%. The actuary also explicitly recognized service purchase credit for the first time in the June 30, 2002 valuation.

San Diego County Regional Airport Authority

Effective January 1, 2003, the State of California established a separate agency, the San Diego County Regional Airport Authority (Airport), separate from but comprised of former Port employees and newly hired employees. The December 31, 2002 actuarial valuation was the first valuation performed on the Airport. A subsequent valuation of the Airport reported actuarial investment losses and significant increases in the number of active members and average pay (8.5% increase at June 30, 2003).



cafr | 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 interest on long-term debt. Appropriations are made from the Fund annually.

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2003
(In Thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Property Taxes	\$ 188,739	\$ 189,206	\$ 184,641	\$ (4,565)
Sales Taxes	134,452	134,888	129,262	(5,626)
Other Local Taxes	117,211	120,524	109,241	(11,283)
Licenses and Permits	21,662	22,550	22,655	105
Fines, Forfeitures and Penalties	26,178	26,178	25,373	(805)
Revenue from Use of Money and Property	36,361	35,968	30,843	(5,125)
Revenue from Federal Agencies	175	1,375	1,706	331
Revenue from Other Agencies	77,960	77,960	90,355	12,395
Charges for Current Services	68,074	91,647	97,365	5,718
Other Revenue	4,071	4,071	2,587	(1,484)
TOTAL REVENUES	674,883	704,367	694,028	(10,339)
EXPENDITURES				
Current:				
General Government and Support	145,643	150,079	142,713	7,366
Public Safety - Police	262,810	272,074	269,627	2,447
Public Safety - Fire and Life Safety	121,186	129,522	127,254	2,268
Parks, Recreation, Culture and Leisure	103,080	103,843	97,593	6,250
Transportation	20,613	21,842	20,981	861
Sanitation and Health	35,609	37,075	36,394	681
Neighborhood Services	29,007	32,309	30,420	1,889
Debt Service:				
Principal Retirement	1,825	1,825	1,825	-
Interest	6,081	5,707	5,707	-
TOTAL EXPENDITURES	725,854	754,276	732,514	21,762
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(50,971)	(49,909)	(38,486)	11,423
OTHER FINANCING SOURCES (USES)				
Transfers from Proprietary Funds	2,750	4,450	5,480	1,030
Transfers from Other Funds	35,360	36,993	39,028	2,035
Transfers to Proprietary Funds	(5,969)	(7,080)	(7,080)	-
Transfers to Other Funds	(16,277)	(18,671)	(19,011)	(340)
Net Income from Joint Venture	-	-	870	870
TOTAL OTHER FINANCING SOURCES (USES)	15,864	15,692	19,287	3,595
NET CHANGE IN FUND BALANCE	(35,107)	(34,217)	(19,199)	15,018
Fund Balance Undesignated at July 1, 2002	49,569	49,569	49,569	-
Reserved for Encumbrances at July 1, 2002	13,431	13,431	13,431	-
Reserved for Minority Interest in Joint Venture at July 1, 2002	-	-	1,137	1,137
Reserved for Minority Interest in Joint Venture at June 30, 2003	-	-	(2,007)	(2,007)
Designated for Subsequent Years' Expenditures at July 1, 2002	1,768	1,768	1,768	-
Designated for Subsequent Years' Expenditures at June 30, 2003	-	-	(806)	(806)
FUND BALANCE UNDESIGNATED AT JUNE 30, 2003	\$ 29,661	\$ 30,551	\$ 43,893	\$ 13,342

Please see the accompanying notes to the required supplementary information.

Notes to Required Supplementary Information For the Year Ended June 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (In Thousands)

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 net of obligations under reverse repurchase agreement interest expense. For budgetary purposes, obligations under reverse repurchase agreement interest expense are considered a

reduction of interest earnings. The City budget is also prepared excluding unrealized gains or losses resulting from the change in fair value of investments.

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 excess (deficiency) of revenues over expenditures prepared on a GAAP basis to that prepared on the budgetary basis for the year ended June 30, 2003:

	General Fund
Net Change in Fund Balances - GAAP Basis	\$ (2,168)
Add (Deduct):	
Encumbrances Outstanding, June 30, 2003	(17,333)
Reserved for Advances and Deposits, June 30, 2003	(2,142)
Designated for Unrealized Gains, June 30, 2003	(871)
Reserved for Advances and Deposits, June 30, 2002	2,139
Designated for Unrealized Gains, June 30, 2002	1,176
Net Change in Fund Balances - Budgetary Basis	<u>\$ (19,199)</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.



cafr | supplementary information - general fund



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**GENERAL FUND
SCHEDULE OF REVENUE AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2003
(In Thousands)**

	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
PROPERTY TAXES					
One Percent Property Tax Allocation	\$ -	\$ -	\$ -	\$ 189,067	\$ (189,067)
Current Year - Secured	155,849	-	155,849	-	155,849
Current Year Supplemental - Secured	8,529	-	8,529	-	8,529
Current Year - Unsecured	8,221	-	8,221	-	8,221
Current Unsecured Supplemental Roll	204	-	204	-	204
Homeowners' Exemptions - Secured	2,645	-	2,645	-	2,645
Homeowners' Exemptions - Unsecured	3	-	3	-	3
Prior Years' - Secured	3,990	-	3,990	139	3,851
Prior Years' - Unsecured	(123)	-	(123)	-	(123)
Interest and Penalties on Delinquent Taxes	522	-	522	-	522
Escapes - Secured	109	-	109	-	109
Escapes - Unsecured	479	-	479	-	479
Other Property Taxes	770	-	770	-	770
State Secured Unitary	3,443	-	3,443	-	3,443
TOTAL PROPERTY TAXES	184,641	-	184,641	189,206	(4,565)
SALES TAXES	129,262	-	129,262	134,888	(5,626)
OTHER LOCAL TAXES					
Franchises	45,622	-	45,622	54,235	(8,613)
Property Transfer Tax	8,357	-	8,357	9,613	(1,256)
Transient Occupancy Tax	55,262	-	55,262	56,676	(1,414)
TOTAL OTHER LOCAL TAXES	109,241	-	109,241	120,524	(11,283)
LICENSES AND PERMITS					
General Business Licenses	5,337	-	5,337	5,160	177
Refuse Collection Business Licenses	1,426	-	1,426	1,700	(274)
Other Regulatory Business Licenses	2,374	-	2,374	1,968	406
Rental Unit Tax	4,900	-	4,900	5,405	(505)
Parking Meter Revenue	5,898	-	5,898	5,839	59
Street and Curb Permits	78	-	78	54	24
Other Licenses and Permits	2,642	-	2,642	2,424	218
TOTAL LICENSES AND PERMITS	22,655	-	22,655	22,550	105
FINES, FORFEITURES AND PENALTIES					
California Vehicle Code Violations	23,071	-	23,071	25,159	(2,088)
Other City Ordinance Code Violations	2,302	-	2,302	1,019	1,283
TOTAL FINES, FORFEITURES AND PENALTIES	25,373	-	25,373	26,178	(805)
REVENUE FROM USE OF MONEY AND PROPERTY					
Interest on Investments	2,930	304	3,234	9,070	(5,836)
Balboa Park Rents and Concessions	575	-	575	390	185
Mission Bay Park Rents and Concessions	20,405	-	20,405	20,085	320
Other Rents and Concessions	6,629	-	6,629	6,423	206
TOTAL REVENUE FROM USE OF MONEY AND PROPERTY	30,539	304	30,843	35,968	(5,125)

Continued on Next Page

**GENERAL FUND
SCHEDULE OF REVENUE AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2003
(In Thousands)**

	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
REVENUE FROM FEDERAL AGENCIES					
Revenue from Federal Agencies	\$ 1,706	\$ -	\$ 1,706	\$ 1,375	\$ 331
REVENUE FROM OTHER AGENCIES					
State Motor Vehicle License Fees	71,842	-	71,842	72,200	(358)
Off-Highway Motor Vehicle License Fees	33	-	33	-	33
Local Relief	5,273	-	5,273	5,222	51
Tobacco Revenue	12,128	-	12,128	-	12,128
State Grants	1,079	-	1,079	538	541
TOTAL REVENUE FROM OTHER AGENCIES	90,355	-	90,355	77,960	12,395
CHARGES FOR CURRENT SERVICES					
Administrative Services to Other Agencies	87	-	87	28	59
Cemetery Revenue	703	-	703	700	3
Engineering Services	294	-	294	672	(378)
Fire Services	12,707	-	12,707	11,724	983
Library Revenue	1,858	-	1,858	1,602	256
Miscellaneous Recreation Revenue	2,357	-	2,357	1,954	403
Other Services	348	-	348	302	46
Paramedic Services	193	-	193	198	(5)
Planning and Miscellaneous Filing Fees	307	-	307	212	95
Police Services	5,353	-	5,353	5,516	(163)
Swimming Pools Revenue	1,455	-	1,455	1,310	145
Services Rendered to Other Funds for:					
General Government and Financial	36,092	-	36,092	35,373	719
Engineering	22,331	-	22,331	18,753	3,578
Park Design	2,135	-	2,135	1,909	226
Miscellaneous Services	11,145	-	11,145	11,394	(249)
TOTAL CHARGES FOR CURRENT SERVICES	97,365	-	97,365	91,647	5,718
OTHER REVENUE					
Other Refunds of Prior Years' Expenditures	523	-	523	362	161
Repairs and Damage Recoveries	464	-	464	112	352
Sale of Personal Property	240	-	240	181	59
Miscellaneous Revenue	1,360	-	1,360	3,416	(2,056)
TOTAL OTHER REVENUE	2,587	-	2,587	4,071	(1,484)
TOTAL REVENUES	693,724	304	694,028	704,367	(10,339)

Continued on Next Page

**GENERAL FUND
SCHEDULE OF REVENUE AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2003
(In Thousands)**

	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
TRANSFERS FROM PROPRIETARY FUNDS					
Enterprise Funds:					
City of San Diego:					
Airports	\$ 1	\$ -	\$ 1	\$ 1	\$ -
City Store	96	-	96	81	15
Golf Course	1,368	-	1,368	1,368	-
Environmental Services	200	-	200	-	200
Recycling	1,222	-	1,222	1,222	-
Sewer Utility	170	-	170	512	(342)
Water Utility	89	-	89	373	(284)
Internal Service Funds:					
San Diego Data Processing Corporation	500	-	500	500	-
City of San Diego:					
Central Garage and Machine Shop	598	-	598	331	267
Central Stores	219	-	219	-	219
Special Engineering	11	-	11	62	(51)
Print Shop	239	-	239	-	239
Self Insurance	558	-	558	-	558
Miscellaneous Internal Service	209	-	209	-	209
TOTAL TRANSFERS FROM PROPRIETARY FUNDS	5,480	-	5,480	4,450	1,030
TRANSFERS FROM OTHER FUNDS					
Special Revenue Funds:					
Redevelopment Agency	625	-	625	1,000	(375)
City of San Diego:					
Acquisition, Improvement, and Operations	9	-	9	-	9
Police Decentralization	260	-	260	-	260
Special Gas Tax Street Improvement	3,515	-	3,515	3,515	-
Street Divisions Operations	214	-	214	89	125
Transient Occupancy Tax	11,106	-	11,106	12,821	(1,715)
Zoological Exhibits	30	-	30	-	30
Other Special Revenue-Budgeted	6,927	-	6,927	6,133	794
Grants	41	-	41	-	41
Other Special Revenue-Unbudgeted	10,084	-	10,084	8,240	1,844
Debt Service Funds:					
City of San Diego:					
Other Special Assessments	50	-	50	-	50
Capital Projects Funds:					
City of San Diego:					
Other Construction	5,667	-	5,667	4,770	897
Capital Outlay	160	-	160	75	85
Permanent Funds:					
Cemetery Perpetuity	340	-	340	350	(10)
TOTAL TRANSFERS FROM OTHER FUNDS	39,028	-	39,028	36,993	2,035
PROCEEDS FROM CAPITAL LEASES	7,282	(7,282)	-	-	-
NET INCOME FROM JOINT VENTURE	870	-	870	-	870
TOTAL REVENUE AND TRANSFERS	\$ 746,384	\$ (6,978)	\$ 739,406	\$ 745,810	\$ (6,404)

**GENERAL FUND
SCHEDULE OF EXPENDITURES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2003
(In Thousands)**

	Current Year				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
GENERAL GOVERNMENT AND SUPPORT					
Departmental:					
Mayor					
Salaries and Wages	\$ 1,806	\$ -	\$ 1,806	\$ 1,825	\$ 19
Non-Personnel	708	5	713	816	103
Total Mayor	2,514	5	2,519	2,641	122
City Council District 1					
Salaries and Wages	504	-	504	528	24
Non-Personnel	217	1	218	238	20
Total City Council District 1	721	1	722	766	44
City Council District 2					
Salaries and Wages	555	-	555	559	4
Non-Personnel	242	2	244	249	5
Total City Council District 2	797	2	799	808	9
City Council District 3					
Salaries and Wages	526	-	526	538	12
Non-Personnel	220	-	220	228	8
Total City Council District 3	746	-	746	766	20
City Council District 4					
Salaries and Wages	552	-	552	554	2
Non-Personnel	257	3	260	261	1
Total City Council District 4	809	3	812	815	3
City Council District 5					
Salaries and Wages	475	-	475	508	33
Non-Personnel	217	1	218	260	42
Total City Council District 5	692	1	693	768	75
City Council District 6					
Salaries and Wages	468	-	468	504	36
Non-Personnel	239	1	240	264	24
Total City Council District 6	707	1	708	768	60
City Council District 7					
Salaries and Wages	528	-	528	528	-
Non-Personnel	227	1	228	258	30
Total City Council District 7	755	1	756	786	30
City Council District 8					
Salaries and Wages	562	-	562	562	-
Non-Personnel	249	-	249	269	20
Total City Council District 8	811	-	811	831	20
Council Administration					
Salaries and Wages	396	-	396	409	13
Non-Personnel	280	1	281	398	117
Total Council Administration	676	1	677	807	130
City Attorney					
Salaries and Wages	20,812	-	20,812	21,049	237
Non-Personnel	8,530	50	8,580	8,608	28
Total City Attorney	29,342	50	29,392	29,657	265

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)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,806	\$ -	\$ 1,806	\$ 1,825	\$ 19
9	-	9	11	2	717	5	722	827	105
9	-	9	11	2	2,523	5	2,528	2,652	124
-	-	-	-	-	504	-	504	528	24
17	-	17	18	1	234	1	235	256	21
17	-	17	18	1	738	1	739	784	45
-	-	-	-	-	555	-	555	559	4
5	-	5	6	1	247	2	249	255	6
5	-	5	6	1	802	2	804	814	10
-	-	-	-	-	526	-	526	538	12
-	-	-	1	1	220	-	220	229	9
-	-	-	1	1	746	-	746	767	21
-	-	-	-	-	552	-	552	554	2
1	-	1	3	2	258	3	261	264	3
1	-	1	3	2	810	3	813	818	5
-	-	-	-	-	475	-	475	508	33
1	-	1	2	1	218	1	219	262	43
1	-	1	2	1	693	1	694	770	76
-	-	-	-	-	468	-	468	504	36
3	-	3	4	1	242	1	243	268	25
3	-	3	4	1	710	1	711	772	61
-	-	-	-	-	528	-	528	528	-
15	-	15	16	1	242	1	243	274	31
15	-	15	16	1	770	1	771	802	31
-	-	-	-	-	562	-	562	562	-
-	-	-	1	1	249	-	249	270	21
-	-	-	1	1	811	-	811	832	21
-	-	-	-	-	396	-	396	409	13
8	-	8	9	1	288	1	289	407	118
8	-	8	9	1	684	1	685	816	131
-	-	-	-	-	20,812	-	20,812	21,049	237
41	12	53	74	21	8,571	62	8,633	8,682	49
41	12	53	74	21	29,383	62	29,445	29,731	286

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**GENERAL FUND
SCHEDULE OF EXPENDITURES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2003
(In Thousands)**

	Current Year				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
Departmental (Continued):					
City Auditor and Comptroller					
Salaries and Wages	\$ 5,837	\$ -	\$ 5,837	\$ 5,902	\$ 65
Non-Personnel	2,302	3	2,305	2,375	70
Total City Auditor and Comptroller	8,139	3	8,142	8,277	135
City Clerk					
Salaries and Wages	1,927	-	1,927	2,074	147
Non-Personnel	1,139	22	1,161	1,292	131
Total City Clerk	3,066	22	3,088	3,366	278
City Manager					
Salaries and Wages	326	-	326	326	-
Non-Personnel	106	-	106	108	2
Total City Manager	432	-	432	434	2
Engineering and Capital Projects - Administration					
Salaries and Wages	1,220	-	1,220	1,226	6
Non-Personnel	523	6	529	532	3
Total Engineering and Capital Projects - Administration	1,743	6	1,749	1,758	9
Field Engineering					
Salaries and Wages	7,418	-	7,418	7,755	337
Non-Personnel	3,246	68	3,314	3,613	299
Total Field Engineering	10,664	68	10,732	11,368	636
Public Buildings & Parks					
Salaries and Wages	2,553	-	2,553	2,554	1
Non-Personnel	966	14	980	1,010	30
Total Public Buildings & Parks	3,519	14	3,533	3,564	31
Equal Opportunity Contracting					
Salaries and Wages	1,445	-	1,445	1,460	15
Non-Personnel	704	102	806	1,060	254
Total Equal Opportunity Contracting	2,149	102	2,251	2,520	269
Budget and Management Services					
Salaries and Wages	1,693	-	1,693	1,840	147
Non-Personnel	824	-	824	850	26
Total Budget and Management Services	2,517	-	2,517	2,690	173
City Treasurer					
Salaries and Wages	3,305	-	3,305	3,305	-
Non-Personnel	3,152	607	3,759	3,759	-
Total City Treasurer	6,457	607	7,064	7,064	-
Financing Services					
Salaries and Wages	893	-	893	1,045	152
Non-Personnel	399	-	399	440	41
Total Financing Services	1,292	-	1,292	1,485	193
General Services - Administration					
Salaries and Wages	515	-	515	516	1
Non-Personnel	172	1	173	198	25
Total General Services - Administration	687	1	688	714	26

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)
\$ 3	\$ -	\$ 3	\$ 3	\$ -	\$ 5,840	\$ -	\$ 5,840	\$ 5,905	\$ 65
2	11	13	13	-	2,304	14	2,318	2,388	70
5	11	16	16	-	8,144	14	8,158	8,293	135
-	-	-	-	-	1,927	-	1,927	2,074	147
26	-	26	43	17	1,165	22	1,187	1,335	148
26	-	26	43	17	3,092	22	3,114	3,409	295
-	-	-	-	-	326	-	326	326	-
-	-	-	-	-	106	-	106	108	2
-	-	-	-	-	432	-	432	434	2
-	-	-	-	-	1,220	-	1,220	1,226	6
4	10	14	19	5	527	16	543	551	8
4	10	14	19	5	1,747	16	1,763	1,777	14
-	-	-	-	-	7,418	-	7,418	7,755	337
77	12	89	89	-	3,323	80	3,403	3,702	299
77	12	89	89	-	10,741	80	10,821	11,457	636
-	-	-	-	-	2,553	-	2,553	2,554	1
-	-	-	-	-	966	14	980	1,010	30
-	-	-	-	-	3,519	14	3,533	3,564	31
-	-	-	-	-	1,445	-	1,445	1,460	15
55	-	55	89	34	759	102	861	1,149	288
55	-	55	89	34	2,204	102	2,306	2,609	303
-	-	-	-	-	1,693	-	1,693	1,840	147
-	7	7	26	19	824	7	831	876	45
-	7	7	26	19	2,517	7	2,524	2,716	192
-	-	-	-	-	3,305	-	3,305	3,305	-
118	1	119	119	-	3,270	608	3,878	3,878	-
118	1	119	119	-	6,575	608	7,183	7,183	-
-	-	-	-	-	893	-	893	1,045	152
-	-	-	1	1	399	-	399	441	42
-	-	-	1	1	1,292	-	1,292	1,486	194
-	-	-	-	-	515	-	515	516	1
4	-	4	7	3	176	1	177	205	28
4	-	4	7	3	691	1	692	721	29

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**GENERAL FUND
SCHEDULE OF EXPENDITURES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2003
(In Thousands)**

	Current Year				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
Departmental (Continued):					
Facilities Maintenance					
Salaries and Wages	\$ 7,267	\$ -	\$ 7,267	\$ 7,677	\$ 410
Non-Personnel	9,523	687	10,210	10,212	2
Total Facilities Maintenance	16,790	687	17,477	17,889	412
Purchasing					
Salaries and Wages	1,056	-	1,056	1,206	150
Non-Personnel	521	3	524	618	94
Total Purchasing	1,577	3	1,580	1,824	244
Storm Water					
Salaries and Wages	1,327	-	1,327	1,329	2
Non-Personnel	1,215	111	1,326	1,597	271
Total Storm Water	2,542	111	2,653	2,926	273
Information Technology and Communications					
Salaries and Wages	2,936	-	2,936	3,013	77
Non-Personnel	1,779	26	1,805	1,918	113
Total Information Technology and Communications	4,715	26	4,741	4,931	190
Governmental Relations					
Salaries and Wages	263	-	263	304	41
Non-Personnel	340	25	365	457	92
Total Governmental Relations	603	25	628	761	133
Human Resources					
Salaries and Wages	502	-	502	502	-
Non-Personnel	208	-	208	257	49
Total Human Resources	710	-	710	759	49
Organizational Effectiveness Program					
Salaries and Wages	472	-	472	522	50
Non-Personnel	222	-	222	237	15
Total Organizational Effectiveness Program	694	-	694	759	65
Personnel					
Salaries and Wages	3,660	-	3,660	3,737	77
Non-Personnel	1,953	147	2,100	2,397	297
Total Personnel	5,613	147	5,760	6,134	374
Public and Media Affairs					
Salaries and Wages	181	-	181	219	38
Non-Personnel	121	1	122	131	9
Total Public and Media Affairs	302	1	303	350	47
Real Estate Assets					
Salaries and Wages	2,534	-	2,534	2,753	219
Non-Personnel	1,235	1	1,236	1,348	112
Total Real Estate Assets	3,769	1	3,770	4,101	331
Special Projects					
Salaries and Wages	1,371	-	1,371	1,372	1
Non-Personnel	777	10	787	790	3
Total Special Projects	2,148	10	2,158	2,162	4
Citizens Assistance					
Salaries and Wages	109	-	109	122	13
Non-Personnel	46	-	46	60	14
Total Citizens Assistance	155	-	155	182	27

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)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,267	\$ -	\$ 7,267	\$ 7,677	\$ 410
445	63	508	508	-	9,968	750	10,718	10,720	2
445	63	508	508	-	17,235	750	17,985	18,397	412
-	-	-	-	-	1,056	-	1,056	1,206	150
19	-	19	23	4	540	3	543	641	98
19	-	19	23	4	1,596	3	1,599	1,847	248
-	-	-	-	-	1,327	-	1,327	1,329	2
132	15	147	255	108	1,347	126	1,473	1,852	379
132	15	147	255	108	2,674	126	2,800	3,181	381
-	-	-	-	-	2,936	-	2,936	3,013	77
140	28	168	185	17	1,919	54	1,973	2,103	130
140	28	168	185	17	4,855	54	4,909	5,116	207
-	-	-	-	-	263	-	263	304	41
-	12	12	12	-	340	37	377	469	92
-	12	12	12	-	603	37	640	773	133
-	-	-	-	-	502	-	502	502	-
-	-	-	-	-	208	-	208	257	49
-	-	-	-	-	710	-	710	759	49
-	-	-	-	-	472	-	472	522	50
-	-	-	1	1	222	-	222	238	16
-	-	-	1	1	694	-	694	760	66
-	-	-	-	-	3,660	-	3,660	3,737	77
38	7	45	180	135	1,991	154	2,145	2,577	432
38	7	45	180	135	5,651	154	5,805	6,314	509
-	-	-	-	-	181	-	181	219	38
-	-	-	-	-	121	1	122	131	9
-	-	-	-	-	302	1	303	350	47
-	-	-	-	-	2,534	-	2,534	2,753	219
2	14	16	17	1	1,237	15	1,252	1,365	113
2	14	16	17	1	3,771	15	3,786	4,118	332
-	-	-	-	-	1,371	-	1,371	1,372	1
-	-	-	13	13	777	10	787	803	16
-	-	-	13	13	2,148	10	2,158	2,175	17
-	-	-	-	-	109	-	109	122	13
-	-	-	-	-	46	-	46	60	14
-	-	-	-	-	155	-	155	182	27

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**GENERAL FUND
SCHEDULE OF EXPENDITURES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2003
(In Thousands)**

	Current Year				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
Departmental (Continued):					
Ethics Commission					
Salaries and Wages	\$ 210	\$ -	\$ 210	\$ 211	\$ 1
Non-Personnel	101	26	127	204	77
Total Ethics Commission	311	26	337	415	78
Total Departmental	119,164	1,925	121,089	125,846	4,757
Citywide Program:					
Assessments to Public Property					
Non-Personnel	234	-	234	260	26
Citywide Elections					
Non-Personnel	105	-	105	118	13
Competition Program					
Salaries and Wages	-	-	-	-	-
Non-Personnel	214	1	215	222	7
Total Competition Program	214	1	215	222	7
Employee Personal Property Damage					
Non-Personnel	4	-	4	11	7
Exceptional Performance Pay					
Salaries and Wages	-	-	-	75	75
Non-Personnel	-	-	-	15	15
Total Exceptional Performance Pay	-	-	-	90	90
Fellowship Program					
Salaries and Wages	26	-	26	30	4
Non-Personnel	36	-	36	54	18
Total Fellowship Program	62	-	62	84	22
Financial Accounting Systems					
Salaries and Wages	59	-	59	61	2
Non-Personnel	798	-	798	862	64
Total Financial Accounting Systems	857	-	857	923	66
General Government Printing					
Non-Personnel	124	-	124	126	2
Independent Audit					
Salaries and Wages	-	-	-	-	-
Non-Personnel	-	123	123	123	-
Total Independent Audit	-	123	123	123	-
Insurance					
Non-Personnel	807	-	807	807	-
Labor Relations					
Salaries and Wages	90	-	90	91	1
Non-Personnel	45	-	45	62	17
Total Labor Relations	135	-	135	153	18
Management Compensation Plan					
Salaries and Wages	-	-	-	-	-
Non-Personnel	332	-	332	337	5
Total Management Compensation Plan	332	-	332	337	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)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 210	\$ -	\$ 210	\$ 211	\$ 1
-	-	-	-	-	101	26	127	204	77
-	-	-	-	-	311	26	337	415	78
1,165	192	1,357	1,748	391	120,329	2,117	122,446	127,594	5,148
-	-	-	10	10	234	-	234	270	36
-	-	-	93	93	105	-	105	211	106
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	214	1	215	222	7
-	-	-	-	-	214	1	215	222	7
-	-	-	-	-	4	-	4	11	7
-	-	-	-	-	-	-	-	75	75
-	-	-	-	-	-	-	-	15	15
-	-	-	-	-	-	-	-	90	90
-	-	-	-	-	26	-	26	30	4
-	-	-	-	-	36	-	36	54	18
-	-	-	-	-	62	-	62	84	22
-	-	-	-	-	59	-	59	61	2
-	-	-	-	-	798	-	798	862	64
-	-	-	-	-	857	-	857	923	66
-	-	-	10	10	124	-	124	136	12
3	-	3	3	-	3	-	3	3	-
78	70	148	148	-	78	193	271	271	-
81	70	151	151	-	81	193	274	274	-
-	76	76	86	10	807	76	883	893	10
-	-	-	-	-	90	-	90	91	1
-	-	-	-	-	45	-	45	62	17
-	-	-	-	-	135	-	135	153	18
-	-	-	-	-	-	-	-	-	-
-	-	-	10	10	332	-	332	347	15
-	-	-	10	10	332	-	332	347	15

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GENERAL FUND
SCHEDULE OF EXPENDITURES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2003
(In Thousands)

	Current Year				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
Citywide Program (Continued):					
Memberships					
Non-Personnel	\$ 577	\$ -	\$ 577	\$ 577	\$ -
Municipal Activities					
Non-Personnel	16	-	16	16	-
Property Tax Administration					
Non-Personnel	2,295	-	2,295	2,295	-
Public Works Projects					
Salaries and Wages	479	-	479	485	6
Non-Personnel	416	81	497	555	58
Total Public Works Projects	895	81	976	1,040	64
Random Drug Testing					
Salaries and Wages	22	-	22	42	20
Non-Personnel	69	47	116	123	7
Total Random Drug Testing	91	47	138	165	27
Special Pay					
Non-Personnel	-	-	-	109	109
Training					
Salaries and Wages	17	-	17	17	-
Non-Personnel	20	-	20	41	21
Total Training	37	-	37	58	21
Travel Contingency					
Non-Personnel	4	-	4	8	4
San Diego Geographic Info Source					
Salaries and Wages	-	-	-	-	-
Non-Personnel	509	16	525	535	10
Total San Diego Geographic Info Source	509	16	525	535	10
Space Rental					
Salaries and Wages	60	-	60	60	-
Non-Personnel	6,005	521	6,526	6,526	-
Total Space Rental	6,065	521	6,586	6,586	-
Other Special Projects					
Salaries and Wages	490	-	490	491	1
Non-Personnel	3,330	1,093	4,423	5,447	1,024
Total Other Special Projects	3,820	1,093	4,913	5,938	1,025
Total Citywide Program	17,183	1,882	19,065	20,581	1,516
TOTAL GENERAL GOVERNMENT AND SUPPORT	136,347	3,807	140,154	146,427	6,273

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)
\$ -	\$ -	\$ -	\$ 10	\$ 10	\$ 577	\$ -	\$ 577	\$ 587	\$ 10
-	-	-	-	-	16	-	16	16	-
-	-	-	10	10	2,295	-	2,295	2,305	10
-	-	-	-	-	479	-	479	485	6
14	112	126	292	166	430	193	623	847	224
14	112	126	292	166	909	193	1,102	1,332	230
-	-	-	-	-	22	-	22	42	20
29	-	29	37	8	98	47	145	160	15
29	-	29	37	8	120	47	167	202	35
-	-	-	-	-	-	-	-	109	109
-	-	-	-	-	17	-	17	17	-
-	-	-	18	18	20	-	20	59	39
-	-	-	18	18	37	-	37	76	39
-	-	-	2	2	4	-	4	10	6
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	509	16	525	535	10
-	-	-	-	-	509	16	525	535	10
-	-	-	-	-	60	-	60	60	-
36	367	403	477	74	6,041	888	6,929	7,003	74
36	367	403	477	74	6,101	888	6,989	7,063	74
-	-	-	-	-	490	-	490	491	1
345	72	417	698	281	3,675	1,165	4,840	6,145	1,305
345	72	417	698	281	4,165	1,165	5,330	6,636	1,306
505	697	1,202	1,904	702	17,688	2,579	20,267	22,485	2,218
1,670	889	2,559	3,652	1,093	138,017	4,696	142,713	150,079	7,366

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**GENERAL FUND
SCHEDULE OF EXPENDITURES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2003
(In Thousands)**

	Current Year				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
PUBLIC SAFETY - POLICE					
Departmental:					
Police					
Salaries and Wages	\$ 181,319	\$ -	\$ 181,319	\$ 183,391	\$ 2,072
Non-Personnel	85,361	1,352	86,713	86,811	98
Total Police	266,680	1,352	268,032	270,202	2,170
Citywide Program:					
Police Review Board					
Salaries and Wages	147	-	147	147	-
Non-Personnel	68	-	68	82	14
Total Police Review Board	215	-	215	229	14
Other Special Projects					
Non-Personnel	-	-	-	-	-
Total Citywide Program	215	-	215	229	14
TOTAL PUBLIC SAFETY - POLICE	266,895	1,352	268,247	270,431	2,184
PUBLIC SAFETY - FIRE AND LIFE SAFETY					
Departmental:					
Fire and Life Safety					
Salaries and Wages	87,500	-	87,500	87,508	8
Non-Personnel	42,278	(4,686)	37,592	39,117	1,525
Total Fire and Life Safety	129,778	(4,686)	125,092	126,625	1,533
Citywide Program:					
Emergency Medical Services					
Salaries and Wages	166	-	166	197	31
Non-Personnel	924	153	1,077	1,504	427
Total Emergency Medical Services	1,090	153	1,243	1,701	458
Other Special Projects					
Non-Personnel	-	-	-	-	-
Total Citywide Program	1,090	153	1,243	1,701	458
TOTAL PUBLIC SAFETY - FIRE AND LIFE SAFETY.....	130,868	(4,533)	126,335	128,326	1,991

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)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 181,319	\$ -	\$ 181,319	\$ 183,391	\$ 2,072
1,273	107	1,380	1,643	263	86,634	1,459	88,093	88,454	361
1,273	107	1,380	1,643	263	267,953	1,459	269,412	271,845	2,433
-	-	-	-	-	147	-	147	147	-
-	-	-	-	-	68	-	68	82	14
-	-	-	-	-	215	-	215	229	14
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	215	-	215	229	14
1,273	107	1,380	1,643	263	268,168	1,459	269,627	272,074	2,447
-	-	-	-	-	87,500	-	87,500	87,508	8
706	195	901	1,176	275	42,984	(4,491)	38,493	40,293	1,800
706	195	901	1,176	275	130,484	(4,491)	125,993	127,801	1,808
-	-	-	-	-	166	-	166	197	31
14	4	18	20	2	938	157	1,095	1,524	429
14	4	18	20	2	1,104	157	1,261	1,721	460
-	-	-	-	-	-	-	-	-	-
14	4	18	20	2	1,104	157	1,261	1,721	460
720	199	919	1,196	277	131,588	(4,334)	127,254	129,522	2,268

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**GENERAL FUND
SCHEDULE OF EXPENDITURES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2003
(In Thousands)**

	Current Year				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
PARKS, RECREATION, CULTURE AND LEISURE					
Departmental:					
Park and Rec-Administrative Services					
Salaries and Wages	\$ 684	\$ -	\$ 684	\$ 687	\$ 3
Non-Personnel	354	17	371	371	-
Total Park and Rec - Administrative Services	1,038	17	1,055	1,058	3
Community Parks I					
Salaries and Wages	5,711	-	5,711	5,896	185
Non-Personnel	6,424	974	7,398	7,898	500
Total Community Parks I	12,135	974	13,109	13,794	685
Community Parks II					
Salaries and Wages	9,463	-	9,463	9,474	11
Non-Personnel	6,814	276	7,090	7,720	630
Total Community Parks II	16,277	276	16,553	17,194	641
Developed Regional Parks					
Salaries and Wages	11,606	-	11,606	12,606	1,000
Non-Personnel	13,519	844	14,363	14,436	73
Total Developed Regional Parks	25,125	844	25,969	27,042	1,073
Open Space Division					
Salaries and Wages	1,333	-	1,333	1,401	68
Non-Personnel	1,734	207	1,941	2,354	413
Total Open Space Division	3,067	207	3,274	3,755	481
Park and Planning Development					
Salaries and Wages	1,617	-	1,617	1,621	4
Non-Personnel	743	500	1,243	1,334	91
Total Park and Planning Development	2,360	500	2,860	2,955	95
Library					
Salaries and Wages	17,874	-	17,874	18,288	414
Non-Personnel	14,209	605	14,814	17,336	2,522
Total Library	32,083	605	32,688	35,624	2,936
Total Departmental	92,085	3,423	95,508	101,422	5,914
Citywide Program:					
Park and Recreation Programs					
Salaries and Wages	136	-	136	137	1
Non-Personnel	149	2	151	184	33
Total Park and Recreation Programs	285	2	287	321	34
TOTAL PARKS, RECREATION CULTURE AND LEISURE	92,370	3,425	95,795	101,743	5,948

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)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 684	\$ -	\$ 684	\$ 687	\$ 3
10	-	10	10	-	364	17	381	381	-
10	-	10	10	-	1,048	17	1,065	1,068	3
-	-	-	-	-	5,711	-	5,711	5,896	185
219	1	220	220	-	6,643	975	7,618	8,118	500
219	1	220	220	-	12,354	975	13,329	14,014	685
-	-	-	-	-	9,463	-	9,463	9,474	11
262	2	264	264	-	7,076	278	7,354	7,984	630
262	2	264	264	-	16,539	278	16,817	17,458	641
-	-	-	-	-	11,606	-	11,606	12,606	1,000
342	6	348	351	3	13,861	850	14,711	14,787	76
342	6	348	351	3	25,467	850	26,317	27,393	1,076
-	-	-	-	-	1,333	-	1,333	1,401	68
-	-	-	-	-	1,734	207	1,941	2,354	413
-	-	-	-	-	3,067	207	3,274	3,755	481
-	-	-	-	-	1,617	-	1,617	1,621	4
288	159	447	713	266	1,031	659	1,690	2,047	357
288	159	447	713	266	2,648	659	3,307	3,668	361
-	-	-	-	-	17,874	-	17,874	18,288	414
491	18	509	542	33	14,700	623	15,323	17,878	2,555
491	18	509	542	33	32,574	623	33,197	36,166	2,969
1,612	186	1,798	2,100	302	93,697	3,609	97,306	103,522	6,216
-	-	-	-	-	136	-	136	137	1
-	-	-	-	-	149	2	151	184	33
-	-	-	-	-	285	2	287	321	34
1,612	186	1,798	2,100	302	93,982	3,611	97,593	103,843	6,250

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**GENERAL FUND
SCHEDULE OF EXPENDITURES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2003
(In Thousands)**

	Current Year				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
TRANSPORTATION					
Departmental:					
Parking Management					
Salaries and Wages	\$ 4,244	\$ -	\$ 4,244	\$ 4,333	\$ 89
Non-Personnel	3,179	(103)	3,076	3,178	102
Total Parking Management	7,423	(103)	7,320	7,511	191
Transportation Management					
Salaries and Wages	164	-	164	165	1
Non-Personnel	84	-	84	85	1
Total Transportation Management	248	-	248	250	2
Transportation Design					
Salaries and Wages	4,510	-	4,510	4,512	2
Non-Personnel	2,423	8	2,431	2,499	68
Total Transportation Design	6,933	8	6,941	7,011	70
Streets					
Salaries and Wages	-	-	-	-	-
Non-Personnel	-	-	-	-	-
Total Streets	-	-	-	-	-
Traffic Engineering					
Salaries and Wages	3,644	-	3,644	3,689	45
Non-Personnel	2,010	28	2,038	2,112	74
Total Traffic Engineering	5,654	28	5,682	5,801	119
Total Departmental.....	20,258	(67)	20,191	20,573	382
Citywide Program:					
Transportation					
Non-Personnel	429	-	429	429	-
TOTAL TRANSPORTATION	20,687	(67)	20,620	21,002	382
SANITATION AND HEALTH					
Departmental:					
Collection Services					
Salaries and Wages	6,865	-	6,865	6,887	22
Non-Personnel	22,065	235	22,300	22,760	460
Total Collection Services	28,930	235	29,165	29,647	482
Environmental Protection					
Salaries and Wages	243	-	243	248	5
Non-Personnel	276	-	276	307	31
Total Environmental Protection	519	-	519	555	36
Resource Management					
Salaries and Wages	254	-	254	276	22
Non-Personnel	105	-	105	107	2
Total Resource Management	359	-	359	383	24
Mt. Hope Cemetery					
Salaries and Wages	565	-	565	609	44
Non-Personnel	812	37	849	852	3
Total Mt. Hope Cemetery	1,377	37	1,414	1,461	47
Total Departmental	31,185	272	31,457	32,046	589

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)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,244	\$ -	\$ 4,244	\$ 4,333	\$ 89
113	46	159	302	143	3,292	(57)	3,235	3,480	245
113	46	159	302	143	7,536	(57)	7,479	7,813	334
-	-	-	-	-	164	-	164	165	1
-	-	-	-	-	84	-	84	85	1
-	-	-	-	-	248	-	248	250	2
-	-	-	-	-	4,510	-	4,510	4,512	2
81	-	81	103	22	2,504	8	2,512	2,602	90
81	-	81	103	22	7,014	8	7,022	7,114	92
-	-	-	-	-	-	-	-	-	-
-	-	-	302	302	-	-	-	302	302
-	-	-	302	302	-	-	-	302	302
-	-	-	-	-	3,644	-	3,644	3,689	45
46	6	52	64	12	2,056	34	2,090	2,176	86
46	6	52	64	12	5,700	34	5,734	5,865	131
240	52	292	771	479	20,498	(15)	20,483	21,344	861
69	-	69	69	-	498	-	498	498	-
309	52	361	840	479	20,996	(15)	20,981	21,842	861
-	-	-	-	-	6,865	-	6,865	6,887	22
46	56	102	129	27	22,111	291	22,402	22,889	487
46	56	102	129	27	28,976	291	29,267	29,776	509
-	-	-	-	-	243	-	243	248	5
2	-	2	2	-	278	-	278	309	31
2	-	2	2	-	521	-	521	557	36
-	-	-	-	-	254	-	254	276	22
-	-	-	-	-	105	-	105	107	2
-	-	-	-	-	359	-	359	383	24
-	-	-	-	-	565	-	565	609	44
30	5	35	35	-	842	42	884	887	3
30	5	35	35	-	1,407	42	1,449	1,496	47
78	61	139	166	27	31,263	333	31,596	32,212	616

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**GENERAL FUND
SCHEDULE OF EXPENDITURES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2003
(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	\$ 4,444	\$ 114	\$ 4,558	\$ 4,558	\$ -
Health Services Furnished by County					
Non-Personnel	4	1	5	16	11
Refuse Container Fund					
Non-Personnel	119	-	119	120	1
Total Citywide Program	4,567	115	4,682	4,694	12
TOTAL SANITATION AND HEALTH	35,752	387	36,139	36,740	601
NEIGHBORHOOD SERVICES:					
Departmental:					
Community and Economic Development					
Salaries and Wages	5,140	-	5,140	5,165	25
Non-Personnel	7,923	445	8,368	8,718	350
Total Community and Economic Development	13,063	445	13,508	13,883	375
Development Services					
Salaries and Wages	1,044	-	1,044	1,045	1
Non-Personnel	600	9	609	649	40
Total Development Services	1,644	9	1,653	1,694	41
Neighborhood Code Compliance					
Salaries and Wages	3,991	-	3,991	3,991	-
Non-Personnel	2,210	33	2,243	2,378	135
Total Neighborhood Code Compliance	6,201	33	6,234	6,369	135
Planning					
Salaries and Wages	5,035	-	5,035	5,035	-
Non-Personnel	2,854	201	3,055	4,199	1,144
Total Planning	7,889	201	8,090	9,234	1,144
Total Departmental	28,797	688	29,485	31,180	1,695
Citywide Program:					
Community and Economic Development Special Projects					
Salaries and Wages	-	-	-	-	-
Non-Personnel	59	-	59	70	11
Total Community and Economic Development Special Projects	59	-	59	70	11
Nuisance Abatement					
Non-Personnel	-	-	-	49	49
Total Citywide Program	59	-	59	119	60
TOTAL NEIGHBORHOOD SERVICES	28,856	688	29,544	31,299	1,755
DEBT SERVICE:					
Principal	1,825	-	1,825	1,825	-
Interest	429	2,906	3,335	3,335	-
TOTAL DEBT SERVICE	2,254	2,906	5,160	5,160	-
TOTAL EXPENDITURES	714,029	7,965	721,994	741,128	19,134

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)
\$ 58	\$ 58	\$ 116	\$ 166	\$ 50	\$ 4,502	\$ 172	\$ 4,674	\$ 4,724	\$ 50
-	-	-	3	3	4	1	5	19	14
-	-	-	-	-	119	-	119	120	1
58	58	116	169	53	4,625	173	4,798	4,863	65
136	119	255	335	80	35,888	506	36,394	37,075	681
-	-	-	-	-	5,140	-	5,140	5,165	25
209	239	448	458	10	8,132	684	8,816	9,176	360
209	239	448	458	10	13,272	684	13,956	14,341	385
-	-	-	-	-	1,044	-	1,044	1,045	1
1	-	1	1	-	601	9	610	650	40
1	-	1	1	-	1,645	9	1,654	1,695	41
-	-	-	-	-	3,991	-	3,991	3,991	-
40	4	44	98	54	2,250	37	2,287	2,476	189
40	4	44	98	54	6,241	37	6,278	6,467	189
-	-	-	-	-	5,035	-	5,035	5,035	-
90	293	383	453	70	2,944	494	3,438	4,652	1,214
90	293	383	453	70	7,979	494	8,473	9,687	1,214
340	536	876	1,010	134	29,137	1,224	30,361	32,190	1,829
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	59	-	59	70	11
-	-	-	-	-	59	-	59	70	11
-	-	-	-	-	-	-	-	49	49
-	-	-	-	-	59	-	59	119	60
340	536	876	1,010	134	29,196	1,224	30,420	32,309	1,889
-	-	-	-	-	1,825	-	1,825	1,825	-
2,372	-	2,372	2,372	-	2,801	2,906	5,707	5,707	-
2,372	-	2,372	2,372	-	4,626	2,906	7,532	7,532	-
8,432	2,088	10,520	13,148	2,628	722,461	10,053	732,514	754,276	21,762

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GENERAL FUND
SCHEDULE OF EXPENDITURES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2003
(In Thousands)

	Current Year				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
TRANSFERS TO PROPRIETARY FUNDS					
Internal Service Funds:					
City of San Diego:					
Central Garage and Machine Shop	\$ 517	\$ -	\$ 517	\$ 517	\$ -
Self Insurance	6,354	-	6,354	6,354	-
Miscellaneous Internal Service	209	-	209	209	-
Total Internal Service Funds	7,080	-	7,080	7,080	-
TOTAL TRANSFERS TO PROPRIETARY FUNDS	7,080	-	7,080	7,080	-
TRANSFERS TO OTHER FUNDS					
Special Revenue Funds:					
City of San Diego:					
Acquisition, Improvement and Operation.....	502	-	502	502	-
Qualcomm Stadium Operations	7	-	7	-	(7)
Streets Division Operations.....	30	-	30	30	-
Other Special Revenue - Budgeted	616	-	616	616	-
Other Special Revenue - Unbudgeted	16,271	-	16,271	16,271	-
Total Special Revenue Funds	17,426	-	17,426	17,419	(7)
Debt Service Funds:					
City of San Diego:					
Public Safety Communications Project	46	-	46	-	(46)
Total Debt Service Funds	46	-	46	-	(46)
Capital Projects Funds:					
City of San Diego:					
Capital Outlay	287	-	287	-	(287)
Other Construction	1,017	-	1,017	1,017	-
Total Capital Projects Funds	1,304	-	1,304	1,017	(287)
TOTAL TRANSFERS TO OTHER FUNDS	18,776	-	18,776	18,436	(340)
TOTAL EXPENDITURES AND TRANSFERS	\$ 739,885	\$ 7,965	\$ 747,850	\$ 766,644	\$ 18,794

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)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 517	\$ -	\$ 517	\$ 517	\$ -
-	-	-	-	-	6,354	-	6,354	6,354	-
-	-	-	-	-	209	-	209	209	-
-	-	-	-	-	7,080	-	7,080	7,080	-
-	-	-	-	-	7,080	-	7,080	7,080	-
235	-	235	235	-	737	-	737	737	-
-	-	-	-	-	7	-	7	-	(7)
-	-	-	-	-	30	-	30	30	-
-	-	-	-	-	616	-	616	616	-
-	-	-	-	-	16,271	-	16,271	16,271	-
235	-	235	235	-	17,661	-	17,661	17,654	(7)
-	-	-	-	-	46	-	46	-	(46)
-	-	-	-	-	46	-	46	-	(46)
-	-	-	-	-	287	-	287	-	(287)
-	-	-	-	-	1,017	-	1,017	1,017	-
-	-	-	-	-	1,304	-	1,304	1,017	(287)
235	-	235	235	-	19,011	-	19,011	18,671	(340)
\$ 8,667	\$ 2,088	\$ 10,755	\$ 13,383	\$ 2,628	\$ 748,552	\$ 10,053	\$ 758,605	\$ 780,027	\$ 21,422

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cafr | nonmajor governmental funds



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**NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
June 30, 2003
(In Thousands)**

	Special Revenue	Debt Service	Capital Projects	Permanent	Total Nonmajor Governmental Funds
ASSETS					
Current Assets:					
Cash and Investments	\$ 334,359	\$ 109,508	\$ 366,653	\$ 12,294	\$ 822,814
Receivables:					
Taxes	8,596	19	-	-	8,615
Accounts, net of Allowance for Uncollectibles (Special Revenue \$1,963)	7,679	-	2,939	16	10,634
Claims	38	-	-	-	38
Special Assessments	309	413	-	-	722
Notes	17,101	-	10,498	-	27,599
Accrued Interest	585	634	864	11	2,094
Grants	15,345	-	22,551	-	37,896
From Other Funds	886	484	64,830	-	66,200
From Other Agencies	172	-	195	-	367
Advances to Other Funds	2,322	-	759	-	3,081
Advances to Other Agencies	2,416	-	13	-	2,429
Land Held for Resale	12,611	-	28,285	-	40,896
Prepaid Expenses	350	1,047	1	-	1,398
TOTAL ASSETS	\$ 402,769	\$ 112,105	\$ 497,588	\$ 12,321	\$ 1,024,783
LIABILITIES					
Accounts Payable	\$ 5,418	\$ -	\$ 12,541	\$ 2	\$ 17,961
Accrued Wages and Benefits	1,859	-	-	-	1,859
Other Accrued Liabilities	23	-	-	-	23
Due to Other Funds	62,119	44	17,521	-	79,684
Due to Component Unit	771	-	-	-	771
Due to Other Agencies	178	-	365	-	543
Unearned Revenue	14,260	-	8,801	-	23,061
Deferred Revenue	14,030	206	24,148	-	38,384
Advances from Other Funds	3,309	-	-	-	3,309
Sundry Trust Liabilities	71	-	4,892	-	4,963
Interfund Loan Payable	-	-	2,386	-	2,386
Interfund Interest Payable	-	-	456	-	456
Contracts and Notes Payable	-	-	2,596	-	2,596
TOTAL LIABILITIES	102,038	250	73,706	2	175,996
FUND EQUITY:					
Fund Balances:					
Reserved for Land Held for Resale	12,611	-	26,958	-	39,569
Reserved for Encumbrances	37,052	-	120,574	1	157,627
Reserved for Advances and Deposits	3,018	-	759	-	3,777
Reserved for Permanent Endowments	-	-	-	11,857	11,857
Reserved for Debt Service	62,831	110,991	-	-	173,822
Unreserved:					
Designated for Unrealized Gains	878	864	974	454	3,170
Designated for Subsequent Years' Expenditures	71,067	-	190,092	7	261,166
Undesignated	113,274	-	84,525	-	197,799
TOTAL FUND EQUITY	300,731	111,855	423,882	12,319	848,787
TOTAL LIABILITIES AND FUND EQUITY	\$ 402,769	\$ 112,105	\$ 497,588	\$ 12,321	\$ 1,024,783

NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended June 30, 2003
(In Thousands)

	Special Revenue	Debt Service	Capital Projects	Permanent	Total Nonmajor Governmental Funds
REVENUES					
Property Taxes	\$ 30,870	\$ 24,843	\$ 7,922	\$ -	\$ 63,635
Special Assessments	11,786	13,962	-	-	25,748
Sales Taxes	64,347	-	29,414	-	93,761
Other Local Taxes	85,597	-	8,655	-	94,252
Licenses and Permits	1,637	-	4,976	-	6,613
Fines, Forfeitures and Penalties	1,306	-	-	-	1,306
Revenue from Use of Money and Property	34,683	4,133	16,997	437	56,250
Revenue from Federal Agencies	43,754	-	11,391	-	55,145
Revenue from Other Agencies	32,410	-	13,525	69	46,004
Revenue from Private Sources	28,536	690	53,184	-	82,410
Charges for Current Services	26,034	-	-	62	26,096
Other Revenue	3,652	4	4,351	-	8,007
TOTAL REVENUES	364,612	43,632	150,415	568	559,227
EXPENDITURES					
Current:					
General Government and Support	31,131	2,949	21,876	7	55,963
Public Safety - Police	33,671	-	-	-	33,671
Public Safety - Fire and Life Safety	10,379	-	-	-	10,379
Parks, Recreation, Culture and Leisure	83,054	-	491	57	83,602
Transportation	63,427	-	5,230	-	68,657
Sanitation and Health	2,143	-	-	-	2,143
Neighborhood Services	42,327	-	26,527	-	68,854
Capital Outlay	16,572	-	212,924	-	229,496
Debt Service:					
Principal Retirement	3,910	40,559	3,564	-	48,033
Interest	2,028	59,795	592	-	62,415
TOTAL EXPENDITURES	288,642	103,303	271,204	64	663,213
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	75,970	(59,671)	(120,789)	504	(103,986)
OTHER FINANCING SOURCES (USES)					
Transfers from Proprietary Funds	5,637	-	543	-	6,180
Transfers from Other Funds	80,328	59,805	63,149	-	203,282
Transfers to Proprietary Funds	(901)	-	(695)	-	(1,596)
Transfers to Other Funds	(188,361)	(7,534)	(26,943)	(461)	(223,299)
Transfers to Escrow Agent	-	(53,974)	-	-	(53,974)
Proceeds from Loans Payable	-	-	975	-	975
Proceeds from Revenue Bonds	18,500	34,479	2,100	-	55,079
Proceeds from Tax Allocation Bonds	13,294	20,761	-	-	34,055
Proceeds from SANDAG Loan	-	-	216	-	216
Proceeds from Capital Leases	85	-	-	-	85
Proceeds from Section 108 Loans	2,700	-	-	-	2,700
Discount on Bonds Issued.....	-	(124)	-	-	(124)
Premium on Bonds Issued.....	-	330	-	-	330
TOTAL OTHER FINANCING SOURCES (USES)	(68,718)	53,743	39,345	(461)	23,909
NET CHANGE IN FUND BALANCES	7,252	(5,928)	(81,444)	43	(80,077)
Fund Balances at Beginning of Year, as Restated	293,479	117,783	505,326	12,276	928,864
FUND BALANCES AT END OF YEAR	\$ 300,731	\$ 111,855	\$ 423,882	\$ 12,319	\$ 848,787



cafr | nonmajor 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 the accrued interest earnings.

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 accrued interest 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 therefrom 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 the site acquisition, planning, and construction of new, permanent police facilities. 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 the accrued interest 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 and baseball 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 transient occupants of hotel and motel rooms in the City of San Diego. Effective August 1994, the tax was increased from 9% to 10.5%.

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.

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
COMBINING BALANCE SHEET
JUNE 30, 2003
(In Thousands)

	City of San Diego	Centre City Development Corporation
ASSETS		
Cash and Investments	\$ 168,626	\$ 98
Receivables:		
Taxes	6,949	-
Accounts, net of Allowance for Uncollectibles (City of San Diego \$1,963)	7,124	555
Claims	38	-
Special Assessments	309	-
Notes	2,166	-
Accrued Interest	333	-
Grants	15,345	-
From Other Funds	886	-
From Other Agencies	33	-
Advances to Other Funds	2,322	-
Advances to Other Agencies	2,416	-
Land Held for Resale	-	-
Prepaid Expenses	347	3
TOTAL ASSETS	<u>\$ 206,894</u>	<u>\$ 656</u>
LIABILITIES		
Accounts Payable	\$ 5,101	\$ 33
Accrued Wages and Benefits	1,859	-
Other Accrued Liabilities	-	23
Due to Other Funds	11,746	-
Due to Component Unit	771	-
Due to Other Agencies	178	-
Unearned Revenue	14,260	-
Deferred Revenue	11,844	-
Advances from Other Funds	300	600
Sundry Trust Liabilities	-	-
TOTAL LIABILITIES	<u>46,059</u>	<u>656</u>
FUND EQUITY:		
Fund Balances:		
Reserved for Land Held for Resale	-	-
Reserved for Encumbrances	19,188	-
Reserved for Advances and Deposits	3,018	-
Reserved for Debt Service	569	-
Unreserved:		
Designated for Unrealized Gains	394	-
Designated for Subsequent Years' Expenditures	58,805	-
Undesignated	78,861	-
TOTAL FUND EQUITY	<u>160,835</u>	<u>-</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 206,894</u>	<u>\$ 656</u>

Public Facilities Financing Authority	Redevelopment Agency	San Diego Industrial Development Authority	Southeastern Economic Development Corporation	Total
\$ 30	\$ 165,519	\$ 52	\$ 34	\$ 334,359
-	1,647	-	-	8,596
-	-	-	-	7,679
-	-	-	-	38
-	-	-	-	309
-	14,935	-	-	17,101
-	252	-	-	585
-	-	-	-	15,345
-	-	-	-	886
-	-	-	139	172
-	-	-	-	2,322
-	-	-	-	2,416
-	12,611	-	-	12,611
-	-	-	-	350
<u>\$ 30</u>	<u>\$ 194,964</u>	<u>\$ 52</u>	<u>\$ 173</u>	<u>\$ 402,769</u>
\$ -	\$ 281	\$ -	\$ 3	\$ 5,418
-	-	-	-	1,859
-	-	-	-	23
-	50,373	-	-	62,119
-	-	-	-	771
-	-	-	-	178
-	-	-	-	14,260
-	2,186	-	-	14,030
-	2,250	-	159	3,309
-	71	-	-	71
-	55,161	-	162	102,038
-	12,611	-	-	12,611
1	17,863	-	-	37,052
-	-	-	-	3,018
-	62,262	-	-	62,831
-	484	-	-	878
29	12,218	15	-	71,067
-	34,365	37	11	113,274
<u>30</u>	<u>139,803</u>	<u>52</u>	<u>11</u>	<u>300,731</u>
<u>\$ 30</u>	<u>\$ 194,964</u>	<u>\$ 52</u>	<u>\$ 173</u>	<u>\$ 402,769</u>

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2003
(In Thousands)

	City of San Diego	Centre City Development Corporation
REVENUES		
Property Taxes	\$ 5,614	\$ -
Special Assessments	11,786	-
Sales Taxes	64,347	-
Other Local Taxes	85,597	-
Licenses and Permits	1,637	-
Fines, Forfeitures and Penalties	1,306	-
Revenue from Use of Money and Property	28,919	-
Revenue from Federal Agencies	43,754	-
Revenue from Other Agencies	25,939	4,938
Revenue from Private Sources	28,291	-
Charges for Current Services	26,034	-
Other Revenue	3,640	12
TOTAL REVENUES	326,864	4,950
EXPENDITURES		
Current:		
General Government and Support	18,719	4,950
Public Safety - Police	33,671	-
Public Safety - Fire and Life Safety	10,379	-
Parks, Recreation, Culture and Leisure	83,054	-
Transportation	63,427	-
Sanitation and Health	2,143	-
Neighborhood Services	37,960	-
Capital Outlay	16,568	-
Debt Service:		
Principal Retirement	3,910	-
Interest	2,028	-
TOTAL EXPENDITURES	271,859	4,950
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	55,005	-
OTHER FINANCING SOURCES (USES)		
Transfers from Proprietary Funds	5,637	-
Transfers from Other Funds	76,018	-
Transfers to Proprietary Funds	(901)	-
Transfers to Other Funds	(137,630)	-
Proceeds from Revenue Bonds	-	-
Proceeds from Tax Allocation Bonds	-	-
Proceeds from Capital Leases	85	-
Proceeds from Section 108 Loans	2,700	-
TOTAL OTHER FINANCING SOURCES (USES)	(54,091)	-
NET CHANGE IN FUND BALANCES	914	-
Fund Balances at Beginning of Year, as Restated	159,921	-
FUND BALANCES AT END OF YEAR	\$ 160,835	\$ -

Public Facilities Financing Authority	Redevelopment Agency	San Diego Industrial Development Authority	Southeastern Economic Development Corporation	Total
\$ -	\$ 25,256	\$ -	\$ -	\$ 30,870
-	-	-	-	11,786
-	-	-	-	64,347
-	-	-	-	85,597
-	-	-	-	1,637
-	-	-	-	1,306
1	5,761	2	-	34,683
-	-	-	-	43,754
-	-	-	1,533	32,410
-	245	-	-	28,536
-	-	-	-	26,034
-	-	-	-	3,652
<u>1</u>	<u>31,262</u>	<u>2</u>	<u>1,533</u>	<u>364,612</u>
314	5,587	-	1,561	31,131
-	-	-	-	33,671
-	-	-	-	10,379
-	-	-	-	83,054
-	-	-	-	63,427
-	-	-	-	2,143
-	4,367	-	-	42,327
-	4	-	-	16,572
-	-	-	-	3,910
-	-	-	-	2,028
<u>314</u>	<u>9,958</u>	<u>-</u>	<u>1,561</u>	<u>288,642</u>
<u>(313)</u>	<u>21,304</u>	<u>2</u>	<u>(28)</u>	<u>75,970</u>
-	-	-	-	5,637
287	4,023	-	-	80,328
-	-	-	-	(901)
-	(50,731)	-	-	(188,361)
-	18,500	-	-	18,500
-	13,294	-	-	13,294
-	-	-	-	85
-	-	-	-	2,700
<u>287</u>	<u>(14,914)</u>	<u>-</u>	<u>-</u>	<u>(68,718)</u>
(26)	6,390	2	(28)	7,252
<u>56</u>	<u>133,413</u>	<u>50</u>	<u>39</u>	<u>293,479</u>
<u>\$ 30</u>	<u>\$ 139,803</u>	<u>\$ 52</u>	<u>\$ 11</u>	<u>\$ 300,731</u>

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN UNDESIGNATED FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2003
(In Thousands)

	City of San Diego	
	Actual on Budgetary Basis	Final Budget
REVENUES		
Property Taxes	\$ 5,554	\$ 5,334
Special Assessments	11,745	12,067
Sales Taxes	60,321	66,421
Other Local Taxes	85,597	89,413
Fines, Forfeitures and Penalties	1,021	1,020
Revenue from Use of Money and Property	21,342	19,115
Revenue from Federal Agencies	237	-
Revenue from Other Agencies	8,326	7,435
Revenue from Private Sources	216	288
Charges for Current Services	25,023	23,630
Other Revenue	1,184	1,282
Excess Revenue Appropriated	-	316
TOTAL REVENUES	220,566	226,321
EXPENDITURES		
Current:		
General Government and Support	5,962	6,702
Public Safety - Police	11,304	12,558
Public Safety - Fire and Life Safety	8,334	8,380
Parks, Recreation, Culture and Leisure	82,180	94,181
Transportation	44,683	47,156
Sanitation and Health	1,759	1,800
Neighborhood Services	5,838	6,698
Capital Outlay	8,745	28,792
Debt Service:		
Principal Retirement	750	1,252
Interest	158	209
TOTAL EXPENDITURES	169,713	207,728
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	50,853	18,593
OTHER FINANCING SOURCES (USES)		
Transfers from Proprietary Funds	2,789	728
Transfers from Other Funds	41,991	51,754
Transfers to Proprietary Funds	(169)	(169)
Transfers to Other Funds	(106,052)	(112,824)
TOTAL OTHER FINANCING SOURCES (USES)	(61,441)	(60,511)
NET CHANGE IN FUND BALANCES	(10,588)	(41,918)
Fund Balances Undesignated at July 1, 2002	68,782	68,782
Reserved for Encumbrances at July 1, 2002	10,863	10,863
Reserved for Debt Service at June 30, 2003	(569)	-
Designated for Subsequent Years' Expenditures at July 1, 2002	11,900	11,900
Designated for Subsequent Years' Expenditures at June 30, 2003	(22,906)	-
FUND BALANCES UNDESIGNATED AT JUNE 30, 2003	\$ 57,482	\$ 49,627

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	
\$ -	\$ -	\$ -	\$ -	\$ 5,554	\$ 5,334	\$ 220
-	-	-	-	11,745	12,067	(322)
-	-	-	-	60,321	66,421	(6,100)
-	-	-	-	85,597	89,413	(3,816)
-	-	-	-	1,021	1,020	1
-	-	-	-	21,342	19,115	2,227
-	-	-	-	237	-	237
4,938	5,243	1,533	1,673	14,797	14,351	446
-	-	-	-	216	288	(72)
-	-	-	-	25,023	23,630	1,393
12	20	-	-	1,196	1,302	(106)
-	-	-	-	-	316	(316)
4,950	5,263	1,533	1,673	227,049	233,257	(6,208)
4,950	5,263	1,561	1,673	12,473	13,638	1,165
-	-	-	-	11,304	12,558	1,254
-	-	-	-	8,334	8,380	46
-	-	-	-	82,180	94,181	12,001
-	-	-	-	44,683	47,156	2,473
-	-	-	-	1,759	1,800	41
-	-	-	-	5,838	6,698	860
-	-	-	-	8,745	28,792	20,047
-	-	-	-	750	1,252	502
-	-	-	-	158	209	51
4,950	5,263	1,561	1,673	176,224	214,664	38,440
-	-	(28)	-	50,825	18,593	32,232
-	-	-	-	2,789	728	2,061
-	-	-	-	41,991	51,754	(9,763)
-	-	-	-	(169)	(169)	
-	-	-	-	(106,052)	(112,824)	6,772
-	-	-	-	(61,441)	(60,511)	(930)
-	-	(28)	-	(10,616)	(41,918)	31,302
-	-	39	-	68,821	68,782	39
-	-	-	-	10,863	10,863	-
-	-	-	-	(569)	-	(569)
-	-	-	-	11,900	11,900	-
-	-	-	-	(22,906)	-	(22,906)
\$ -	\$ -	\$ 11	\$ -	\$ 57,493	\$ 49,627	\$ 7,866

CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
COMBINING BALANCE SHEET
JUNE 30, 2003
(In Thousands)

	Budgeted				
	Acquisition, Improvement and Operations	Environmental Growth	Police Decentralization	Public Transportation	Qualcomm Stadium Operations
ASSETS					
Cash and Investments	\$ 10,577	\$ 4,071	\$ 2,524	\$ 2,171	\$ 1,364
Receivables:					
Taxes	-	1,685	-	-	-
Accounts, net of Allowance for Uncollectibles (Transient Occupancy Tax \$889, Qualcomm Stadium \$327, Other Unbudgeted \$747)	531	-	-	-	1,123
Claims	6	-	-	-	-
Special Assessments	260	-	-	-	-
Notes	-	-	-	-	-
Accrued Interest	26	11	-	4	11
Grants	-	-	-	-	-
From Other Funds	-	-	-	-	-
From Other Agencies	-	-	-	-	-
Advances to Other Funds	-	-	-	-	-
Advances to Other Agencies	691	-	-	-	-
Prepaid Expenses	12	-	-	-	51
TOTAL ASSETS	<u>\$ 12,103</u>	<u>\$ 5,767</u>	<u>\$ 2,524</u>	<u>\$ 2,175</u>	<u>\$ 2,549</u>
LIABILITIES					
Accounts Payable	\$ 612	\$ 3	\$ 774	\$ -	\$ 822
Accrued Wages and Benefits	74	-	-	-	226
Due to Other Funds	83	-	-	-	-
Due to Component Unit	-	-	-	-	-
Due to Other Agencies	-	-	-	-	-
Unearned Revenue	-	-	-	-	-
Deferred Revenue	745	-	-	-	183
Advances from Other Funds	-	-	-	-	-
TOTAL LIABILITIES	<u>1,514</u>	<u>3</u>	<u>774</u>	<u>-</u>	<u>1,231</u>
FUND EQUITY:					
Fund Balances:					
Reserved for Encumbrances	913	126	-	34	1,104
Reserved for Advances and Deposits	341	-	-	-	-
Reserved for Debt Service	-	-	-	-	-
Unreserved:					
Designated for Unrealized Gains	39	15	-	8	6
Designated for Subsequent Years' Expenditures	15	159	-	-	25
Undesignated	9,281	5,464	1,750	2,133	183
TOTAL FUND EQUITY	<u>10,589</u>	<u>5,764</u>	<u>1,750</u>	<u>2,175</u>	<u>1,318</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 12,103</u>	<u>\$ 5,767</u>	<u>\$ 2,524</u>	<u>\$ 2,175</u>	<u>\$ 2,549</u>

Special Gas Tax Street Improvement	Street Division Operations	Transient Occupancy Tax	Zoological Exhibits	Other Special Revenue	Unbudgeted		Total
					Grants	Other Special Revenue	
\$ 409	\$ 3,426	\$ 55,549	\$ 238	\$ 8,734	\$ 29	\$ 79,534	\$ 168,626
-	-	4,357	42	865	-	-	6,949
2,051	335	254	-	1,805	-	1,025	7,124
2	30	-	-	-	-	-	38
-	-	-	-	-	-	49	309
-	-	-	-	-	-	2,166	2,166
18	1	76	-	20	55	111	333
-	-	-	-	17	15,328	-	15,345
-	842	-	-	-	-	44	886
-	-	33	-	-	-	-	33
-	72	-	-	-	-	2,250	2,322
-	-	1,271	-	-	350	104	2,416
-	-	4	-	5	13	262	347
<u>\$ 2,480</u>	<u>\$ 4,706</u>	<u>\$ 61,544</u>	<u>\$ 280</u>	<u>\$ 11,446</u>	<u>\$ 15,775</u>	<u>\$ 85,545</u>	<u>\$ 206,894</u>
\$ -	\$ 1,133	\$ 193	\$ -	\$ 18	\$ 1,231	\$ 315	\$ 5,101
2	1,050	35	-	384	75	13	1,859
759	-	3,000	-	-	6,300	1,604	11,746
-	-	460	-	-	-	311	771
-	-	-	-	-	178	-	178
-	-	-	-	-	5,887	8,373	14,260
33	365	254	-	219	7,094	2,951	11,844
-	-	-	-	-	-	300	300
<u>794</u>	<u>2,548</u>	<u>3,942</u>	<u>-</u>	<u>621</u>	<u>20,765</u>	<u>13,867</u>	<u>46,059</u>
172	1,515	8,225	-	444	8	6,647	19,188
-	72	-	-	-	323	2,282	3,018
-	569	-	-	-	-	-	569
20	2	139	-	15	6	144	394
186	-	18,351	280	3,890	-	35,899	58,805
<u>1,308</u>	<u>-</u>	<u>30,887</u>	<u>-</u>	<u>6,476</u>	<u>(5,327)</u>	<u>26,706</u>	<u>78,861</u>
<u>1,686</u>	<u>2,158</u>	<u>57,602</u>	<u>280</u>	<u>10,825</u>	<u>(4,990)</u>	<u>71,678</u>	<u>160,835</u>
<u>\$ 2,480</u>	<u>\$ 4,706</u>	<u>\$ 61,544</u>	<u>\$ 280</u>	<u>\$ 11,446</u>	<u>\$ 15,775</u>	<u>\$ 85,545</u>	<u>\$ 206,894</u>

CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2003
(In Thousands)

	Budgeted				
	Acquisition, Improvement and Operations	Environmental Growth	Police Decentralization	Public Transportation	Qualcomm Stadium Operations
REVENUES					
Property Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Special Assessments	11,745	-	-	-	-
Sales Taxes	924	-	10,132	-	-
Other Local Taxes	-	8,925	-	-	-
Licenses and Permits	-	-	-	-	-
Fines, Forfeitures and Penalties	-	-	-	-	-
Revenue from Use of Money and Property	372	131	260	122	17,426
Revenue from Federal Agencies	-	-	-	-	-
Revenue from Other Agencies	-	-	-	-	-
Revenue from Private Sources	55	-	-	-	-
Charges for Current Services	2,784	-	-	-	-
Other Revenue	270	-	-	-	66
TOTAL REVENUES	16,150	9,056	10,392	122	17,492
EXPENDITURES					
Current:					
General Government and Support	1,257	-	-	-	-
Public Safety - Police	-	-	8,240	-	-
Public Safety - Fire and Life Safety	-	-	-	-	-
Parks, Recreation, Culture and Leisure	8,978	1,615	-	-	20,345
Transportation	-	-	-	27	-
Sanitation and Health	-	-	-	-	-
Neighborhood Services	5,943	-	-	-	-
Capital Outlay	-	311	-	-	4
Debt Service:					
Principal Retirement	-	-	-	-	146
Interest	-	-	-	-	88
TOTAL EXPENDITURES	16,178	1,926	8,240	27	20,583
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(28)	7,130	2,152	95	(3,091)
OTHER FINANCING SOURCES (USES)					
Transfers from Proprietary Funds	-	-	-	-	13
Transfers from Other Funds	1,399	-	-	3,565	8,373
Transfers to Proprietary Funds	(18)	-	-	-	-
Transfers to Other Funds	(36)	(10,765)	(2,922)	(3,693)	(5,606)
Proceeds from Capital Leases	-	-	-	-	-
Proceeds from Section 108 Loans	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	1,345	(10,765)	(2,922)	(128)	2,780
NET CHANGE IN FUND BALANCES	1,317	(3,635)	(770)	(33)	(311)
Fund Balances at Beginning of Year, as Restated	9,272	9,399	2,520	2,208	1,629
FUND BALANCES AT END OF YEAR	\$ 10,589	\$ 5,764	\$ 1,750	\$ 2,175	\$ 1,318

					Unbudgeted		
Special Gas Tax Street Improvement	Street Division Operations	Transient Occupancy Tax	Zoological Exhibits	Other Special Revenue	Grants	Other Special Revenue	Total
\$ -	\$ -	\$ -	\$ 5,554	\$ -	\$ -	\$ 60	\$ 5,614
-	-	-	-	-	-	41	11,786
-	13,589	33,722	-	1,954	-	4,026	64,347
23,419	-	50,000	-	3,253	-	-	85,597
-	-	-	-	-	-	1,637	1,637
-	-	-	-	1,021	-	285	1,306
144	144	2,216	30	371	511	7,192	28,919
-	-	-	-	237	40,788	2,729	43,754
-	311	6,502	-	1,513	15,685	1,928	25,939
6	155	-	-	-	-	28,075	28,291
13	4,197	59	-	17,970	-	1,011	26,034
-	122	11	-	715	1,666	790	3,640
23,582	18,518	92,510	5,584	27,034	58,650	47,774	326,864
196	-	706	-	3,772	470	12,318	18,719
-	-	-	-	2,980	21,652	799	33,671
-	-	-	-	8,159	1,313	907	10,379
-	-	38,022	5,402	108	3,883	4,701	83,054
26	43,314	-	-	23	18	20,019	63,427
-	-	119	-	1,493	271	260	2,143
-	-	-	-	-	24,773	7,244	37,960
231	3,537	1,632	-	-	3,577	7,276	16,568
-	547	-	-	57	1,501	1,659	3,910
-	68	-	-	2	1,193	677	2,028
453	47,466	40,479	5,402	16,594	58,651	55,860	271,859
23,129	(28,948)	52,031	182	10,440	(1)	(8,086)	55,005
247	1,855	-	-	674	-	2,848	5,637
-	27,819	30	-	805	2,887	31,140	76,018
-	(169)	-	-	-	(264)	(450)	(901)
(25,174)	(553)	(49,751)	(30)	(8,861)	(7,108)	(23,131)	(137,630)
-	-	-	-	57	-	28	85
-	-	-	-	-	-	2,700	2,700
(24,927)	28,952	(49,721)	(30)	(7,325)	(4,485)	13,135	(54,091)
(1,798)	4	2,310	152	3,115	(4,486)	5,049	914
3,484	2,154	55,292	128	7,710	(504)	66,629	159,921
\$ 1,686	\$ 2,158	\$ 57,602	\$ 280	\$ 10,825	\$ (4,990)	\$ 71,678	\$ 160,835

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)
FOR THE YEAR ENDED JUNE 30, 2003
(In Thousands)

	Acquisition, Improvement and Operations				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
REVENUES					
Property Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Special Assessments	11,745	-	11,745	12,067	(322)
Sales Taxes	924	-	924	924	-
Other Local Taxes	-	-	-	-	-
Fines, Forfeitures and Penalties	-	-	-	-	-
Revenue from Use of Money and Property	372	13	385	249	136
Revenue from Federal Agencies	-	-	-	-	-
Revenue from Other Agencies	-	-	-	-	-
Revenue from Private Sources	55	-	55	56	(1)
Charges for Current Services	2,784	-	2,784	2,570	214
Other Revenue	270	-	270	619	(349)
Excess Revenue Appropriated	-	-	-	-	-
TOTAL REVENUES	16,150	13	16,163	16,485	(322)
EXPENDITURES					
Current:					
General Government and Support	1,257	45	1,302	1,704	402
Public Safety - Police	-	-	-	-	-
Public Safety - Fire and Life Safety	-	-	-	-	-
Parks, Recreation, Culture and Leisure	8,978	863	9,841	15,761	5,920
Transportation	-	-	-	-	-
Sanitation and Health	-	-	-	-	-
Neighborhood Services	5,943	(105)	5,838	6,698	860
Capital Outlay	-	-	-	-	-
Debt Service:					
Principal Retirement	-	-	-	-	-
Interest	-	-	-	-	-
TOTAL EXPENDITURES	16,178	803	16,981	24,163	7,182
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(28)	(790)	(818)	(7,678)	6,860
OTHER FINANCING SOURCES (USES)					
Transfers from Proprietary Funds	-	-	-	-	-
Transfers from Other Funds	1,399	-	1,399	1,488	(89)
Transfers to Proprietary Funds	(18)	18	-	-	-
Transfers to Other Funds	(36)	-	(36)	(27)	(9)
Proceeds from Capital Leases	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	1,345	18	1,363	1,461	(98)
NET CHANGE IN FUND BALANCES	\$ 1,317	\$ (772)	545	(6,217)	6,762
Fund Balances Undesignated at July 1, 2002			7,649	7,649	-
Reserved for Encumbrances at July 1, 2002			1,074	1,074	-
Reserved for Debt Service at June 30, 2003			-	-	-
Designated for Subsequent Years' Expenditures at July 1, 2002			28	28	-
Designated for Subsequent Years' Expenditures at June 30, 2003			(15)	-	(15)
FUND BALANCES UNDESIGNATED AT JUNE 30, 2003			\$ 9,281	\$ 2,534	\$ 6,747

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)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	10,132	-	10,132	11,587	(1,455)
8,925	-	8,925	11,883	(2,958)	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
131	14	145	108	37	260	-	260	-	260
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
9,056	14	9,070	11,991	(2,921)	10,392	-	10,392	11,587	(1,195)
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	8,240	-	8,240	9,414	1,174
-	-	-	-	-	-	-	-	-	-
1,615	80	1,695	3,225	1,530	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
311	46	357	517	160	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
1,926	126	2,052	3,742	1,690	8,240	-	8,240	9,414	1,174
7,130	(112)	7,018	8,249	(1,231)	2,152	-	2,152	2,173	(21)
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
(10,765)	1,339	(9,426)	(10,765)	1,339	(2,922)	-	(2,922)	(2,662)	(260)
-	-	-	-	-	-	-	-	-	-
(10,765)	1,339	(9,426)	(10,765)	1,339	(2,922)	-	(2,922)	(2,662)	(260)
<u>\$ (3,635)</u>	<u>\$ 1,227</u>	(2,408)	(2,516)	108	<u>\$ (770)</u>	<u>\$ -</u>	(770)	(489)	(281)
		7,563	7,563	-			2,520	2,520	-
		245	245	-			-	-	-
		-	-	-			-	-	-
		223	223	-			-	-	-
		(159)	-	(159)			-	-	-
		<u>\$ 5,464</u>	<u>\$ 5,515</u>	<u>\$ (51)</u>			<u>\$ 1,750</u>	<u>\$ 2,031</u>	<u>\$ (281)</u>

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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)
 FOR THE YEAR ENDED JUNE 30, 2003
 (In Thousands)

Public Transportation					
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
REVENUES					
Property Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Special Assessments	-	-	-	-	-
Sales Taxes	-	-	-	-	-
Other Local Taxes	-	-	-	-	-
Fines, Forfeitures and Penalties	-	-	-	-	-
Revenue from Use of Money and Property	122	4	126	250	(124)
Revenue from Federal Agencies	-	-	-	-	-
Revenue from Other Agencies	-	-	-	-	-
Revenue from Private Sources	-	-	-	-	-
Charges for Current Services	-	-	-	-	-
Other Revenue	-	-	-	-	-
Excess Revenue Appropriated	-	-	-	-	-
TOTAL REVENUES	122	4	126	250	(124)
EXPENDITURES					
Current:					
General Government and Support	-	-	-	-	-
Public Safety - Police	-	-	-	-	-
Public Safety - Fire and Life Safety	-	-	-	-	-
Parks, Recreation, Culture and Leisure	-	-	-	-	-
Transportation	27	34	61	540	479
Sanitation and Health	-	-	-	-	-
Neighborhood Services	-	-	-	-	-
Capital Outlay	-	-	-	-	-
Debt Service:					
Principal Retirement	-	-	-	-	-
Interest	-	-	-	-	-
TOTAL EXPENDITURES	27	34	61	540	479
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	95	(30)	65	(290)	355
OTHER FINANCING SOURCES (USES)					
Transfers from Proprietary Funds	-	-	-	-	-
Transfers from Other Funds	3,565	-	3,565	4,010	(445)
Transfers to Proprietary Funds	-	-	-	-	-
Transfers to Other Funds	(3,693)	-	(3,693)	(3,693)	-
Proceeds from Capital Leases	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(128)	-	(128)	317	(445)
NET CHANGE IN FUND BALANCES	\$ (33)	\$ (30)	(63)	27	(90)
Fund Balances Undesignated at July 1, 2002			2,194	2,194	-
Reserved for Encumbrances at July 1, 2002			2	2	-
Reserved for Debt Service at June 30, 2003			-	-	-
Designated for Subsequent Years' Expenditures at July 1, 2002			-	-	-
Designated for Subsequent Years' Expenditures at June 30, 2003			-	-	-
FUND BALANCES UNDESIGNATED AT JUNE 30, 2003			\$ 2,133	\$ 2,223	\$ (90)

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)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	23,419	-	23,419	22,915	504
-	-	-	-	-	-	-	-	-	-
17,426	(2)	17,424	16,818	606	144	21	165	494	(329)
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	6	-	6	-	6
-	-	-	-	-	13	-	13	-	13
66	-	66	33	33	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
<u>17,492</u>	<u>(2)</u>	<u>17,490</u>	<u>16,851</u>	<u>639</u>	<u>23,582</u>	<u>21</u>	<u>23,603</u>	<u>23,409</u>	<u>194</u>
-	-	-	-	-	196	-	196	196	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
20,345	1,103	21,448	22,496	1,048	-	-	-	-	-
-	-	-	-	-	26	-	26	2	(24)
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
4	1	5	852	847	231	172	403	589	186
146	-	146	136	(10)	-	-	-	-	-
88	-	88	82	(6)	-	-	-	-	-
<u>20,583</u>	<u>1,104</u>	<u>21,687</u>	<u>23,566</u>	<u>1,879</u>	<u>453</u>	<u>172</u>	<u>625</u>	<u>787</u>	<u>162</u>
<u>(3,091)</u>	<u>(1,106)</u>	<u>(4,197)</u>	<u>(6,715)</u>	<u>2,518</u>	<u>23,129</u>	<u>(151)</u>	<u>22,978</u>	<u>22,622</u>	<u>356</u>
13	-	13	-	13	247	-	247	-	247
8,373	-	8,373	11,020	(2,647)	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
(5,606)	-	(5,606)	(5,606)	-	(25,174)	-	(25,174)	(25,392)	218
-	-	-	-	-	-	-	-	-	-
<u>2,780</u>	<u>-</u>	<u>2,780</u>	<u>5,414</u>	<u>(2,634)</u>	<u>(24,927)</u>	<u>-</u>	<u>(24,927)</u>	<u>(25,392)</u>	<u>465</u>
<u>\$ (311)</u>	<u>\$ (1,106)</u>	<u>(1,417)</u>	<u>(1,301)</u>	<u>(116)</u>	<u>\$ (1,798)</u>	<u>\$ (151)</u>	<u>(1,949)</u>	<u>(2,770)</u>	<u>821</u>
		962	962	-			2,972	2,972	-
		254	254	-			50	50	-
		-	-	-			-	-	-
		409	409	-			421	421	-
		<u>(25)</u>	<u>-</u>	<u>(25)</u>			<u>(186)</u>	<u>-</u>	<u>(186)</u>
		<u>\$ 183</u>	<u>\$ 324</u>	<u>\$ (141)</u>			<u>\$ 1,308</u>	<u>\$ 673</u>	<u>\$ 635</u>

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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)
FOR THE YEAR ENDED JUNE 30, 2003
(In Thousands)

Street Division Operations					
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
REVENUES					
Property Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Special Assessments	-	-	-	-	-
Sales Taxes	13,589	-	13,589	15,389	(1,800)
Other Local Taxes	-	-	-	-	-
Fines, Forfeitures and Penalties	-	-	-	-	-
Revenue from Use of Money and Property	144	4	148	38	110
Revenue from Federal Agencies	-	-	-	-	-
Revenue from Other Agencies	311	-	311	94	217
Revenue from Private Sources	155	-	155	48	107
Charges for Current Services	4,197	-	4,197	3,128	1,069
Other Revenue	122	-	122	200	(78)
Excess Revenue Appropriated	-	-	-	-	-
TOTAL REVENUES	18,518	4	18,522	18,897	(375)
EXPENDITURES					
Current:					
General Government and Support	-	-	-	-	-
Public Safety - Police	-	-	-	-	-
Public Safety - Fire and Life Safety	-	-	-	-	-
Parks, Recreation, Culture and Leisure	-	-	-	-	-
Transportation	43,314	1,245	44,559	46,551	1,992
Sanitation and Health	-	-	-	-	-
Neighborhood Services	-	-	-	-	-
Capital Outlay	3,537	270	3,807	4,675	868
Debt Service:					
Principal Retirement	547	-	547	1,059	512
Interest	68	-	68	125	57
TOTAL EXPENDITURES	47,466	1,515	48,981	52,410	3,429
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(28,948)	(1,511)	(30,459)	(33,513)	3,054
OTHER FINANCING SOURCES (USES)					
Transfers from Proprietary Funds	1,855	-	1,855	-	1,855
Transfers from Other Funds	27,819	-	27,819	32,049	(4,230)
Transfers to Proprietary Funds	(169)	-	(169)	(169)	-
Transfers to Other Funds	(553)	-	(553)	(443)	(110)
Proceeds from Capital Leases	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	28,952	-	28,952	31,437	(2,485)
NET CHANGE IN FUND BALANCES	\$ 4	\$ (1,511)	(1,507)	(2,076)	569
Fund Balances Undesignated at July 1, 2002			-	-	-
Reserved for Encumbrances at July 1, 2002			1,096	1,096	-
Reserved for Debt Service at June 30, 2003			(569)	-	(569)
Designated for Subsequent Years' Expenditures at July 1, 2002			980	980	-
Designated for Subsequent Years' Expenditures at June 30, 2003			-	-	-
FUND BALANCES UNDESIGNATED AT JUNE 30, 2003	\$ -	\$ -	\$ -	\$ -	\$ -

Transient Occupancy Tax					Zoological Exhibits				
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)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,554	\$ -	\$ 5,554	\$ 5,334	\$ 220
-	-	-	-	-	-	-	-	-	-
33,722	-	33,722	36,567	(2,845)	-	-	-	-	-
50,000	-	50,000	51,524	(1,524)	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
2,216	68	2,284	1,067	1,217	30	-	30	-	30
-	-	-	-	-	-	-	-	-	-
6,502	-	6,502	6,315	187	-	-	-	-	-
-	-	-	184	(184)	-	-	-	-	-
59	-	59	18	41	-	-	-	-	-
11	-	11	-	11	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
92,510	68	92,578	95,675	(3,097)	5,584	-	5,584	5,334	250
706	20	726	824	98	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
38,022	5,664	43,686	47,141	3,455	5,402	-	5,402	5,402	-
-	-	-	-	-	-	-	-	-	-
119	(1)	118	159	41	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
1,632	2,541	4,173	22,159	17,986	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
40,479	8,224	48,703	70,283	21,580	5,402	-	5,402	5,402	-
52,031	(8,156)	43,875	25,392	18,483	182	-	182	(68)	250
-	-	-	-	-	-	-	-	-	-
30	-	30	1,390	(1,360)	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
(49,751)	-	(49,751)	(52,074)	2,323	(30)	-	(30)	-	(30)
-	-	-	-	-	-	-	-	-	-
(49,721)	-	(49,721)	(50,684)	963	(30)	-	(30)	-	(30)
\$ 2,310	\$ (8,156)	(5,846)	(25,292)	19,446	\$ 152	\$ -	152	(68)	220
		39,654	39,654	-			-	-	-
		7,865	7,865	-			-	-	-
		-	-	-			-	-	-
		7,565	7,565	-			128	128	-
		(18,351)	-	(18,351)			(280)	-	(280)
		\$ 30,887	\$ 29,792	\$ 1,095			\$ -	\$ 60	\$ (60)

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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)
FOR THE YEAR ENDED JUNE 30, 2003
(In Thousands)

	Other Special Revenue				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
REVENUES					
Property Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Special Assessments	-	-	-	-	-
Sales Taxes	1,954	-	1,954	1,954	-
Other Local Taxes	3,253	-	3,253	3,091	162
Fines, Forfeitures and Penalties	1,021	-	1,021	1,020	1
Revenue from Use of Money and Property	371	4	375	91	284
Revenue from Federal Agencies	237	-	237	-	237
Revenue from Other Agencies	1,513	-	1,513	1,026	487
Revenue from Private Sources	-	-	-	-	-
Charges for Current Services	17,970	-	17,970	17,914	56
Other Revenue	715	-	715	430	285
Excess Revenue Appropriated	-	-	-	316	(316)
TOTAL REVENUES	27,034	4	27,038	25,842	1,196
EXPENDITURES					
Current:					
General Government and Support	3,772	(34)	3,738	3,978	240
Public Safety - Police	2,980	84	3,064	3,144	80
Public Safety - Fire and Life Safety	8,159	175	8,334	8,380	46
Parks, Recreation, Culture and Leisure	108	-	108	156	48
Transportation	23	14	37	63	26
Sanitation and Health	1,493	148	1,641	1,641	-
Neighborhood Services	-	-	-	-	-
Capital Outlay	-	-	-	-	-
Debt Service:					
Principal Retirement	57	-	57	57	-
Interest	2	-	2	2	-
TOTAL EXPENDITURES	16,594	387	16,981	17,421	440
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	10,440	(383)	10,057	8,421	1,636
OTHER FINANCING SOURCES (USES)					
Transfers from Proprietary Funds	674	-	674	728	(54)
Transfers from Other Funds	805	-	805	1,797	(992)
Transfers to Proprietary Funds	-	-	-	-	-
Transfers to Other Funds	(8,861)	-	(8,861)	(12,162)	3,301
Proceeds from Capital Leases	57	(57)	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(7,325)	(57)	(7,382)	(9,637)	2,255
NET CHANGE IN FUND BALANCES	\$ 3,115	\$ (440)	2,675	(1,216)	3,891
Fund Balances Undesignated at July 1, 2002			5,268	5,268	-
Reserved for Encumbrances at July 1, 2002			277	277	-
Reserved for Debt Service at June 30, 2003			-	-	-
Designated for Subsequent Years' Expenditures at July 1, 2002			2,146	2,146	-
Designated for Subsequent Years' Expenditures at June 30, 2003			(3,890)	-	(3,890)
FUND BALANCES UNDESIGNATED AT JUNE 30, 2003			\$ 6,476	\$ 6,475	\$ 1

Total				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
\$ 5,554	\$ -	\$ 5,554	\$ 5,334	\$ 220
11,745	-	11,745	12,067	(322)
60,321	-	60,321	66,421	(6,100)
85,597	-	85,597	89,413	(3,816)
1,021	-	1,021	1,020	1
21,216	126	21,342	19,115	2,227
237	-	237	-	237
8,326	-	8,326	7,435	891
216	-	216	288	(72)
25,023	-	25,023	23,630	1,393
1,184	-	1,184	1,282	(98)
-	-	-	316	(316)
<u>220,440</u>	<u>126</u>	<u>220,566</u>	<u>226,321</u>	<u>(5,755)</u>
5,931	31	5,962	6,702	740
11,220	84	11,304	12,558	1,254
8,159	175	8,334	8,380	46
74,470	7,710	82,180	94,181	12,001
43,390	1,293	44,683	47,156	2,473
1,612	147	1,759	1,800	41
5,943	(105)	5,838	6,698	860
5,715	3,030	8,745	28,792	20,047
750	-	750	1,252	502
158	-	158	209	51
<u>157,348</u>	<u>12,365</u>	<u>169,713</u>	<u>207,728</u>	<u>38,015</u>
<u>63,092</u>	<u>(12,239)</u>	<u>50,853</u>	<u>18,593</u>	<u>32,260</u>
2,789	-	2,789	728	2,061
41,991	-	41,991	51,754	(9,763)
(187)	18	(169)	(169)	-
(107,391)	1,339	(106,052)	(112,824)	6,772
57	(57)	-	-	-
<u>(62,741)</u>	<u>1,300</u>	<u>(61,441)</u>	<u>(60,511)</u>	<u>(930)</u>
<u>\$ 351</u>	<u>\$ (10,939)</u>	<u>(10,588)</u>	<u>(41,918)</u>	<u>31,330</u>
		68,782	68,782	-
		10,863	10,863	-
		(569)	-	(569)
		11,900	11,900	-
		<u>(22,906)</u>	<u>-</u>	<u>(22,906)</u>
		<u>\$ 57,482</u>	<u>\$ 49,627</u>	<u>\$ 7,855</u>

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CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
ENVIRONMENTAL GROWTH FUND
COMBINING BALANCE SHEET
JUNE 30, 2003
(In Thousands)

	Two-Thirds Requirement	One-Third Requirement	Total
ASSETS			
Cash and Investments	\$ 3,519	\$ 552	\$ 4,071
Receivables:			
Taxes - Net	1,123	562	1,685
Accrued Interest	8	3	11
TOTAL ASSETS	<u>\$ 4,650</u>	<u>\$ 1,117</u>	<u>\$ 5,767</u>
LIABILITIES			
Accounts Payable	\$ -	\$ 3	\$ 3
FUND EQUITY			
Fund Balances:			
Reserved for Encumbrances	-	126	126
Unreserved:			
Designated for Unrealized Gains	12	3	15
Designated for Subsequent Years' Expenditures	-	159	159
Undesignated	4,638	826	5,464
TOTAL FUND EQUITY	<u>4,650</u>	<u>1,114</u>	<u>5,764</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 4,650</u>	<u>\$ 1,117</u>	<u>\$ 5,767</u>

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2003
(In Thousands)

	Two-Thirds Requirement	One-Third Requirement	Total
REVENUES			
Other Local Taxes	\$ 5,950	\$ 2,975	\$ 8,925
Revenue from Use of Money and Property	94	37	131
TOTAL REVENUES	<u>6,044</u>	<u>3,012</u>	<u>9,056</u>
EXPENDITURES			
Current:			
Parks, Recreation, Culture and Leisure	700	915	1,615
Capital Outlay	-	311	311
TOTAL EXPENDITURES	<u>700</u>	<u>1,226</u>	<u>1,926</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>5,344</u>	<u>1,786</u>	<u>7,130</u>
OTHER FINANCING SOURCES (USES)			
Transfers to Other Funds	(6,340)	(4,425)	(10,765)
NET CHANGE IN FUND BALANCES	<u>(996)</u>	<u>(2,639)</u>	<u>(3,635)</u>
Fund Balances at Beginning of Year, as Restated	5,646	3,753	9,399
FUND BALANCES AT END OF YEAR	<u>\$ 4,650</u>	<u>\$ 1,114</u>	<u>\$ 5,764</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)
 FOR THE YEAR ENDED JUNE 30, 2003
 (In Thousands)

	Two-Thirds Requirement				Variance with Final Budget Positive (Negative)
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	
REVENUES					
Other Local Taxes	\$ 5,950	\$ -	\$ 5,950	\$ 7,922	\$ (1,972)
Revenue from Use of Money and Property	94	-	94	54	40
TOTAL REVENUES	<u>6,044</u>	<u>-</u>	<u>6,044</u>	<u>7,976</u>	<u>(1,932)</u>
EXPENDITURES					
Current:					
Parks, Recreation, Culture and Leisure	700	-	700	700	-
Capital Outlay	-	-	-	-	-
TOTAL EXPENDITURES	<u>700</u>	<u>-</u>	<u>700</u>	<u>700</u>	<u>-</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>5,344</u>	<u>-</u>	<u>5,344</u>	<u>7,276</u>	<u>(1,932)</u>
OTHER FINANCING SOURCES (USES)					
Transfers to Other Funds	(6,340)	1,339	(5,001)	(6,340)	1,339
NET CHANGE IN FUND BALANCES	<u>\$ (996)</u>	<u>\$ 1,339</u>	<u>343</u>	<u>936</u>	<u>(593)</u>
Fund Balances Undesignated at July 1, 2002			4,295	4,295	-
Reserved for Encumbrances at July 1, 2002			-	-	-
Designated for Subsequent Years' Expenditures at July 1, 2002			-	-	-
Designated for Subsequent Years' Expenditures at June 30, 2003			-	-	-
FUND BALANCES UNDESIGNATED AT JUNE 30, 2003			<u>\$ 4,638</u>	<u>\$ 5,231</u>	<u>\$ (593)</u>

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)
\$ 2,975	\$ -	\$ 2,975	\$ 3,961	\$ (986)	\$ 8,925	\$ -	\$ 8,925	\$ 11,883	\$ (2,958)
37	14	51	54	(3)	131	14	145	108	37
3,012	14	3,026	4,015	(989)	9,056	14	9,070	11,991	(2,921)
915	80	995	2,525	1,530	1,615	80	1,695	3,225	1,530
311	46	357	517	160	311	46	357	517	160
1,226	126	1,352	3,042	1,690	1,926	126	2,052	3,742	1,690
1,786	(112)	1,674	973	701	7,130	(112)	7,018	8,249	(1,231)
(4,425)	-	(4,425)	(4,425)	-	(10,765)	1,339	(9,426)	(10,765)	1,339
<u>\$ (2,639)</u>	<u>\$ (112)</u>	(2,751)	(3,452)	701	<u>\$ (3,635)</u>	<u>\$ 1,227</u>	(2,408)	(2,516)	108
		3,268	3,268	-			7,563	7,563	-
		245	245	-			245	245	-
		223	223	-			223	223	-
		(159)	-	(159)			(159)	-	(159)
		<u>\$ 826</u>	<u>\$ 284</u>	<u>\$ 542</u>			<u>\$ 5,464</u>	<u>\$ 5,515</u>	<u>\$ (51)</u>

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cafr | nonmajor 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/SPECIAL TAX BONDS

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 District 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. This Fund was established to account for financial resources accumulated for the payment of long-term debt principal and interest. This Fund is serviced by City contributions and investment income.

NONMAJOR GOVERNMENTAL FUNDS - DEBT SERVICE
COMBINING BALANCE SHEET
June 30, 2003
(In Thousands)

	City of San Diego	City of San Diego/MTDB Authority
ASSETS		
Current Assets:		
Cash and Investments	\$ 22,171	\$ 10,995
Receivables:		
Taxes	19	-
Special Assessments	413	-
Accrued Interest	24	-
From Other Funds	-	-
Prepaid Expenses	-	-
TOTAL ASSETS	\$ 22,627	\$ 10,995
LIABILITIES		
Due to Other Funds	\$ 44	\$ -
Deferred Revenue	206	-
TOTAL LIABILITIES	250	-
FUND EQUITY		
Fund Balances:		
Reserved for Debt Service	22,364	10,963
Unreserved:		
Designated for Unrealized Gains	13	32
TOTAL FUND EQUITY	22,377	10,995
TOTAL LIABILITIES AND FUND EQUITY	\$ 22,627	\$ 10,995

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2003
(In Thousands)

REVENUES		
Property Taxes	\$ 2,434	\$ -
Special Assessments	13,962	-
Revenue from Use of Money and Property	517	364
Revenue from Private Sources	-	-
Other Revenue	-	-
TOTAL REVENUES	16,913	364
EXPENDITURES		
Current:		
General Government and Support	1,227	466
Debt Service:		
Principal Retirement	4,055	6,240
Interest	8,163	2,083
TOTAL EXPENDITURES	13,445	8,789
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	3,468	(8,425)
OTHER FINANCING SOURCES (USES)		
Transfers from Other Funds	211	8,312
Transfers to Other Funds	(5,324)	-
Transfers to Escrow Agent	-	(16,608)
Proceeds from Revenue Bonds	-	15,255
Proceeds from Tax Allocation Bonds	-	-
Discount on Bonds Issued.....	-	-
Premium on Bonds Issued.....	-	52
TOTAL OTHER FINANCING SOURCES (USES)	(5,113)	7,011
NET CHANGE IN FUND BALANCES	(1,645)	(1,414)
Fund Balances at Beginning of Year, as Restated	24,022	12,409
FUND BALANCES AT END OF YEAR	\$ 22,377	\$ 10,995

Convention Center Expansion Financing Authority	Public Facilities Financing Authority	Redevelopment Agency	San Diego Facilities and Equipment Leasing Corporation	San Diego Open Space Park Facilities District #1	Total
\$ 471	\$ 38,776	\$ 36,376	\$ 1	\$ 718	\$ 109,508
-	-	-	-	-	19
-	-	-	-	-	413
-	492	114	-	4	634
-	-	484	-	-	484
-	-	4	-	1,043	1,047
<u>\$ 471</u>	<u>\$ 39,268</u>	<u>\$ 36,978</u>	<u>\$ 1</u>	<u>\$ 1,765</u>	<u>\$ 112,105</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 44
-	-	-	-	-	206
-	-	-	-	-	250
471	38,854	36,576	1	1,762	110,991
-	414	402	-	3	864
471	39,268	36,978	1	1,765	111,855
<u>\$ 471</u>	<u>\$ 39,268</u>	<u>\$ 36,978</u>	<u>\$ 1</u>	<u>\$ 1,765</u>	<u>\$ 112,105</u>
\$ -	\$ -	\$ 22,409	\$ -	\$ -	\$ 24,843
-	-	-	-	-	13,962
7	2,114	895	47	189	4,133
-	-	690	-	-	690
-	-	4	-	-	4
<u>7</u>	<u>2,114</u>	<u>23,998</u>	<u>47</u>	<u>189</u>	<u>43,632</u>
-	23	1,232	-	1	2,949
4,170	3,765	13,909	3,720	4,700	40,559
<u>9,528</u>	<u>19,914</u>	<u>14,899</u>	<u>2,868</u>	<u>2,340</u>	<u>59,795</u>
<u>13,698</u>	<u>23,702</u>	<u>30,040</u>	<u>6,588</u>	<u>7,041</u>	<u>103,303</u>
<u>(13,691)</u>	<u>(21,588)</u>	<u>(6,042)</u>	<u>(6,541)</u>	<u>(6,852)</u>	<u>(59,671)</u>
13,693	14,820	9,258	6,471	7,040	59,805
-	(464)	(1,573)	(173)	-	(7,534)
-	-	(18,277)	(19,089)	-	(53,974)
-	-	2,015	17,209	-	34,479
-	-	20,761	-	-	20,761
-	-	(124)	-	-	(124)
-	-	278	-	-	330
<u>13,693</u>	<u>14,356</u>	<u>12,338</u>	<u>4,418</u>	<u>7,040</u>	<u>53,743</u>
2	(7,232)	6,296	(2,123)	188	(5,928)
469	46,500	30,682	2,124	1,577	117,783
<u>\$ 471</u>	<u>\$ 39,268</u>	<u>\$ 36,978</u>	<u>\$ 1</u>	<u>\$ 1,765</u>	<u>\$ 111,855</u>

NONMAJOR GOVERNMENTAL FUNDS - DEBT SERVICE
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN UNDESIGNATED FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2003
(In Thousands)

	<u>City of San Diego</u>	
	<u>Actual on Budgetary Basis</u>	<u>Final Budget</u>
REVENUES		
Property Taxes	\$ 2,434	\$ 2,471
Revenue from Use of Money and Property	37	-
Excess Revenue Appropriated	-	-
TOTAL REVENUES	<u>2,471</u>	<u>2,471</u>
EXPENDITURES		
Current:		
General Government and Support	1	4
Debt Service:		
Principal Retirement	1,230	1,155
Interest	<u>1,125</u>	<u>1,197</u>
TOTAL EXPENDITURES	<u>2,356</u>	<u>2,356</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>115</u>	<u>115</u>
OTHER FINANCING SOURCES (USES)		
Transfers from Other Funds	<u>46</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>46</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	161	115
Reserved for Debt Service at July 1, 2002	2,009	2,009
Reserved for Debt Service at June 30, 2003	<u>(2,170)</u>	<u>(2,170)</u>
FUND BALANCES UNDESIGNATED AT JUNE 30, 2003	<u>\$ -</u>	<u>\$ (46)</u>

San Diego Open Space Park Facilities District #1		Total		
Actual on Budgetary Basis	Final Budget	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
\$ -	\$ -	\$ 2,434	\$ 2,471	\$ (37)
196	53	233	53	180
-	143	-	143	(143)
196	196	2,667	2,667	-
1	1	2	5	3
4,700	4,700	5,930	5,855	(75)
2,340	2,340	3,465	3,537	72
7,041	7,041	9,397	9,397	-
(6,845)	(6,845)	(6,730)	(6,730)	-
7,040	7,040	7,086	7,040	46
7,040	7,040	7,086	7,040	46
195	195	356	310	-
1,567	1,567	3,576	3,576	-
(1,762)	(1,762)	(3,932)	(3,932)	-
\$ -	\$ -	\$ -	\$ (46)	\$ -

**CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - DEBT SERVICE
COMBINING BALANCE SHEET
June 30, 2003
(In Thousands)**

	<u>Budgeted</u>	<u>Unbudgeted</u>	
	<u>Public Safety Communications Project</u>	<u>Other Special Assessments</u>	<u>Total</u>
ASSETS			
Current Assets:			
Cash and Investments	\$ 2,154	\$ 20,017	\$ 22,171
Receivables:			
Taxes	19	-	19
Special Assessments	-	413	413
Accrued Interest	5	19	24
TOTAL ASSETS	<u>\$ 2,178</u>	<u>\$ 20,449</u>	<u>\$ 22,627</u>
LIABILITIES			
Due to Other Funds	\$ -	\$ 44	\$ 44
Deferred Revenue	-	206	206
TOTAL LIABILITIES	<u>-</u>	<u>250</u>	<u>250</u>
FUND EQUITY			
Fund Balances:			
Reserved for Debt Service	2,170	20,194	22,364
Unreserved:			
Designated for Unrealized Gains	8	5	13
TOTAL FUND EQUITY	<u>2,178</u>	<u>20,199</u>	<u>22,377</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 2,178</u>	<u>\$ 20,449</u>	<u>\$ 22,627</u>

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2003
(In Thousands)**

REVENUES			
Property Taxes	\$ 2,434	\$ -	\$ 2,434
Special Assessments	-	13,962	13,962
Revenue from Use of Money and Property	33	484	517
TOTAL REVENUES	<u>2,467</u>	<u>14,446</u>	<u>16,913</u>
EXPENDITURES			
Current:			
General Government and Support	1	1,226	1,227
Debt Service:			
Principal Retirement	1,230	2,825	4,055
Interest	1,125	7,038	8,163
TOTAL EXPENDITURES	<u>2,356</u>	<u>11,089</u>	<u>13,445</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>111</u>	<u>3,357</u>	<u>3,468</u>
OTHER FINANCING SOURCES (USES)			
Transfers from Other Funds	46	165	211
Transfers to Other Funds	-	(5,324)	(5,324)
TOTAL OTHER FINANCING SOURCES (USES)	<u>46</u>	<u>(5,159)</u>	<u>(5,113)</u>
NET CHANGE IN FUND BALANCES	157	(1,802)	(1,645)
Fund Balances at Beginning of Year, as Restated	2,021	22,001	24,022
FUND BALANCES AT END OF YEAR	<u>\$ 2,178</u>	<u>\$ 20,199</u>	<u>\$ 22,377</u>

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)
 For the Year Ended June 30, 2003
 (In Thousands)

Public Safety Communications Project					
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
REVENUES					
Property Taxes	\$ 2,434	\$ -	\$ 2,434	\$ 2,471	\$ (37)
Revenue from Use of Money and Property	33	4	37	-	37
TOTAL REVENUES	2,467	4	2,471	2,471	-
EXPENDITURES					
Current:					
General Government and Support	1	-	1	4	(3)
Debt Service:					
Principal Retirement	1,230	-	1,230	1,155	75
Interest	1,125	-	1,125	1,197	(72)
TOTAL EXPENDITURES	2,356	-	2,356	2,356	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	111	4	115	115	-
OTHER FINANCING SOURCES (USES)					
Transfers from Other Funds	46	-	46	-	46
NET CHANGE IN FUND BALANCES	\$ 157	\$ 4	161	115	46
Reserved for Debt Service at July 1, 2002			2,009	2,009	-
Reserved for Debt Service at June 30, 2003.....			(2,170)	(2,170)	-
FUND BALANCES UNDESIGNATED AT JUNE 30, 2003.....			\$ -	\$ (46)	\$ 46

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cafr | nonmajor 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

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.

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.

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 therefrom.

BLENDED COMPONENT UNITS

CONVENTION CENTER EXPANSION FINANCING AUTHORITY

This Fund was established to account for the capital improvement 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. Revenues are derived from the issuance of bonds, revenue from other agencies and interest earnings on investments.

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.

NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS
COMBINING BALANCE SHEET
June 30, 2003
(In Thousands)

	<u>City of San Diego</u>	<u>Convention Center Expansion Financing Authority</u>
ASSETS		
Cash and Investments	\$ 272,598	\$ -
Receivables:		
Accounts	2,939	-
Notes	15	-
Accrued Interest	626	-
Grants	22,551	-
From Other Funds	8,041	-
From Other Agencies	195	-
Advances to Other Funds	-	-
Advances to Other Agencies	13	-
Land Held for Resale.....	1,327	-
Prepaid Expenses	1	-
TOTAL ASSETS	<u>\$ 308,306</u>	<u>\$ -</u>
LIABILITIES		
Accounts Payable	\$ 220	\$ -
Due to Other Funds	8,041	-
Due to Other Agencies	365	-
Unearned Revenue	8,801	-
Deferred Revenue	20,801	-
Sundry Trust Liabilities.....	-	-
Interfund Loan Payable	2,386	-
Interfund Interest Payable	456	-
Contracts and Notes Payable	-	-
TOTAL LIABILITIES	<u>41,070</u>	<u>-</u>
FUND EQUITY		
Fund Balances:		
Reserved for Land Held for Resale.....	-	-
Reserved for Encumbrances	40,129	-
Reserved for Advances and Deposits	-	-
Unreserved:		
Designated for Unrealized Gains	898	-
Designated for Subsequent Years' Expenditures	134,813	-
Undesignated	91,396	-
TOTAL FUND EQUITY	<u>267,236</u>	<u>-</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 308,306</u>	<u>\$ -</u>

<u>Public Facilities Financing Authority</u>	<u>Redevelopment Agency</u>	<u>San Diego Facilities and Equipment Leasing Corporation</u>	<u>Total</u>
\$ 59,836	\$ 34,012	\$ 207	\$ 366,653
-	-	-	2,939
-	10,483	-	10,498
162	76	-	864
-	-	-	22,551
6,900	49,889	-	64,830
-	-	-	195
-	759	-	759
-	-	-	13
-	26,958	-	28,285
-	-	-	1
<u>\$ 66,898</u>	<u>\$ 122,177</u>	<u>\$ 207</u>	<u>\$ 497,588</u>
\$ 10,404	\$ 1,917	\$ -	\$ 12,541
-	9,480	-	17,521
-	-	-	365
-	-	-	8,801
-	3,347	-	24,148
-	4,892	-	4,892
-	-	-	2,386
-	-	-	456
-	2,596	-	2,596
<u>10,404</u>	<u>22,232</u>	<u>-</u>	<u>73,706</u>
-	26,958	-	26,958
28,137	52,308	-	120,574
-	759	-	759
-	76	-	974
27,986	27,086	207	190,092
371	(7,242)	-	84,525
<u>56,494</u>	<u>99,945</u>	<u>207</u>	<u>423,882</u>
<u>\$ 66,898</u>	<u>\$ 122,177</u>	<u>\$ 207</u>	<u>\$ 497,588</u>

NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2003
(In Thousands)

	<u>City of San Diego</u>	<u>Convention Center Expansion Financing Authority</u>
REVENUES		
Property Taxes	\$ -	\$ -
Sales Taxes	29,414	-
Other Local Taxes.....	8,655	-
Licenses and Permits	4,976	-
Revenue from Use of Money and Property	11,479	4
Revenue from Federal Agencies	11,391	-
Revenue from Other Agencies	13,525	-
Revenue from Private Sources	42,128	-
Other Revenue	971	-
TOTAL REVENUES	<u>122,539</u>	<u>4</u>
EXPENDITURES		
Current:		
General Government and Support	3,023	-
Parks, Recreation, Culture and Leisure	169	-
Transportation	5,230	-
Neighborhood Services	45	-
Capital Outlay	87,736	-
Debt Service:		
Principal Retirement	3,564	-
Interest	592	-
TOTAL EXPENDITURES	<u>100,359</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>22,180</u>	<u>4</u>
OTHER FINANCING SOURCES (USES)		
Transfers from Proprietary Funds	543	-
Transfers from Other Funds	5,825	-
Transfers to Proprietary Funds	(695)	-
Transfers to Other Funds	(14,118)	(977)
Proceeds from Loans Payable.....	-	-
Proceeds from Revenue Bonds	-	-
Proceeds from SANDAG Loan	2,100	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(6,345)</u>	<u>(977)</u>
NET CHANGE IN FUND BALANCES	15,835	(973)
Fund Balances at Beginning of Year, as Restated	251,401	973
FUND BALANCES AT END OF YEAR	<u>\$ 267,236</u>	<u>\$ -</u>

Public Facilities Financing Authority	Redevelopment Agency	San Diego Facilities and Equipment Leasing Corporation	Total
\$ -	\$ 7,922	\$ -	\$ 7,922
-	-	-	29,414
-	-	-	8,655
-	-	-	4,976
2,151	3,363	-	16,997
-	-	-	11,391
-	-	-	13,525
-	11,056	-	53,184
-	3,380	-	4,351
<u>2,151</u>	<u>25,721</u>	<u>-</u>	<u>150,415</u>
265	18,387	201	21,876
-	322	-	491
-	-	-	5,230
-	26,482	-	26,527
111,782	13,406	-	212,924
-	-	-	3,564
-	-	-	592
<u>112,047</u>	<u>58,597</u>	<u>201</u>	<u>271,204</u>
<u>(109,896)</u>	<u>(32,876)</u>	<u>(201)</u>	<u>(120,789)</u>
-	-	-	543
7,232	49,919	173	63,149
-	-	-	(695)
-	(11,848)	-	(26,943)
-	975	-	975
-	-	216	216
-	-	-	2,100
<u>7,232</u>	<u>39,046</u>	<u>389</u>	<u>39,345</u>
(102,664)	6,170	188	(81,444)
<u>159,158</u>	<u>93,775</u>	<u>19</u>	<u>505,326</u>
<u>\$ 56,494</u>	<u>\$ 99,945</u>	<u>\$ 207</u>	<u>\$ 423,882</u>

CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS
COMBINING BALANCE SHEET
June 30, 2003
(In Thousands)

	<u>Budgeted</u>	<u>Unbudgeted</u>		
	<u>Underground Surcharge</u>	<u>Capital Outlay</u>	<u>Other Construction</u>	<u>Total</u>
ASSETS				
Cash and Investments	\$ 8,686	\$ 7,858	\$ 256,054	\$ 272,598
Receivables:				
Accounts	-	1	2,938	2,939
Notes	-	-	15	15
Accrued Interest	22	7	597	626
Grants	-	20,884	1,667	22,551
From Other Funds	-	-	8,041	8,041
From Other Agencies	-	-	195	195
Advances to Other Agencies	-	-	13	13
Land Held for Resale	-	1,327	-	1,327
Prepaid Expenses	1	-	-	1
TOTAL ASSETS	<u>\$ 8,709</u>	<u>\$ 30,077</u>	<u>\$ 269,520</u>	<u>\$ 308,306</u>
LIABILITIES				
Accounts Payable	\$ -	\$ -	\$ 220	\$ 220
Due to Other Funds	-	8,041	-	8,041
Due to Other Agencies	-	201	164	365
Unearned Revenue	-	6,051	2,750	8,801
Deferred Revenue	-	20,272	529	20,801
Interfund Loan Payable	-	2,386	-	2,386
Interfund Interest Payable	-	456	-	456
TOTAL LIABILITIES	<u>-</u>	<u>37,407</u>	<u>3,663</u>	<u>41,070</u>
FUND EQUITY				
Fund Balances:				
Reserved for Encumbrances	118	959	39,052	40,129
Unreserved:				
Designated for Unrealized Gains	32	-	866	898
Designated for Subsequent Years' Expenditures	3,610	4,056	127,147	134,813
Undesignated	4,949	(12,345)	98,792	91,396
TOTAL FUND EQUITY	<u>8,709</u>	<u>(7,330)</u>	<u>265,857</u>	<u>267,236</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 8,709</u>	<u>\$ 30,077</u>	<u>\$ 269,520</u>	<u>\$ 308,306</u>

CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2003
(In Thousands)

	<u>Budgeted</u>	<u>Unbudgeted</u>		
	<u>Underground Surcharge</u>	<u>Capital Outlay</u>	<u>Other Construction</u>	<u>Total</u>
REVENUES				
Sales Taxes	\$ -	\$ 1,850	\$ 27,564	\$ 29,414
Other Local Taxes	8,655	-	-	8,655
Licenses and Permits	-	-	4,976	4,976
Revenue from Use of Money and Property	56	666	10,757	11,479
Revenue from Federal Agencies	-	11,109	282	11,391
Revenue from Other Agencies	-	8,767	4,758	13,525
Revenue from Private Sources	-	-	42,128	42,128
Other Revenue	-	930	41	971
TOTAL REVENUES	8,711	23,322	90,506	122,539
EXPENDITURES				
Current:				
General Government and Support	-	1,045	1,978	3,023
Parks, Recreation, Culture and Leisure	-	40	129	169
Transportation	-	-	5,230	5,230
Neighborhood Services	-	-	45	45
Capital Outlay	2	31,525	56,209	87,736
Debt Service:				
Principal Retirement	-	-	3,564	3,564
Interest	-	-	592	592
TOTAL EXPENDITURES	2	32,610	67,747	100,359
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	8,709	(9,288)	22,759	22,180
OTHER FINANCING SOURCES (USES)				
Transfers from Proprietary Funds	-	-	543	543
Transfers from Other Funds	-	1,295	4,530	5,825
Transfers to Proprietary Funds	-	(14)	(681)	(695)
Transfers to Other Funds	-	(2,840)	(11,278)	(14,118)
Proceeds from SANDAG Loan	-	-	2,100	2,100
TOTAL OTHER FINANCING SOURCES (USES)	-	(1,559)	(4,786)	(6,345)
NET CHANGE IN FUND BALANCES	8,709	(10,847)	17,973	15,835
Fund Balances at Beginning of Year, as Restated	-	3,517	247,884	251,401
FUND BALANCES AT END OF YEAR	\$ 8,709	\$ (7,330)	\$ 265,857	\$ 267,236

CITY OF SAN DIEGO
 NONMAJOR GOVERNMENTAL FUNDS-CAPITAL PROJECTS
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN UNDESIGNATED FUND BALANCES
 BUDGET AND ACTUAL (BUDGETARY BASIS)
 For the Year Ended June 30, 2003
 (In Thousands)

	Underground Surcharge				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
REVENUES					
Other Local Taxes	\$ 8,655	\$ -	\$ 8,655	\$ 3,730	\$ 4,925
Revenue from Use of Money and Property	56	(32)	24	-	24
TOTAL REVENUES	8,711	(32)	8,679	3,730	4,949
EXPENDITURES					
Capital Projects	2	118	120	3,730	3,610
TOTAL EXPENDITURES	2	118	120	3,730	3,610
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	8,709	(150)	8,559	-	8,559
NET CHANGE IN FUND BALANCES	\$ 8,709	\$ (150)	8,559	-	8,559
Designated for Subsequent Years' Expenditures at June 30, 2003			(3,610)	-	(3,610)
FUND BALANCES UNDESIGNATED AT JUNE 30, 2003			\$ 4,949	\$ -	\$ 4,949



cafr | nonmajor 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 that was received from a developer and accrued interest earnings 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.

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.

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. The endowment's investment earnings 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 that was received from a developer and accrued investment earnings will finance the permanent maintenance costs.

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.

**CITY OF SAN DIEGO
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS - PERMANENT
JUNE 30, 2003
(In Thousands)**

	Carmel Valley Sewer Maintenance	Cemetery Perpetuity	Effie Sergeant
ASSETS			
Current Assets:			
Cash and Investments	\$ 42	\$ 9,071	\$ 442
Receivables:			
Accounts	-	16	-
Accrued Interest	-	11	-
TOTAL ASSETS	<u>\$ 42</u>	<u>\$ 9,098</u>	<u>\$ 442</u>
LIABILITIES:			
Accounts Payable	\$ -	\$ -	\$ -
FUND EQUITY:			
Fund Balances:			
Reserved for Encumbrances	-	-	1
Reserved for Permanent Endowments	42	8,645	441
Unreserved:			
Designated for Unrealized Gains	-	453	-
Designated for Subsequent Years' Expenditures	-	-	-
TOTAL FUND EQUITY	<u>42</u>	<u>9,098</u>	<u>442</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 42</u>	<u>\$ 9,098</u>	<u>\$ 442</u>

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2003
(In Thousands)**

REVENUES			
Revenue from Use of Money and Property	\$ 2	\$ 453	\$ (1)
Revenue from Other Agencies	-	-	-
Charges for Current Services	-	62	-
TOTAL REVENUES	<u>2</u>	<u>515</u>	<u>(1)</u>
EXPENDITURES			
Current:			
General Government and Support	-	-	-
Parks, Recreation, Culture and Leisure	-	-	41
TOTAL EXPENDITURES	<u>-</u>	<u>-</u>	<u>41</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	2	515	(42)
OTHER FINANCING SOURCES (USES)			
Transfers to Other Funds	-	(340)	-
NET CHANGE IN FUND BALANCES	2	175	(42)
Fund Balances at Beginning of Year	40	8,923	484
FUND BALANCES AT END OF YEAR	<u>\$ 42</u>	<u>\$ 9,098</u>	<u>\$ 442</u>

Gladys Edna Peters	Los Penasquitos Canyon	Montezuma Road Median Maintenance	Southcrest Park Estates II	Zoological Society - Mission Trails	Total
\$ 297	\$ 2,253	\$ 108	\$ 11	\$ 70	\$ 12,294
-	-	-	-	-	16
-	-	-	-	-	11
<u>\$ 297</u>	<u>\$ 2,253</u>	<u>\$ 108</u>	<u>\$ 11</u>	<u>\$ 70</u>	<u>\$ 12,321</u>
\$ 1	\$ 1	\$ -	\$ -	\$ -	\$ 2
-	-	-	-	-	1
296	2,252	100	11	70	11,857
-	-	1	-	-	454
-	-	7	-	-	7
<u>296</u>	<u>2,252</u>	<u>108</u>	<u>11</u>	<u>70</u>	<u>12,319</u>
<u>\$ 297</u>	<u>\$ 2,253</u>	<u>\$ 108</u>	<u>\$ 11</u>	<u>\$ 70</u>	<u>\$ 12,321</u>
\$ (20)	\$ (4)	\$ 5	\$ 1	\$ 1	\$ 437
-	-	-	-	69	69
-	-	-	-	-	62
<u>(20)</u>	<u>(4)</u>	<u>5</u>	<u>1</u>	<u>70</u>	<u>568</u>
-	7	-	-	-	7
16	-	-	-	-	57
<u>16</u>	<u>7</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>64</u>
(36)	(11)	5	1	70	504
-	(121)	-	-	-	(461)
(36)	(132)	5	1	70	43
<u>332</u>	<u>2,384</u>	<u>103</u>	<u>10</u>	<u>-</u>	<u>12,276</u>
<u>\$ 296</u>	<u>\$ 2,252</u>	<u>\$ 108</u>	<u>\$ 11</u>	<u>\$ 70</u>	<u>\$ 12,319</u>

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cafr | nonmajor business-type funds - enterprise



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ENTERPRISE FUNDS

Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. These funds use full accrual accounting.

AIRPORTS

This Fund was established to account for the operation, maintenance and development of both City-owned airports--Montgomery and Brown Fields. The 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, 2003
(In Thousands)

	<u>Airports</u>	<u>City Store</u>
ASSETS		
Current Assets:		
Cash and Investments	\$ 5,390	\$ 69
Receivables:		
Accounts	481	-
Accrued Interest	14	-
Grants	674	-
From Other Funds	-	-
Inventories	-	91
Prepaid Expenses	-	5
Total Current Assets	<u>6,559</u>	<u>165</u>
Non-Current Assets:		
Cash & Investment in Trust Funds	-	-
Advances to Other Funds	-	-
Capital Assets - Non-Depreciable	4,427	-
Capital Assets - Depreciable	<u>6,281</u>	<u>11</u>
Total Non-Current Assets	<u>10,708</u>	<u>11</u>
TOTAL ASSETS	<u>17,267</u>	<u>176</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	89	35
Accrued Wages and Benefits	52	-
Other Accrued Liabilities	-	-
Long-Term Debt Due Within One Year	42	-
Due to Other Funds	-	-
Due to Other Agencies	-	-
Unearned Revenue	-	-
Contract Deposits	-	-
Total Current Liabilities	<u>183</u>	<u>35</u>
Non-Current Liabilities:		
Deposits/Advances from Others	-	-
Compensated Absences	57	-
Capital Lease Obligations	-	-
Estimated Landfill Closure and Postclosure Care	-	-
Net Pension Obligation	<u>137</u>	<u>-</u>
Total Non-Current Liabilities	<u>194</u>	<u>-</u>
TOTAL LIABILITIES	<u>377</u>	<u>35</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	10,708	11
Restricted for Other	-	-
Unrestricted	<u>6,182</u>	<u>130</u>
TOTAL NET ASSETS	<u>\$ 16,890</u>	<u>\$ 141</u>

Development Services	Environmental Services	Golf Course	Recycling	Total
\$ 5,995	\$ 30,993	\$ 8,019	\$ 9,821	\$ 60,287
5	1,446	43	2,376	4,351
43	145	21	30	253
13	-	-	-	687
1,604	200	-	-	1,804
-	-	-	-	91
-	-	1	-	6
<u>7,660</u>	<u>32,784</u>	<u>8,084</u>	<u>12,227</u>	<u>67,479</u>
-	25,308	-	-	25,308
-	38	-	-	38
-	22,341	394	-	27,162
<u>2,735</u>	<u>51,036</u>	<u>8,455</u>	<u>7,860</u>	<u>76,378</u>
<u>2,735</u>	<u>98,723</u>	<u>8,849</u>	<u>7,860</u>	<u>128,886</u>
<u>10,395</u>	<u>131,507</u>	<u>16,933</u>	<u>20,087</u>	<u>196,365</u>
92	1,417	43	104	1,780
1,806	648	183	441	3,130
-	-	-	13	13
1,096	658	135	1,654	3,585
200	-	-	-	200
-	-	1	-	1
3,776	-	-	260	4,036
-	181	-	47	228
<u>6,970</u>	<u>2,904</u>	<u>362</u>	<u>2,519</u>	<u>12,973</u>
-	49	-	-	49
1,504	775	186	396	2,918
-	97	-	4,911	5,008
-	11,674	-	-	11,674
<u>3,872</u>	<u>1,304</u>	<u>354</u>	<u>833</u>	<u>6,500</u>
<u>5,376</u>	<u>13,899</u>	<u>540</u>	<u>6,140</u>	<u>26,149</u>
<u>12,346</u>	<u>16,803</u>	<u>902</u>	<u>8,659</u>	<u>39,122</u>
2,535	73,188	8,849	1,584	96,875
-	25,275	-	-	25,275
<u>(4,486)</u>	<u>16,241</u>	<u>7,182</u>	<u>9,844</u>	<u>35,093</u>
<u>\$ (1,951)</u>	<u>\$ 114,704</u>	<u>\$ 16,031</u>	<u>\$ 11,428</u>	<u>\$ 157,243</u>

NONMAJOR BUSINESS-TYPE FUNDS - OTHER ENTERPRISE
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
For the Year Ended June 30, 2003
(In Thousands)

	<u>Airports</u>	<u>City Store</u>
OPERATING REVENUES		
Charges for Services	\$ -	\$ 771
Usage Fees	3,346	-
Other	115	-
TOTAL OPERATING REVENUES	3,461	771
OPERATING EXPENSES		
Maintenance and Operations	3,036	403
Cost of Materials Issued	-	242
Administration	769	85
Depreciation	486	1
TOTAL OPERATING EXPENSES	4,291	731
OPERATING INCOME (LOSS)	(830)	40
NONOPERATING REVENUES (EXPENSES)		
Earnings on Investments	266	8
Federal Grant Assistance	8	-
Other Agency Grant Assistance	-	-
Gain (Loss) on Sale/Retirement of Capital Assets	-	-
Interest Expense	-	-
Other	-	-
TOTAL NONOPERATING REVENUES (EXPENSES)	274	8
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(556)	48
Capital Contributions	1,464	-
Transfers In	2	-
Transfers from Governmental Funds.....	-	-
Transfers Out	(82)	-
Transfers to Governmental Funds	(29)	(200)
CHANGE IN NET ASSETS	799	(152)
Net Assets at Beginning of Year (as restated)	16,091	293
NET ASSETS AT END OF YEAR	\$ 16,890	\$ 141

Development Services	Environmental Services	Golf Course	Recycling	Total
\$ 46,483	\$ 1,165	\$ 9,387	\$ 1,978	\$ 59,784
-	35,546	914	13,028	52,834
173	178	10	2,634	3,110
46,656	36,889	10,311	17,640	115,728
46,054	30,085	5,637	15,944	101,159
-	-	-	-	242
685	4,725	539	2,302	9,105
498	5,535	769	1,132	8,421
47,237	40,345	6,945	19,378	118,927
(581)	(3,456)	3,366	(1,738)	(3,199)
454	2,155	301	609	3,793
-	-	21	-	29
-	782	-	-	782
36	(537)	(10)	(214)	(725)
(22)	(15)	-	(255)	(292)
-	1,649	-	1	1,650
468	4,034	312	141	5,237
(113)	578	3,678	(1,597)	2,038
-	-	-	-	1,464
48	227	38	14	329
1,131	-	-	-	1,131
(24)	(27)	(54)	(65)	(252)
(242)	(306)	(1,386)	(1,296)	(3,459)
800	472	2,276	(2,944)	1,251
(2,751)	114,232	13,755	14,372	155,992
\$ (1,951)	\$ 114,704	\$ 16,031	\$ 11,428	\$ 157,243

**NONMAJOR BUSINESS-TYPE FUNDS - OTHER ENTERPRISE
COMBINING STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2003
(In Thousands)**

	Airports	City Store
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers and Users	\$ 3,455	\$ 771
Payments to Suppliers	(2,481)	(779)
Payments to Employees	(1,280)	-
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	(306)	(8)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers In	2	-
Transfers from Governmental Funds	-	-
Transfers Out	(82)	-
Transfers to Governmental Funds	(29)	(200)
Operating Grants Received	(311)	-
Proceeds from Advances and Deposits	-	-
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES	(420)	(200)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Contributed Capital	1,464	-
Acquisition of Capital Assets	(1,932)	-
Principal Payments on Capital Leases	-	-
Interest Expense	-	-
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	(468)	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and Dividends Received on Investments	288	9
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	288	9
Net Increase (Decrease) in Cash and Cash Equivalents	(906)	(199)
Cash and Cash Equivalents at Beginning of Year	6,296	268
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 5,390	\$ 69
Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:		
Operating Income (Loss)	\$ (830)	\$ 40
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:		
Depreciation	486	1
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables:		
Accounts - Net	(6)	-
From Other Funds	-	-
(Increase) Decrease in Inventories	-	(56)
(Increase) Decrease in Prepaid Expenses	-	-
Increase (Decrease) in Accounts Payable	78	7
Increase (Decrease) in Accrued Wages and Benefits	(21)	-
Increase (Decrease) in Other Accrued Liabilities	-	-
Increase (Decrease) in Due to Other Funds	-	-
Increase (Decrease) in Deferred Revenue	-	-
Increase (Decrease) in Contract Deposits	-	-
Increase (Decrease) in Net Pension Obligation	(13)	-
Increase (Decrease) in Estimated Landfill Closure and Postclosure Care	-	-
Other Nonoperating Revenue (Expenses)	-	-
Total Adjustments	524	(48)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	\$ (306)	\$ (8)
Noncash Investing, Capital, and Financing Activities:		
Capital Leases	\$ -	\$ -

Development Services	Environmental Services	Golf Course	Recycling	Total
\$ 45,945	\$ 38,807	\$ 10,292	\$ 17,897	\$ 117,167
(12,145)	(20,889)	(2,547)	(9,397)	(48,238)
<u>(35,462)</u>	<u>(12,429)</u>	<u>(3,579)</u>	<u>(8,613)</u>	<u>(61,363)</u>
(1,662)	5,489	4,166	(113)	7,566
48	227	38	14	329
1,131	-	-	-	1,131
(24)	(27)	(54)	(65)	(252)
(242)	(306)	(1,386)	(1,296)	(3,459)
(1)	782	21	18	509
<u>-</u>	<u>131</u>	<u>-</u>	<u>-</u>	<u>131</u>
912	807	(1,381)	(1,329)	(1,611)
-	-	-	-	1,464
(1)	(3,507)	(419)	(224)	(6,083)
-	(87)	-	(1,127)	(1,214)
<u>(22)</u>	<u>(15)</u>	<u>-</u>	<u>(255)</u>	<u>(292)</u>
(23)	(3,609)	(419)	(1,606)	(6,125)
299	2,324	313	653	3,886
299	2,324	313	653	3,886
(474)	5,011	2,679	(2,395)	3,716
<u>6,469</u>	<u>51,290</u>	<u>5,340</u>	<u>12,216</u>	<u>81,879</u>
\$ 5,995	\$ 56,301	\$ 8,019	\$ 9,821	\$ 85,595
\$ (581)	\$ (3,456)	\$ 3,366	\$ (1,738)	\$ (3,199)
498	5,535	769	1,132	8,421
30	144	(19)	20	169
(313)	154	-	-	(159)
-	-	-	-	(56)
-	-	(1)	-	(1)
(540)	787	27	42	401
111	66	58	109	323
-	-	-	6	6
(154)	-	-	-	(154)
(428)	(15)	-	235	(208)
-	(14)	-	1	(13)
(285)	(214)	(34)	79	(467)
-	853	-	-	853
<u>-</u>	<u>1,649</u>	<u>-</u>	<u>1</u>	<u>1,650</u>
(1,081)	8,945	800	1,625	10,765
\$ (1,662)	\$ 5,489	\$ 4,166	\$ (113)	\$ 7,566
\$ -	\$ -	\$ -	\$ 66	\$ 66

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cafr | 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.

PRINT SHOP

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 workers' 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 sewer 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, 2003
(In Thousands)**

	City of San Diego		
	Central Garage and Machine Shop	Central Stores	Print Shop
ASSETS			
Current Assets:			
Cash and Investments	\$ 36,799	\$ 1,535	\$ 1,013
Receivables:			
Accounts	687	1,146	162
Claims	2	-	-
Contributions	-	-	-
Accrued Interest	-	-	-
Inventories	-	2,659	-
Prepaid Expenses	596	1	19
Total Current Assets	38,084	5,341	1,194
Non-Current Assets:			
Advances to Other Funds	35	-	-
Capital Assets - Non-Depreciable	-	-	-
Capital Assets - Depreciable	78,239	218	1,181
Total Non-Current Assets	78,274	218	1,181
TOTAL ASSETS	116,358	5,559	2,375
LIABILITIES			
Current Liabilities:			
Accounts Payable	697	1,105	228
Accrued Wages and Benefits	527	59	74
Other Accrued Liabilities	-	-	-
Interest Accrued on Long-Term Debt	168	-	-
Long-Term Liabilities Due Within One Year	7,294	25	74
Total Current Liabilities	8,686	1,189	376
Non-Current Liabilities:			
Compensated Absences	597	38	110
Liability Claims	-	-	-
Capital Lease Obligations	15,498	-	-
Net Pension Obligation	1,131	134	188
Total Non-Current Liabilities	17,226	172	298
TOTAL LIABILITIES	25,912	1,361	674
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	55,848	218	1,181
Unrestricted	34,598	3,980	520
TOTAL NET ASSETS	\$ 90,446	\$ 4,198	\$ 1,701

Self Insurance	Special Engineering	Miscellaneous Internal Service	San Diego Data Processing Corporation	Total
\$ 13,649	\$ 3,522	\$ 7,927	\$ 853	\$ 65,298
405	-	48	1,638	4,086
2	-	-	-	4
-	-	287	-	287
-	6	12	-	18
-	-	-	668	3,327
-	-	36	933	1,585
14,056	3,528	8,310	4,092	74,605
-	34	24	-	93
-	-	-	1,984	1,984
-	996	7	14,472	95,113
-	1,030	31	16,456	97,190
14,056	4,558	8,341	20,548	171,795
435	63	164	3,339	6,031
111	853	1,779	884	4,287
-	-	-	3,102	3,102
-	-	-	-	168
26,148	453	1,741	540	36,275
26,694	1,369	3,684	7,865	49,863
20	622	2,587	804	4,778
127,954	-	-	-	127,954
-	-	-	-	15,498
-	1,597	631	-	3,681
127,974	2,219	3,218	804	151,911
154,668	3,588	6,902	8,669	201,774
-	996	7	16,456	74,706
(140,612)	(26)	1,432	(4,577)	(104,685)
\$ (140,612)	\$ 970	\$ 1,439	\$ 11,879	\$ (29,979)

INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2003
(In Thousands)

	City of San Diego		
	Central Garage and Machine Shop	Central Stores	Print Shop
OPERATING REVENUES			
Charges for Services	\$ 1,884	\$ 29,154	\$ 5,574
Usage Fees	39,007	-	-
Other	580	156	1
TOTAL OPERATING REVENUES	41,471	29,310	5,575
OPERATING EXPENSES			
Benefit and Claim Payments	-	-	-
Maintenance and Operations	22,714	1,288	5,173
Cost of Materials Issued	-	27,413	-
Administration	1,415	162	399
Depreciation	13,380	32	182
TOTAL OPERATING EXPENSES	37,509	28,895	5,754
OPERATING INCOME (LOSS)	3,962	415	(179)
NONOPERATING REVENUES (EXPENSES)			
Earnings on Investments	1,740	13	39
Gain (Loss) on Sale/Retirement of Capital Assets	1,972	(1)	-
Interest Expense	(932)	-	-
Other	950	-	-
TOTAL NONOPERATING REVENUES (EXPENSES)	3,730	12	39
INCOME (LOSS) BEFORE TRANSFERS	7,692	427	(140)
Transfers In	2,390	-	-
Transfers from Governmental Funds	704	-	-
Transfers Out	(1,707)	(231)	(160)
Transfers to Governmental Funds	(3,036)	(317)	(277)
CHANGE IN NET ASSETS	6,043	(121)	(577)
Net Assets at Beginning of Year, as Restated	84,403	4,319	2,278
Net Assets at End of Year	\$ 90,446	\$ 4,198	\$ 1,701

<u>Self Insurance</u>	<u>Special Engineering</u>	<u>Miscellaneous Internal Service</u>	<u>San Diego Data Processing Corporation</u>	<u>Total</u>
\$ 25,811	\$ 23,956	\$ 21,019	\$ 55,140	\$ 162,538
-	-	-	-	39,007
<u>482</u>	<u>-</u>	<u>228</u>	<u>1,406</u>	<u>2,853</u>
<u>26,293</u>	<u>23,956</u>	<u>21,247</u>	<u>56,546</u>	<u>204,398</u>
47,296	-	11,542	-	58,838
-	14,236	-	-	43,411
-	-	-	-	27,413
-	9,292	8,331	49,268	68,867
<u>-</u>	<u>525</u>	<u>-</u>	<u>6,925</u>	<u>21,044</u>
<u>47,296</u>	<u>24,053</u>	<u>19,873</u>	<u>56,193</u>	<u>219,573</u>
<u>(21,003)</u>	<u>(97)</u>	<u>1,374</u>	<u>353</u>	<u>(15,175)</u>
558	55	408	-	2,813
-	146	7	70	2,194
-	-	-	-	(932)
<u>556</u>	<u>6</u>	<u>-</u>	<u>-</u>	<u>1,512</u>
<u>1,114</u>	<u>207</u>	<u>415</u>	<u>70</u>	<u>5,587</u>
(19,889)	110	1,789	423	(9,588)
3,110	-	178	-	5,678
6,354	-	209	-	7,267
-	(38)	(3,110)	-	(5,246)
<u>(831)</u>	<u>(108)</u>	<u>(349)</u>	<u>(500)</u>	<u>(5,418)</u>
(11,256)	(36)	(1,283)	(77)	(7,307)
<u>(129,356)</u>	<u>1,006</u>	<u>2,722</u>	<u>11,956</u>	<u>(22,672)</u>
<u>\$ (140,612)</u>	<u>\$ 970</u>	<u>\$ 1,439</u>	<u>\$ 11,879</u>	<u>\$ (29,979)</u>

**INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2003
(In Thousands)**

	City of San Diego		
	Central Garage and Machine Shop	Central Stores	Print Shop
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers and Users	\$ 41,802	\$ 30,319	\$ 5,521
Payments to Suppliers	(13,512)	(27,519)	(3,673)
Payments to Employees	(11,028)	(1,562)	(1,848)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	17,262	1,238	-
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers In	2,390	-	-
Transfers from Governmental Funds	704	-	-
Transfers Out	(1,707)	(231)	(160)
Transfers to Governmental Funds	(3,036)	(317)	(277)
Proceeds from Advances and Deposits	1	-	-
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES	(1,648)	(548)	(437)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of Capital Assets	(12,753)	(31)	(24)
Proceeds from the Sale of Capital Assets	1,896	-	-
Principal Payments on Capital Leases	(7,037)	-	-
Principal Payments on Contracts, Notes and Loans	-	-	-
Interest Expense	(1,086)	-	-
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	(18,980)	(31)	(24)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and Dividends Received on Investments	1,740	13	39
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	1,740	13	39
Net Increase (Decrease) in Cash and Cash Equivalents	(1,626)	672	(422)
Cash and Cash Equivalents at Beginning of Year	38,425	863	1,435
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 36,799	\$ 1,535	\$ 1,013
Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:			
Operating Income (Loss)	\$ 3,962	\$ 415	\$ (179)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:			
Depreciation	13,380	32	182
Changes in Assets and Liabilities:			
(Increase) Decrease in Receivables:			
Accounts - Net	(621)	1,009	(54)
Claims - Net	2	-	-
(Increase) Decrease in Inventories	-	1,128	-
(Increase) Decrease in Prepaid and Reimbursable Items and Deposits	25	(1)	(19)
Increase (Decrease) in Accounts Payable	(354)	(1,330)	112
Increase (Decrease) in Accrued Wages and Benefits	36	(1)	(16)
Increase (Decrease) in Other Accrued Liabilities	-	-	-
Increase (Decrease) in Liability Claims	-	-	-
Increase (Decrease) in Net Pension Obligation	(118)	(14)	(26)
Other Nonoperating Revenue (Expenses)	950	-	-
Total Adjustments	13,300	823	179
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	\$ 17,262	\$ 1,238	\$ -
Noncash Investing, Capital, and Financing Activities:			
Capital Leases	\$ 2,981	\$ -	\$ -

Self Insurance	Special Engineering	Miscellaneous Internal Service	San Diego Data Processing Corporation	Total
\$ 26,819	\$ 23,962	\$ 21,322	\$ 56,817	\$ 206,562
(6,885)	(8,384)	(2,132)	(16,766)	(78,871)
<u>(27,543)</u>	<u>(14,885)</u>	<u>(18,667)</u>	<u>(32,629)</u>	<u>(108,162)</u>
(7,609)	693	523	7,422	19,529
3,110	-	178	-	5,678
6,354	-	209	-	7,267
-	(38)	(3,110)	-	(5,246)
(831)	(108)	(349)	(500)	(5,418)
-	-	-	-	1
8,633	(146)	(3,072)	(500)	2,282
-	(106)	-	(3,194)	(16,108)
-	-	-	220	2,116
-	-	-	-	(7,037)
-	-	-	(3,944)	(3,944)
-	-	-	-	(1,086)
-	(106)	-	(6,918)	(26,059)
558	56	430	849	3,685
558	56	430	849	3,685
1,582	497	(2,119)	853	(563)
12,067	3,025	10,046	-	65,861
<u>\$ 13,649</u>	<u>\$ 3,522</u>	<u>\$ 7,927</u>	<u>\$ 853</u>	<u>\$ 65,298</u>
\$ (21,003)	\$ (97)	\$ 1,374	\$ 353	\$ (15,175)
-	525	-	6,925	21,044
(33)	-	76	271	648
5	-	-	-	7
-	-	-	(356)	772
-	-	(35)	311	281
(386)	(33)	58	(248)	(2,181)
144	233	(475)	(124)	(203)
-	-	-	290	290
13,108	-	(389)	-	12,719
-	59	(86)	-	(185)
556	6	-	-	1,512
13,394	790	(851)	7,069	34,704
<u>\$ (7,609)</u>	<u>\$ 693</u>	<u>\$ 523</u>	<u>\$ 7,422</u>	<u>\$ 19,529</u>
\$ -	\$ -	\$ -	\$ -	\$ 2,981

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cafr | 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.

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)

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.

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 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, 2003
(In Thousands)

	San Diego City Employees' Retirement System				
	Defined Benefit Pension Plan	Post- Employment Healthcare Benefits	Supplemental Pension Savings Plan	401(k) Plan	Total
ASSETS					
Cash or Equity in Pooled Cash and Investments	\$ 3,044	\$ -	\$ 42	\$ 442	\$ 3,528
Cash with Custodian/Fiscal Agent	309,000	-	-	-	309,000
Pooled Investments	(21,867)	21,867	-	-	-
Investments at Fair Value:					
Short Term Investments	70,935	-	-	-	70,935
Domestic Fixed Income Securities (Bonds)	465,658	-	-	-	465,658
International Fixed Income Securities (Bonds)	118,326	-	-	-	118,326
Domestic Equity Securities (Stocks)	1,122,228	-	-	-	1,122,228
International Equity Securities (Stocks)	382,783	-	-	-	382,783
Mortgages	669	-	-	-	669
Real Estate Equity and Real Estate Securities	230,151	-	-	-	230,151
Defined Contribution Investments (Collective Funds & Mutual Funds)					
Fixed Income Mutual Funds.....	-	-	7,761	3,564	11,325
Balanced Mutual Funds.....	-	-	14,906	4,836	19,742
International Mutual	-	-	16,973	7,519	24,492
Equity Mutual Funds.....	-	-	56,857	24,946	81,803
Managed Income Fund.....	-	-	226,816	64,480	291,296
Balanced Collective Funds.....	-	-	3,359	1,317	4,676
Equity Collective Funds.....	-	-	48,606	16,960	65,566
Receivables:					
Contributions	17,092	-	2,386	-	19,478
Accrued Interest	9,398	-	-	-	9,398
Loans	-	-	18,635	5,659	24,294
Securities Sold	50,804	-	-	-	50,804
Prepaid Expenses	53	-	-	-	53
Securities Lending Collateral	209,549	-	-	-	209,549
Capital Assets - Depreciable	191	-	-	-	191
TOTAL ASSETS	2,968,014	21,867	396,341	129,723	3,515,945
LIABILITIES					
Accounts Payable	2,927	20	-	-	2,947
Accrued Wages and Benefits	548	20	-	-	568
Net Pension Obligation	421	15	-	-	436
DROP Liabilities	136,741	-	-	-	136,741
Securities Lending Obligations.....	209,549	-	-	-	209,549
Securities Purchased.....	97,540	-	-	-	97,540
TOTAL LIABILITIES	447,726	55	-	-	447,781
NET ASSETS					
Held in Trust for Pension Benefits and Other Purposes	2,520,288	-	396,341	129,723	3,046,352
Held in Trust for Postemployment Healthcare Benefits	-	21,812	-	-	21,812
TOTAL NET ASSETS	\$ 2,520,288	\$ 21,812	\$ 396,341	\$ 129,723	\$ 3,068,164

FIDUCIARY FUNDS
PENSION AND EMPLOYEE SAVINGS TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
For the Year Ended June 30, 2003
(In Thousands)

	San Diego City Employees' Retirement System				
	Defined Benefit Pension Plan	Post- Employment Healthcare Benefits	Supplemental Pension Savings Plan	401(k) Plan	Total
ADDITIONS					
Employer Contributions	\$ 104,165	\$ -	\$ 24,123	\$ -	\$ 128,288
Employee Contributions	60,935	-	24,023	24,928	109,886
Total Contributions	165,100	-	48,146	24,928	238,174
Investment Income	132,900	1,588	11,437	3,645	149,570
Investment Expense	(11,956)	(92)	-	-	(12,048)
Net Investment Income	120,944	1,496	11,437	3,645	137,522
Securities Lending:					
Gross Earnings	3,178	-	-	-	3,178
Borrow Rebates	(2,089)	-	-	-	(2,089)
Administrative Expenses (Lending Agent)	(321)	-	-	-	(321)
Net Securities Lending Income	768	-	-	-	768
TOTAL OPERATING ADDITIONS	286,812	1,496	59,583	28,573	376,464
DEDUCTIONS					
Benefit and Claim Payments	147,775	11,450	40,681	8,909	208,815
DROP Interest Expense	9,219	-	-	-	9,219
Administration	7,770	269	-	-	8,039
Depreciation	100	-	-	-	100
TOTAL OPERATING DEDUCTIONS	164,864	11,719	40,681	8,909	226,173
CHANGE IN NET ASSETS	121,948	(10,223)	18,902	19,664	150,291
Net Assets at Beginning of Year, as Restated	2,412,657	17,718	377,439	110,059	2,917,873
Transfer of Plan Assets	(14,317)	14,317	-	-	-
NET ASSETS AT END OF YEAR	\$ 2,520,288	\$ 21,812	\$ 396,341	\$ 129,723	\$ 3,068,164

**FIDUCIARY FUNDS
INVESTMENT TRUST FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2003
(In Thousands)**

	<u>Investment Trust</u>
ASSETS	
Cash or Equity in Pooled Cash and Investments	\$ 12,078
Accrued Interest	<u>29</u>
TOTAL ASSETS	<u>12,107</u>
NET ASSETS	
Held in trust for pooled participants	<u>\$ 12,107</u>

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
For the Year Ended June 30, 2003
(In Thousands)**

ADDITIONS	
Contributions to Pooled Investments	\$ 16,953
Earnings on Investments	<u>490</u>
TOTAL ADDITIONS	<u>17,443</u>
DEDUCTIONS	
Distributions from Pooled Investments	<u>17,769</u>
CHANGE IN NET ASSETS	(326)
Net Assets at Beginning of the Year, as Restated	<u>12,433</u>
NET ASSETS AT END OF YEAR	<u>\$ 12,107</u>

**FIDUCIARY FUNDS
AGENCY FUNDS
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2003
(In Thousands)**

	<u>Employee Benefits</u>	<u>Other Miscellaneous Agency</u>	<u>Total</u>
ASSETS			
Cash and Investments	\$ 7,428	\$ 21,263	\$ 28,691
Receivables:			
Accounts - Net	51	286	337
Accrued Interest	2	-	2
Cash and Investment in Trust Funds	<u>-</u>	<u>11,976</u>	<u>11,976</u>
TOTAL ASSETS	<u>\$ 7,481</u>	<u>\$ 33,525</u>	<u>\$ 41,006</u>
LIABILITIES			
Accounts Payable	\$ 253	\$ 9,355	\$ 9,608
Advances from Other Funds.....	1,979	-	1,979
Deposits/Advances from Others	-	9,215	9,215
Sundry Trust Liabilities	<u>5,249</u>	<u>14,955</u>	<u>20,204</u>
TOTAL LIABILITIES	<u>\$ 7,481</u>	<u>\$ 33,525</u>	<u>\$ 41,006</u>

**FIDUCIARY FUNDS
AGENCY FUNDS
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
YEAR ENDED JUNE 30, 2003
(In Thousands)**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Employee Benefits				
ASSETS				
Cash and Investments	\$ 7,441	\$ 70,243	\$ 70,256	\$ 7,428
Receivables:				
Accounts - Net	48	386	383	51
Accrued Interest	7	50	55	2
TOTAL ASSETS	\$ 7,496	\$ 70,679	\$ 70,694	\$ 7,481
LIABILITIES				
Accounts Payable	\$ 214	\$ 29,183	\$ 29,144	\$ 253
Advances from Other Funds	1,979	500	500	1,979
Sundry Trust Liabilities	5,303	71,205	71,259	5,249
TOTAL LIABILITIES	\$ 7,496	\$ 100,888	\$ 100,903	\$ 7,481
Other Miscellaneous Agency				
ASSETS				
Cash and Investments	\$ 13,772	\$ 747,720	\$ 740,229	\$ 21,263
Receivables:				
Accounts - Net	227	7,363	7,304	286
Accrued Interest	-	7	7	-
Cash and Investment in Trust Funds	10,617	5,974	4,615	11,976
TOTAL ASSETS	\$ 24,616	\$ 761,064	\$ 752,155	\$ 33,525
LIABILITIES				
Accounts Payable	\$ 2,585	\$ 96,275	\$ 89,505	\$ 9,355
Deposits/Advances from Others	9,452	3,829	4,066	9,215
Sundry Trust Liabilities	12,579	162,037	159,661	14,955
TOTAL LIABILITIES	\$ 24,616	\$ 262,141	\$ 253,232	\$ 33,525
TOTAL AGENCY FUNDS				
ASSETS				
Cash and Investments	\$ 21,213	\$ 817,963	\$ 810,485	\$ 28,691
Receivables:				
Accounts - Net	275	7,749	7,687	337
Accrued Interest	7	57	62	2
Cash and Investment in Trust Funds	10,617	5,974	4,615	11,976
TOTAL ASSETS	\$ 32,112	\$ 831,743	\$ 822,849	\$ 41,006
LIABILITIES				
Accounts Payable	\$ 2,799	\$ 125,458	\$ 118,649	\$ 9,608
Advances from Other Funds	1,979	500	500	1,979
Deposits/Advances from Others	9,452	3,829	4,066	9,215
Sundry Trust Liabilities	17,882	233,242	230,920	20,204
TOTAL LIABILITIES	\$ 32,112	\$ 363,029	\$ 354,135	\$ 41,006



City of San Diego
auditor
comptroller

cafr | statistical section - [Unaudited]



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**GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION
LAST TEN FISCAL YEARS (UNAUDITED)
(In Thousands)**

Fiscal Year Ended June 30	General Government and Support	Public Safety	Public Safety - Police	Public Safety - Fire and Life Safety	Parks, Recreation, Culture and Leisure
1994	\$ 80,288	\$ 253,486	\$ -	\$ -	\$ 87,237
1995	90,224	255,100	-	-	96,559
1996	83,791	275,678	-	-	103,943
1997	71,379	298,982	-	-	105,222
1998	73,424	317,858	-	-	111,834
1999	77,906	362,367	-	-	123,818
2000	83,351	396,009	-	-	132,656
2001	95,992	406,590	-	-	147,859
2002 *	194,699	-	288,809	131,974	174,485
2003	193,980	-	301,839	141,967	177,584

* Expenditure functions were reclassified in 2002:

General Government and Support includes Engineering & Capital Projects and other support functions previously classified as Public Works. Other now includes Transportation, Neighborhood Services, and Sanitation and Health.

**GENERAL GOVERNMENTAL REVENUES BY SOURCE
LAST TEN FISCAL YEARS (UNAUDITED)
(In Thousands)**

Fiscal Year Ended June 30	Property Taxes	Special Assessments	Sales Taxes	Other Local Taxes	Licenses and Permits
1994	\$ 140,545	\$ 17,193	\$ 130,914	\$ 109,316	\$ 29,041
1995	139,719	17,196	139,714	119,703	30,878
1996	137,997	20,367	114,218	150,684	29,806
1997	139,404	23,142	132,628	156,684	26,553
1998	150,409	17,573	174,615	155,587	30,735
1999	160,658	19,630	179,037	161,928	34,854
2000	179,048	18,457	198,622	171,141	30,381
2001	201,801	18,775	221,724	193,177	34,803
2002	223,100	22,491	221,383	202,364	25,194
2003	248,276	25,748	223,023	203,493	29,268

Both tables include General, Special Revenue, Debt Service, Capital Projects, and Permanent funds.

Table 1

Public Works	Community Development, Transportation and Social Services	Other	Debt Service	Capital Outlay	Total
\$ 100,244	\$ 13,882	\$ 2,007	\$ 59,622	\$ 301,898	\$ 898,664
104,392	18,832	1,989	64,261	215,378	846,735
106,864	25,248	2,517	84,514	326,797	1,009,352
110,961	34,347	12,959	92,160	381,991	1,108,001
124,580	28,667	2,838	123,528	289,299	1,072,028
136,474	28,542	12,891	130,187	440,153	1,312,338
152,444	37,599	2,274	170,647	413,216	1,388,196
152,558	49,914	5,425	179,563	473,373	1,511,274
-	-	200,684	88,971	208,083	1,287,705
-	-	225,734	115,074	229,496	1,385,674

Table 2

Fines and Forfeitures	Revenue from Use of Money and Property	Revenue from Agencies and Private Sources	Charges for Current Services	Other	Total
\$ 17,905	\$ 58,691	\$ 154,983	\$ 67,635	\$ 8,547	\$ 734,770
18,443	66,402	144,409	73,887	18,114	768,465
17,498	77,748	169,220	76,787	9,968	804,293
18,370	77,189	187,705	78,324	18,046	858,045
17,953	82,234	207,817	76,432	23,640	936,995
25,541	103,211	267,069	85,498	10,544	1,047,970
31,141	121,268	357,058	95,000	15,462	1,217,578
32,902	109,067	340,799	101,781	11,544	1,266,373
25,854	97,213	355,157	115,989	10,074	1,298,819
26,679	86,789	277,606	123,461	10,594	1,254,937

ASSESSED VALUATION OF ALL TAXABLE PROPERTY - EXCLUDING REDEVELOPMENT AREAS
100% OF FULL VALUE IN THOUSANDS OF DOLLARS (UNAUDITED)
Fiscal Years 1994 to 2003

	2003	2002	2001
<u>GROSS</u>			
Secured - Locally Assessed	\$ 105,438,590	\$ 96,470,488	\$ 89,204,182
Utilities - State Assessed	164,303	64,164	55,135
Total Secured Valuation	105,602,893	96,534,652	89,259,317
Unsecured - Locally Assessed	7,230,861	6,959,602	6,838,926
Total Gross Valuation	<u>\$ 112,833,754</u>	<u>\$ 103,494,254</u>	<u>\$ 96,098,243</u>
<u>EXEMPTIONS (EXCLUDING HOMEOWNERS' AND BUSINESS INVENTORY)</u>			
Secured - Locally Assessed	\$ 3,419,708	\$ 2,920,273	\$ 2,979,594
Unsecured - Locally Assessed	586,538	269,491	592,594
Total Exemptions	<u>\$ 4,006,246</u>	<u>\$ 3,189,764</u>	<u>\$ 3,572,188</u>
<u>NET ASSESSED VALUATION FOR TAX RATE</u>			
Secured - Locally Assessed	\$ 102,018,882	\$ 93,550,215	\$ 86,224,588
Utilities - State Assessed	164,303	64,164	55,135
Net Secured	102,183,185	93,614,379	86,279,723
Unsecured - Locally Assessed	6,644,323	6,690,111	6,246,332
Net Assessed Valuation for Tax Rate	<u>\$ 108,827,508</u>	<u>\$ 100,304,490</u>	<u>\$ 92,526,055</u>
Percentage Increase (Decrease) Over Base Year	8.497%	8.407%	8.480%
<u>STATE SUBVENTIONS HOMEOWNERS' EXEMPTIONS</u>			
Secured - Locally Assessed	\$ 1,403,496	\$ 1,384,958	\$ 1,381,021
Unsecured - Locally Assessed	5,793	2,347	2,215
Total Homeowners' Exemptions	<u>\$ 1,409,289</u>	<u>\$ 1,387,305</u>	<u>\$ 1,383,236</u>
<u>NET ASSESSED VALUATION AFTER ALL EXEMPTIONS</u>			
Secured - Locally Assessed	\$ 100,615,386	\$ 92,165,257	\$ 84,843,567
Utilities - State Assessed	164,303	64,164	55,135
Net Secured	100,779,689	92,229,421	84,898,702
Unsecured - Locally Assessed	6,638,530	6,687,764	6,244,117
Net Assessed Valuation	<u>\$ 107,418,219</u>	<u>\$ 98,917,185</u>	<u>\$ 91,142,819</u>

* 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.

Table 3

2000	1999	1998	1997	1996	1995	1994
\$ 82,140,464	\$ 75,735,993	\$ 68,569,476	\$ 63,490,451	\$ 61,816,965	\$ 61,723,445	\$ 60,870,172
<u>54,775</u>	<u>52,758</u>	<u>79,133</u>	<u>72,137</u>	<u>76,937</u>	<u>70,315</u>	<u>69,823</u>
82,195,239	75,788,751	68,648,609	63,562,588	61,893,902	61,793,760	60,939,995
<u>6,347,101</u>	<u>5,852,822</u>	<u>5,337,916</u>	<u>4,988,950</u>	<u>4,353,543</u>	<u>4,303,198</u>	<u>4,371,923</u>
<u>\$ 88,542,340</u>	<u>\$ 81,641,573</u>	<u>\$ 73,986,525</u>	<u>\$ 68,551,538</u>	<u>\$ 66,247,445</u>	<u>\$ 66,096,958</u>	<u>\$ 65,311,918</u>
\$ 2,718,748	\$ 2,661,739	\$ 2,681,423	\$ 2,526,872	\$ 2,261,774	\$ 2,297,545	\$ 2,227,928
<u>530,732</u>	<u>325,881</u>	<u>313,391</u>	<u>383,881</u>	<u>93,400</u>	<u>191,962</u>	<u>192,099</u>
<u>\$ 3,249,480</u>	<u>\$ 2,987,620</u>	<u>\$ 2,994,814</u>	<u>\$ 2,910,753</u>	<u>\$ 2,355,174</u>	<u>\$ 2,489,507</u>	<u>\$ 2,420,027</u>
\$ 79,421,716	\$ 73,074,254	\$ 65,888,053	\$ 60,963,579	\$ 59,555,191	\$ 59,425,900	\$ 58,642,244
<u>54,775</u>	<u>52,758</u>	<u>79,133</u>	<u>72,137</u>	<u>76,937</u>	<u>70,315</u>	<u>69,823</u>
79,476,491	73,127,012	65,967,186	61,035,716	59,632,128	59,496,215	58,712,067
<u>5,816,369</u>	<u>5,526,941</u>	<u>5,024,525</u>	<u>4,605,069</u>	<u>4,260,143</u>	<u>4,111,236</u>	<u>4,179,824</u>
<u>\$ 85,292,860</u>	<u>\$ 78,653,953</u>	<u>\$ 70,991,711</u>	<u>\$ 65,640,785</u>	<u>\$ 63,892,271</u>	<u>\$ 63,607,451</u>	<u>\$ 62,891,891</u>
8.441%	10.793%	8.152%	2.737%	0.448%	1.138%	0.717%
\$ 1,354,076	\$ 1,338,820	\$ 1,276,862	\$ 1,277,934	\$ 1,261,478	\$ 1,260,398	\$ 1,250,382
<u>2,491</u>	<u>2,491</u>	<u>2,211</u>	<u>2,106</u>	<u>1,863</u>	<u>1,475</u>	<u>1,590</u>
<u>\$ 1,356,567</u>	<u>\$ 1,341,311</u>	<u>\$ 1,279,073</u>	<u>\$ 1,280,040</u>	<u>\$ 1,263,341</u>	<u>\$ 1,261,873</u>	<u>\$ 1,251,972</u>
\$ 78,067,640	\$ 71,735,434	\$ 64,611,191	\$ 59,685,645	\$ 58,293,713	\$ 58,165,502	\$ 57,391,862
<u>54,775</u>	<u>52,758</u>	<u>79,133</u>	<u>72,137</u>	<u>76,937</u>	<u>70,315</u>	<u>69,823</u>
78,122,415	71,788,192	64,690,324	59,757,782	58,370,650	58,235,817	57,461,685
<u>5,813,878</u>	<u>5,524,450</u>	<u>5,022,314</u>	<u>4,602,963</u>	<u>4,258,280</u>	<u>4,109,761</u>	<u>4,178,233</u>
<u>\$ 83,936,293</u>	<u>\$ 77,312,642</u>	<u>\$ 69,712,638</u>	<u>\$ 64,360,745</u>	<u>\$ 62,628,930</u>	<u>\$ 62,345,578</u>	<u>\$ 61,639,918</u>

ASSESSED VALUATION OF ALL TAXABLE PROPERTY - REDEVELOPMENT AREAS ONLY
100% OF FULL VALUE IN THOUSANDS (UNAUDITED)
Fiscal Years 1994 to 2003

	2003	2002	2001
<u>GROSS</u>			
Secured - Locally Assessed	\$ 9,648,576	\$ 8,273,576	\$ 7,412,026
Utilities - State Assessed	14,030	14,248	8,874
Total Secured Valuation	9,662,606	8,287,824	7,420,900
Unsecured - Locally Assessed	593,738	526,423	482,155
Total Gross Valuation	<u>\$ 10,256,344</u>	<u>\$ 8,814,247</u>	<u>\$ 7,903,055</u>
<u>EXEMPTIONS (EXCLUDING HOMEOWNERS' AND BUSINESS INVENTORY)</u>			
Secured - Locally Assessed	\$ 402,900	\$ 398,524	\$ 314,511
Unsecured - Locally Assessed	31,801	14,345	38,228
Total Exemptions	<u>\$ 434,701</u>	<u>\$ 412,869</u>	<u>\$ 352,739</u>
<u>NET ASSESSED VALUATION FOR TAX RATE</u>			
Secured - Locally Assessed	\$ 9,245,676	\$ 7,875,052	\$ 7,097,515
Utilities - State Assessed	14,030	14,248	8,874
Net Secured	9,259,706	7,889,300	7,106,389
Unsecured - Locally Assessed	561,937	512,078	443,927
Net Assessed Valuation for Tax Rate	<u>\$ 9,821,643</u>	<u>\$ 8,401,378</u>	<u>\$ 7,550,316</u>
Percentage Increase (Decrease) Over Base Year	16.905%	11.272%	11.976%
<u>STATE SUBVENTIONS HOMEOWNERS' EXEMPTIONS</u>			
Secured - Locally Assessed	\$ 45,754	\$ 44,073	\$ 41,421
Unsecured - Locally Assessed	-	-	212
Total Homeowners' Exemptions	<u>\$ 45,754</u>	<u>\$ 44,073</u>	<u>\$ 41,633</u>
<u>NET ASSESSED VALUATION AFTER ALL EXEMPTIONS</u>			
Secured - Locally Assessed	\$ 9,199,922	\$ 7,830,979	\$ 7,056,094
Utilities - State Assessed	14,030	14,248	8,874
Net Secured	9,213,952	7,845,227	7,064,968
Unsecured - Locally Assessed	561,937	512,078	443,715
Net Assessed Valuation	<u>\$ 9,775,889</u>	<u>\$ 8,357,305</u>	<u>\$ 7,508,683</u>

* 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.

Table 4

2000	1999	1998	1997	1996	1995	1994
\$ 6,622,511 15,384	\$ 6,049,675 15,096	\$ 4,419,599 6,522	\$ 4,134,677 4,761	\$ 4,025,263 4,738	\$ 4,135,274 5,062	\$ 4,379,146 5,512
6,637,895	6,064,771	4,426,121	4,139,438	4,030,001	4,140,336	4,384,658
466,314	435,459	283,966	210,919	207,457	209,922	205,651
<u>\$ 7,104,209</u>	<u>\$ 6,500,230</u>	<u>\$ 4,710,087</u>	<u>\$ 4,350,357</u>	<u>\$ 4,237,458</u>	<u>\$ 4,350,258</u>	<u>\$ 4,590,309</u>
\$ 330,932	\$ 288,034	\$ 252,455	\$ 209,544	\$ 183,474	\$ 178,509	\$ 172,316
30,508	17,663	9,660	2,182	812	2,049	2,295
<u>\$ 361,440</u>	<u>\$ 305,697</u>	<u>\$ 262,115</u>	<u>\$ 211,726</u>	<u>\$ 184,286</u>	<u>\$ 180,558</u>	<u>\$ 174,611</u>
\$ 6,291,579 15,384	\$ 5,761,641 15,096	\$ 4,167,144 6,522	\$ 3,925,133 4,761	\$ 3,841,789 4,738	\$ 3,956,765 5,062	\$ 4,206,830 5,512
6,306,963	5,776,737	4,173,666	3,929,894	3,846,527	3,961,827	4,212,342
435,806	417,796	274,306	208,737	206,645	207,873	203,356
<u>\$ 6,742,769</u>	<u>\$ 6,194,533</u>	<u>\$ 4,447,972</u>	<u>\$ 4,138,631</u>	<u>\$ 4,053,172</u>	<u>\$ 4,169,700</u>	<u>\$ 4,415,698</u>
8.850%	39.266%	7.474%	2.108%	-2.795%	-5.571%	-3.415%
\$ 41,420	\$ 41,066	\$ 31,658	\$ 31,086	\$ 29,752	\$ 29,560	\$ 29,778
212	-	-	95	95	49	27
<u>\$ 41,632</u>	<u>\$ 41,066</u>	<u>\$ 31,658</u>	<u>\$ 31,181</u>	<u>\$ 29,847</u>	<u>\$ 29,609</u>	<u>\$ 29,805</u>
\$ 6,250,159 15,172	\$ 5,720,575 15,096	\$ 4,135,486 6,522	\$ 3,894,047 4,761	\$ 3,812,037 4,738	\$ 3,927,205 5,062	\$ 4,177,052 5,512
6,265,331	5,735,671	4,142,008	3,898,808	3,816,775	3,932,267	4,182,564
435,806	417,796	274,306	208,642	206,550	207,824	203,329
<u>\$ 6,701,137</u>	<u>\$ 6,153,467</u>	<u>\$ 4,416,314</u>	<u>\$ 4,107,450</u>	<u>\$ 4,023,325</u>	<u>\$ 4,140,091</u>	<u>\$ 4,385,893</u>

Table 5

**TAX RATES PER \$100 OF ASSESSED VALUATION
LAST TEN FISCAL YEARS (UNAUDITED)**

Fiscal Year Ended June 30	Zoological Exhibits Fund	Bond Interest & Redemption Fund	Total City	Schools	One Percent Property Tax Allocation (A)	Grand Total (B)
1994	0.005	0.0036	0.0086	0.1000	1.00	1.1086
1995	0.005	0.0033	0.0083	0.1002	1.00	1.1085
1996	0.005	0.0033	0.0083	0.1002	1.00	1.1085
1997	0.005	0.0034	0.0084	0.0993	1.00	1.1077
1998	0.005	0.0034	0.0084	0.0993	1.00	1.1077
1999	0.005	0.0029	0.0079	0.0963	1.00	1.1042
2000	0.005	0.0026	0.0076	0.0958	1.00	1.1034
2001	0.005	0.0024	0.0074	0.0958	1.00	1.1032
2002	0.005	0.0023	0.0073	0.0958	1.00	1.1031
2003	0.005	0.0021	0.0071	0.0958	1.00	1.1029

(A) Under existing provisions of the California Constitution, the maximum ad valorem property tax rate which may be imposed on real property may not exceed \$4.00 except to pay the interest and redemption charges on any indebtedness approved by the voters prior to July 1, 1978. The City shares this tax rate in proportion to other local agencies based on an average of property tax received in the three fiscal years prior to 1978-79.

(B) Effective January 1, 1981, a change in state law required the County Assessor to assess all taxable property at 100% full value as opposed to the prior practice of assessing property at 25% of full value. As a result, taxing agencies were required to fix tax rates based on full value instead of the prior practice of fixing tax rates based on 25% of full value.

Table 6

**SCHEDULE OF LEGAL DEBT MARGIN (UNAUDITED)
June 30, 2003
(In Thousands)**

	General Obligation Bonds*		
	For Water Purposes	For Other Purposes	Total
Assessed Valuation July 1, 2003 - \$108,827,508 **			
Debt Limits***	\$ 16,324,126	\$ 10,882,751	\$ 27,206,877
Outstanding General Obligation Bonds	-	52,165	52,165
Less: Cash Reserve for Matured and Unpaid Bonds	-	-	-
Outstanding General Obligation Bonds Applicable to Debt Limit	-	52,165	52,165
LEGAL DEBT MARGIN	\$ 16,324,126	\$ 10,830,586	\$ 27,154,712
Percentage of Outstanding Debt to Legal Debt Margin	0.00%	0.48%	0.19%

* All City of San Diego General Obligation Bonds are serially numbered and redeemable from special tax levy.

**From Statistical Table 3 - Assessed Valuation of All Taxable Property - Excluding Redevelopment Areas

*** 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, for a total debt limit for all municipal improvements equal to 25% of the last preceding assessed valuation of all real and personal property of the City subject to direct taxation.

Table 7

**LEVIES AND TAXES RECEIVED BY CITY - SECURED PROPERTY
LAST TEN FISCAL YEARS (UNAUDITED)
(In Thousands)**

Fiscal Year Ended June 30	Total Tax Levy	Current Tax Collections	Percentage of Current Tax Collected	Delinquent Tax Collections	Total Tax Collected	Ratio of Total Tax Collections to Total Tax Levy	Outstanding Delinquent Taxes *	Ratio of Delinquent Taxes to Total Tax Levy
1994	\$ 109,881	\$ 105,911	96.39 %	\$ 4,827	\$ 110,738	100.78 %	\$ 10,968	9.98 %
1995	109,754	104,295	95.03	3,897	108,192	98.58	9,920	9.04
1996	111,281	108,137	97.17	2,376	110,513	99.31	9,203	8.27
1997	111,719	108,676	97.28	1,887	110,563	98.97	8,523	7.63
1998	116,912	114,311	97.78	3,118	117,429	100.44	7,639	6.53
1999	127,846	124,267	97.20	2,656	126,923	99.28	6,593	5.16
2000	141,963	137,859	97.11	2,366	140,225	98.78	6,736	4.74
2001	155,060	150,900	97.32	2,506	153,406	98.93	6,346	4.09
2002	167,077	163,357	97.77	2,089	165,446	99.02	5,641	3.38
2003	181,687	175,943	96.84	2,398	178,341	98.16	6,061	3.34

* Estimated

Table 8

**RATIO OF NET GENERAL OBLIGATION BONDED DEBT TO ASSESSED
VALUE AND NET BONDED DEBT PER CAPITA
LAST TEN FISCAL YEARS (UNAUDITED)
(In Thousands)**

Fiscal Year Ended June 30	Estimated Population	Assessed Valuation *	Gross Bonded Debt **	Debt Service Monies Available *	Debt Payable from Enterprise Revenues	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value (%)	Net Bonded Debt Per Capita
1994	1,184,814	\$ 62,444,280	\$ 94,615	\$ 3,388	\$ -	\$ 91,227	0.146	\$ 0.08
1995	1,202,200	62,891,891	91,970	3,780	-	88,190	0.140	0.07
1996	1,197,676	63,607,451	89,090	3,861	-	85,229	0.134	0.07
1997	1,197,077	63,892,271	82,625	2,142	-	80,483	0.126	0.07
1998	1,224,848	65,640,785	78,600	2,515	-	76,085	0.116	0.06
1999	1,254,281	78,653,953	74,255	2,723	-	71,532	0.091	0.06
2000	1,277,168	85,292,860	68,700	2,941	-	65,759	0.077	0.05
2001	1,250,700	92,526,055	63,595	3,266	-	60,329	0.065	0.05
2002	1,255,742	100,304,490	58,095	3,576	-	54,519	0.054	0.04
2003	1,275,112	108,827,508	52,165	3,932	-	48,233	0.044	0.04

* Excludes Redevelopment.

** Represents all General Obligation Debt.

Table 9

**REVENUE BOND COVERAGE - WATER BONDS
LAST TEN FISCAL YEARS (UNAUDITED)
(IN THOUSANDS)**

Fiscal Year Ended June 30	Total Income	Total Expenses	Net System Revenue	Less: Interest Earnings on Reserve Fund -	Adjusted Net System Revenue	Adjusted Debt Service Requirements - Parity Obligations					Adjusted Debt Service Coverage - Parity Obligations
				Parity Obligations		Principal	Interest	Total	Less: Parity Interest Earnings	Adjusted Debt Service	
1999	\$ 210,490	\$ 195,407	\$ 15,083	\$ (884)	\$ 14,199	\$ -	\$ 9,365	\$ 9,365	\$ (884)	\$ 8,481	1.67
2000	255,736	213,358	42,378	-	42,378	-	18,730	18,730	-	18,730	2.26
2001	255,974	214,056	41,918	(54)	41,864	-	18,730	18,730	(54)	18,676	2.24
2002	261,333	222,104	39,229	(3,444)	35,785	6,780	18,594	25,374	(3,444)	21,930	1.63
2003	256,967	226,057	30,910	(1,305)	29,605	7,055	16,308	23,363	(1,305)	22,058	1.34

Note: The Water Utility had no bonded debt for years 1994 through 1998.

Table 10

**REVENUE BOND COVERAGE - SEWER BONDS
LAST TEN FISCAL YEARS (UNAUDITED)
(IN THOUSANDS)**

Fiscal Year Ended June 30	Total Income	Total Expenses	Net System Revenue	Total Debt Service Requirements			Debt Service Coverage
				Principal	Interest	Total	
1994	\$ 210,609	\$ 101,919	\$ 108,690	\$ 2,855	\$ 7,108	\$ 9,963	10.91
1995	228,496	112,232	116,264	4,360	11,960	16,320	7.12
1996	246,937	134,845	112,092	4,500	19,929	24,429	4.59
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

Table 11

SCHEDULE OF DIRECT AND OVERLAPPING BONDED DEBT (UNAUDITED)
June 30, 2003
(In Thousands)

Jurisdiction	Debt Outstanding June 30, 2003	Percentage Applicable to City of San Diego	Amount Applicable to City of San Diego
City of San Diego	\$ 15,690 *	100.0%	\$ 15,690
City of San Diego Certificates of Participation	50,455 *	100.0%	50,455
City of San Diego 1915 Act Bonds	38,240	100.0%	38,240
City of San Diego Mello-Roos Bonds	112,995	100.0%	112,995
City of San Diego Redevelopment Agency Tax Allocation Bonds	279,136 *	100.0%	279,136
City of San Diego Redevelopment Agency Parking Revenue Bonds	32,140 *	100.0%	32,140
City of San Diego Metropolitan Transit Development Board (MTDB)	43,575 *	100.0%	43,575
Convention Center Expansion Authority	196,810 *	100.0%	196,810
Metropolitan Water District	444,295	8.9%	39,542
North City West School Community Facilities District	92,328	100.0%	92,328
Poway Unified School Community Facilities District #1	115,334	100.0%	115,334
Poway Unified School Community Improvement District No. 2002-1	75,000	75.1%	56,325
Public Facilities Financing Authority	258,700 *	100.0%	258,700
San Diego Community College District	96,585	99.9%	96,488
San Diego Community College District General Fund Obligations	10,260	99.9%	10,250
San Diego County General Fund Obligations	475,849	47.5%	226,028
San Diego County Pension Obligations	824,395	47.5%	391,588
San Diego County Water Authority	1,645	49.3%	811
San Diego Open Space Park Facilities District # 1	36,475	100.0%	36,475
San Diego Unified School District District	832,830	99.9%	831,997
Other School and Community College Districts	43,970	various	43,970
Other Special Districts	27,905	various	27,905
Other High School and School Districts	35,202	various	35,202
Other Municipal Water District Certificates of Participation	26,030	7.8%	2,030
TOTAL GROSS DIRECT AND OVERLAPPING BONDED DEBT			\$ 3,034,014 **
Less:			
100% Self-Supporting			
Otay Mesa Water District			\$ 2,030
Grossmont Union High School District COP's			66
San Diego Open Space Park Facilities District #1			36,475
TOTAL BONDED DEBT SUPPORTED BY OTHER THAN PROPERTY TAX			38,571
NET DIRECT AND OVERLAPPING BONDED DEBT			\$ 2,995,443
2002-03 Assessed Valuation (100% of Full Value):			
\$108,705,868 (including the redevelopment tax allocation increment of \$8,401,378)			
Ratios to Assessed Valuation			
* City of San Diego Gross Direct Debt (\$876,506)			0.81%
City of San Diego Net Direct Debt (excludes Redevelopment Agency) (\$565,230)			0.52%
City of San Diego and Open Space District Gross Direct Debt (\$912,981)			0.84%
City of San Diego and Open Space District Net Direct Debt (\$601,705)			0.55%
TOTAL GROSS DEBT			2.79%
TOTAL NET DEBT			2.76%

** Excludes revenue and tax anticipation notes.

Sources: Responsible Agencies
California Municipal Statistics, Inc.

Table 12

**RATIO OF ANNUAL DEBT SERVICE
FOR GENERAL BONDED DEBT TO TOTAL GENERAL EXPENDITURES
LAST TEN FISCAL YEARS (UNAUDITED)
(In Thousands)**

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>	<u>Total General Expenditures</u>	<u>Ratio of Debt Service to General Expenditures</u>
1994	\$ 20,943	\$ 38,679	\$ 59,622	\$ 898,664	6.63%
1995	24,888	39,373	64,261	846,735	7.59%
1996	35,496	49,018	84,514	1,009,352	8.37%
1997	29,311	62,849	92,160	1,108,001	8.32%
1998	42,512	81,016	123,528	1,072,028	11.52%
1999	38,310	84,507	122,817	1,312,338	9.36%
2000	41,727	120,891	162,618	1,388,196	11.71%
2001	52,758	119,094	171,852	1,511,274	11.37%
2002	33,958	45,946	79,904	1,282,134	6.23%
2003	40,559	59,795	100,354	1,385,674	7.24%

Table 13

**SPECIAL ASSESSMENT BILLINGS AND COLLECTIONS
LAST TEN FISCAL YEARS (UNAUDITED)
(In Thousands)**

<u>Fiscal Year Ended June 30</u>	<u>Current Assessments Due</u>	<u>Current Assessments Collected</u>	<u>Ratio of Collections to Amount Due (%)</u>	<u>Total Outstanding Assessments</u>
1994	\$ 12,512	\$ 10,632	84.97	\$ 123,830
1995	11,478	9,565	83.33	118,350
1996	12,564	11,692	93.06	125,650
1997	12,394	11,515	92.91	120,900
1998	11,929	11,359	95.22	113,105
1999	10,843	10,576	97.54	110,835
2000	11,041	10,783	97.66	108,180
2001	9,353	9,143	97.75	164,101
2002	10,145	10,024	98.81	158,772
2003	13,197	13,061	98.97	153,414

Table 14

**DEMOGRAPHIC STATISTICS
LAST TEN FISCAL YEARS (UNAUDITED)**

<u>Fiscal Year Ended June 30</u>	<u>Estimated Population (1)</u>	<u>Public School Enrollment (K-12) (2)</u>	<u>Continuing Education Enrollment* (2)</u>	<u>Civilian Labor Force (3)</u>	<u>Unemployment Rate (3)</u>
1994	1,184,814	172,761	161,360	1,218,292	7.8%
1995	1,197,676	174,735	168,509	1,222,458	6.8%
1996	1,183,102	156,461	161,105	1,227,952	6.0%
1997	1,197,077	173,344	159,673	1,243,258	4.8%
1998	1,224,848	179,197	164,438	1,289,383	3.8%
1999	1,254,281	182,590	173,002	1,334,167	3.5%
2000	1,277,168	187,462	173,209	1,373,017	3.2%
2001	1,250,700	184,842	186,461	1,417,767	2.3%
2002	1,255,742	186,232	193,548	1,448,125	3.7%
2003	1,275,112	189,910	189,452	1,480,933	4.4%

*Composed of College, Community College and Adult Schools (Includes part-time).

Sources:

- (1) Table 8
- (2) Table 17
- (3) Employment Development Department

Table 15

**PRINCIPAL TAXPAYERS IN CITY OF SAN DIEGO (UNAUDITED)
June 30, 2003
(In Thousands)**

<u>Taxpayers</u>	<u>Type of Business</u>	<u>Assessed Valuation</u>	<u>Percentage of Net Assessed Valuation (1)</u>	<u>Approximate Tax Paid</u>
Kilroy Realty LP	Real Estate	\$ 687,493	0.64%	\$ 7,149
Qualcomm Inc	Electronics	486,805	0.45%	5,499
Fashion Valley Mall LLC	Shopping Center	426,783	0.40%	4,812
Arden Realty LTD	Developer	346,794	0.32%	3,748
Sea World Inc	Entertainment	295,550	0.28%	3,330
Pacific Gateway LTD	Developer/Property Manager	255,326	0.24%	2,879
ERP Operating LTD Partnership	Developer/Property Manager	245,061	0.23%	2,810
Manchester Resorts	Hotel	241,729	0.23%	2,725
Irvine Apartments	Real Estate	232,477	0.22%	2,710
One America Plaza	Real Estate	258,484	0.24%	2,493
		<u>\$ 3,476,502</u>	<u>3.25%</u>	

(1) Total Net Assessed Valuation of \$107,418,219 per Table 3 for fiscal year 2003

Note: This table excludes public utilities, including San Diego Gas & Electric Company, Pacific Bell and American Telephone and Telegraph (AT&T), because valuations within the City of San Diego cannot be readily determined.

Source: County of San Diego Assessor's Office.

Table 16

**COMPARISON OF CONSTRUCTION, BANK DEPOSITS AND PROPERTY VALUES
LAST TEN FISCAL YEARS (UNAUDITED)
(In Thousands)**

Fiscal Year Ended June 30	Construction (1)			Property Values (2)			Deposits (3)			
	Residential Construction Permits	Non- Residential Construction Permits	Total Valuation	Commercial/ Industrial	Residential	Other	Commercial Banks	Savings & Loans	Credit Unions	Total
1994	5,453	4,831	\$ 800,908	\$ 15,411,917	\$ 43,273,554	\$ 2,277,353	\$ 8,678,706	\$ 3,379,077	\$ 2,553,514	\$ 14,611,297
1995	4,887	4,624	815,471	14,975,973	44,197,890	2,300,779	9,684,057	3,088,156	2,544,261	15,316,474
1996	5,243	4,551	846,982	14,804,114	44,513,532	2,278,247	9,306,278	2,847,576	3,545,202	15,699,056
1997	5,907	4,813	1,020,330	15,306,561	45,589,632	2,414,340	10,595,219	3,370,761	3,724,548	17,690,528
1998	7,545	5,804	1,466,646	17,318,763	48,341,937	2,151,401	N/A	N/A	N/A	N/A
1999	7,080	5,186	1,640,853	19,850,778	53,121,440	2,788,667	N/A	N/A	N/A	N/A
2000	6,603	5,766	2,146,478	21,853,386	57,932,679	3,040,634	N/A	N/A	N/A	N/A
2001*	8,227	3,517	1,875,072	24,084,993	63,663,266	3,155,499	N/A	N/A	N/A	N/A
2002	9,840	2,615	2,099,748	26,157,468	69,834,055	3,421,104	N/A	N/A	N/A	N/A
2003	9,997	2,591	1,907,029	28,135,314	78,128,254	3,548,325	N/A	N/A	N/A	N/A

N/A = Not available.

* Beginning in FY 2001, Development Services Department implemented a change in permit classifications.

Source:

- (1) City of San Diego Development Services Department
- (2) County of San Diego, Office of Assessor
- (3) Sheshunoff Bank, California/Hawaii

TABLE 17

MISCELLANEOUS STATISTICAL DATA (UNAUDITED)
JUNE 30, 2003

GEOGRAPHICAL LOCATION	Southern Coast of California contiguous to the Mexican Border		
ALTITUDE OF CITY	Sea Level to 1,591 Feet		
AREA OF CITY (SQUARE MILES)	Land -	330	
	Water -	73	
	Total -	403	
DATE OF INCORPORATION	March 27, 1850		
POPULATION (Official U.S. Census)	<u>Year</u>	<u>Population</u>	<u>Increase</u>
	1900	17,700	
	1910	39,578	124%
	1920	74,361	88%
	1930	147,995	99%
	1940	203,341	37%
	1950	334,387	64%
	1960	573,244	71%
	1970	697,027	22%
	1980	875,504	26%
	1990	1,110,549	27%
	2000	1,223,400	10%
	Estimate at January 1, 2003 - 1,275,112		
	Population per Square Mile (Land) - 3,864		
FORM OF GOVERNMENT	Council / Manager		
CITY CHARTER ADOPTED	April 7, 1931		
FISCAL YEAR BEGINS	July 1		
TOTAL NUMBER OF CITY EMPLOYEES	Salaried -	10,926	
	Hourly -	1,687	
	Limited -	N/A	
	Total -	12,613	
RAINFALL:			
2002-2003 SEASON	10.62 Inches		
AVERAGE SEASONAL RAINFALL DURING LAST 20 YEARS	10.05 Inches		
AVERAGE TEMPERATURE, 2002-2003	Daytime -	68.8 F	
	Nighttime -	58.2 F	
	Mean -	63.2 F	
AVERAGE ANNUAL TEMPERATURE OF FORTY YEAR PERIOD, 1963-2003	64.0 F		
RECREATION:			
PARKS, SQUARES, AND RECREATION CENTERS	Number -	460	
	Acres -	36,300	
SPECIAL FACILITIES	Municipal Golf Courses:		
	City Operated:		
	18-Hole Courses	-	3
	9-Hole Courses	-	1
	Pitch and Putt Courses	-	0
	Leased:		
	18-Hole Courses	-	2
	Par 3 Course	-	1
	Pitch and Putt Courses	-	2
	Municipal Swimming Pools	-	13
	Municipal Tennis Courts	-	25
	Ocean Fishing Piers	-	2

**MISCELLANEOUS STATISTICAL DATA (UNAUDITED)
JUNE 30, 2003**

TABLE 17 (Cont'd.)

FIRE PROTECTION	Number of Stations - 43 Number of Employees - 1,254 (includes EMS)
POLICE PROTECTION	Number of Stations - 10 Number of Employees - 2779 (includes hourly)
MILES OF ASPHALT, CONCRETE, AND DIRT STREETS AND ALLEYS	2,985
MILES OF SEWERS	2,950
SEWER SERVICE LATERALS	268,372
MUNICIPAL WATER PLANT	Number of Water Meters in Service - 267,845 Average Daily Consumption - 193.97 Million Gallons Average Daily Consumption per Capita - 152.12 Miles of Water Distribution Mains - 3,280 Number of Fire Hydrants - 24,145
MUNICIPAL AIRPORTS	Number - 2 Number of Acres - 1,942 Length of Main Runways - 7,999 Feet and 4,600 Feet
UNIFIED PORT DISTRICT:	
WHARVES	Number - 4 Length - 13,055 (Lineal Feet or Berthing) Number of Craft in Port (Excluding Military) - 473 Commercial Tonnage Handled through the Port during the Year - 2,185,214
TIDELANDS	Number of Acres - 5,583
AIRPORTS	Number - 1 Number of Acres - 504 Length of Main Runways - 9,400 Feet
EDUCATION:	
COLLEGES	Number 6 Number of Teachers 7,589 (Includes Part-Time) Number of Students 93,641 (Includes Part-Time)
COMMUNITY COLLEGES AND ADULT SCHOOLS	Number 10 Number of Teachers 2,729 (Includes Part-Time) Number of Students 95,811 (Includes Part-Time)
HIGH SCHOOLS	Number 25 Number of Teachers 1,881 Number of Students 43,755
JUNIOR HIGH SCHOOLS / MIDDLE SCHOOLS	Number 28 Number of Teachers 1,533 Number of Students 37,435
ELEMENTARY SCHOOLS	Number 165 Number of Teachers 5,268 Number of Students 108,720

Source: Various Agencies

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comprehensive annual financial report



for Fiscal Year Ended June 30, 2004

Principal Authors:

Gregory Levin, CPA, Deputy Comptroller

Tracy McCraner, Director of Financial Reporting

Principal Reviewer:

Jay M. Goldstone, Chief Financial Officer

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Brant Will, Esq., Deputy City Attorney for Finance and Disclosure

John M. McNally, Hawkins Delafield & Wood LLP, Outside Disclosure Counsel

Lakshmi Kommi, Director of Debt Management (City Debt Obligations and Disclosures)

Disclosure Reviewers (Other):

Gail R. Granewich, City Treasurer

Lawrence Tomanek, CPA, Esq., Deputy Director City Attorney's Office

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Supplementary Information

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INTRODUCTORY SECTION

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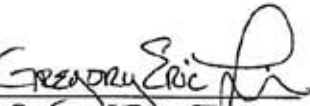


JERRY SANDERS
MAYOR

Certification of the Chief Financial Officer and the Comptroller

The undersigned, Jay M. Goldstone, Chief Financial Officer of the City of San Diego, and Gregory Levin, CPA, Comptroller of the City of San Diego, both of whom have been designated by the Mayor to prepare the Comprehensive Annual Financial Report, hereby certify that the information contained in the Fiscal Year 2004 Comprehensive Annual Financial Report fairly presents, in all material respects, the financial condition of the City and the results of operations of the City, as of, and for, the period presented in the Comprehensive Annual Financial Report and that the Comprehensive Annual Financial Report does not make any untrue statement of material fact or omit to state a material fact necessary in order to make the financial statements, in light of the circumstances under which they are made, not misleading.

SIGNED:


Gregory Levin, CPA
Comptroller

SIGNED:


Jay M. Goldstone
Chief Financial Officer

DATE:

5-31-07

DATE:

5-31-07

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JERRY SANDERS
MAYOR

May 31, 2007

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

The City Charter requires Mayoral Staff 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, 2004, 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. To this extent, 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, 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.

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.
- **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

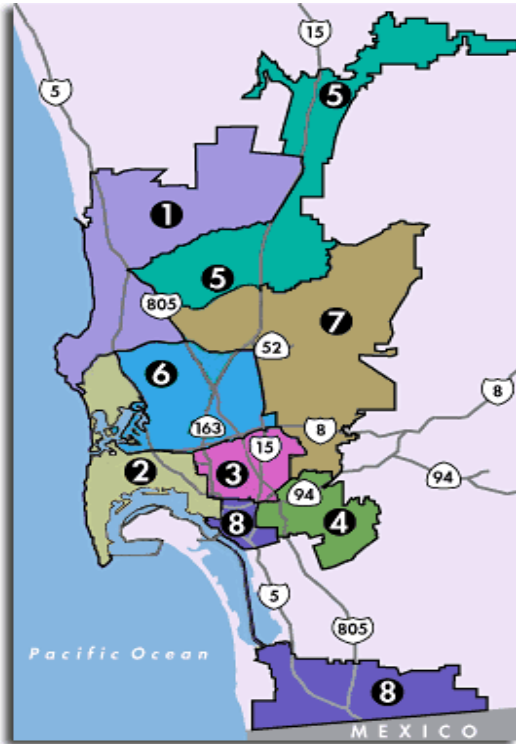
City Profile

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 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. During the period reported in this report, the City employed a Council-Manager form of government. Under this form of government, the City Council was comprised of eight members elected by district to serve overlapping four-year terms. The City Council, which acted as the City's legislative and policy-making body, appointed the City Manager, who was the City's chief administrator and was responsible for implementing the policies and programs adopted by the City Council. The Mayor, who presided over the City Council, was elected at large to serve a four-year term.

City of San Diego Council District Map



During the fiscal year ended June 30, 2005 and prior to the issuance of this CAFR, the electorate of the City of San Diego approved the strong-mayor form of government on a trial basis which took effect during the fiscal year ended June 30, 2006. 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 and City Attorney's departments.

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 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 budget ordinances, are subject to a veto of the Mayor and an enactment over veto process.

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

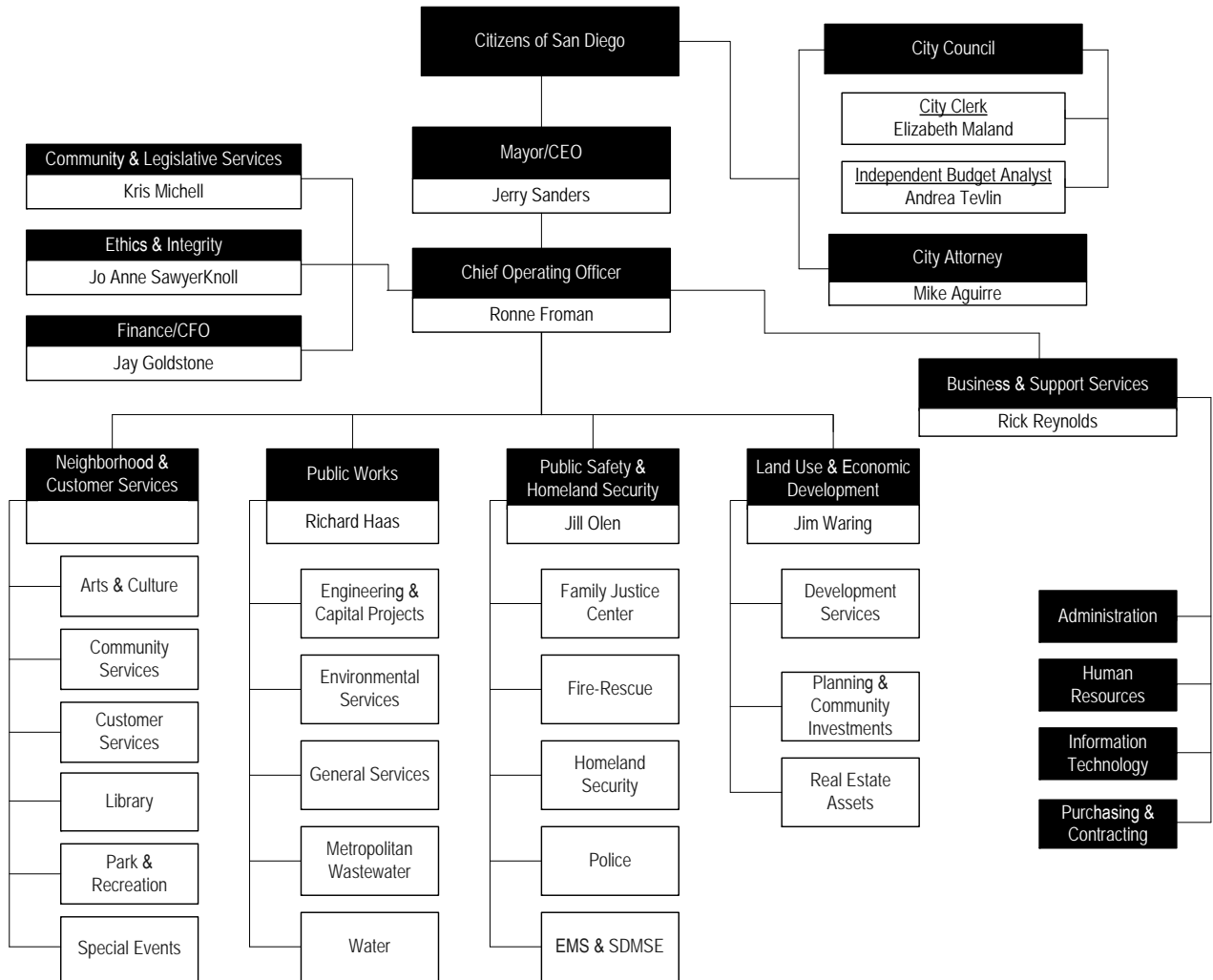


City Attorney
Michael Aguirre

Current Organization Chart

As of 05/31/07

CITY OF SAN DIEGO ORGANIZATION



Financial Reporting Entity

In accordance with Governmental Accounting Standard 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)

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 to the City Council for adoption. Set forth in this budget are the anticipated revenues and expenditures of the general fund, certain special revenue 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). A copy of the Mayor's Fiscal Year 2008 Proposed Budget is available at the Financial Management office located at 202 C Street, Suite 800, 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 will be honored in subsequent periods.

FACTORS AFFECTING FINANCIAL CONDITION

Global Economic Factors

Unemployment

The unemployment rate is a critical indicator of the relative strength in the local economy. According to the Bureau of Labor Statistics, the City of San Diego's unemployment rate was 4.0% for the calendar year 2006. This reflects a 1.2% decrease from a 10 year high of 5.2% in the calendar year 2003 and a .7% decrease from calendar year 2004. The City of San Diego's unemployment rate is .5% below the national average and .8% below the average for the State of California during this same period.

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 33.2% from \$45,826 to \$61,043.

Housing and Construction

According to a report by the National Association of Realtors, the median residential home price in the San Diego area rose by 17% from calendar year 2002 to 2003 and 68% from calendar years 2002 to 2005. Home sales during this growth in median home prices have resulted in stronger than average property tax returns for the City and has fueled increased activity in the construction sector. However, recent data indicates that there has been a slowing in the housing market and recent rates of growth will likely not be repeated.

Financial Information

In November 2006, and prior to the issuance of these financial statements, the Securities and Exchange Commission entered an Order sanctioning the City of San Diego for committing securities fraud by failing to disclose to the investing public important information about its pension and retiree health care obligations in the sale of its municipal bonds in 2002 and 2003. 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.

Prior to settlement with the SEC, the City voluntarily hired a number of firms to review the City's disclosure practices and to investigate potential illegal acts. The independent investigations concluded when the Audit Committee report was presented to the City on August 8,

2006. In an effort to provide enhanced disclosure on the status of the City's retirement obligations, information on the most recent actuarial valuation performed for SDCERS is provided below.

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 for an annual actuarial valuation to be performed based on the assumptions adopted by the SDCERS Board. The actuarial valuations performed for the fiscal years ending June 30, 2006 and June 30, 2005 reported the following indicators of the retirement plan's fiscal health:

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

	Fiscal Year Ending		
	June 30, 2006	June 30, 2005	% Change
<u>Membership</u>			
Total Members (active, disabled, beneficiaries and retired)	17,647	17,429	1.3%
<u>Assets and Liabilities</u>			
Total Actuarial Liability	\$ 4,982,699,455	\$ 4,377,092,948	13.8%
Market Value of Assets	3,981,931,694	3,205,721,975	24.2%
Actuarial Value of Assets	3,981,931,694	2,983,079,852	33.5%
Unfunded Actuarial Liability	\$ 1,000,767,761	\$ 1,394,013,096	(28.2%)
Funding Ratio	79.9%	68.2%	11.7%

It is common practice to base consecutive actuarial valuations on consistent pre-defined parameters; however, occasional methodology changes are required to reflect prevailing practices within the industry. The changes with the most significant impact to the unfunded actuarial liability between fiscal years 2005 and 2006 are related to the inclusion of certain "contingent" liabilities in the valuation and a change in the asset valuation method.

The actuarial valuation information presented above for the fiscal year ending June 30, 2005 is based upon historical assumptions in regards to some benefits being viewed as contingent in nature, and therefore, does not include information on liabilities pertaining to the Corbett Settlement or the 13th Check. Additionally, SDCERS has established reserves of assets in an amount approximately equivalent to the related liability for the following items: Supplemental Cost of Living Adjustment, Employee Contribution Rate Increase Liability, and the Deferred Retirement Option Plan Liability. The assets placed in these reserves, as well as the corresponding liability, have also been excluded from the FY 2005 actuarial valuation.

For the benefit of the reader, the following table presents the balances of all liabilities excluded from the actuarial valuation for the fiscal year ending June 30, 2005:

SDCERS Other Liabilities

Corbett Settlement	\$ 58,923,978
13th Check	56,686,313
Supplemental Cost of Living Adjustment *	17,839,967
Employee Contribution Rate Increase Liability *	8,905,418
Deferred Retirement Option Plan Liability *	227,223,791
Total Other Liabilities	<u>\$ 369,579,467</u>

* SDCERS has established reserves of assets approximately equivalent to related liability.

A detailed explanation of the liabilities and their related assets can be found in the actuarial valuations for fiscal year 2005 and fiscal year 2006 which can be obtained at the SDCERS main office located at 401 B Street, Suite 400, San Diego, CA 92101.

For the purposes of calculating the City's net pension obligation (NPO), calculated amounts do include the effects from the Corbett settlement liability and the employee contribution rate increase liability due to the City's position that these liabilities are non-contingent in

nature. As such, the following schedule shows the City's view of its revised unfunded actuarial liability as of June 30, 2005 and presents a comparison to the FY 2006 valuation.

Calculation of City's Unfunded Actuarial Liability

	<u>Fiscal Year Ending</u>		
	<u>June 30, 2006</u>	<u>(revised)*** 6/30/2005</u>	<u>% Change</u>
Actuarial Liability (Cheiron*)	\$ 4,982,699,455	\$ 4,377,092,948	
Corbett Settlement (Cheiron*)	n/a **	58,923,978	
Total Actuarial Liability	4,982,699,455	4,436,016,926	12.3%
Actuarial Value of Assets (Cheiron*)	3,981,931,694	2,983,079,852	33.5%
Unfunded Actuarial Liability****	<u>\$ 1,000,767,761</u>	<u>\$ 1,452,937,074</u>	(33.7%)
Funding Ratio	79.9%	67.2%	12.7%

* SDCERS Actuary

** Liabilities related to the Corbett Settlement and the 13th Check are included in actuarial liabilities in FY 2006.

*** As discussed in the narrative, the City believes the liability related to the Corbett Settlement should be included in total actuarial liabilities.

**** Unfunded Actuarial Liability has been calculated in accordance with the projected unit credit (PUC) method, see table on page 19 for comparison to entry age normal (EAN) method.

As a result of the approval of revised assumptions and methodologies on October 20, 2006 by the SDCERS Board of Administration, the actuarial valuation for the fiscal year ending June 30, 2006 includes the liabilities resulting from the Corbett Settlement and the 13th Check as well as both the asset reserves and the corresponding liabilities related to the Deferred Retirement Option Plan and the Supplemental Cost of Living Adjustment. The recognition of these previously excluded liabilities increased actuarial liabilities in the valuation dated June 30, 2006 by approximately \$113 million over amounts reported in fiscal year 2005.

As previously stated, the City views the exclusion of the Corbett Liability from the Actuarial Liability as an error; therefore it has already restated its Net Pension Obligation and amended its required supplementary schedules accordingly. The City views the SDCERS Board of Administration's decision regarding the 13th Check liability as a change in accounting estimate and therefore will account for it prospectively beginning with its June 30, 2008 financial statements. This treatment reflects City management's policy of valuing and reporting pension liabilities using the actuarial valuation from the fiscal year ending two years prior to the date of its financial statements. Additionally, total actuarial assets, total actuarial liabilities, and the funding ratio increased in FY 2006 partially due to the inclusion of the asset reserves and liabilities related to the Deferred Retirement Option Plan and the Supplemental Cost of Living Adjustment.

In addition to the inclusion of the aforementioned assets and liabilities in the June 30, 2006 valuation, the SDCERS Board of Administration voted to move from a "book value based" asset smoothing method to the "expected asset value" smoothing method. The expected asset value smoothing method is based on asset market value and is a more commonly used practice in actuarial valuations because it is a more effective technique to dampen the volatility in asset values that can occur due to fluctuations in market conditions. A part of this change was to set the actuarial value of assets equal to the market value of assets as of June 30, 2006. This action increased the actuarial value of assets from the amounts reported in the FY 2005 valuation by approximately \$184 million. SDCERS also changed the manner in which assets are apportioned between plan sponsors, which also resulted in increasing the actuarial value of assets in the City's plan.

Additionally, on March 19, 2001, the City Council adopted Ordinance O-18930, adding sections 24.1601 through 24.1608 to the San Diego Municipal Code (SDMC) and 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 is a vehicle 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). The POB Plan is administered by the SDCERS Board as a separate trust from the City's pension plan. On February 16, 2007, the SDCERS Board adopted the Preservation of Benefit Plan and Trust to carry out the intent of SDMC section 24.1601 et seq.

As background, IRC section 415(b) imposes dollar limits on the benefits payable from a qualified pension plan that receive favorable tax treatment. The dollar limit is \$175 for calendar year 2006, however, this limit is adjusted based upon the payee's age at retirement, and the benefit tested is adjusted by a number of factors.

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. In other words, 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. Each year, SDCERS will determine the amount necessary to fund any pension benefits payable during the calendar year in excess of IRC section 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 POB Plan. SDCERS will provide this information to the City and the City will fund this amount on an annual basis. Any amounts remaining in the POB Plan at the end of a calendar year will be carried forward to pay benefits and administration costs in the following year. As a result, the liability related to excess benefits for eligible members, amounting to approximately \$22.8 million has been excluded from the actuarial valuation of the 401(a) retirement plan beginning in fiscal year 2006. In fiscal year 2004, however, activities related to the POB Plan are included in the 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 has elected to file a technical inquiry with the staff of the Governmental Accounting Standards Board to resolve the matter.

Certain other methodology changes were implemented for the June 30, 2006 valuation; these changes are discussed in detail in the valuation report. Additional information on the City's net pension obligation, annually required contribution, and the Corbett liability 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, Unfunded Actuarially Accrued Liability would be amortized using a 15 year assumption; for the 2005 actuarial valuation, Unfunded Actuarial Accrued Liabilities were amortized over 28 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 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.

A review of the aforementioned charter revisions concerning SDCERS is currently underway. This includes examining the legality of changes to the City's amortization assumption made by way of revisions to the City Charter. California State Attorney General Opinion 04-710 concludes that such revisions to the system's actuarial assumptions can not be made by way of revisions to the City Charter. Furthermore, recent legal rulings by the California Superior Court have ruled that the SDCERS Board has "plenary authority" in its administrative capacity. In March 2007, the SDCERS Board adopted a 20 year amortization assumption and has not indicated any intention to change 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 simply establishes an upper boundary for the amortization of pension debt, it does not usurp or unduly interfere with the SDCERS Board's plenary authority and fiduciary responsibility over the California Pension Protection Act, and as a result, the 15 year amortization period is binding. Given the size of the City's current unfunded actuarially accrued liability, future changes to the amortization schedule will have significant impacts on future annually required contributions.

The City 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 or its employer. As such, the City and SDCERS will need to reach a consensus regarding the actuarial assumptions to be used for the fiscal year 2007 actuarial valuation in advance of its performance.

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 actuarial cost method to calculate future actuarial liabilities beginning with the FY 2007 valuation. Historically, the actuarial valuations performed for SDCERS have calculated actuarial liabilities in accordance with the projected unit credit method. This change of methodology will impact the unfunded actuarial liability reported in the actuarial valuation for the fiscal year ending June 30, 2007. A comparison of the two valuation methods for the fiscal year ending June 30, 2006 was included in the June 30, 2006 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 Ending June 30, 2006				
	PUC	EAN	% Change	
Actuarial Value of Liability (Cheiron*)	\$ 4,982,699,455	\$ 5,191,961,336	4.2%	
Actuarial Value of Assets (Cheiron*)	3,981,931,694	3,981,931,694	0.0%	
Unfunded Actuarial Liability	1,000,767,761	1,210,029,642	20.9%	
Funding Ratio	79.9%	76.7%	(3.2%)	

*SDCERS Actuary

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 primarily are 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.

In accordance with SDMC Sections 24.1502 and 24.1203, amounts have been transferred from the surplus annual realized earnings of SDCERS pension assets to the system's employer contribution reserve for the purposes of offsetting the City's funding of retiree health benefits. An equivalent amount has been paid by the City into a SDCERS account for post employment healthcare benefits. It is from this account that post employment healthcare benefits were paid. As a result of the retiree health care benefit expense being funded by an SDCERS employer contribution reserve, the City offset the annual required contributions submitted to SDCERS by the same amount. This offset to annual required contributions resulted in an increase to the net pension obligation which is amortized and included in future contribution calculations. This account was depleted in fiscal year 2005. Once depleted, the City began paying for post employment healthcare benefits on a pay-as-you-go basis. In fiscal year 2004, approximately 3,400 retirees received either City paid insurance, or were reimbursed for other health insurance costs incurred. For the year ended June 30, 2004, expenditures of approximately \$12.8 million were recognized by SDCERS and paid from the SDCERS account for such healthcare benefits (see additional information in Note 13). In October 2004, the City Council voted to have the amount of retiree health care expense in excess of the current reserve balance, estimated to be \$6.5 million for fiscal year 2005, directly funded from City funds and not the SDCERS pension trust fund. In fiscal year 2006 the amount budgeted to pay for the annualized cost of retiree health benefits was \$16.8 million. For fiscal year 2007, the City included \$21 million of appropriations in its budget for funding of current retiree health costs and also appropriated \$5 million to establish a reserve to cover the future costs of this benefit.

The following schedule details employer payments for retirement health benefits:

<u>Retiree Health Care Costs</u> (in thousands)							
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
City Retiree Health Expenditures	\$ 5,413	\$ 7,208	\$ 8,882	\$ 11,450	\$ 12,829	\$ 14,859	\$ 17,544
Amount Paid from 401(h) reserve	5,413	7,208	8,882	11,450	12,829	7,910	-

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. The City will implement GASB 45 in its financial statements for the fiscal year ending June 30, 2008. Nevertheless, the City conducted an actuarial valuation of its postretirement welfare benefit plans for the purpose of determining its annual cost in accordance with GASB 45.

During fiscal year 2006, the City had taken a "pay as you go" approach to funding retiree health costs. Since a trust had not been set up for the express purpose of accumulating assets for the defeasance of future liabilities related to retiree health costs, the City used actuarial assumptions consistent with a "pay as you go" approach to funding retiree health benefits. Specifically, for valuation purposes, the City used a 4% earnings assumption, which approximated the average annual return of the City's investment pool, an inflation factor of 3%, and a 30 year amortization period. 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 2006 had the City implemented GASB 45 early.

<u>Retiree Healthcare Liabilities</u>	
Actuarial Accrued Liability	\$ 1,382,200,953
Annual Required Contribution	160,634,217
Estimated Level Percent of Payroll	24.70%

Defined Contribution Plan

Pursuant to the City's withdrawal from the Federal Social Security System effective January 8, 1982, and 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 ("SPSP"), a defined contribution plan administered by Wachovia Corporation, formerly Ameriprise Trust Company, 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.

The City also established a 401(k) Plan effective July 1, 1985. The plan is a defined contribution plan also administered by Wachovia Corporation, formerly Ameriprise Trust Company, to provide pension benefits for all eligible employees.

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.

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 Section 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.

OTHER FINANCIAL INFORMATION

Independent Audits

The City Charter requires an annual independent 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 to determine the adequacy of the internal control structure, including that portion related to federal financial assistance programs, as well as to determine the City's compliance with applicable laws, regulations, **contracts and grants**. Macias Gini & O'Connell LLP has been engaged to perform the City's financial statement audits for fiscal years 2004 and 2005 and is expected to be approved to perform the City's Single Audits and financial statement audits for fiscal years 2006 and 2007.

As reported in the Auditor and Comptroller's Annual Reports on Internal Controls and 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 June 30, 2003, which were both presented to the City Council, the City's internal control framework requires significant improvements in order to produce timely and accurate financial statements in a cost effective manner. The internal control weaknesses identified in those reports were a primary contributor to the need for restated fiscal year 2002 ending balances (as reported in the City's FY 2003 CAFR). These conclusions are supported by the findings and recommendations on the City's internal control framework and compliance with applicable laws and regulations provided by the City's independent auditors. 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, 2003 has been included as part of the City's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2003. Both the CAFR and the Auditor and Comptroller's Annual Reports on Internal Controls for each calendar year can be obtained at the City of San Diego Auditor & 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 are 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 State Government Code. The City's cash is invested under a pooled money concept, with maturities planned to coincide with projected needs, with the primary objective of preserving principal. During fiscal year 2004, the average daily pooled portfolio balance was approximately \$1.25 billion, with a weighted average maturity of 470 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 1.75%, as compared to 4.46% 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 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, as collateral for a reverse repurchase agreement with the counterpart's custodian bank or with a third party trustee, e.g., California State Treasurer's Office.

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 maintained contracts with various insurance companies to manage excessive risk.

Additional information on the City of San Diego's risk activity may be found in Note 15 of the notes to the financial statements.

Sincerely,


Ronne Froman
Chief Operating Officer


Jay M. Goldstone
Chief Financial Officer


Gregory Levin, CPA
Comptroller

City of San Diego Officials
As of June 30, 2004

Mayor and Council Members

Dick Murphy, Mayor

Scott Peters, Councilmember District 1

Michael Zucchet, Councilmember District 2

Toni Atkins, Councilmember District 3

Charles Lewis, Councilmember District 4

Brian Maienschein, Councilmember District 5

Donna Frye, Councilmember District 6

Jim Madaffer, Councilmember District 7

Ralph Inzunza, Councilmember District 8

City Officials

Michael T. Uberuaga, City Manager

Ed Ryan, Auditor and Comptroller

Mary Vattimo, Treasurer

Casey Gwinn, City Attorney

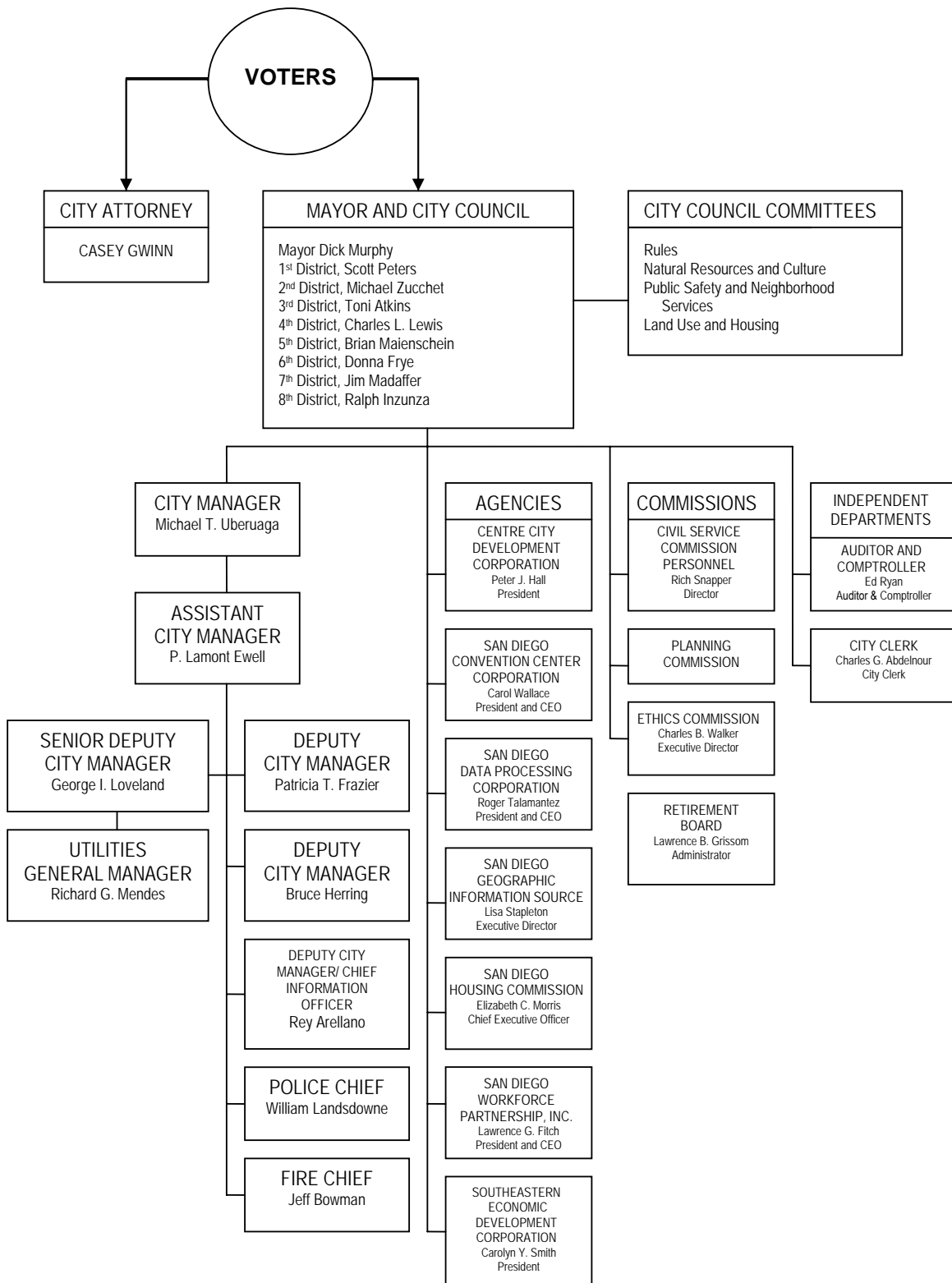
George I. Loveland, Senior Deputy City Manager

Richard Mendes, Utilities General Manager

Charles G. Abdelnour, City Clerk

Organization Chart

As of June 30, 2004



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FINANCIAL SECTION

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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, 2004, 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 87%, 94% and 81% of total assets, total net assets and total revenues, respectively, of the aggregate discretely presented component unit totals. We also did not audit the financial statements of the San Diego City Employees' Retirement System, a pension trust fund, which statements reflect 64%, 66% and 41% of total assets, total net assets and total revenues, respectively, of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based on the reports 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. 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 reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports 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, 2004, 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 May 11, 2007 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 25 through 37, 134 and 141 through 163 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 and the other auditors 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 184 through 197, 204 through 205 and 216 through 220 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we and the other auditors express no opinion on them.

Maricar Jini & O'Connell LLP

Certified Public Accountants

Los Angeles, California

May 11, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)
(In Thousands)
June 30, 2004

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, 2004.

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 2004. 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 cost 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 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
- 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
- Community Facility and Other Special Assessment Districts

The government-wide financial statements can be found beginning on page 46 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 fund balance sheet and the governmental fund 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.

The basic governmental funds financial statements can be found beginning on page 50 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 predominately 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 fund 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 fund 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 fund financial statements can be found beginning on page 54 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 fund financial statements can be found beginning on page 57 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 59 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 138 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. Combining and individual fund statements and schedules can be found beginning on page 171 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

CITY OF SAN DIEGO'S NET ASSETS

(In Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
Capital Assets	\$ 4,146,158	\$ 4,063,018	\$ 4,417,208	\$ 4,158,903	\$ 8,563,366	\$ 8,221,921
Other Assets	1,231,985	1,249,243	773,434	813,268	2,005,419	2,062,511
Total Assets	<u>5,378,143</u>	<u>5,312,261</u>	<u>5,190,642</u>	<u>4,972,171</u>	<u>10,568,785</u>	<u>10,284,432</u>
Net Long-Term Liabilities	1,676,681	1,528,114	1,901,897	1,775,877	3,578,578	3,303,991
Other Liabilities	156,271	235,989	122,288	100,463	278,559	336,452
Total Liabilities	<u>1,832,952</u>	<u>1,764,103</u>	<u>2,024,185</u>	<u>1,876,340</u>	<u>3,857,137</u>	<u>3,640,443</u>
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt	3,200,262	3,106,168	2,818,690	2,624,846	6,018,952	5,731,014
Restricted	491,722	495,978	30,409	97,842	522,131	593,820
Unrestricted	(146,793)	(53,988)	317,358	373,143	170,565	319,155
Total Net Assets	<u>\$ 3,545,191</u>	<u>\$ 3,548,158</u>	<u>\$ 3,166,457</u>	<u>\$ 3,095,831</u>	<u>\$ 6,711,648</u>	<u>\$ 6,643,989</u>

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 \$6,711,648 at June 30, 2004.

\$6,018,952, or approximately 90%, 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 are generally not used to liquidate these liabilities.

\$522,131 or approximately 8%, of total Net Assets represent resources that are subject to external restrictions on how they may be used. The remaining balance of \$170,565, or approximately 2% of total Net Assets, is available to finance ongoing services and obligations to the City's citizens and creditors.

The deficit balance of (\$146,793) in Governmental Activities Unrestricted Net Assets 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.

Unrestricted Net Assets decreased by \$148,590 due to resources being utilized in the acquisition and construction of capital assets, the accrual of probable losses of pending litigation, and an increase in net pension obligation (approximately \$70,000).

CITY OF SAN DIEGO'S CHANGES IN NET ASSETS

(In Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program Revenues						
Charges for Current Services	\$ 214,101	\$ 203,258	\$ 636,375	\$ 595,137	\$ 850,476	\$ 798,395
Operating Grants and Contributions	95,202	95,882	1,483	3,616	96,685	99,498
Capital Grants and Contributions	91,981	115,748	133,586	143,444	225,567	259,192
General Revenues						
Property Taxes	278,804	248,659	-	-	278,804	248,659
Transient Occupancy Taxes	113,209	105,262			113,209	105,262
Other Local Taxes	139,748	98,784	-	-	139,748	98,784
Grants and Contributions not Restricted to Specific Programs	339,702	315,150	-	-	339,702	315,150
Revenue from Use of Money and Property	57,537	84,448	10,289	31,760	67,826	116,208
Other	38,476	46,782	5,451	6,141	43,927	52,923
Total Revenues	1,368,760	1,313,973	787,184	780,098	2,155,944	2,094,071
Expenses:						
General Government and Support	221,752	204,072	-	-	221,752	204,072
Public Safety-Police	361,501	334,461	-	-	361,501	334,461
Public Safety-Fire and Life Safety	173,311	147,897	-	-	173,311	147,897
Parks, Recreation, Culture and Leisure	204,736	202,567	-	-	204,736	202,567
Transportation	197,152	154,603	-	-	197,152	154,603
Sanitation and Health	44,925	37,615	-	-	44,925	37,615
Neighborhood Services	100,568	95,267	-	-	100,568	95,267
Interest on Long-Term Debt	71,588	68,410	-	-	71,588	68,410
Airports	-	-	7,384	4,281	7,384	4,281
City Store	-	-	858	731	858	731
Development Services	-	-	52,970	47,278	52,970	47,278
Environmental Services	-	-	40,602	40,306	40,602	40,306
Golf Course	-	-	7,572	6,963	7,572	6,963
Recycling	-	-	19,497	19,141	19,497	19,141
Sewer Utility	-	-	312,929	352,075	312,929	352,075
Water Utility	-	-	270,940	267,855	270,940	267,855
Total Expenses	1,375,533	1,244,892	712,752	738,630	2,088,285	1,983,522
Change in Net Assets Before Transfers:	(6,773)	69,081	74,432	41,468	67,659	110,549
Transfers	3,806	5,411	(3,806)	(5,411)	-	-
Net Change in Net Assets	(2,967)	74,492	70,626	36,057	67,659	110,549
Net Assets- July 1	3,548,158	3,473,666	3,095,831	3,059,774	6,643,989	6,533,440
Net Assets- June 30	\$ 3,545,191	\$ 3,548,158	\$ 3,166,457	\$ 3,095,831	\$ 6,711,648	\$ 6,643,989

GOVERNMENTAL ACTIVITIES

Governmental activities decreased the City's net assets by \$2,967 during fiscal year 2004.

- Capital Grants and Contributions revenue decreased by \$23,767, or approximately 21%, primarily due to a decrease in land donations. Large land donations were received in fiscal year 2003 from the Trustees of the California State University for Mission Trails Regional Park, as well as donations from developers within the Torrey Pines Estates, Torrey Pines Highlands, and Black Mountain Ranch areas. There were also decreases from fiscal year 2003 in transportation related grant billings for the State Route 56, West Mission Bay Drive, and Mission Beach Boardwalk projects. The Redevelopment Agency also realized less revenue, due to fewer land sales in the Centre City area, and the return of funds intended for an East Village site purchase.
- Property Tax revenue increased by \$30,145, or approximately 12%, primarily due to the increase in assessed property valuations for both City and Redevelopment properties.
- Other Local Taxes revenue increased by \$40,964, or approximately 41%, primarily due to fiscal year 2004 being the first full year of the Underground Surcharge Program (approximately \$31 million). In addition, franchise fees for Time Warner increased from 3% to 5%, and refuse container franchise fees increased by one dollar per ton.
- Revenue from the Use of Money and Property decreased by \$26,911, or approximately 32%, primarily due to market changes. The GASB 31 unrealized loss was greater in fiscal year 2004 than fiscal year 2003.
- Other revenue decreased by \$8,306, or approximately 18%, due to a combination of the following: a decrease in developer contributions from fiscal year 2003 to fiscal year 2004 per an agreement with Sycamore Estate, LLC; fewer permits issued in fiscal year 2004 compared to fiscal year 2003 for Facilities Benefit Assessments in the Torrey Highlands area; and a decrease from fiscal year 2003 to fiscal year 2004 in Facilities Benefit Assessment (FBA) credits applied, mainly for infrastructure projects within the Santaluz area.
- Fire and Life Safety expense increased by \$25,414, or approximately 17%, primarily due to overtime and other expenses related to the Cedar Fire, as well as an increase in the pilot helicopter program expenses as a result of increased gas prices.
- Transportation expense increased by \$42,549, or approximately 28%, primarily due to fiscal year 2004 being the first full year of the Underground Surcharge Program (approximately \$31 million).
- Sanitation and Health expense increased by \$7,310, or approximately 19%, primarily due to Environmental Services Department's increased motive equipment charges from Central Garage.

BUSINESS-TYPE ACTIVITIES

Business-type activities increased the City's net assets by \$70,626 during fiscal year 2004.

- Revenue from the Use of Money and Property decreased by \$21,471, or approximately 68%, primarily due to market changes. The GASB 31 unrealized loss was greater in fiscal year 2004 than fiscal year 2003.
- Airports expenses increased by \$3,103, or approximately 72%, primarily due to the accrued loss of a lawsuit as a result of ongoing lease disputes.
- Development Services expenses increased by \$5,692, or approximately 12%. This was primarily due to the Development Services Fee Proposal approved by the Mayor and City Council on May 20, 2003, which necessitated an increase in personnel and non-personnel expenses, to maintain service levels and fund new and expanded services. In addition, the Building Development Review Department was transferred from the general fund into the Development Services Fund.
- Sewer utility expenses decreased \$39,146, or approximately 11%, primarily due to the accrual of the Shames lawsuit liability booked in FY 2003 for \$40 million.

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 2004, the City's governmental funds reported combined ending fund balances of \$934,887, an increase of \$19,048 from fiscal year 2003. This increase is primarily attributed to the issuance of new Section 108 loans, the receipt of new bond proceeds in the City Heights, Horton Plaza, and North Park redevelopment project areas, and an increase in activity for the first full year of the Underground Surcharge Program, offset with capital projects expenditures related to the Ballpark Construction project. Approximately \$638,369 constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed (1) to liquidate contracts and purchase orders of the period, (2) to pay debt service, (3) to generate income to pay for the perpetual care of the various programs, or (4) for a variety of other purposes.

The General Fund is the chief operating fund of the City. At the end of fiscal year 2004, undesignated fund balance of the General Fund was \$41,339, while total fund balance was \$61,222. This represents a \$2,554 decrease from the fiscal year 2003 undesignated fund balance.

Total fund balance of the general fund decreased approximately \$5,830 compared to fiscal year 2003. This decrease is primarily attributed to the appropriation of \$11,600 from undesignated fund balance for spending in the 2004 fiscal year budget, partially offset by departmental appropriation savings and net revenues and transfers received over estimated amounts.

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 2004, unrestricted net assets of the Sewer Utility Fund are \$148,447. The Sewer Utility's unrestricted net assets decreased approximately \$10,533, mainly due to continued cash expenditures for the capital improvement program. As a result, the Sewer Utility's invested in capital assets, net of related debt increased approximately \$52,241.

As of the end of fiscal year 2004, unrestricted net assets of the Water Utility Fund are \$137,854. The Water Utility's unrestricted net assets decreased approximately \$45,808, mainly due to continued cash expenditures for the capital improvement program. As a result, the Water Utility's invested in capital assets, net of related debt increased approximately \$143,461.

GENERAL FUND BUDGETARY HIGHLIGHTS

The original budget was \$41,938 lower than the final budget due to an increase in appropriations primarily attributed to the following:

- \$5,881 for General Government and Support. This increase was due to Memoranda of Understanding executed by various General Fund departments to provide increased services to various City departments and agencies during the fiscal year. These increases were funded by current services revenue generated by the work provided. The City Attorney's Office and Facilities Maintenance department were responsible for the majority of this increase.
- \$9,711 for Public Safety - Police. \$5,900 of the increase was due to additional operation services and expenditures, including the April 2004 Academy and Red Light Photo Enforcement Program. This portion of the increase was funded by over-budget Sales Tax revenue and settlement revenue related to the Civic Center Plaza Building. \$3,800 of the increase was due to additional services for programs reimbursable by grant funds, and services for special events. This portion of the increase was funded by current services revenue generated by the work provided.

- \$13,969 for Public Safety - Fire. This increase was due to additional services performed for the Emergency Medical Services department, higher than anticipated overtime, and expenditures related to the Cedar Fire. The \$8,700 increase due to additional services performed was funded by current services revenue generated by the work provided. The \$5,300 due to higher than anticipated overtime costs and the Cedar Fire expenditures were both funded with over-budget Sales Tax revenue.
- \$3,270 for Neighborhood Services. This increase was due primarily to additional services provided to the Redevelopment Agency and other City funds. This increase was funded by services revenue generated by the work provided.
- \$7,738 for Transfers to Proprietary Funds. This was due to an increase in the Public Liability Reserve, which was funded by over-budget Sales Tax revenue.

Actual revenues received for the General Fund were \$3,760 less than budgeted. This was attributed to a combination of surpluses and shortfalls in several categories. Sales Tax was approximately \$8,100 under budget, due to actual growth rates being lower than projected growth rates. MVL Fees were under budget by \$16,800 due to the State of California's decision to withdraw the backfill that was being paid to local governments. After the 2004 election the State reconsidered and decided to return funding to the local governments, however, the backfill that was withdrawn was to be paid back to the City in a subsequent year. Unbudgeted Tobacco receipts were approximately \$7,800, and were intended to establish general fund reserves. Charges for Current Services were approximately \$11,500 over budget, mainly due to services rendered to other funds.

Actual expenditures for the General Fund were \$18,668 less than budgeted, primarily due to the City Manager's mandatory 5% savings plan enforced upon all General Fund departments, which resulted in appropriation savings of \$14,200 in fiscal year 2004.

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	
	2004	2003	2004	2003	2004	2003
Land, Easements, Rights of Way	\$ 1,643,517	\$ 1,602,247	\$ 85,303	\$ 85,986	\$ 1,728,820	\$ 1,688,233
Structures and Improvements	745,585	557,143	1,221,888	1,200,023	1,967,473	1,757,166
Equipment	123,387	142,231	126,702	139,233	250,089	281,464
Distribution and Collection Systems	-	-	2,521,598	2,358,324	2,521,598	2,358,324
Infrastructure	1,492,211	1,470,294	-	-	1,492,211	1,470,294
Construction-in- Progress	141,458	291,103	461,717	375,337	603,175	666,440
Total	<u>\$ 4,146,158</u>	<u>\$ 4,063,018</u>	<u>\$ 4,417,208</u>	<u>\$ 4,158,903</u>	<u>\$ 8,563,366</u>	<u>\$ 8,221,921</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 for the fiscal year ended June 30, 2004 was \$8,563,366 (net of accumulated depreciation). The total increase in the City's investment in Capital Assets for fiscal year 2004 was approximately \$341,445.

HIGHLIGHTS OF FISCAL YEAR 2004 CAPITAL IMPROVEMENT ACTIVITIES

Governmental Activities

- Construction was completed for the Vista Pacifica (Robinhood Ridge) Neighborhood Park. This project provided for the acquisition and development of a six-useable-acre park within the Robinhood Ridge Precise Plan Area, and improvements of open-turfed areas, a play area, and landscaping. The City's fiscal year 2004 capital expenditures for this project were \$1,600.
- Construction was completed in March 2004 of the Carmel Valley Neighborhood Park. This project provided a seven acre neighborhood park and a 4.5 acre joint use area contiguous to a six acre elementary school within the Carmel Valley Community, which accommodates facilities benefit planning for the ultimate development of this community. The City's fiscal year 2004 capital expenditures for this project were \$1,100.
- Construction was completed for the James Edgar and Jean Jessop Hervey Library/Point Loma Branch Library. The facility includes a community room, outdoor patios, lounge areas, computer room, and seminar rooms. The City's fiscal year 2004 capital expenditures for this project were \$590 for a total of \$10,500. The 26,000 square foot branch library was completed in September of 2003.
- Construction continues on the Skyline Hills Branch Library as of fiscal year 2007. This project will provide a new 15,000 square foot library to replace the existing facility located at 480 South Meadowbrook Drive. The project is part of the Mayor's 21st Century Library System/Library Department Facility Improvements Program. The City's fiscal year 2004 capital expenditures for this project were \$2,100.
- Construction of the PETCO Park Ballpark Project was completed as scheduled in May 2004. The Ballpark project consists of the Ballpark Facility, an Outfield Park, and other associate infrastructure improvements such as parking, repaved roadways, relocation of utilities, storm drain improvements, and streetscape and landscape improvements. The City's fiscal year 2004 capital expenditures for this project were \$34,900.
- Construction continues on the Carmel Mountain Road - Interstate 5 Interchange project as of fiscal year 2007. 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 2004 capital expenditures for this project were \$2,600.
- Construction of the final section of the SR-56 Transportation Improvement Project was completed in July 2004. SR-56 is the only east-west freeway in the 25 mile gap between SR-78 and SR-52 in North San Diego County. The City's fiscal year 2004 capital expenditures for this project were \$8,100.
- The La Jolla Shores Drive/Torrey Pines Road/Ardath and Hidden Valley Road project was completed in September 2003. This project improved traffic flow by constructing medians between Torrey Pines Road and Ardath Road, closing the Ardath Road access road, and realigning Hidden Valley Road with the new intersection. The project also provided streetscaping. The City's fiscal year 2004 capital expenditures for this project were \$1,500.

- Construction continues on Del Mar Mesa Road (formerly named Shaw Ridge Road)– Carmel County Road to Carmel Mountain Road. This project constructs Del Mar Mesa Road as a two lane rural residential road from Carmel Country Road to the future Carmel Mountain Road, and the improvements of a 16-inch water line and a multi-use trail. The City's fiscal year 2004 capital expenditures for this project were \$2,500 and are funded by the Del Mar Mesa Facilities Benefit Assessment.
- Construction was completed for the West Mission Bay Drive Bridge Retrofit Project, over Mission Bay Channel. This project provides for the seismic retrofit of the bridge, which consists of stabilizing the existing piers and joining the paired piers together at the waterline to increase support during seismic events. The City's fiscal year 2004 capital expenditures for this project were \$2,600. The retrofit was completed in September 2003.

Business-Type Activities

During fiscal year 2004, the Water Utility Fund added \$104,300 in capital improvement projects (CIP). The first phase of construction on the Alvarado Water Treatment Plant expansion and upgrade project was completed, which increased the plant's treatment capacity from 120 million gallons of water a day (MGD) to 150 MGD.

During fiscal year 2004, the Metropolitan Wastewater Fund added \$135,500 in CIP, of which the Metropolitan system CIP increased approximately \$21,700 and included the following major projects: Olay River Pump Station; Point Loma-Fourth Sludge Pump and Other Modifications; and the Point Loma Digester S1 and S2 Upgrades. Municipal system CIP increased approximately \$113,800, comprised primarily of sewer main replacements and pump station restorations, which included Pipeline Rehabilitation, Phase A, and Chollas Valley Trunk Sewer.

HIGHLIGHTS OF APPROVED FISCAL YEAR 2005 CAPITAL IMPROVEMENT PROJECTS (CIP) BUDGET

The Annual Approved Capital Improvements Budget for Fiscal Year 2005 is \$583,300, which is a \$115,700, or 25% increase over the fiscal year 2004 budget of \$467,600. Engineering & Capital Projects, and Library Projects comprise more than 29%, and 17% of the total CIP budget, respectively. Water and Sewer projects comprise over 37% 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: \$170,600 (29.2% 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 \$64,500 annual allocation to these projects is entirely funded by the Undergrounding Surcharge Fund. Other significant projects include: \$13,100 for the Camino Santa Fe and State Route 56 interchange project; \$6,200 for construction of a four lane collector street from Sorrento Valley Road to Scranton Road; \$6,000 for improvements to Balboa Avenue; \$2,800 for improvements to the First Avenue bridge over Maple Canyon; and \$1,300 for the construction of the central section of Del Sol Boulevard.
- Library: \$103,100 (17.7% of total CIP budget). Major budgets in fiscal year 2005 are \$74,500 for San Diego Main Library, \$12,700 for San Ysidro Branch Library, \$5,600 for Ocean Beach Branch Library, and \$2,400 for Kensington-Normal Heights Library.
- Park and Recreation: \$32,500 (5.6% of total CIP budget). Key budgets include: Ocean View Hills Community Park \$4,150, North Course at Torrey Pines Golf Course \$3,100, Nobel Athletic Area Development \$2,000, Del Mar Mesa Neighborhood Park # 10 \$1,000, and Park De La Cruz and 38th Street Canyon \$1,000.
- San Diego Fire-Rescue: \$28,700 (4.9% of total CIP budget). Significant allocations for fire stations in fiscal year 2005 are for Pacific Highlands Ranch, Central Mission Valley, Hillcrest, Mid-City, Del Cerro relocation, and new construction.

Business-Type Activities

The \$113,000 fiscal year 2005 Water Utility CIP budget includes \$55,700 for phase funded projects. Projects include the Alvarado Water Treatment Plant, including the Earl Thomas Reservoir, the upgrade and expansion of the Miramar Water Treatment Plant and Otay Water Treatment Plant, the North City Reclamation System, and replacing water mains citywide.

The fiscal year 2005 Metropolitan Wastewater Department Capital Improvement Program budget of \$203,800 includes approximately \$50,400 for phase funded projects. Projects include the Point Loma Digester S1 and S2 Upgrades, Point Loma Grit Processing Improvements, Wastewater Operations Management Network, Lake Murray Trunk Sewer-In Canyon, USIU Trunk Sewer, Sorrento Valley Trunk Sewer Relocation, Pump Station Upgrades, and the continued replacement of sewer mains and upgrades to the sewer infrastructure.

CITY OF SAN DIEGO'S OUTSTANDING DEBT

(In Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
Capital Lease						
Obligations	\$ 30,619	\$ 37,701	\$ 5,008	\$ 6,465	\$ 35,627	\$ 44,166
Contracts Payable	1,715	1,882	-	-	1,715	1,882
Notes Payable	5,998	8,416	-	-	5,998	8,416
Loans Payable	4,865	2,851	67,054	69,093	71,919	71,944
Section 108 Loans	44,917	25,925	-	-	44,917	25,925
SANDAG Loans	19,302	17,341	-	-	19,302	17,341
General Obligation						
Bonds	45,775	52,165	-	-	45,775	52,165
Revenue Bonds/ COP's	591,620	609,785	1,731,825	1,612,200	2,323,445	2,221,985
Special Assessment/ Special Tax Bonds	140,545	123,130	-	-	140,545	123,130
Tax Allocation Bonds	314,333	283,310	-	-	314,333	283,310
Total	<u>\$ 1,199,689</u>	<u>\$ 1,162,506</u>	<u>\$ 1,803,887</u>	<u>\$ 1,687,758</u>	<u>\$ 3,003,576</u>	<u>\$ 2,850,264</u>

LONG-TERM DEBT

At the end of fiscal year 2004, the City, including blended component units, had total debt outstanding of approximately \$3,003,576. Of this amount, \$45,775 is comprised of debt backed by the full faith and credit of the government. The remainder of the City's debt represents special tax and special assessment bonds secured solely by specified revenue sources (i.e., revenue bonds), 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.

- The City issued \$5,430 of Limited Obligation Improvement Bonds to provide funds for the Piper Ranch Assessment District, which is being developed as an industrial/business park.
- The City issued \$14,965 of Special Tax Bonds, to finance various public improvements needed to develop the property within the Community Facilities District No. 2 (Santaluz), Improvement Areas 1 and 4.

- The City issued \$8,850 of Limited Obligation Refunding Bonds for the Reassessment District No. 2003-1, which were used to refund three limited obligation improvement bonds issued under the Improvement Bond Act of 1915. The three issuances refunded were De La Fuente Phase I, De La Fuente Phase II, and the International Business Center Project.
- The City (RDA) issued \$37,180 of Tax Allocation Bonds to finance various redevelopment activities in the Horton Plaza (\$18,855), City Heights (\$5,820) and North Park (\$12,505) Project Areas.
- The City (PFFA) privately placed \$152,000 of Non-Transferable Subordinated Sewer Revenue Bonds to finance upgrades to and expansion of its wastewater system.

The following are credit ratings changes that have occurred since July 1, 2003, pertaining to the City of San Diego's outstanding General Obligation bonds, general fund backed lease revenue obligations, and Enterprise System based revenue obligations:

Moody's Investor's Service							
	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							

Fitch Ratings					
	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

Standard & Poor's			
	July 1, 2003	Feb 23, 2004	Sept 20, 2004
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

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 are significantly less than the current debt limitations for water and other purposes, which are \$17,653,173 and \$11,768,782 respectively.

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.

ECONOMIC FACTORS AND FISCAL YEAR 2005 BUDGETS AND RATES

In November 2006, and prior to the issuance of these financial statements, the Securities and Exchange Commission entered an order sanctioning the City of San Diego for committing securities fraud by failing to disclose to the investing public important information about its pension and retiree health care obligations relating to its municipal bonds in 2002 and 2003. 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.

Prior to settlement with the SEC, the City voluntarily hired a number of firms to review the City's disclosure practices and to investigate potential illegal acts. The independent investigations concluded when the Report of the Audit Committee of the City of San Diego was presented to the City on August 8, 2006. Due to the delay in issuance of the financial statements, and in an effort to provide enhanced disclosure on the status of the City's retirement obligations, we included information on the most recent actuarial valuation performed for SDCERS and modified data to show what the City believes is its true funded position in the retirement system.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government'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. This financial report is also available on the City's website at 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, 2004
(In Thousands)

	Primary Government			Component Units	
	Governmental Activities	Business - Type Activities	Total	San Diego Convention Center Corporation	San Diego Housing Commission
ASSETS					
Cash and Investments	\$ 845,257	\$ 438,633	\$ 1,283,890	\$ 6,839	\$ 32,422
Receivables:					
Taxes - Net	83,018	-	83,018	-	-
Accounts, Net of Allowance for Uncollectibles (Governmental Activities \$7,404, Business-Type Activities \$1,151)	46,725	61,349	108,074	2,475	975
Claims - Net	147	-	147	-	-
Contributions	359	-	359	-	-
Special Assessments - Net	1,064	-	1,064	-	-
Notes	29,730	-	29,730	-	94,677
Notes from Housing Commission	696	-	696	-	-
Accrued Interest	2,484	1,428	3,912	-	9,298
Grants	41,472	3,007	44,479	1,128	-
From Primary Government	-	-	-	53	539
From Other Agencies	1,540	-	1,540	-	2,349
From External Parties	-	-	-	-	371
Investment in Joint Venture	1,522	-	1,522	-	-
Advances to External Parties	1,621	464	2,085	-	-
Advances to Other Agencies	3,616	-	3,616	-	-
Internal Balances	2,293	(2,293)	-	-	-
Inventories of Water in Storage	-	30,695	30,695	-	-
Inventories	2,618	538	3,156	-	56
Land Held for Resale	36,561	-	36,561	-	-
Prepaid Expenses.....	4,315	28	4,343	1,164	34
Restricted Cash and Investments	107,815	226,776	334,591	4,902	1,001
Deferred Charges	19,132	12,809	31,941	-	-
Capital Assets - Non-Depreciable	1,784,975	547,020	2,331,995	-	35,107
Capital Assets - Depreciable	2,361,183	3,870,188	6,231,371	15,525	47,606
TOTAL ASSETS	\$ 5,378,143	\$ 5,190,642	\$ 10,568,785	\$ 32,086	\$ 224,435

STATEMENT OF NET ASSETS
June 30, 2004
(In Thousands)

	Primary Government			Component Units	
	Governmental Activities	Business - Type Activities	Total	San Diego Convention Center Corporation	San Diego Housing Commission
LIABILITIES					
Accounts Payable	\$ 43,592	\$ 62,074	\$ 105,666	\$ 3,500	\$ 2,089
Accrued Wages and Benefits	42,499	14,800	57,299	1,508	1,836
Other Accrued Liabilities	678	-	678	1,481	1,113
Interest Accrued on Long-Term Debt	19,131	17,908	37,039	-	42
Long-Term Liabilities Due Within One Year	131,841	47,594	179,435	1,000	250
Due to San Diego Convention Center Corporation	53	-	53	-	-
Due to San Diego Housing Commission	539	-	539	-	-
Due to Other Agencies	540	9,424	9,964	-	324
Unearned Revenue	21,724	6,673	28,397	1,000	53
Contract Deposits	-	8,110	8,110	-	-
Sundry Trust Liabilities	4,490	-	4,490	-	-
Customer Deposits Payable	-	3,235	3,235	-	-
Deposits/Advances from Others	-	64	64	4,721	707
Land Acquisition Credits	23,025	-	23,025	-	-
Long-Term Liabilities Due After One Year:					
Arbitrage Liability	262	221	483	-	-
Compensated Absences	41,957	9,484	51,441	-	-
Liability Claims	160,500	47,296	207,796	-	-
Capital Lease Obligations	20,544	3,494	24,038	-	-
Contracts Payable	1,715	-	1,715	-	-
Notes Payable	5,933	-	5,933	5,500	12,190
Notes Payable to Primary Government	-	-	-	-	696
Loans Payable	1,852	63,803	65,655	-	-
SANDAG Loans Payable	13,979	-	13,979	-	-
Section 108 Loans Payable	42,858	-	42,858	-	-
Net Bonds Payable	1,051,651	1,688,980	2,740,631	-	-
Estimated Landfill Closure and Postclosure Care	-	12,679	12,679	-	-
Net Pension Obligation	203,589	28,346	231,935	-	-
TOTAL LIABILITIES	<u>1,832,952</u>	<u>2,024,185</u>	<u>3,857,137</u>	<u>18,710</u>	<u>19,300</u>
NET ASSETS					
Invested in Capital Assets, net of Related Debt	3,200,262	2,818,690	6,018,952	9,025	69,577
Restricted for:					
Capital Projects	274,664	-	274,664	5,030	-
Debt Service	74,268	3,674	77,942	-	-
Other	129,686	26,735	156,421	-	55,612
Permanent Funds	13,104	-	13,104	-	-
Unrestricted	(146,793)	317,358	170,565	(679)	79,946
TOTAL NET ASSETS	<u>\$ 3,545,191</u>	<u>\$ 3,166,457</u>	<u>\$ 6,711,648</u>	<u>\$ 13,376</u>	<u>\$ 205,135</u>

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

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004
(In Thousands)

	Program Revenues			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government and Support	\$ 221,752	\$ 81,167	\$ 18,316	\$ 308
Public Safety - Police	361,501	23,699	25,082	587
Public Safety - Fire and Life Safety	173,311	19,940	4,378	153
Parks, Recreation, Culture and Leisure	204,736	12,466	24,391	30,479
Transportation	197,152	47,709	479	41,670
Sanitation and Health	44,925	9,087	953	945
Neighborhood Services	100,568	20,033	21,603	4,193
Interest on Long-Term Debt	71,588	-	-	13,646
TOTAL GOVERNMENTAL ACTIVITIES	1,375,533	214,101	95,202	91,981
Business-Type Activities:				
Airports	7,384	3,827	12	787
City Store	858	852	-	-
Development Services	52,970	58,412	6	-
Environmental Services	40,602	38,377	95	-
Golf Course	7,572	11,911	-	-
Recycling	19,497	16,169	127	-
Sewer Utility	312,929	267,294	687	60,759
Water Utility	270,940	239,533	556	72,040
TOTAL BUSINESS-TYPE ACTIVITIES	712,752	636,375	1,483	133,586
TOTAL PRIMARY GOVERNMENT	\$ 2,088,285	\$ 850,476	\$ 96,685	\$ 225,567
Component Units:				
San Diego Convention Center Corporation	\$ 31,217	\$ 29,440	\$ 4,140	\$ -
San Diego Housing Commission	141,487	16,481	127,280	1,895
TOTAL COMPONENT UNITS	\$ 172,704	\$ 45,921	\$ 131,420	\$ 1,895
General Revenues:				
Property Taxes				
Transient Occupancy Taxes				
Other Local Taxes				
Developer Contributions and Fees				
Grants and Contributions not Restricted to Specific Programs				
Investment Income				
Gain on Sale of Capital Assets				
Permanent Fund Contributions				
Miscellaneous				
Transfers				
TOTAL GENERAL REVENUES AND TRANSFERS				
CHANGE IN NET ASSETS				
Net Assets at Beginning of Year				
NET ASSETS AT END OF YEAR				

Net Revenue/(Expense) and Change in Net Assets				
Primary Government			Component Units	
Governmental Activities	Business-Type Activities	Total	San Diego Convention Center Corporation	San Diego Housing Commission
\$ (121,961)	\$ -	\$ (121,961)	\$ -	\$ -
(312,133)	-	(312,133)	-	-
(148,840)	-	(148,840)	-	-
(137,400)	-	(137,400)	-	-
(107,294)	-	(107,294)	-	-
(33,940)	-	(33,940)	-	-
(54,739)	-	(54,739)	-	-
(57,942)	-	(57,942)	-	-
(974,249)	-	(974,249)	-	-
-	(2,758)	(2,758)	-	-
-	(6)	(6)	-	-
-	5,448	5,448	-	-
-	(2,130)	(2,130)	-	-
-	4,339	4,339	-	-
-	(3,201)	(3,201)	-	-
-	15,811	15,811	-	-
-	41,189	41,189	-	-
-	58,692	58,692	-	-
\$ (974,249)	\$ 58,692	\$ (915,557)	\$ -	\$ -
\$ -	\$ -	\$ -	\$ 2,363	\$ -
-	-	-	-	4,169
\$ -	\$ -	\$ -	\$ 2,363	\$ 4,169
278,804	-	278,804	-	-
113,209	-	113,209	-	-
139,748	-	139,748	-	-
33,363	-	33,363	-	-
339,702	-	339,702	-	-
57,537	10,289	67,826	36	2,576
467	8	475	-	118
250	-	250	-	-
4,396	5,443	9,839	611	-
3,806	(3,806)	-	-	-
971,282	11,934	983,216	647	2,694
(2,967)	70,626	67,659	3,010	6,863
3,548,158	3,095,831	6,643,989	10,366	198,272
\$ 3,545,191	\$ 3,166,457	\$ 6,711,648	\$ 13,376	\$ 205,135

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

**GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2004
(In Thousands)**

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and Investments	\$ 23,819	\$ 743,915	\$ 767,734
Receivables:			
Taxes - Net	69,275	13,743	83,018
Accounts, Net of Allowance for Uncollectibles (General Fund \$5,877, Other Governmental \$1,527)	36,709	6,678	43,387
Claims - Net	62	45	107
Special Assessments - Net	-	1,064	1,064
Notes	-	30,426	30,426
Accrued Interest	374	2,096	2,470
Grants	-	41,472	41,472
Due From Other Funds	10,100	51,958	62,058
From Other Agencies	68	1,472	1,540
Investment in Joint Venture	1,522	-	1,522
Advances to Other Funds	1,790	3,126	4,916
Advances to Other Agencies	350	3,266	3,616
Land Held for Resale	-	36,561	36,561
Prepaid Items	207	2,475	2,682
Restricted Cash and Investments	-	107,815	107,815
TOTAL ASSETS	<u>\$ 144,276</u>	<u>\$ 1,046,112</u>	<u>\$ 1,190,388</u>
LIABILITIES			
Accounts Payable	\$ 3,718	\$ 28,924	\$ 32,642
Accrued Wages and Benefits	36,456	2,227	38,683
Other Accrued Liabilities	-	678	678
Due to Other Funds	-	64,684	64,684
Due to Component Units	-	592	592
Due to Other Agencies	-	540	540
Deferred Revenue	41,894	42,350	84,244
Unearned Revenue	-	21,660	21,660
Advances from Other Funds	986	3,354	4,340
Sundry Trust Liabilities	-	4,490	4,490
Interfund Interest Payable	-	562	562
Interfund Loan Payable	-	2,386	2,386
TOTAL LIABILITIES	<u>\$ 83,054</u>	<u>\$ 172,447</u>	<u>\$ 255,501</u>

**GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2004
(In Thousands)**

	General Fund	Other Governmental Funds	Total Governmental Funds
FUND BALANCES:			
Reserved for Land Held for Resale	\$ -	\$ 35,234	\$ 35,234
Reserved for Encumbrances	14,888	126,133	141,021
Reserved for Advances	2,140	6,392	8,532
Reserved for Permanent Endowments	-	12,225	12,225
Reserved for Debt Service	-	97,984	97,984
Reserved for Minority Interest in Joint Venture	1,522	-	1,522
Unreserved, Reported in General Fund:			
Designated for Subsequent Years' Expenditures	1,333	-	1,333
Undesignated	41,339	-	41,339
Unreserved, Reported in:			
Special Revenue Funds	-	305,909	305,909
Debt Service Funds	-	1,650	1,650
Capital Projects Funds	-	287,259	287,259
Permanent Funds	-	879	879
TOTAL FUND BALANCES	61,222	873,665	934,887
TOTAL LIABILITIES AND FUND BALANCES	\$ 144,276	\$ 1,046,112	

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.	4,057,528
Other assets and liabilities used in governmental activities are not financial resources, and therefore, are either deferred or not reported in the funds.	103,376
Liabilities for Facilities Benefit Assessments (FBA) credits and land acquisition credits which are earned by developers but not taken are not reported in the funds.	(24,982)
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 San Diego Data Processing Corporation to individual funds. The assets and liabilities of all Internal Service funds except Special Engineering are included in governmental activities on the Statement of Net Assets.	(58,163)
Certain liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(1,467,455)
Net Assets of governmental activities	<u>\$ 3,545,191</u>

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

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2004
(In Thousands)

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Property Taxes	\$ 201,133	\$ 77,957	\$ 279,090
Special Assessments	-	26,816	26,816
Sales Taxes	137,360	101,070	238,430
Transient Occupancy Taxes	59,530	53,679	113,209
Other Local Taxes	64,977	75,039	140,016
Licenses and Permits	23,699	6,893	30,592
Fines, Forfeitures and Penalties	31,832	2,038	33,870
Revenue from Use of Money and Property	27,758	35,510	63,268
Revenue from Federal Agencies	4,055	46,438	50,493
Revenue from Other Agencies	74,204	80,355	154,559
Revenue from Private Sources	-	62,143	62,143
Charges for Current Services	98,956	30,394	129,350
Other Revenue	2,870	7,592	10,462
TOTAL REVENUES	726,374	605,924	1,332,298
EXPENDITURES			
Current:			
General Government and Support	134,865	63,961	198,826
Public Safety - Police	283,747	29,640	313,387
Public Safety - Fire and Life Safety	137,837	14,236	152,073
Parks, Recreation, Culture and Leisure	97,380	72,783	170,163
Transportation	20,219	97,400	117,619
Sanitation and Health	39,111	3,073	42,184
Neighborhood Services	25,997	78,208	104,205
Capital Projects	-	174,346	174,346
Debt Service:			
Principal Retirement	2,318	46,800	49,118
Interest	5,442	63,358	68,800
Arbitrage Rebate	-	421	421
TOTAL EXPENDITURES	746,916	644,226	1,391,142
EXCESS (DEFICIENCY) OF REVENUES			
OVER EXPENDITURES	(20,542)	(38,302)	(58,844)
OTHER FINANCING SOURCES (USES)			
Transfers from Proprietary Funds	2,941	4,432	7,373
Transfers from Other Funds	37,994	207,601	245,595
Transfers to Proprietary Funds	(13,707)	(2,767)	(16,474)
Transfers to Other Funds	(15,665)	(229,930)	(245,595)
Transfers to Escrow Agent	-	(10,132)	(10,132)
Proceeds from Sale of Capital Assets	-	301	301
Net Loss from Joint Venture	(485)	-	(485)
Capital Leases Issued	3,634	-	3,634
SANDAG Loans Issued	-	6,400	6,400
Section 108 Loans Issued	-	21,107	21,107
Tax Allocation Bonds Issued	-	37,180	37,180
Special Assessment Bonds Issued	-	29,245	29,245
Premium on Bonds Issued	-	2	2
Discount on Bonds Issued	-	(259)	(259)
TOTAL OTHER FINANCING SOURCES (USES)	14,712	63,180	77,892
NET CHANGE IN FUND BALANCES	(5,830)	24,878	19,048
Fund Balances at Beginning of Year	67,052	848,787	915,839
FUND BALANCES AT END OF YEAR	\$ 61,222	\$ 873,665	\$ 934,887

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
For the Year Ended June 30, 2004
(In Thousands)

Net change in fund balances - total governmental funds (page 52)	\$ 19,048
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.	95,713
The net effect of various miscellaneous transactions involving capital assets (i.e., donations, retirements, and transfers) is to decrease net assets.	(5,324)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	22,648
Revenue recognized at the fund level provides a current financial resource to governmental funds, while the offsetting land acquisition credit results in a decrease to net assets.	(2,325)
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.	(38,518)
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.	(62,429)
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>(31,780)</u>
Change in net assets of governmental activities (page 49)	<u>\$ (2,967)</u>

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

**PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
June 30, 2004
(In Thousands)**

	Business-Type Activities - Enterprise Funds				
	Sewer Utility	Water Utility	Other Enterprise Funds	Total	Internal Service Funds
ASSETS					
Current Assets:					
Cash and Investments	\$ 218,531	\$ 140,934	\$ 74,449	\$ 433,914	\$ 82,242
Receivables:					
Accounts, Net of Allowance for Uncollectibles (Sewer \$514, Water \$637)	26,301	32,665	2,383	61,349	3,338
Claims - Net	-	-	-	-	40
Contributions	-	-	-	-	359
Accrued Interest	654	498	273	1,425	17
Grants	30	2,416	561	3,007	-
Due From Other Funds	-	-	2,695	2,695	-
Inventories of Water in Storage	-	30,695	-	30,695	-
Inventories	-	448	90	538	2,618
Prepaid Expenses	6	16	6	28	1,633
Total Current Assets	245,522	207,672	80,457	533,651	90,247
Non-Current Assets:					
Restricted Cash and Investments	58,941	141,167	26,668	226,776	-
Advances to Other Funds	496	776	144	1,416	93
Deferred Charges	7,624	5,185	-	12,809	-
Interfund Interest Receivable	-	562	-	562	-
Interfund Loan Receivable	-	2,386	-	2,386	-
Capital Assets - Non-Depreciable	220,422	298,114	28,484	547,020	1,984
Capital Assets - Depreciable	2,618,858	1,178,724	72,011	3,869,593	87,241
Total Non-Current Assets	2,906,341	1,626,914	127,307	4,660,562	89,318
TOTAL ASSETS	3,151,863	1,834,586	207,764	5,194,213	179,565
LIABILITIES					
Current Liabilities:					
Accounts Payable	26,886	33,081	1,992	61,959	9,108
Accrued Wages and Benefits	6,153	3,342	4,250	13,745	4,871
Interest Accrued on Long-Term Debt	6,496	11,404	8	17,908	169
Long-Term Liabilities Due Within One Year	32,309	11,004	3,799	47,112	51,632
Due to Other Funds	-	-	69	69	-
Due to Other Agencies	7,324	2,090	10	9,424	-
Unearned Revenue	10	2,807	3,856	6,673	64
Contract Deposits	2,299	5,683	128	8,110	-
Customer Deposits Payable	-	3,235	-	3,235	-
Total Current Liabilities	81,477	72,646	14,112	168,235	65,844
Non-Current Liabilities:					
Deposits/Advances from Others	-	-	64	64	-
Arbitrage Liability	17	204	-	221	-
Compensated Absences	3,173	2,503	3,145	8,821	4,465
Liability Claims	41,041	2,685	3,570	47,296	160,500
Capital Lease Obligations	-	-	3,494	3,494	9,952
Loans Payable	63,803	-	-	63,803	-
Net Revenue Bonds Payable	1,119,218	569,762	-	1,688,980	-
Estimated Landfill Closure and Postclosure Care	-	-	12,679	12,679	-
Net Pension Obligation	9,596	7,672	8,865	26,133	4,997
Total Non-Current Liabilities	1,236,848	582,826	31,817	1,851,491	179,914
TOTAL LIABILITIES	1,318,325	655,472	45,929	2,019,726	245,758
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	1,684,947	1,037,730	95,418	2,818,095	73,251
Restricted for Debt Service	144	3,530	-	3,674	-
Restricted for Closure/Postclosure maintenance	-	-	26,735	26,735	-
Unrestricted	148,447	137,854	39,682	325,983	(139,444)
TOTAL NET ASSETS	\$ 1,833,538	\$ 1,179,114	\$ 161,835	3,174,487	\$ (66,193)
Adjustment to reflect the consolidation of certain internal service fund activities related to enterprise funds.				(8,030)	
Net assets of business-type activities				<u>\$ 3,166,457</u>	

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

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
For the Year Ended June 30, 2004
(In Thousands)

	Business-Type Activities - Enterprise Funds				
	Sewer Utility	Water Utility	Other Enterprise Funds	Total	Internal Service Funds
OPERATING REVENUES					
Sales of Water	\$ -	\$ 221,623	\$ -	\$ 221,623	\$ -
Charges for Services	262,673	965	73,612	337,250	160,999
Revenue from Use of Property	-	4,969	-	4,969	-
Usage Fees	-	1,426	51,845	53,271	40,785
Other	4,621	10,550	4,091	19,262	2,124
TOTAL OPERATING REVENUES	267,294	239,533	129,548	636,375	203,908
OPERATING EXPENSES					
Benefit and Claim Expenses	-	-	-	-	99,825
Maintenance and Operations	110,024	95,182	101,134	306,340	46,705
Cost of Materials Issued	-	-	347	347	25,212
Cost of Purchased Water Used	-	100,445	-	100,445	-
Taxes	-	1,359	-	1,359	-
Administration	84,785	33,602	15,310	133,697	64,100
Depreciation	62,162	21,745	8,750	92,657	19,205
TOTAL OPERATING EXPENSES	256,971	252,333	125,541	634,845	255,047
OPERATING INCOME (LOSS)	10,323	(12,800)	4,007	1,530	(51,139)
NONOPERATING REVENUES (EXPENSES)					
Earnings on Investments	2,291	7,643	378	10,312	987
Federal Grant Assistance	45	506	160	711	-
Other Agency Grant Assistance	642	50	80	772	-
Gain (Loss) on Sale/Retirement of Capital Assets	(2,692)	(1,251)	(2,090)	(6,033)	399
Debt Service Interest Expense	(51,322)	(15,925)	(245)	(67,492)	(839)
Other	2,885	606	1,948	5,439	1,512
TOTAL NONOPERATING REVENUES (EXPENSES)	(48,151)	(8,371)	231	(56,291)	2,059
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(37,828)	(21,171)	4,238	(54,761)	(49,080)
Capital Contributions	60,759	72,040	787	133,586	-
Transfers from Other Funds	285	197	162	644	1,060
Transfers from Governmental Funds	-	-	2,234	2,234	14,240
Transfers to Other Funds	(439)	(238)	(337)	(1,014)	(690)
Transfers to Governmental Funds	(1,574)	(1,563)	(2,492)	(5,629)	(1,744)
CHANGE IN NET ASSETS	21,203	49,265	4,592	75,060	(36,214)
Net Assets at Beginning of Year	1,812,335	1,129,849	157,243		(29,979)
NET ASSETS AT END OF YEAR	\$ 1,833,538	\$ 1,179,114	\$ 161,835		\$ (66,193)
Adjustment to reflect the consolidation of certain internal service fund activities related to enterprise funds.				(4,434)	
Change in net assets of business-type activities				\$ 70,626	

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

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2004
(In Thousands)**

	Business-Type Activities - Enterprise Funds				
	Sewer Utility	Water Utility	Other Enterprise Funds	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from Customers and Users	\$ 274,187	\$ 238,361	\$ 133,184	\$ 645,732	\$ 205,269
Payments to Suppliers	(102,749)	(162,122)	(44,477)	(309,348)	(77,847)
Payments to Employees	(75,666)	(57,185)	(63,661)	(196,512)	(106,145)
NET CASH PROVIDED BY OPERATING ACTIVITIES	95,772	19,054	25,046	139,872	21,277
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers from Other Funds	285	197	162	644	1,060
Transfers from Governmental Funds	-	-	2,234	2,234	14,240
Transfers to Other Funds	(439)	(238)	(337)	(1,014)	(690)
Transfers to Governmental Funds	(1,574)	(1,563)	(2,492)	(5,629)	(1,744)
Operating Grants Received	687	250	366	1,303	-
Due from Other Funds	-	-	(891)	(891)	-
Due to Other Funds	-	-	(131)	(131)	-
Proceeds from Advances and Deposits	-	-	15	15	-
Payments for Advances and Deposits	-	(2,540)	(106)	(2,646)	-
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES	(1,041)	(3,894)	(1,180)	(6,115)	12,866
CASH FLOWS FROM CAPITAL AND RELATED FINANCIAL ACTIVITIES					
Proceeds from Revenue Bonds	151,664	-	-	151,664	-
Proceeds from Loans	466	-	-	466	-
Proceeds from Capital Contributions	15,572	22,758	787	39,117	-
Acquisition of Capital Assets	(145,387)	(111,604)	(7,795)	(264,786)	(11,156)
Proceeds from the Sale of Capital Assets	-	132	-	132	827
Principal Payments on Capital Leases	-	-	(1,457)	(1,457)	(7,021)
Principal Payments on Loans	(2,505)	-	-	(2,505)	-
Principal Payments on Revenue Bonds	(25,030)	(7,345)	-	(32,375)	-
Interest Paid on Long-Term Debt	(50,275)	(16,084)	(237)	(66,596)	(838)
NET CASH USED FOR CAPITAL AND RELATED FINANCIAL ACTIVITIES	(55,495)	(112,143)	(8,702)	(176,340)	(18,188)
CASH FLOWS FROM INVESTING ACTIVITIES					
Sales of Investments	495,011	2,208,871	-	2,703,882	-
Purchases of Investments	(533,434)	(2,158,650)	-	(2,692,084)	-
Interest Received on Investments	2,361	10,773	358	13,492	989
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	(36,062)	60,994	358	25,290	989
Net Increase (Decrease) in Cash and Cash Equivalents	3,174	(35,989)	15,522	(17,293)	16,944
Cash and Cash Equivalents at Beginning of Year	215,357	180,303	85,595	481,255	65,298
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 218,531	\$ 144,314	\$ 101,117	\$ 463,962	\$ 82,242
Reconciliation of Cash and Cash Equivalents at End of Year to the Statement of Net Assets:					
Cash and Investments	\$ 218,531	\$ 140,934	\$ 74,449	\$ 433,914	\$ 82,242
Restricted Cash and Investments	58,941	141,167	26,668	226,776	-
Less Investments not meeting the definition of cash equivalents	(58,941)	(137,787)	-	(196,728)	-
Total Cash and Cash Equivalents at End of Year	\$ 218,531	\$ 144,314	\$ 101,117	\$ 463,962	\$ 82,242
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:					
Operating Income (Loss)	\$ 10,323	\$ (12,800)	\$ 4,007	\$ 1,530	\$ (51,139)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By Operating Activities:					
Depreciation	62,162	21,745	8,750	92,657	19,205
Changes in Assets and Liabilities:					
(Increase) Decrease in Receivables:					
Accounts - Net	5,549	2,086	1,968	9,603	677
Claims - Net	-	-	-	-	(36)
(Increase) Decrease in Inventories and Inventories in Water Storage	-	(2,264)	1	(2,263)	709
(Increase) Decrease in Prepaid Expenses	24	(13)	1	12	(48)
Increase (Decrease) in Accounts Payable	7,574	8,449	212	16,235	224
Increase (Decrease) in Accrued Wages and Benefits	659	746	1,503	2,908	219
Increase (Decrease) in Liability Claims	(1,686)	322	3,570	2,206	48,825
Increase (Decrease) in Due to Other Agencies	7,324	2,074	(4)	9,394	-
Increase (Decrease) in Unearned Revenue	(1,929)	1,255	(180)	(854)	(187)
Increase (Decrease) in Contract Deposits	388	(3,525)	(100)	(3,237)	-
Increase (Decrease) in Arbitrage Liability	3	(1,594)	-	(1,591)	-
Increase (Decrease) in Net Pension Obligation	2,496	1,967	2,365	6,828	1,316
Increase (Decrease) in Estimated Landfill Closure and Postclosure Care	-	-	1,005	1,005	-
Other Nonoperating Revenue (Expenses)	2,885	606	1,948	5,439	1,512
Total Adjustments	85,449	31,854	21,039	138,342	72,416
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 95,772	\$ 19,054	\$ 25,046	\$ 139,872	\$ 21,277
Noncash Investing, Capital, and Financing Activities:					
Capital Leases	\$ -	\$ -	\$ -	\$ -	\$ 604
Developer Contributed Assets	45,187	47,510	-	92,697	-
Increase (Decrease) in Capital Assets related Accounts Payable	1,734	(1,689)	-	45	-
Change in fair value of investments	-	2,695	-	2,695	-

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

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2004
(In Thousands)

	Pension and Employee Savings Trust	Investment Trust	Agency
ASSETS			
Cash or Equity in Pooled Cash and Investments	\$ 4,073	\$ 12,638	\$ 20,246
Cash with Custodian/Fiscal Agent	340,209	-	-
Investments at Fair Value:			
Short Term Investments	214,401	-	-
Domestic Fixed Income Securities (Bonds)	468,962	-	-
International Fixed Income Securities (Bonds)	148,759	-	-
Domestic Equity Securities (Stocks)	1,296,360	-	-
International Equity Securities (Stocks)	531,527	-	-
Mortgages	17	-	-
Real Estate Equity and Real Estate Securities	277,669	-	-
Defined Contribution Investments (Mutual Funds of \$467,201 & Collective Funds of \$81,810).....	549,011	-	-
Receivables:			
Accounts - Net	-	-	60
Contributions	35,001	-	-
Accrued Interest	10,889	30	5
Loans	24,178	-	-
Securities Sold	44,965	-	-
Prepaid Expenses	3	-	-
Securities Lending Collateral	319,748	-	-
Restricted Cash and Investments	-	-	17,271
Capital Assets - Depreciable	191	-	-
TOTAL ASSETS	4,265,963	12,668	\$ 37,582
LIABILITIES			
Accounts Payable	5,189	-	\$ 741
Accrued Wages and Benefits	639	-	-
Due to Component Unit	-	-	371
Advances from Other Funds	-	-	2,085
Deposits/Advances from Others	-	-	9,823
Sundry Trust Liabilities	-	-	24,562
Net Pension Obligation	601	-	-
DROP Liabilities	185,108	-	-
Securities Lending Obligations.....	319,748	-	-
Securities Purchased	85,658	-	-
TOTAL LIABILITIES	596,943	-	\$ 37,582
NET ASSETS			
Held in Trust for Pension Benefits and Other Purposes	3,659,936	-	
Held in Trust for Pooled Participants.....	-	12,668	
Held in Trust for Postemployment Healthcare Benefits	9,084	-	
TOTAL NET ASSETS	\$ 3,669,020	\$ 12,668	

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

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
For the Year Ended June 30, 2004
(In Thousands)

	Pension and Employee Savings Trust	Investment Trust	Total
ADDITIONS			
Employer Contributions	\$ 145,973	\$ -	\$ 145,973
Employee Contributions	141,590	-	141,590
Contributions to Pooled Cash and Investments.....	-	16,672	16,672
Earnings on Investments:			
Investment Income	605,856	91	605,947
Investment Expense	(14,859)	-	(14,859)
Net Investment Income	590,997	91	591,088
Securities Lending:			
Gross Earnings	3,410	-	3,410
Borrower Rebates	(2,168)	-	(2,168)
Administrative Expenses (Lending Agent)	(364)	-	(364)
Net Securities Lending Income	878	-	878
TOTAL ADDITIONS	879,438	16,763	896,201
DEDUCTIONS			
DROP Interest Expense	12,735	-	12,735
Benefit and Claim Payments	254,190	-	254,190
Distributions from Pooled Cash and Investments	-	16,202	16,202
Administration	11,581	-	11,581
Depreciation	76	-	76
TOTAL DEDUCTIONS	278,582	16,202	294,784
CHANGE IN NET ASSETS	600,856	561	601,417
Net Assets at Beginning of Year	3,068,164	12,107	3,080,271
NET ASSETS AT END OF YEAR	\$ 3,669,020	\$ 12,668	\$ 3,681,688

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

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004

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. These amendments took effect in January 2006 and are discussed further in Note 12 - Pension Plans. During the period reported, the City was governed by an elected nine member City Council, including the Mayor. 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 so data from these units are combined with data of the primary government. Component units should be included in the reporting entity financial statements using the blending method if either of the following criteria are 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
- 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
- Community Facility and Other Special Assessment Districts

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. Complete stand-alone financial statements can be requested from the 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 currently 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. Complete stand-alone financial statements can be requested from the Office of the City Auditor and Comptroller, 202 C Street, San Diego, California 92101.
- 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. Complete stand-alone 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. Complete stand-alone 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. Complete stand-alone 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. Complete stand-alone 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. Complete stand-alone 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. Complete stand-alone 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. Complete stand-alone 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. 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 B Street, Suite 400, 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.

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 citizenry. 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 separately 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 with 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, other governmental units, and/or other funds, 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 general 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, 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 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 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. For the governmental funds, property tax revenue is recognized in the fiscal year for which the taxes have been levied, provided the taxes are received within 60 days of year end. Property taxes received after this date 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 flow 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 for Water Utility and Sewer Utility exclude from the Statement of Cash Flows the restricted investments represented as Cash and Investments with Fiscal Agent and Investments at Fair Value with a maturity date greater than 90 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 fair market values on a monthly basis. The value of the shares in the pool is equal to the fair market value of the pool.

The pool participates in the 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, 2004, approximately \$1.9 million in 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.

SDCERS' Board discharges their fiduciary duties in accordance with Article XVI, Section 17 of the California State Constitution and the "Prudent Expert Rule" under the Employee Retirement Income Security Act of 1974 (ERISA). 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 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 cost. 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 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 because such assets are not available to finance the 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 \$5. 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 2004, \$15,138 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 - 25
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. 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 not met the recognition criteria based on the modified accrual basis of accounting.

k. 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 also one interfund loan between the Capital Outlay Fund and the Water Utility Fund, for a land acquisition, which is reported as 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 in the reimbursing fund and as a reduction of expenditures in the reimbursed 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.

l. 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.

m. 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.

In addition, sick leave earned through August 1981 by employees hired prior to July 1, 1975 is payable upon separation under the following conditions: (1) 50% of the employee's accrued amount upon retirement or death, or (2) 25% of the employee's accrued amount upon resignation.

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.

n. 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.

o. 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 for future permit fees. These credits are earned by the developer upon successful completion of construction phases and

City engineers have accepted the work. The credits are recognized as a permit revenue upon issuance and a corresponding capital asset is recorded in the government-wide financial statements.

p. 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.

q. 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.

r. 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.

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, and therefore, are either deferred or not reported in the funds." The details of this \$103,376 difference are as follows:

Deferred Charges, net, July 1, 2003	\$ 17,620
Issuance Costs	2,615
Amortization Expense	(1,103)
Deferred Charges, net, June 30, 2004	<u>19,132</u>
Deferred Revenue:	
Taxes Receivable	6,660
Sales Taxes Receivable	5,278
Motor Vehicle License Receivable	21,623
Special Assessments Receivable	1,271
Tobacco Receipts	5,085
Notes Receivable	9,004
Grants and Other Receivables	35,323
Deferred Revenue, net, June 30, 2004	<u>84,244</u>
Net Adjustment to increase Total Fund Balances - Governmental Funds to arrive at Total Net Assets of Governmental Activities	<u>\$ 103,376</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 (\$1,467,455) difference are as follows:

Net Bonds Payable	\$ (1,090,605)
Contracts Payable	(1,715)
Notes Payable	(5,998)
Loans Payable	(4,865)
Section 108 Loans Payable	(44,917)
Arbitrage Liability	(262)
Accrued Interest Payable	(18,962)
Capital Leases Payable	(14,645)
Compensated Absences	(65,379)
SANDAG Loans Payable	(19,302)
Net Pension Obligation	<u>(200,805)</u>
Net adjustment to decrease Total Fund Balances - Governmental Funds to arrive at Total Net Assets of Governmental Activities	<u>\$ (1,467,455)</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 \$95,713 difference are as follows:

Capital Outlay	\$	174,346
Other Capital Activities		32,574
Depreciation Expense		<u>(111,207)</u>
Net adjustment to increase Net Changes in Fund Balances -		
Total Governmental Funds to arrive at Changes in Net		
Assets of Governmental Activities	\$	<u><u>95,713</u></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 \$(5,324) 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.

\$ (636)

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.

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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.

(4,821)

Net adjustment to decrease Net Change in Fund Balances - Total Governmental Funds to arrive at Changes in Net Assets of Governmental Activities

\$ (5,324)

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 (\$38,518) difference are as follows:

Debt Issued or Incurred:

Special Assessment/Mello-Roos	\$ (29,245)
Tax Allocation Bonds	(37,180)
Section 108 Loans	(21,107)
Capital Leases	(3,634)
SANDAG Loans	(6,400)

Principal Repayments:

General Obligation Bonds	6,390
Revenue Bonds/COP's	18,165
Special Assessment Bonds	2,200
Tax Allocation Bonds	7,739
Section 108 Loans	2,115
Capital Leases	4,299
SANDAG Loans	4,439
Contracts Payable	167
Notes Payable	2,418
Loans Payable	1,186

Refundings:

Special Assessment Bonds	9,630
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Forgiven Debt:

Loans Payable	<u>300</u>
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Net adjustment to decrease Net Changes in Fund Balances -

Total Governmental Funds to arrive at Changes in Net Assets of Governmental Activities	<u>\$ (38,518)</u>
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Another element of the reconciliation states that "Certain expenses reported in the Statement of Activities do not require the use of current financial resources (i.e., compensated absences, net pension obligation, employee offset liability, amortization of bond premiums and discounts) and therefore are not accrued as expenses in governmental funds." The details of this (\$62,429) difference are as follows:

Compensated Absences	\$ (1,676)
Net Pension Obligation	(61,177)
Arbitrage Liability	101
Accrued Interest	(64)
Amortization of Bond Premiums/Discounts and Gains/Losses on Refundings	(1,125)
Amortization of Deferred Charges	<u>1,512</u>

Net adjustment to decrease Net Changes in Fund Balances -

Total Governmental Funds to arrive at Changes in Net Assets of Governmental Activities	<u>\$ (62,429)</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	Total	Fiduciary Statement Net Assets	Total
Cash & Cash or					
Equity in Pooled Cash & Investments	\$ 744,722	\$ 468,681	\$ 1,213,403	\$ 54,228	\$ 1,267,631
Cash & Investments with Fiscal Agent	125,800	71,799	197,599	340,209	537,808
Investments at Fair Value	82,550	124,929	207,479	3,486,706	3,694,185
Securities Lending Collateral	-	-	-	319,748	319,748
TOTAL	\$ 953,072	\$ 665,409	\$ 1,618,481	\$ 4,200,891	\$ 5,819,372

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 transit 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	\$ 204
Cash Deposits	5,099
Pooled Investments in the City Treasury	1,262,328
Total Cash & Cash or Equity in Pooled Cash & Investments	<u>\$ 1,267,631</u>

A summary of the investments held by the City Treasurer's investment pool as of June 30, 2004 is as follows:

Investment	Fair Value	Cost	Interest Rate % Range		Maturity Range
US Treasury Bills	\$ 24,858	\$ 24,856	1.54	**	11/4/2004 - 11/18/2004
US Treasury Notes & Bonds	338,153	340,427	1.125 - 4.00		3/31/05 - 6/15/2009
Commercial Paper	22,361	22,357	1.04 - 1.11	**	7/1/2004 - 7/2/2004
Corporate Notes & Bonds	137,760	141,825	2.49 - 7.625		7/15/2004 - 2/12/2007
Repurchase Agreements	96,817	96,817	1.45	**	7/1/2004
Bank Notes	4,898	4,957	2.5		11/1/2006
US Agency Notes & Bonds	614,270	616,170	1.02 - 7.00		7/1/2004 - 12/24/2007
Mortgage Backed Securities	2,364	2,456	4.5		3/1/2008
LAIF - City of San Diego	20,847	20,880	1.42		N/A
	<u>\$ 1,262,328</u>	<u>\$ 1,270,745</u>			

** Discount Rates

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, 2004:

Statement of Net Assets

Cash/Investments of Pool Participants	\$ 1,262,328
Equity of Internal Pool Participants	\$ 1,249,690
Equity of External Pool Participants (SanGIS, ARJIS & AVA) **	12,638
Total Equity	<u>\$ 1,262,328</u>

**Voluntary Participation

Statement of Changes in Net Assets

Net Assets Held for Pool Participants at July 1, 2003	\$ 1,279,428
Net Change in Investments by Pool Participants	(17,100)
Total Net Assets Held for Pool Participants at June 30, 2004	<u>\$ 1,262,328</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 has agreed with a fiscal agent, currently SDCERS' custodial bank, 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 party, the lender or borrower. The maximum amount of a loan on any individual security is 95%. This enables SDCERS to still be notified of corporate actions such as proxy voting actions, stock splits or dividends.

The fiscal agent 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. 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. The fiscal agent will indemnify SDCERS by agreeing to purchase replacement securities or return cash collateral in the event borrower failed to return a loaned security or pay distributions thereon. 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, 2004 had a fair value of \$311,792 and a collateral value of \$319,748, which were reported in the assets and liabilities in the statement of plan net assets for the City Employees' Retirement System in accordance with GASB Statement No. 28. The securities lending transactions collateralized by securities or irrevocable letters of credit had a fair value of \$3,905 and a collateral value of \$3,970, which were not reported in the assets or liabilities in the accompanying statement of fiduciary 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 \$323,718.

The cash collateral received on each loan was invested by SDCERS fiscal agent, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. As of June 30, 2004, such investment pool had an average duration of 55 days and an average weighted maturity of 483 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 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 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 Council. 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.

In reviewing the Policy, 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.

In addition to the Policy, authorized cash deposits and investments are governed by state law. Within the context of these limitations, permissible investments include:

- (1) Obligations of the U.S. government and federal agencies with a maximum maturity of five years,
- (2) Commercial paper rated A-1+ by Standard & Poor's, P-1 by Moody's, or F-1 by Fitch,
- (3) Banker's acceptances,
- (4) Negotiable certificates of deposit issued by a nationally or state chartered bank or a state or federal savings and loan institution or a state-licensed branch of a foreign bank,
- (5) Repurchase and reverse repurchase agreements,
- (6) The local agency investment fund established by the State Treasurer,
- (7) Financial futures transactions to hedge against changes in market conditions for the reinvestment of bond proceeds,
- (8) Government agency mortgage-backed securities and other AAA rated asset-backed securities with a maximum maturity of five years,
- (9) Medium-term corporate notes of a maximum of three years maturity issued by corporations operating within the United States,
- (10) Shares of beneficial interest issued by diversified management companies, as defined in Section 23701(m) of the California Revenue and Taxation Code,
- (11) Non-negotiable time deposits collateralized in accordance with California Government Code,
- (12) Floating rate notes whose coupon resets are based upon a single fixed income index,
- (13) Structured notes issued by U.S. government agencies that contain imbedded calls or options as long as those securities are not inverse floaters, range notes, interest only strips or a security that could result in a zero or negative accretion of interest if held to maturity, and
- (14) Financial futures given they are only used to hedge against changes in market conditions for the reinvestment of bond proceeds when deemed appropriate.

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.

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 Policy can be requested from the City Treasurer, 1200 3rd Avenue, Suite 1624, San Diego, CA 92101.

San Diego City Employee 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 the Charter of the City. The Board has restricted the authorized investments to those believed by independent investment counsel to be appropriate for investment by trust funds operating under the "prudent expert" rule as set forth under United States Code, Title 29, Chapter 18, Employee Retirement Income Security Act of 1974 (ERISA). SDCERS investments include, but are not limited to, bonds, notes and other obligations, real estate investments, repurchase agreements, common stock, preferred stock and pooled vehicles. Additionally, investment policies permit the pension trust fund to invest in financial futures contracts and non-marketable real estate investments. Financial futures contracts, which are recorded at fair value, are not hedges of existing assets, and changes in the market value of the contract result in recognition of a gain or loss. Non-marketable real estate investments are periodically appraised by independent third party appraisers. 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 systems investment activities can be requested from the Retirement Office, 401 B 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. Additionally, the City and its component units have funds invested in accordance with various bond indenture and trustee agreements.

f. Custodial Credit Risk**Deposits**

At June 30, 2004, the carrying amount of the City's deposits was approximately \$5,715, which includes \$616 of cash held with fiscal agents, and the bank balance was approximately \$19,882, the difference of which is substantially due to deposits in transit and outstanding checks. Of the balance in financial institutions, approximately \$565 was covered by federal depository insurance and approximately \$19,317 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, \$16,838 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 \$2,479 is uninsured and uncollateralized and includes the following: approximately \$1,752 in deposits relating to San Diego Data Processing Corporation, \$211 in deposits relating to Centre City Development Corporation, Inc. and \$516 in deposits held with fiscal agents on behalf of the City.

Discretely Presented Component UnitsDeposits – San Diego Convention Center Corporation

On June 30, 2004, the carrying amount of SDCCC's deposits was \$11,741 and the bank balance was \$11,966. Of the bank balance, \$200 was covered by federal depository insurance. The remaining balance was uninsured and uncollateralized (uncollateralized deposits include bank balances that are collateralized with securities held by the pledging financial institution or an affiliate of the pledging financial institution).

Deposits – San Diego Housing Commission

On June 30, 2004, the carrying amount of the Commission's cash deposits was \$541 and the bank balance was \$1,207. All deposits are collateralized and/or insured 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

The City's deposits and investments at June 30, 2004 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.

The following summary of investments includes not only other legally separate entities, namely the San Diego Graphic Information Source (SanGIS), the Automated Regional Justice Information System (ARJIS), and the Abandoned Vehicle Abatement (AVA), but also SDCERS which also qualifies as a component unit.

	Category 1	Category 2	Category 3	Non Categorized	Carrying Value
Pooled investment in the City Treasury:					
U.S. Treasury Bills	\$ 24,858	\$ -	\$ -	\$ -	\$ 24,858
U.S. Treasury Notes & Bonds	338,153	-	-	-	338,153
U.S. Agency Notes & Bonds	614,270	-	-	-	614,270
Repurchase Agreement	96,817	-	-	-	96,817
Commercial Paper	22,361	-	-	-	22,361
Corporate Notes & Bonds	137,760	-	-	-	137,760
Bank Notes	4,898	-	-	-	4,898
Mortgage Backed Securities	2,364	-	-	-	2,364
Local Agency Investment Fund	-	-	-	20,847	20,847
Total Pooled Investment in the City Treasury:	\$ 1,241,481	-	-	\$ 20,847	\$ 1,262,328
Retirement System					
Short Term investments					
U.S. Government and Agency Obligations	\$ 66,492	\$ -	\$ -	\$ -	\$ 66,492
Commercial Paper	147,909	-	-	-	147,909
Domestic Fixed Income					
U.S. Government and Agency Obligations	152,282	-	-	-	152,282
U.S. Corporate Bonds	217,495	-	-	-	217,495
Domestic Equity Securities					
U.S. Corporate Stocks	1,082,455	-	-	-	1,082,455
International Fixed Income - Bonds	148,689	-	-	-	148,689
International Equity - Stocks	395,142	-	-	-	395,142
Real Estate Investment Trust Securities (REITs)	112,203	-	-	-	112,203
Cash and Cash Equivalents with Custodial Bank (Pooled)					
	-	38,870	-	-	38,870
Cash with Prime Brokers (Market Neutral Strategy)					
	-	301,339	-	-	301,339
Domestic Equity Mutual Funds					
	-	-	-	72,727	72,727
International Equity Mutual Funds					
	-	-	-	61,120	61,120
Securities on Loan for Cash and Securities Collateral					
Domestic Fixed Income - U.S. Government and Agency Obligations	-	-	-	77,374	77,374
Domestic Fixed Income - U.S. Corporate Bonds	-	-	-	21,811	21,811
Domestic Equity - U.S. Corporate Stocks	-	-	-	141,178	141,178
International Fixed Income - Bonds	-	-	-	70	70
International Equity - Stocks	-	-	-	75,265	75,265
Real Estate Equity Investments (Separate Properties)	-	-	-	165,309	165,309
Real Estate Commingled Funds	-	-	-	157	157
Mortgage Notes	-	-	-	17	17
Securities Lending Collateral					
Pooled Investment Vehicle with State Street Bank and Trust Co. (Cash)	-	-	-	319,748	319,748
Total Investment in Retirement Plans	\$ 2,322,667	\$ 340,209	-	\$ 934,776	\$ 3,597,652

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	Category 1	Category 2	Category 3	Non Categorized	Carrying Value
Other funds:					
U.S. Treasury Bills	\$ 2,045	\$ 6,979	\$ -	\$ -	\$ 9,024
U.S. Treasury Notes & Bonds	7,763	13,335	1,593	-	22,691
U.S. Government Securities	152,355	48,209	463	-	201,027
Repurchase Agreements	38,417	-	-	-	38,417
Corporate Notes & Bonds	5,670	-	2,840	-	8,510
Mortgage Backed Securities	-	-	310	-	310
Asset Backed Securities	-	-	226	-	226
Commerical Paper	2,638	-	-	-	2,638
Common Stock - Equity	-	-	3,182	-	3,182
Guaranteed Investment Contract	-	-	-	41,862	41,862
Mutual Funds & Collective Funds	-	-	-	625,586	625,586
	<u>\$ 208,888</u>	<u>\$ 68,523</u>	<u>\$ 8,614</u>	<u>\$ 667,448</u>	<u>\$ 953,473</u>
Total Investments	<u>\$ 3,773,036</u>	<u>\$ 408,732</u>	<u>\$ 8,614</u>	<u>\$ 1,623,071</u>	<u>\$ 5,813,453</u>
Total Deposits					5,715
Total Cash on Hand					204
Total Deposits, Investments, and Cash on Hand					<u><u>\$ 5,819,372</u></u>

Total Cash and Investments Summary:

Total Unrestricted Cash and Investments	\$ 5,467,510
Total Restricted Cash and Investments	351,862
Total Cash and Cash or Equity in Pooled Cash & Investments	<u><u>\$ 5,819,372</u></u>
Total Governmental Activities	\$ 953,072
Total Business-Type Activities	665,409
Total Fiduciary Activities	4,200,891
Total Cash and Investments	<u><u>\$ 5,819,372</u></u>

Summary of Investments – San Diego Housing Commission

Classification of deposits (with the exception of demand deposits which were discussed above) and investments by credit risk are as follows:

Deposits:

- Category 1: Insured or collateralized with securities held by the Commission or its agent in the Commission's name.
- Category 2: Collateralized with securities held by the pledging financial institutions trust department or agent in the Commission's name.
- Category 3: Deposits which are uninsured and uncollateralized.

Investments:

- Category 1: Insured or registered, with securities held by the Commission or its agent in the Commission's name.
- Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Commission's name.
- Category 3: Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Commission's name.
- Non-Categorized: Investments in LAIF and money market mutual funds are not categorized, as GASB 3 does not require categorization of investment pools managed by another agency or mutual funds.

	Category 1	Non-Categorized	Carrying Value
Cash Equivalents:			
Money Market Funds	\$ -	\$ 7,524	\$ 7,524
Investments:			
California Local Agency Investment Fund	-	24,353	24,353
Total Cash & Investments	-	31,877	31,877
Restricted Cash & Cash Equivalents:			
Money Market Funds	381	620	1,001
Total	\$ 381	\$ 32,497	32,878
Total Demand Deposits:			541
Total Cash on Hand:			4
Total Deposits, Investments, and Cash on Hand:			\$ 33,423

g. Restricted Cash and Investments

Cash and investments at June 30, 2004 that are restricted by legal or contractual requirements are comprised of the following:

<u>Nonmajor Governmental Funds</u>	
Reserved for Debt Service	\$ 97,233
Permanent Endowments	10,582
Total Nonmajor Governmental Funds	<u>107,815</u>
<u>Environmental Services Enterprise Fund</u>	
Funds set aside for landfill site closure and maintenance costs	26,668
Total Environmental Services Enterprise Fund	<u>26,668</u>
<u>Water Enterprise Fund</u>	
Customer deposits	3,235
Interest and redemption funds	51,275
Acquisition funds	86,657
Total Water Enterprise Fund	<u>141,167</u>
<u>Sewer Enterprise Fund</u>	
Interest and redemption funds	20,524
Acquisition funds	38,417
Total Sewer Enterprise Fund	<u>58,941</u>
<u>Miscellaneous Agency Funds</u>	
Retention held in escrow	17,271
Total Miscellaneous Agency Funds	<u>17,271</u>
Total Restricted Cash & Investments	<u>\$ 351,862</u>

h. Derivative Instruments

Certain of SDCERS' investment managers 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 portfolio 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 nonperformance 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, 2004 were as follows:

Money Market Futures	\$	60,250
Government Bond Futures		74,100
Options - Calls sold		22,500
Options - Puts sold		39,200
SWAPS		75,000

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 nonperformance by counterparties.

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004 was as follows (in thousands):

	Primary Government				
	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
GOVERNMENTAL ACTIVITIES:					
Non-Depreciable Capital Assets:					
Land, Easements, Rights of Way	\$ 1,602,247	\$ 43,518	\$ (635)	\$ (1,613)	\$ 1,643,517
Construction in Progress	291,103	138,525	(4,373)	(283,797)	141,458
Total Non-Depreciable Capital Assets	1,893,350	182,043	(5,008)	(285,410)	1,784,975
Depreciable Capital Assets:					
Structures and Improvements	745,526	5,401	(116)	202,652	953,463
Equipment	367,096	14,084	(12,504)	878	369,554
Infrastructure	2,615,929	17,341	-	82,694	2,715,964
Total Depreciable Capital Assets	3,728,551	36,826	(12,620)	286,224	4,038,981
Less Accumulated Depreciation for:					
Structures and Improvements	(188,383)	(21,051)	50	1,506	(207,878)
Equipment	(224,865)	(30,880)	11,771	(2,193)	(246,167)
Infrastructure	(1,145,635)	(78,118)	-	-	(1,223,753)
Total Accumulated Depreciation	(1,558,883)	(130,049)	11,821	(687)	(1,677,798)
Governmental Activities Capital Assets, Net	\$ 4,063,018	\$ 88,820	\$ (5,807)	\$ 127	\$ 4,146,158
BUSINESS-TYPE ACTIVITIES:					
Non-Depreciable Capital Assets:					
Land, Easements, Rights of Way	\$ 85,986	\$ 205	\$ (953)	\$ 65	\$ 85,303
Construction in Progress	375,337	223,921	(3,933)	(133,608)	461,717
Total Non-Depreciable Capital Assets	461,323	224,126	(4,886)	(133,543)	547,020
Depreciable Capital Assets:					
Structures and Improvements	1,410,518	7,806	(552)	45,758	1,463,530
Equipment	281,835	5,886	(934)	2,564	289,351
Distribution and Collection Systems	2,774,281	119,736	(2,001)	84,425	2,976,441
Total Depreciable Capital Assets	4,466,634	133,428	(3,487)	132,747	4,729,322
Less Accumulated Depreciation for:					
Structures and Improvements	(210,495)	(31,429)	282	-	(241,642)
Equipment	(142,602)	(21,962)	1,246	669	(162,649)
Distribution and Collection Systems	(415,957)	(39,629)	743	-	(454,843)
Total Accumulated Depreciation	(769,054)	(93,020)	2,271	669	(859,134)
Business-Type Activities Capital Assets, Net	\$ 4,158,903	\$ 264,534	\$ (6,102)	\$ (127)	\$ 4,417,208

Governmental activities capital assets net of accumulated depreciation at June 30, 2004 are comprised of the following:

General Capital Assets, Net	\$ 4,057,528
Internal Service Funds Capital Assets, Net	88,630
Total	<u>\$ 4,146,158</u>

Business-Type activities capital assets net of accumulated depreciation at June 30, 2004 are comprised of the following:

Enterprise Funds Capital Assets, Net	\$ 4,416,613
Internal Service Funds Capital Assets, Net	595
Total	<u>\$ 4,417,208</u>

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

Governmental Activities:

General Government and Support	\$ 3,514
Public Safety - Police	7,714
Public Safety - Fire and Life Safety	3,235
Parks, Recreation, Culture and Leisure	25,521
Transportation	69,918
Sanitation and Health	486
Neighborhood Services	819
Subtotal	<u>111,207</u>
Internal Service (Except Special Engineering)	<u>18,842</u>
Total Depreciation Expense	<u>\$ 130,049</u>

Business-Type Activities:

Airports	\$ 483
City Store	1
Development Services	440
Environmental Services	6,095
Golf Course	647
Recycling	1,084
Sewer Utility	62,162
Water Utility	<u>21,745</u>
Subtotal	<u>92,657</u>
Internal Service (Special Engineering)	<u>363</u>
Total Depreciation Expense	<u>\$ 93,020</u>

Discretely Presented Component Units

Capital asset activities for the City's Discretely Presented Component Units for the fiscal year ending June 30, 2004 are as follows:

Discretely Presented Component Unit - San Diego Convention Center Corp.				
	Beginning Balance	Increases	Decreases	Ending Balance
Depreciable Capital Assets:				
Structures and Improvements	\$ 18,789	\$ 941	\$ -	\$ 19,730
Equipment	9,315	797	-	10,112
Total Depreciable Capital Assets	28,104	1,738	-	29,842
Less Accumulated Depreciation for:				
Structures and Improvements	(5,851)	(870)	-	(6,721)
Equipment	(6,097)	(1,499)	-	(7,596)
Total Accumulated Depreciation	(11,948)	(2,369)	-	(14,317)
San Diego Convention Center Corp Capital Assets, Net	<u>\$ 16,156</u>	<u>\$ (631)</u>	<u>\$ -</u>	<u>\$ 15,525</u>

Discretely Presented Component Unit - San Diego Housing Commission				
	Beginning Balance	Increases	Decreases	Ending Balance
Non-Depreciable Capital Assets:				
Land, Easements, Rights of Way	\$ 27,097	\$ 704	\$ (2)	\$ 27,799
Construction-in-Progress	6,472	836	-	7,308
Total Non-Depreciable Capital Assets	33,569	1,540	(2)	35,107
Depreciable Capital Assets:				
Structures and Improvements	85,002	-	-	85,002
Equipment	972	-	(57)	915
Total Depreciable Capital Assets	85,974	-	(57)	85,917
Less Accumulated Depreciation for:				
Structures and Improvements	(34,370)	(3,080)	-	(37,450)
Equipment	(874)	(44)	57	(861)
Total Accumulated Depreciation	(35,244)	(3,124)	57	(38,311)
San Diego Housing Commission Capital Assets, Net	<u>\$ 84,299</u>	<u>\$ (1,584)</u>	<u>\$ (2)</u>	<u>\$ 82,713</u>

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

a. Long-Term Liabilities

Governmental long-term liabilities as of June 30, 2004 are comprised of the following:

Type of Obligation	Interest Rates	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2004
Arbitrage Liability				\$ 262
Compensated Absences				71,895
Liability Claims				202,914
Capital Lease Obligations				30,619
<u>Contracts Payable:</u>				
Contract Payable to SDSU Foundation, dated December 1991	7.02%	---	1,598	1,598
Amendment to Contract Payable to SDSU Foundation, dated January 1995	7.02%	---	117	117
Total Contracts Payable				1,715
<u>Notes Payable:</u>				
Note Payable to Lorren Daro, dated March 1995	8.0	2005	257	30
Note Payable to Wal-Mart, dated June 1998	10.0	2017	1,308	853
Notes Payable to San Diego Revitalization, dated April 2001	5.0	2032	5,115	5,115
Total Notes Payable				5,998
<u>Loans Payable:</u>				
International Gateway Associates, LLC, dated October 2001	10.0	2032	1,876	1,865
Padres, L.P., dated March 1999	6.0	2005	3,500	3,000
Total Loans Payable				4,865
San Diego Association of Governments (SANDAG) Loans Payable				19,302
Section 108 Loans Payable				44,917
<u>General Obligation Bonds:</u>				
Public Safety Communications Project, Series 1991	5.0 - 8.0%*	2012	25,500	14,390
Open Space Park Refunding Bonds, Series 1994	5.0 - 6.0*	2009	64,260	31,385
Total General Obligation Bonds				45,775
<u>Revenue Bonds / Lease Revenue Bonds / COPs:</u>				
MTDB Authority Lease Revenue Refunding Bonds, Series 1994	4.25 - 5.625*	2010	66,570	21,775
Public Facilities Financing Authority Stadium Lease Revenue Bonds, Series 1996 A	6.2 - 7.45*	2027	68,425	62,870

(continued on next page)

Type of Obligation	Interest Rates	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2004
San Diego Facilities and Equipment Leasing Corp. Certificates of Participation, Series 1996 A	4.0 - 5.6*	2011	\$ 33,430	\$ 20,570
San Diego Facilities and Equipment Leasing Corp. Certificates of Participation Refunding, Series 1996 B	4.0 - 6.0*	2022	11,720	9,845
Convention Center Expansion Financing Authority Lease Revenue Bonds, Series 1998 A	3.8 - 5.25*	2028	205,000	192,480
Centre City Parking Revenue Bonds, Series 1999 A	4.5 - 6.49*	2026	12,105	11,365
Public Facilities Financing Authority Reassessment District Refunding Revenue Bonds, Series 1999 A	2.75 - 4.75*	2018	30,515	20,735
Public Facilities Financing Authority Reassessment District Refunding Revenue Bonds, Series 1999 B	3.5 - 5.10*	2018	7,630	5,165
Public Facilities Financing Authority Ballpark Lease Revenue Bonds, Series 2002	7.15 - 7.7*	2032	169,685	169,685
Public Facilities Financing Authority Fire and Life Safety Lease Revenue Bonds, Series 2002 B	3.55 - 7.0*	2032	25,070	24,665
Centre City Parking Revenue Bonds, Series 2003 B	3.0 - 5.30%*	2027	20,515	20,515
MTDB Authority Lease Revenue Refunding Bonds, Series 2003	2.0 - 4.375*	2023	15,255	15,010
San Diego Facilities Equipment Leasing Corp. Certificates of Participation Refunding, Series 2003	1.0 - 4.0*	2024	17,425	16,940
Total Revenue Bonds / Lease Revenue Bonds / COPs				591,620
<u>Special Assessment / Special Tax Bonds</u>				
1915 Act Otay Mesa Industrial Park Improvement Bonds, Series 1992	5.5 - 7.95*	2013	2,235	475
Miramar Ranch North Special Tax Refunding Bonds, Series 1998	3.75 - 5.375*	2021	59,465	50,775
Santaluz Special Tax Bonds, Series 2000 A	4.75 - 6.375*	2031	56,020	55,755
Santaluz Special Tax Bonds, Series 2000 B	4.5 - 6.2*	2031	4,350	4,295
City of San Diego Reassessment District Limited Obligation Refunding Bonds, Series 2003-1	4.25 - 5.8*	2018	8,850	8,850
Piper Ranch Limited Obligation Improvement Bonds, Series 2003	2.5 - 6.2*	2034	5,430	5,430
Santaluz Special TaxBonds, Improvement Area No.1, Series 2004	1.7 - 5.5*	2031	5,000	5,000
Santaluz Special TaxBonds, Improvement Area No.4, Series 2004	1.65 - 5.5*	2034	9,965	9,965
Total Special Assessment / Special Tax Bonds				140,545

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Type of Obligation	Interest Rates	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2004
<u>Tax Allocation Bonds:</u>				
Centre City Redevelopment Project Tax Allocation Bonds Series 1993 A	5.5 - 6.5*	2011	\$ 27,075	\$ 13,850
Centre City Redevelopment Project Tax Allocation Bonds, Series 1993 B	4.875 - 5.4*	2017	27,275	19,655
Gateway Center West Redevelopment Project Tax Allocation Bonds, Series 1995	7.8 - 9.75*	2014	1,400	940
Mount Hope Redevelopment Project Tax Allocation Bonds, Series 1995 A	4.4 - 6.0*	2020	1,200	960
Mount Hope Redevelopment Project Tax Allocation Bonds, Series 1995 B	6.9 - 8.2*	2021	3,955	3,400
Southcrest Redevelopment Project Tax Allocation Bonds, Series 1995	4.75 - 6.592*	2020	3,750	2,660
Horton Plaza Redevelopment Project Tax Allocation Refunding Bonds, Series 1996 A	3.8 - 6.0*	2016	12,970	9,585
Horton Plaza Redevelopment Project Tax Allocation Refunding Bonds, Series 1996 B	4.3 - 7.0*	2007	9,830	1,155
Centre City Redevelopment Tax Allocation Bonds, Series 1999 A	3.0 - 5.125*	2019	25,680	25,390
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	12,835
City Heights Redevelopment Tax Allocation Bonds, Series 1999 A	4.5 - 5.8*	2029	5,690	5,690
City Heights Redevelopment Tax Allocation Bonds, Series 1999 B	5.75 - 6.4**	2029	10,141	13,745
Central Imperial Redevelopment Project Tax Allocation Bonds, Series 2000	4.45 - 6.6*	2031	3,395	3,260
Centre City Redevelopment Project Tax Allocation Bonds, Series 2000 A	4.0 - 5.6*	2025	6,100	5,665
Centre City Redevelopment Project Tax Allocation Bonds, Series 2000 B	3.95 - 5.35*	2025	21,390	20,565
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2000	4.25 - 5.8*	2022	15,025	14,680
North Bay Redevelopment Project Tax Allocation Bonds, Series 2000	4.25 - 5.875*	2031	13,000	12,340
North Park Redevelopment Project Tax Allocation Bonds, Series 2000	4.1 - 5.9*	2031	7,000	6,650
Southcrest Redevelopment Project Tax Allocation Bonds, Series 2000	4.45 - 6.5*	2026	1,860	1,750

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Type of Obligation	Interest Rates	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2004
Centre City Redevelopment Tax Allocation Bonds, Series 2001 A	4.93 - 5.55***	2027	\$ 58,425	\$ 60,083
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	27,880
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	865
North Park Redevelopment Project Tax Allocation Bonds, Series 2003 A	1.5 - 6.125*	2028	7,145	7,145
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	8,000
Total Tax Allocation Bonds				<u>314,333</u>
Total Bonds Payable				<u>1,092,273</u>
Net Pension Obligation				<u>203,589</u>
Total Governmental Activities Long-Term Liabilities				<u>\$ 1,678,349</u>

* 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, 2004 includes an accreted amount of \$3,694. The principal amount at full maturity will be \$33,910.

*** 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, 2004 includes an accreted amount of \$2,063. The principal amount at full maturity will be \$85,140.

Liability claims are primarily liquidated by the Self Insurance Fund and Enterprise Funds. Compensated absences are paid out of the operating funds and the miscellaneous 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 large-scale physical development projects.

SANDAG loans are comprised of two components: repayment of debt service on bonds, and repayment of proceeds from commercial paper. The City received 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. 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. The interest rates used are based on a floating rate that changes daily, averaging 3.5 percent during fiscal year 2004.

b. Amortization Requirements

The annual requirements to amortize such long-term debt outstanding as of June 30, 2004, including interest payments to maturity, are as follows:

Year Ending June 30,	Capital Lease Obligations		Contracts Payable		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 10,075	\$ 1,102	\$ -	\$ -	\$ 65	\$ 341
2006	8,090	735	-	-	38	338
2007	5,201	447	-	-	42	334
2008	2,846	277	-	-	46	329
2009	1,919	171	-	-	51	325
2010-2014	2,166	313	-	-	342	1,432
2015-2019	322	16	-	-	299	1,340
2020-2024	-	-	-	-	-	1,279
2025-2029	-	-	-	-	-	1,279
2030-2034	-	-	-	-	5,115	767
Unscheduled*	-	-	1,715	-	-	-
Total	<u>\$ 30,619</u>	<u>\$ 3,061</u>	<u>\$ 1,715</u>	<u>\$ -</u>	<u>\$ 5,998</u>	<u>\$ 7,764</u>

* The contract payable to San Diego State University Foundation in the amount of \$1,715 does not have an annual repayment schedule.

Annual payments on this debt are based on the availability of tax increment net of the low-moderate and taxing agency set-asides as well as project area administration costs.

Year Ending June 30,	Loans Payable		SANDAG Loans		Section 108 Loans		General Obligation Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 3,013	\$ 367	\$ 5,323	\$ 746	\$ 2,059	\$ 2,274	\$ 6,885	\$ 2,761
2006	14	185	6,653	526	2,483	2,407	7,440	2,337
2007	15	184	5,091	315	2,959	2,270	8,045	1,878
2008	17	182	2,235	109	3,422	2,101	8,225	1,388
2009	18	181	-	-	2,246	1,951	8,865	898
2010-2014	123	872	-	-	12,987	7,717	6,315	646
2015-2019	199	796	-	-	12,355	3,596	-	-
2020-2024	320	675	-	-	5,759	980	-	-
2025-2029	515	480	-	-	647	19	-	-
2030-2034	631	165	-	-	-	-	-	-
Total	<u>\$ 4,865</u>	<u>\$ 4,087</u>	<u>\$ 19,302</u>	<u>\$ 1,696</u>	<u>\$ 44,917</u>	<u>\$ 23,315</u>	<u>\$ 45,775</u>	<u>\$ 9,908</u>

Year Ending June 30,	Revenue Bonds / COPs		Special Assessment / Special Tax Bonds		Tax Allocation Bonds		
	Principal	Interest	Principal	Interest	Principal	Unaccreted Appreciation	Interest
2005	\$ 20,275	\$ 34,261	\$ 3,000	\$ 7,667	\$ 8,728	\$ 66	\$ 14,674
2006	21,435	33,380	3,505	7,471	8,856	137	14,311
2007	19,880	32,418	3,775	7,312	9,305	199	13,927
2008	20,865	31,440	4,050	7,138	9,881	259	13,517
2009	21,565	30,397	4,325	6,946	10,358	304	13,077
2010-2014	93,770	136,799	26,375	31,067	61,255	3,157	56,394
2015-2019	100,090	110,435	33,390	23,094	76,235	8,968	38,873
2020-2024	125,890	78,071	25,155	14,539	68,849	19,091	20,571
2025-2029	124,355	37,506	22,780	8,040	44,458	18,797	6,742
2030-2034	43,495	6,610	14,190	1,311	10,651	-	1,160
Subtotal	591,620	531,317	140,545	114,585	308,576	50,978	193,246
Add:							
Accreted Appreciation through June 30, 2004	-	-	-	-	5,757	-	-
Total	<u>\$ 591,620</u>	<u>\$ 531,317</u>	<u>\$ 140,545</u>	<u>\$ 114,585</u>	<u>\$ 314,333</u>	<u>\$ 50,978</u>	<u>\$ 193,246</u>

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, 2004. The effect of bond accretion, bond premium, 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
Arbitrage Liability	\$ 363	\$ 262	\$ (363)	\$ 262	\$ -
Compensated Absences	70,654	52,531	(51,290)	71,895	29,938
Liability Claims	154,089	86,967	(38,142)	202,914	42,414
Capital Lease Obligations	37,701	4,238	(11,320)	30,619	10,075
Contracts Payable	1,882	-	(167)	1,715	-
Notes Payable	8,416	-	(2,418)	5,998	65
Loans Payable	2,851	3,500	(1,486)	4,865	3,013
Section 108 Loans Payable	25,925	21,107	(2,115)	44,917	2,059
SANDAG Loans Payable	17,341	6,400	(4,439)	19,302	5,323
General Obligation Bonds	52,165	-	(6,390)	45,775	6,885
Revenue Bonds / COPs	609,785	-	(18,165)	591,620	20,275
Unamortized Bond Premiums, Discounts and Deferred Amounts on Refunding	(1,078)	-	79	(999)	-
Net Revenue Bonds/COPs	608,707	-	(18,086)	590,621	20,275
Special Assessment / Special					
Tax Bonds	123,130	29,245	(11,830)	140,545	3,000
Unamortized Bond Premiums, Discounts and Deferred Amounts on Refunding	-	(748)	47	(701)	-
Net Special Assessment Bonds	123,130	28,497	(11,783)	139,844	3,000
Tax Allocation Bonds	279,136	37,180	(7,740)	308,576	8,794
Interest Accretion	4,174	1,583	-	5,757	-
Balance with Accretion	283,310	38,763	(7,740)	314,333	8,794
Unamortized Bond Premiums, Discounts and Deferred Amounts on Refunding	(132)	(11)	175	32	-
Net Tax Allocation Bonds	283,178	38,752	(7,565)	314,365	8,794
Net Pension Obligation	141,712	61,877	-	203,589	-
Total	\$ 1,528,114	\$ 304,131	\$ (155,564)	\$ 1,676,681	\$ 131,841

d. Defeasance of Debt

Limited Obligation Refunding Bonds for the Reassessment District No. 2003-1 were issued by the City in the amount of \$8,850. These bonds are payable from and secured by unpaid Reassessments upon real property located in the Reassessment District, proceeds from foreclosure proceedings, and other amounts held in certain funds maintained under the Indenture. The majority of the bond proceeds were used to refund three limited obligation improvement bonds issued under the Improvement Bond Act of 1915. The three issuances refunded were De La Fuente Phase I, De La Fuente Phase II, and the International Business Center Project, maturing on September 2 of 2013, 2017, and 2015, respectively. The refunded bonds are defeased and the corresponding liability has been removed from the Statement of Net Assets. The refunding resulted in a total economic gain of approximately \$441, and a cash flow savings of \$2,283. The current bonds issued are payable in increasing installments of principal over the next fourteen years. The refunded bonds were redeemed at a call date prior to the end of the fiscal year and, accordingly, there was no balance outstanding as of June 30, 2004.

As of June 30, 2004, principal amounts payable from escrow funds established for defeased bonds are as follows:

<u>Defeased Bonds</u>	<u>Amount (In Thousands)</u>
Horton Plaza Redevelopment Project Subordinate Tax Allocation Refunding Bonds, Series 1996 B	\$ 6,640
Miramar Ranch North Special Tax Bonds, Series 1995 B	<u>20,010</u>
Total Defeased Bonds Outstanding	<u>\$ 26,650</u>

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6. BUSINESS-TYPE ACTIVITIES LONG-TERM LIABILITIES (In Thousands)

a. Long-Term Liabilities

Business-type activities long-term liabilities as of June 30, 2004 are comprised of the following:

Type of Obligation	Interest Rates	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2004
Arbitrage Liability				\$ 221
Compensated Absences				16,595
Liability Claims				49,249
Capital Lease Obligations				5,008
<u>Loans Payable:</u>				
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	8,781
Loans Payable to State Water Resources Control Board, issued February 9, 2000	1.80%**	2022	6,684	6,120
Loans Payable to State Water Resources Control Board, issued March 30, 2001	1.80%**	2022	33,720	30,874
Loans Payable to State Water Resources Control Board, issued May 17, 2001	1.80%**	2022	7,742	7,086
Loans Payable to State Water Resources Control Board, issued May 17, 2001	1.80%**	2021	860	750
Loans Payable to State Water Resources Control Board, issued June 11, 2001	1.80%**	2021	2,525	2,202
Loans Payable to State Water Resources Control Board, issued October 3, 2002	1.99%**	2020	3,767	3,412
Loans Payable to State Water Resources Control Board, issued October 3, 2002	1.80%**	2023	8,068	<u>7,729</u>
Total Loans Payable				<u>67,054</u>
<u>Bonds Payable:</u>				
Sewer Revenue Bonds, Series 1993	2.8 - 5.25*	2023	250,000	195,510
Sewer Revenue Bonds, Series 1995	3.9 - 6.0*	2025	350,000	301,385
Sewer Revenue Bonds, Series 1997 A	3.7 - 5.375*	2027	183,000	160,425

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Type of Obligation	Interest Rates	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2004
Sewer Revenue Bonds, Series 1997 B	3.7 - 5.375%*	2027	\$ 67,000	\$ 58,730
Water Certificate of Undivided Interest, Series 1998	4.0 - 5.375*	2029	385,000	286,665
Sewer Revenue Bonds, Series 1999 A	3.5 - 5.125*	2029	203,350	186,960
Sewer Revenue Bonds, Series 1999 B	3.5 - 5.125*	2029	112,060	103,205
Subordinated Water Revenue Bonds, Series 2002	2.0 - 5.0*	2033	286,945	286,945
Sewer Revenue Bonds, Series 2004	1.7163***	2008	152,000	152,000
Total Bonds Payable				1,731,825
Estimated Landfill Closure and Postclosure Care				12,679
Net Pension Obligation				28,346
Total Business-Type Activities Long-Term Liabilities				\$ 1,910,977

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

** Effective rate

*** Variable Interest Rate

b. Amortization Requirements

Annual requirements to amortize long-term debt as of June 30, 2004, including interest payments to maturity, are as follows:

Year Ending June 30	Revenue Bonds Payable		Loans Payable		Capital Lease Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 33,765	\$ 80,810	\$ 3,251	\$ 1,214	\$ 1,514	\$ 178
2006	73,355	79,120	3,311	1,155	1,454	120
2007	117,645	76,278	3,371	1,095	1,046	69
2008	81,615	73,074	3,432	1,034	841	30
2009	45,595	70,851	3,494	971	153	3
2010-2014	262,415	319,763	18,446	3,883	-	-
2015-2019	335,785	246,056	20,180	2,148	-	-
2020-2024	412,825	151,625	11,469	429	-	-
2025-2029	319,020	52,552	-	-	-	-
2030-2034	49,805	5,136	-	-	-	-
Unscheduled *	-	-	100	-	-	-
Total	\$ 1,731,825	\$ 1,155,265	\$ 67,054	\$ 11,929	\$ 5,008	\$ 400

* 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, 2004. 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	\$ 1,812	\$ 36	\$ (1,627)	\$ 221	\$ -
Compensated Absences	16,106	12,937	(12,448)	16,595	7,111
Liability Claims	47,043	5,053	(2,847)	49,249	1,953
Capital Lease Obligations	6,465	-	(1,457)	5,008	1,514
Loans Payable	69,093	466	(2,505)	67,054	3,251
Revenue Bonds Payable	1,612,200	152,000	(32,375)	1,731,825	33,765
Unamortized Bond Premiums, Discounts and Deferred Amounts on Refunding	(9,418)	-	338	(9,080)	-
Net Revenue Bonds Payable	1,602,782	152,000	(32,037)	1,722,745	33,765
Estimated Landfill Closure and Postclosure Care	11,674	1,005	-	12,679	-
Net Pension Obligation	20,902	7,444	-	28,346	-
Total	\$ 1,775,877	\$ 178,941	\$ (52,921)	\$ 1,901,897	\$ 47,594

d. Defeasance of Debt

As of June 30, 2004, 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	\$ 77,155
Total Defeased Bonds Outstanding	\$ 77,155

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

Discretely presented component units long-term debt as of June 30, 2004 is comprised as follows:

San Diego Convention Center Corporation

Type of Obligation	Interest Rate	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2004	Due Within One Year
Note Payable to San Diego Unified Port District, dated 1999	0.00%	2010	\$ 10,000	\$ 6,500	\$ 1,000

SDCCC will repay the note at the rate of zero percent (0.0%) per annum with principal payable as follows:

Fiscal Year	Amount
2005	\$ 1,000
2006	1,000
2007	1,000
2008	1,000
2009	1,000
2010 and thereafter	1,500
Total	<u>\$ 6,500</u>

San Diego Housing Commission

Type of Obligation	Interest Rate	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2004	Due Within One Year
Note Payable to Bank of America, dated February 1985	5.0 – 10.2%	2025	\$ 3,789	\$ 3,263	\$ 89
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	3,919	161
Note Payable to State of California (RHCP)	0.0	2015	3,149	3,149	-
Note Payable to State of California (RHCP)	0.0	2013	1,405	1,405	-
Note Payable to State of California (CalHELP)	0.0	2013	704	704	-
Total Notes Payable				<u>\$ 13,136</u>	<u>\$ 250</u>

* The interest rate as of June 30, 2004 was 3.13%

Annual requirements to amortize such long-term debt as of June 30, 2004 to maturity are as follows:

Year Ending June 30	Principal	Interest
2005	\$ 250	\$ 316
2006	260	306
2007	271	294
2008	283	282
2009	295	270
2010-2014	2,868	1,288
2015-2019	4,957	943
2020-2024	2,237	514
2025-2026	1,715	33
Total	<u>\$ 13,136</u>	<u>\$ 4,246</u>

8. SHORT-TERM NOTES PAYABLE (In Thousands)

The City issues Tax Anticipation Notes (TANS) in advance of property tax collections, depositing the proceeds in its 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, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Tax Anticipation Notes	\$ 93,200	\$ 110,900	\$ (204,100)	\$ -

The \$93.2 million FY03 TANS issue had an interest rate of 3.0% and was repaid on August 1, 2003.

The \$110.9 million FY04 TANS issue had an interest rate of 1.75% and was repaid on June 30, 2004.

The Redevelopment Agency issues short-term promissory notes to finance various redevelopment activities. These promissory notes may be repaid with set-aside housing funds, in-lieu and land payment funds, and/or discretionary tax increment funds.

Short-term debt activity for the year ended June 30, 2004 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Notes Payable to San Diego Revitalization Corporation, dated February 2003	\$ 2,596	\$ -	\$ (2,596)	\$ -

9. JOINT VENTURE (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 June 30, 2002 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. 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 \$5,050 as of June 30, 2004. 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, 2004, SDMSE reported a net loss of (\$971) and an ending net assets of \$3,043. There was no distribution to partners during fiscal year 2004.

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, 2004.

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

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, 2004:

Year Ending June 30	Amount
2005	\$ 12,123
2006	11,885
2007	11,705
2008	11,194
2009	11,400
2010-2014	49,933
2015-2019	274
2020-2024	37
Total	<u>\$ 108,551</u>

Rent expense as related to operating leases was \$13,574 for the year ended June 30, 2004.

Capital Leases

The City has entered into various capital leases for equipment, vehicles and property. These capital leases have maturity dates ranging from April 1, 2004 through November 30, 2014, and interest rates ranging from 1.76% to 7.94%. A schedule of future minimum lease payments under capital leases as of June 30, 2004 is provided in Notes 5 and 6. The value of all capital leased assets as of June 30, 2004 for governmental assets is \$41,462, net of accumulated depreciation of \$71,127 and business-type assets of \$12,413 net of accumulated depreciation of \$5,628.

Lease Revenues

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

Year Ending June 30	Amount
2005	\$ 28,329
2006	27,581
2007	26,683
2008	26,181
2009	26,047
2010-2014	124,889
2015-2019	115,992
2020-2024	107,876
2025-2029	102,831
2030-2034	96,070
2035-2039	85,453
2040-2044	70,801
2045-2049	48,428
2050-2054	5,687
2055-2059	3,000
2060-2064	1,200
Total	<u>\$ 897,048</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 \$63,330 for the year ended June 30, 2004, which includes contingent rentals amounting to \$36,302.

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, in pre-tax dollars, 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 Plan is 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 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. Adoption and amendment of the City's benefit provisions requires City Council approval and a majority vote by members and 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. The Port and Airport are not component units of the City CAFR. 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. 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.

	General	Safety	Total by Classification
Active Members	7,117	2,632	9,749
Terminated Members	1,651	233	1,884
Retirees, Disabled and Beneficiaries	3,399	2,324	5,723
Total Members, as of June 30, 2004	12,167	5,189	17,356

As a defined benefit plan, retirement benefits are determined primarily by a member's class, age at retirement, number of years of service credit earned, and the member's final compensation based on the highest salary earned over a consecutive one-year period. The City provides cost of living adjustments of 2% to retirees, which is factored into the actuarial assumptions. The City 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.

The City also has a Deferred Retirement Option Program (DROP). If a SDCERS member participates in DROP, they have access to a lump sum benefit or periodic distributions in addition to their normal monthly retirement allowance when they leave employment with the City. DROP was initially offered by SDCERS' plan sponsors on a trial basis for a three-year period ending March 31, 2000, and subsequently became a permanent benefit. SDCERS' members are

eligible to participate in DROP when they are eligible for a service retirement. A DROP participant continues to work for the City and receives a regular paycheck. The DROP participant makes reduced retirement contributions to SDCERS and the DROP participant stops earning creditable service. A DROP participant continues to receive most of the employer offered benefits available to regular employees.

SDCERS' members electing to enter DROP must agree to participate in the program for a specific period of time, 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.

The DROP benefit is the value of a DROP participant's account at the end of the DROP participation period. It is available either in a lump sum or periodic distributions. Once a participant leaves DROP, they begin receiving their monthly retirement allowance directly.

SDCERS will distribute the funds in a participant's DROP account when they leave employment and begin retirement, unless they choose to delay distribution of these funds. The distribution is made as a single lump sum, periodic payments, in 240 equal monthly payments, or as otherwise allowed by the Board, subject to the 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.

Additionally, 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 (QWEBA) under Internal Revenue Code (IRC) section 415(m), which is a vehicle 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). The POB Plan is administered by the SDCERS Board as a separate trust from the City's pension plan. On February 16, 2007, the SDCERS Board adopted the Preservation of Benefit Plan and Trust to carry out the intent of SDMC section 24.1601 et seq. 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, and is therefore in the process of establishing a mechanism to pay for these benefits on a pay-as-you-go basis. Currently, activities related to the POB Plan are included in the RSI for the City's pension plan using actuarial assumptions consistent with those used to perform actuarial valuations for the City's core pension plan.

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 a stand-alone financial report which is available at its office located at 401 B 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 as reported in the actuarial valuation reports. Instead, employer contributions were less than the full actuarial rates and were in accordance with an agreement between the City and SDCERS, the agreement subsequently became known as Manager's Proposal 1 (MP-1). The MP-1 agreement provided that the City would make annual payments according to a contractually fixed formula of slowly increasing percentages of total payroll instead of payments computed using 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 occur until fiscal year 2007, at which time, the City's contribution would return to the full ARC rate as determined by the actuary. In the opinion of the City's Audit Committee and the City Attorney, MP-1 was illegal (See Contingencies Note 18 for additional background on MP-1).

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 allowing the City to avoid a balloon payment if the trigger was reached, allowing instead that the City increase its funding until the full ARC was reached. This provision of MP-2 required that funding be increased over a period of five years. In the opinion of the City's Audit Committee and the City Attorney, MP-2 was illegal (See Contingencies Note 18 for additional background on MP-2).

The actuarial valuation as of June 30, 2002, received in January 2003, which applies to contributions made in fiscal year 2004, stated 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 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 made payments to offset some of the employee's portion of retirement costs. Subsequent to June 30, 2003, the City engaged in meet and confer with its employee unions. The fiscal year 2006 Memoranda of Understanding (MOUs) and the changes to current and future employee benefits within were introduced to Council in November 2006, and the changes in benefit eligibility are intended to be codified in the City's Municipal Code during fiscal year 2007.

The agreement in the MOUs (agreements with the police union were not reached) was to reduce the amount of individual employees' pension costs 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 additional employee pension contribution and a benefit freeze.

The agreements with the bargaining units explicitly indicate that savings to the City must be used to address the 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 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 \$7 million from the remaining balance in the employee "pick-up" amount as part of meeting its negotiated commitment. (These agreements are also discussed in the Subsequent Events Note 22). In order to create a \$600 million reduction in the UAAL, the City would need to pursue a pension obligation bond issuance or other financing. However, the City Attorney has recommended that such bonds not be issued.

Funding Commitments Related to Legal Settlements

Subsequent to MP-2, the City entered into the Gleason Settlement Agreement, which governs contributions made in fiscal years 2006 through 2008. The City agreed that it would:

1. Contribute \$130 million 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 million of real property as collateral for payments required via the Gleason Settlement Agreement.

The settlement agreement also stipulated that certain actuarial assumptions be fixed in place, 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 million for fiscal year 2005. On July 1, 2005 the City made the annually required contribution of \$163 million for fiscal year 2006. On July 1, 2006 the City made its full annually required contribution of \$162 million. The contributions for fiscal years 2005 and 2006 did not include the effects of the Corbett settlement because the SDCERS' Board viewed those benefits as contingent (see section e for a description of the Corbett settlement). Subsequent to those payments, the SDCERS' Board and the City determined that the Corbett settlement benefits are not contingent, and therefore, the ARC for financial reporting was modified from the original ARC calculated by the Actuary to include Corbett liabilities. As such, the City's NPO includes the effects of the Corbett settlement. These benefits will also be included in actuarial liabilities beginning with the valuation period dated June 30, 2006.

In September 2006, the City entered into a tentative settlement of McGuigan v. City of San Diego. This agreement stipulated that the City pay \$173 million plus interest on amounts outstanding, to SDCERS over a period of 5 years. An additional requirement of the tentative settlement is that the City provides SDCERS real property collateral totaling \$100 million. These amounts are in addition to those required by the Gleason settlement and are to be returned upon the full payment of the settlement.

The City has also reached a settlement on a separate civil action: Newsome v. City of San Diego Retirement System, City of San Diego. As part of this settlement, the plaintiff has agreed to dismiss the lawsuit if the City provides an additional \$100 million 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 v. City of San Diego. Per the Newsome settlement, should the City not provide the additional funding, the plaintiff then has the right to re-file the lawsuit after giving the City 60 days notice.

The City has already contributed \$107 million pursuant to the McGuigan settlement agreement 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 above.

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, subsequent to the period reported on but prior to the issuance of these financial statements, 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. Prior to the amendment in 2005, the Charter required that employer contributions simply match that of employee contributions. 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 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 2004, provided by the actuary as of June 30, 2002, expressed as percentages of active payroll:

	Employer Contribution Rates				
	General Members		Safety Members		
	General	Legislative	Police	Fire	Lifeguard
Normal Cost*	9.26%	21.01%	17.11%	18.91%	16.61%
Amortization Payment*	6.75%	43.01%	16.23%	16.23%	16.23%
Normal Cost Adjusted for Amortization Payment*	16.01%	64.02%	33.34%	35.14%	32.84%
City Contribution Rates Adjusted for Payment at the Beginning of the Year	15.41%	61.61%	32.08%	33.82%	31.60%

* 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. Contributions vary according to age at entry into the defined Plan and salary. For fiscal year 2004, the City employee contribution rates as a percentage of annual covered payroll, average 10.02% for general members and 12.85% 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 7% to 8% of covered payroll for general members. Of this, 1.6% came from the retirement fund employee rate reserve, the other 5.4% to 6.4% was paid by the City. The range for safety plan members is 9% to 10%. Of this, 2.7% came from the retirement fund employee rate reserve and all remaining payments were 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. Any and all savings realized by these agreements must be set aside and ultimately leveraged to reduce the unfunded actuarial accrued liability (UAAL) of the pension fund.

Annually a cash basis calculation is required by SDMC Sections 24.1501 and 24.1502 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) A transfer to the Employer Contribution Reserve for funded retiree health in accordance with SDMC Section 24.1203. When a transfer of realized earnings to the Employer Contribution Reserve occurs under SDMC Section 24.1203, the City allocates an equivalent amount of its' annual contribution to the 401(h) Fund for healthcare benefits. (Pursuant to Resolution 300102, adopted February 1, 2005, SDCERS no longer pays for retiree health care from pension assets.) 2) Annual Supplement Benefit Payment ("13th Check") paid to retirees generally equal to approximately \$30 times the number of years of employment and paid only when there are sufficient annual realized earnings. 3) Corbett Settlement Payment paid to retirees who terminated employment prior to July 1, 2000 (Corbett Settlement payments not paid in any one year accrue to the next year and remain an obligation of SDCERS until paid). 4) Crediting interest to the Reserve for Employee Contribution Rate Increases and 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.

The impact of paying health insurance, supplemental or contingent payments out of realized earnings is to decrease system assets which increases the UAAL and decreases the funded ratio. This negative impact to the UAAL and funded ratio results from diverting earnings that would otherwise be retained. Another related impact is on the net rate of interest earned on system assets which is negatively impacted when earnings are diverted from system assets. The actuarial assumed rate of interest is 8%. As an example, if the system earned 10%, the difference between the 10% and the 8% was diverted and not used to increase 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. Beginning in fiscal year 2005 when the 401(h) reserve was depleted, the City funded the remaining retiree health benefits expense for fiscal year 2005 and the expenses for fiscal years 2006 and 2007 directly from the general and non-general funds. In November 2004, voters changed the City Charter by passing Proposition H, requiring a majority of the Board to be independent of the City. Additionally, voters changed the City Charter by passing Proposition G, requiring a 15 year amortization period be used to amortize the UAAL beginning in fiscal year 2009; however, the SDCERS Board, in conjunction with the actuary, has taken the position that it is legally responsible for establishing the valuation parameters, including the amortization period. In March 2007, the SDCERS Board adopted a 20 year amortization assumption and has not indicated any intention to change 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 simply establishes an upper boundary for the amortization of pension debt, it does not usurp or unduly interfere with the SDCERS Board's plenary authority and fiduciary responsibility over the California Pension Protection Act, and as a result, the 15 year amortization period is binding. Given the size of the City's current unfunded actuarially accrued liability, future changes to the amortization schedule will have significant impacts on future annually required contributions.

e. **Annual Pension Cost and Net Pension Obligation****Annual Pension Costs**

The normal cost and UAAL amortization cost were determined using the Projected Unit Credit (PUC) actuarial funding method. The actuarial assumptions included:

- (a) An 8.0% investment rate of return.**
- (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 2006, the SDCERS Board accepted the actuary's recommendation to adopt a different asset smoothing method. The method used by the actuary in this reporting period is not a commonly used method. The UAAL for funding purposes, as approved by SDCERS, was being amortized over a fixed 30-year period on a closed basis and the resulting annual amount is herein called the full actuary rate. As of June 30, 2002, the valuation year used to compute the annually required contribution, there were 19 years remaining in the amortization period. As discussed above, the 30 year closed amortization period was restarted in fiscal year 2005 pursuant to the settlement of Gleason v. City of San Diego. Beginning in fiscal year 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.

The following table shows the City's annual pension cost ("APC") and the percentage of APC contributed for the fiscal year ended June 30, 2004 and two preceding years (in thousands):

Fiscal Year Ending June 30	APC	Percentage Contributed	Net Pension Obligation
2002	\$ 66,500	61.45%	\$ 131,246
2003	90,454	64.84%	163,050
2004	138,488	49.83%	232,536

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, 2004, the City's NPO is approximately \$232.5 million in accordance with GASB 27. See table above.

NPO Components related to Retiree Health

The City's annual contribution to SDCERS pension trust fund, for the fiscal years ended June 30, 2004, 2003, and 2002, 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 the law firm of Ice Miller to make several filings to the IRS to voluntarily correct this operational failure and IRC violation. (See Contingencies Note 18 for additional disclosures). The amounts taken from the pension trust fund for healthcare benefits were approximately \$12.8 million in fiscal year 2004, \$11.5 million in fiscal year 2003, and \$8.9 million in fiscal year 2002. These payments have been removed from the City contribution amounts and resulted in an increase to the City's NPO. The cumulative increase to the City's NPO related to retiree health is approximately \$66.2 million. (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 \$37.8 million in funds from the pension trust fund's undistributed earnings to fund the Employee Contribution Rate Reserve, and 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, 2004 is \$14.5 million. 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.

NPO Components related to Corbett Settlement and Subsequent Benefit Increases

In 1998 a lawsuit was filed by retired employees who alleged that the City's method of calculating retiree pension benefits improperly excluded the value of certain benefits such as vacation and sick leave when computing the employees' pensionable salaries. The City settled in May of 2000, known as the Corbett Settlement. This settlement provided for a flat increase of 7% in benefits payable to eligible retirees from annual realized earnings of SDCERS pension assets, if sufficient. To the extent earnings are insufficient, the unpaid amount is carried forward. For employees active at the time of the settlement who joined the Retirement System before July 1, 2000, San Diego Municipal Code section 24.0402 and 24.0403 allows for two options in calculating his/her unmodified service retirement allowance:

1. the unmodified factors in effect on July 1, 2000 ("Corbett Factors"), as shown in the table below, with no increase to the General Member's Final Compensation, or
2. the unmodified factors in effect on June 30, 2000 ("Old Factors"), as shown in the table below, with a 10% increase to the General Member's Final Compensation.

In effect on July 1, 2002 ("New Factors"), additional increases related to MP-2 were granted, as shown in the tables below, with no increase to the member's compensation.

GENERAL MEMBER RETIREMENT CALCULATION FACTORS

Retirement Age	Unmodified Factors Effective 6/30/00	Unmodified Factors Effective 7/1/00 (Corbett Factors)	Unmodified Factors Effective 7/1/02 (New Factors)
	(Old Factors)		
55	2.00%	2.25%	2.50%
56	2.00%	2.25%	2.50%
57	2.00%	2.25%	2.50%
58	2.00%	2.25%	2.50%
59	2.08%	2.25%	2.50%
60	2.16%	2.30%	2.55%
61	2.24%	2.35%	2.60%
62	2.31%	2.40%	2.65%
63	2.39%	2.45%	2.70%
64	2.47%	2.50%	2.75%
65 and older	2.55%	2.55%	2.80%

SAFETY MEMBER RETIREMENT CALCULATION FACTORS

Retirement Age	Unmodified Factor* Effective 1/01/97 - 6/30/00		Unmodified Factor* Effective 7/01/00
	Lifeguard	Police & Fire	
50	2.20%	2.50%	3.00%
51	2.32%	2.60%	3.00%
52	2.44%	2.70%	3.00%
53	2.57%	2.80%	3.00%
54	2.72%	2.90%	3.00%
55	2.77%	2.99%	3.00%

*Unmodified Factor utilized to calculate the maximum service retirement allowance.

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 and adding to that the annual amount needed to amortize the UAAL as reported by the actuary, in accordance with the amortization period and method selected. The ARC is then increased by interest accruing to 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 2004]	\$	140,168
Contributions Adjusted for Health Expenses [Fiscal Year 2004]		(69,002)
Interest on NPO		13,044
ARC Adjustment		(14,724)
Change in NPO		<u>69,486</u>
NPO Beginning of Year [Fiscal Year 2003]		163,050
NPO End of Year [Fiscal Year 2004]	\$	<u><u>232,536</u></u>

The City interpreted 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 was found to be incorrect. The impact on the NPO related to Corbett as of June 30, 2004 is approximately \$15.8 million.

f. **Actions taken on behalf of the City to address Pension Liability**

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 13th Check, the option to purchase years of service credits ("air-time"), and retiree healthcare benefits; however, the retirement formula 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. The employer/employee contributions for such a plan have not been determined as of the issuance of this report. The City is exploring the consolidation of 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 of San Diego to receive 100% of the retiree health benefit and five years of service to receive 50% of the retiree health benefit.

The economic benefits from the labor agreements have created an opportunity for the City to begin addressing the unfunded liability issue of the Retirement System. In June 2006, the amount from labor concessions that was committed to address the pension's unfunded liability was \$17.4 million (general fund and non-general fund). The City has already contributed \$100 million pursuant to the McGuigan settlement agreement 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 above. The contribution will have the effect of reducing the NPO in fiscal year 2006. The City is also exploring other financing options as a means to eliminate its NPO.

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"). 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 Plans are defined contribution plans administered by Wachovia Corporation, formerly Ameriprise Trust Company, to provide pension benefits for eligible employees. There are no plan members who belong to an entity other than the City of San Diego. 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:

<u>Plan</u>	<u>Participants</u>
SPSP	2,003
SPSP - M	7,005
SPSP - H	4,484

The SPSP and SPSP-M plans require 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 two Plans 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 these Plans, 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.

The City and the covered employees contributed approximately \$48,108 in fiscal year 2004. As of June 30, 2004, the fair value of plan assets totaled approximately \$423,963. 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. 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.

b. 401(k) Plan - City

The City established a 401(k) Plan effective July 1, 1985. The Plan is a defined contribution plan administered by Wachovia Corporation, formerly Ameriprise Trust Company, to provide pension benefits for eligible employees. Employees are eligible to participate from date of employment. Employees make contributions to their 401(k) 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 \$25,015 during the fiscal year ended June 30, 2004. There is no City contribution towards the 401(k) Plan.

As of June 30, 2004, the fair value of plan assets totaled approximately \$152,311. The 401(k) Plan is considered part of the City of San Diego'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 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 quarterly 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 2004 was approximately \$3,065. CCDC contributions were calculated using the base salary amount of approximately \$2,830. CCDC made the required 8% contribution amounting to approximately \$226 (net of forfeitures) for fiscal year 2004.

In addition, CCDC has a Tax Deferred Annuity Plan covering current and previous eligible employees. The 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 Plan. CCDC made the required 16% contribution amounting to approximately \$453 for fiscal year 2004.

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 "Plan") became effective January 1, 1986. The Plan is a qualified defined contribution plan and as such, benefits depend on amounts contributed to the Plan plus investment earnings less allowable plan expenses. The 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 Plan expenses are allocated in accordance with Plan provisions. A trustee bank holds the 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, 2004, pension expenditures for the Plan amounted to \$1,163. 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, 2004, the balance in the account was \$126.

The balance at June 30, 2004 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 "Plan") covering substantially all employees. The 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 2004 was approximately \$22,151. As all employees are substantially covered, SDDPC contributions were calculated using this base salary amount. SDDPC made the required 20% contribution, amounting to approximately \$4,367.

f. **Pension Plan - San Diego Housing Commission (SDHC)**

SDHC provides pension benefits for all its full-time employees through a defined contribution 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 2004 was approximately \$11,187. SDHC made the required 14% contribution, amounting to approximately \$1,566 for fiscal year 2004. 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 plan is a defined contribution plan administered by Morgan Stanley Dean Witter. Per provision 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 2004 was approximately \$908. SEDC contributions were calculated using the base salary amount of approximately \$820. SEDC made the required contribution, amounting to approximately \$109 for fiscal year 2004. Plan members contributed an additional \$1.2.

13. OTHER POST EMPLOYMENT BENEFITS (In Thousands)**a. Plan Description**

The City provides certain healthcare insurance 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 primarily are 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 \$1.2 per year.

b. Contributions

In accordance with SDMC Sections 24.1502 and 24.1203 as in effect for fiscal year 2004 (such sections having been subsequently repealed), amounts were transferred from annual realized earnings of SDCERS' pension assets to the Employer Contribution Reserve for the purposes of funding the retiree health benefits that would have otherwise have been paid by the City. It is from this Reserve that post-employment healthcare benefits were paid. This was found to be in violation of IRC Section 401(a) and SDCERS hired the law firm of Ice Miller to make several filings to the IRS to voluntarily correct this operational failure and IRC violation. (See Contingencies Note 18 for additional disclosures). The City was credited against the Annually Required Contribution (ARC) for payments made to fund retiree healthcare benefits, with the net result that the City paid the basic ARC with no additional amount for post-employment healthcare benefits.

Expenses for post-employment healthcare benefits are on a pay-as-you-go basis. In fiscal year 2004 approximately 5,700 retirees received City paid insurance or were reimbursed for other health insurance costs incurred. For the year ended June 30, 2004, expenditures of approximately \$12,800 were recognized by SDCERS, and paid from the SDCERS reserve for such healthcare benefits (Additional information is presented in note 12 section d and e). The book value of the remaining balance in the reserve at June 30, 2004 was approximately \$7,900, as compared to the fair market value of \$9,000 reported in the Fiduciary Funds Statement of Net Assets. For the year ended June 30, 2005, expenditures of approximately \$14,800 were recognized by SDCERS. Approximately \$7,900 was paid from this Reserve, which was depleted in January 2005. An additional contribution of approximately \$6,900 was made by the City to fund post-employment healthcare benefits in excess of the reserve balance for fiscal year 2005.

In October 2004, the City Council voted to have the remaining retiree health benefits expense, estimated to be \$6,900 for fiscal year 2005, directly funded from City funds and not the SDCERS Pension Trust Fund. In February 2005 the City Council adopted O-19354 which requires retiree healthcare premiums to be paid out of the General Fund and non-general funds of the City.

In July 2004, GASB issued GASB 45, *Accounting and Financial Reporting by Employers for Postemployment 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. 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 over a period of time in excess of one year. The majority of the advances, \$2,300, is an advance from the Redevelopment Agency to the HUD Section 108 grant funds. Interfund WCA balances at June 30, 2004 are as follows:

Contributing Fund (Receivable)	Benefiting Fund (Payable)			
	General Fund	NonMajor Governmental	Fiduciary	Total
General Fund	\$ -	\$ 300	\$ 1,490	\$ 1,790
NonMajor Governmental	-	3,054	72	3,126
Sewer Utility	341	-	155	496
Water Utility	645	-	131	776
NonMajor Enterprise	-	-	144	144
Internal Service	-	-	93	93
Total	<u>\$ 986</u>	<u>\$ 3,354</u>	<u>\$ 2,085</u>	<u>\$ 6,425</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 the NonMajor Governmental loans, \$38,000, represent the Redevelopment Agency loans from their special revenue funds to their capital projects funds. There is also a \$10,100 loan from the General Fund to expenditure-driven grant funds that have temporary cash shortfalls, pending reimbursements from the State. Interfund receivable/payable balances at June 30, 2004 are as follows:

Contributing Fund (Receivable)	Benefiting Fund (Payable)		
	NonMajor Governmental	NonMajor Enterprise	Total
General Fund	\$ 10,100	\$ -	\$ 10,100
NonMajor Governmental	51,958	-	51,958
NonMajor Enterprise	2,626	69	2,695
Total	<u>\$ 64,684</u>	<u>\$ 69</u>	<u>\$ 64,753</u>

The Water Utility Major Fund has an interfund loan receivable of \$2,386, and the Capital Outlay NonMajor Governmental Fund has a corresponding interfund loan payable of \$2,386 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 is expected to be sold to the Redevelopment Agency in fiscal year 2007. The purchase price of the land is expected to be \$6,380, of which \$2,840 (which includes accrued interest) will be repaid to the Water Utility fund and the remainder will be placed in the Capital Outlay Fund.

Due to / due from discretely presented component units at June 30, 2004 are as follows:

Contributing Fund (Receivable)	Benefiting Fund (Payable)	
	NonMajor Governmental	
San Diego Convention Center Corporation	\$	53
San Diego Housing Commission		539
Total	\$	592

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, 2004 are as follows:

Contributing Fund	Benefiting Fund						Total
	General Fund	NonMajor Governmental	Sewer Utility	Water Utility	NonMajor Enterprise	Internal Service	
General Fund	\$ -	\$ 15,665	\$ -	\$ -	\$ -	\$ 13,707	\$ 29,372
NonMajor Governmental	37,994	191,936	-	-	2,234	533	232,697
Sewer Utility	254	1,320	-	-	-	439	2,013
Water Utility	238	1,325	-	-	-	238	1,801
NonMajor Enterprise	1,739	753	-	-	-	337	2,829
Internal Service	710	1,034	285	197	162	46	2,434
Total	\$ 40,935	\$ 212,033	\$ 285	\$ 197	\$ 2,396	\$ 15,300	\$ 271,146

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 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) 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.

The City, which offers a cafeteria-style flexible benefits plan to its employees, is not self-insured for life, health, dental or vision. The flexible benefits plan offered to employees requires them 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 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, 2004 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 showing current and prior year activity is presented below:

	Public Liability	Workers' Comp & Long-Term Disability	Total
Balance, July 1, 2002	\$ 38,690	\$ 107,464	\$ 146,154
Claims and Changes in Estimates	57,675	36,139	93,814
Claim Payments	(11,292)	(27,544)	(38,836)
Balance, June 30, 2003	85,073	116,059	201,132
Claims and Changes in Estimates	29,055	62,965	92,020
Claim Payments	(12,267)	(28,722)	(40,989)
Balance, June 30, 2004	<u>\$ 101,861</u>	<u>\$ 150,302</u>	<u>\$ 252,163</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 \$400,000 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 \$75,000, 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 \$500 minimum, effective March 31, 2004. 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 current year, 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 DEFICIT (In Thousands)

The Self Insurance Fund has a net deficit of approximately (\$180,746) at June 30, 2004, 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 November 2006, the Mayor's office presented a five-year financial plan to the City Council that outlines a funding commitment to the Self Insurance Fund over and above amounts needed to fund current year expenditures in future periods.

The Grants Fund and the Capital Outlay Fund also have net deficits of approximately (\$9,368) and (\$14,217), 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 are recognized as soon as all eligibility criteria have been met and the amounts become available. This results in a deficit fund balance and negative cash balance in these funds.

17. COMMITMENTS (In Thousands)

As of June 30, 2004, the City's business-type activities contractual commitments are as follows:

Airports	\$	496
Environmental Services		4,747
Sewer Utility		108,135
Water Utility		73,540
Other		2,433
Total Contractual Commitments	\$	<u>189,351</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 revenue bonds secured by system revenues.

Proposed 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 seeks 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 contests 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 have reached an agreement on the additional requirements to reduce sewer spills, which will be set forth in a Proposed Consent Decree (the "Proposed Consent Decree"). The Proposed Consent Decree will require 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. No civil penalty payment will be 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 Proposed Consent Decree.

The compliance elements of the Proposed Consent Decree present substantial financial commitments for improved wastewater capital improvement projects as outlined above. The City has been prevented from obtaining public financing for these projects. Consequently, the parties agreed to a First Partial Consent Decree, which allowed the City to proceed with all the key components of the Proposed Consent Decree without committing to the major capital projects that require financing. The First Partial Consent Decree expired on June 30, 2006. A Second Partial Consent Decree has been approved by the City Council, the EPA and the environmental groups, and has been lodged with the District Court for approval. The Second Partial Consent Decree mirrors the First Partial Consent Decree, bridging the gap until the City can obtain sufficient financing to commit to the Proposed Consent Decree. The Second Partial Consent Decree would expire on June 30, 2007.

Sewer rate increases were approved for the next four years to partially fund the obligations of the Proposed Consent Decree. However, additional rate increases will be necessary to completely fund the Proposed 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 is also investigating financing options to fund the capital projects in the Proposed Consent Decree.

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 2003 is being performed by the firm Macias Gini & O'Connell LLP and is currently in progress.

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 has completed its financial statements for fiscal year ending June 30, 2003, but still requires Council approval to officially release those statements to the public. The City has not yet released its audited financial statements for the fiscal years ending June 30, 2004, 2005, and 2006. 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.

INVESTIGATIONS INTO POTENTIAL ILLEGAL ACTS

Timeline and Description of Events - Pension

As of the issue date of this report, the City of San Diego is subject to numerous federal and state investigations surrounding alleged illegal acts by current and former City officials. The following timeline outlines significant events regarding the occurrence, disclosure and investigation of the alleged illegal acts.

In June 1996, the San Diego City Employee's Retirement System (SDCERS) board approved a pension funding proposal entitled Manager's Proposal 1 (MP-1). This proposal had the effect of reducing the City's annual pension costs but protected the pension fund by imposing a minimum funding ratio of 82.3%. If the funding ratio fell below 82.3%, the City was required to make payments sufficient to bring the funding ratio back to 82.3%.

In July 1996, the City adopted an ordinance to authorize the placement of a ballot measure to amend the San Diego City Charter to authorize the City Council to pay health insurance benefits through SDCERS. The amendment was approved by the voters the following November.

In November 2002, the SDCERS board and City Council approved a proposal to modify MP-1. This agreement was entitled Manager's Proposal 2 (MP-2). MP-2 allowed the City to make contractually determined contributions to SDCERS and provided a ramp-up period to meet its full actuarially required contribution.

In January 2004 the City filed a Voluntary Disclosure with the Nationally Recognized Municipal Securities Information Repositories concerning omissions in a number of Official Statements delivered by the City in connection with City public bond offerings.

In February 2004, as a result of the January 2004 Voluntary Disclosure, the Securities and Exchange Commission initiated an investigation into the City's disclosure practices, particularly regarding the under-funding of SDCERS.

In April 2004, prior to the release of the City's already completed and audited fiscal year 2003 financial statements, the City determined that the statements contained numerous errors and omissions of material fact. As a result, the City terminated its original independent auditor and engaged KPMG to conduct a full-scope re-audit of its 2003 basic financial statements. The restatements identified in this re-audit are detailed in Note 23 to the fiscal year 2003 basic financial statements.

In December 2004, the U.S. Attorney for the Southern District of California issued subpoenas for its own investigation into the City's and SDCERS disclosure practices. The investigations were later expanded to include the City's sewer rate schedule.

In May 2005, the San Diego District Attorney charged six former City and SDCERS' officials with violations of California conflict of interest laws stemming from agreements to under-fund the City's pension plan.

In January 2006 a federal grand jury indicted five former City and SDCERS officials on various criminal charges. The federal investigations are ongoing. None of the illegal acts discussed below have lead to the conviction of any individuals; as of the issue date of this report, those individuals who have been charged are awaiting trial.

In June 2006, SDCERS filed a voluntary disclosure with the IRS regarding violations of the plan qualification provisions of Internal Revenue Code Sections 401(a) and 401(h). The voluntary disclosure related to the use of pension plan assets in funding retiree health benefits.

In November 2006, the Securities and Exchange Commission entered an Order sanctioning the City of San Diego for committing securities fraud by failing to disclose to the investing public important information about its pension and retiree health care obligations in the sale of its municipal bonds in 2002 and 2003.

Timeline and description of Events - Wastewater

In September 1994 the City was instructed by the State Water Resources Control Board (SWRCB) to modify agreements with participating agencies to include the incremental cost associated with removing organics from the wastewater.

In May 1998, the City was made aware through a Cost of Service Study (COS) performed by independent consultants that its sewer rate structure did not comply with standards set by the SWRCB.

In October 1999 a Deputy City Manager informed a Councilmember that the COS did not warrant changing the rate structure.

In November 1999 a Deputy City Attorney informed a Councilmember that the COS did in fact indicate that the rate structure should be revised.

In January 2002, the City Council was notified in closed session that the City's Sewer Rate structure was not in compliance with the noticing and proportionate billing requirements set forth in State Proposition 218. The City Council took no affirmative action to remediate non-compliance and requested further review by the City Attorney's office.

In March 2002, the City filed a continuing disclosure that does not discuss any facts related to non-compliance with SWRCB guidelines and that non-compliance may result in potential liabilities to the City.

In November 2002, Senior City Officials are provided a memorandum detailing the nature of and potential impacts of Sewer Rate non-compliance. This memorandum indicates that the City had not experienced any regulatory action from the SWRCB because of the Boards' confusion over the true nature of the City's rate structure. It also detailed City staff member's beliefs as to why the rate structure was not brought into conformance with SWRCB guidelines.

In February 2003, the City was granted a \$12 million loan for sewer improvements. This loan included covenants that required compliance with the Clean Water Act and applicable state guidelines including those set by the SWRCB.

In June 2003, City officials met with bond rating agencies to discuss a proposed sewer bond offering. City officials led bond rating agencies to believe that the City was in compliance with state and federal regulations concerning its sewer rate structure. However, the City never issued the 2003 bond offering.

In November 2003, the SWRCB gave the City a 90 day deadline to submit the ordinance enacting a compliant rate structure.

In March 2004, SWRCB requested the City implement revised rates for fiscal year 2005 and gave the City 90 days to submit an adopted ordinance or resolution providing for a revised rate structure.

In June 2004, the City Council adopted Resolution R-299322, authorizing revisions to the existing wastewater fees and charges to bring the City into full compliance with the SWRCB's requirements.

In June 2004, a lawsuit against the City was filed alleging residential users were overcharged for sewer services.

In June 2004, SWRCB notified the City that its rate structure was now compliant with state guidelines.

In October 2004 the City's new compliant rate structure took effect.

In April 2006, a San Diego County grand jury concluded that the City was improperly charging General Fund expenses to the City's Water and Wastewater Enterprise Funds.

REGULATORY AND OTHER INDEPENDENT INVESTIGATIONS INTO PENSION AND WASTEWATER MATTERS

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 to the investing public important information about its pension and retiree health care obligations in the sale of its municipal bonds in 2002 and 2003. 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 dramatically increase.
- 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 Commission's investigation 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

Prior to settlement with the SEC and following standard practice in previous SEC investigations, the City voluntarily 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 first 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., to act in the capacity of an Audit Committee. The Audit Committee took over the investigatory process. The independent investigations concluded when the Audit Committee presented its final report to the City on August 8, 2006.

The Audit Committee (commonly known as Kroll) concluded the following with regard to illegal acts:

- The enactment of the MP-1 and MP-2 pension funding agreements constituted a violation of state and local law.
- The SDCERS board breached their fiduciary responsibility to plan beneficiaries.
- The City knowingly failed to comply with federal and state requirements applicable to its wastewater system which required that sewer rates reflect the costs of treating sewage and be proportionately allocated.
- The City violated federal securities laws by obtaining money from public investors through financial statements and related disclosure that the City knew were false, and certain City officials intentionally, violated Section 10(b) of the Securities and Exchange Act of 1934.
- Certain members of the City Council knowingly and improperly caused the City to violate federal and state law applicable to its wastewater system by failing to act in accordance with legal mandates.
- Between 1982 and 2005 the City was not in compliance with the Internal Revenue Code because the City was using pension fund assets to pay retirement healthcare benefits. However, the firm concluded that it was unlikely that the IRS would disqualify SDCERS from tax exempt status as that would primarily hurt the beneficiaries of the system while not adversely affecting the City directly.

As to the legality of the pension benefits, Kroll concluded that they were not illegal and it would be unlikely for a court to invalidate them. The Audit Committee concluded that members of the City Council, as well as certain senior City officials who are no longer employed by the City, were negligent in the fulfillment of their bond offering disclosure responsibilities.

The entire Audit Committee report including interview summaries and footnotes, as well as the V&E report, are available at: www.sandiego.gov.

INDEPENDENT INVESTIGATIONS INTO SERVICE LEVEL AGREEMENTS

On April 25, 2006, the San Diego Grand Jury completed its report regarding the use of service level agreements (SLAs) by the City's water district and wastewater district. The Grand Jury found that there was no City Council policy governing the use of SLAs, and that the use of SLAs lack internal management checks and balances to ensure that City departments appropriately bill the enterprise funds for services provided. The Grand Jury found that the City had used SLAs to improperly divert enterprise funds to subsidize City services that should have been funded by the City's general fund. In response to the Grand Jury report, the Mayor on May 15, 2006 announced the implementation of various measures to improve internal controls for the use of SLAs. In addition, the Mayor announced the refund of approximately \$2 million to the sewer and water enterprises effective June 30, 2006.

As a separate matter and in response to the Grand Jury report on Service Level Agreements, a follow up investigation was conducted by Mayer Hoffman McCann P.C., an independent firm performing an agreed upon procedures engagement. Mayer Hoffman found that during fiscal years 1996 to 2003, City staff in the City Attorney's office was directly instructed by management to bill their time based on their budgeted area of responsibility, regardless of the actual work performed. This may have resulted in the enterprise funds being overcharged. The evidence indicates that they were not significantly overcharged, but it should be noted that the available evidence does not support a definitive conclusion regarding the amount of any overcharges. The City Attorney asserts that these practices are no longer occurring. Other entities, including the California Attorney General, are currently investigating the billing practices of the City Attorney's office.

CITY ATTORNEY INVESTIGATIONS INTO PENSION, WASTEWATER, AND LAND USE MATTERS

The City Attorney has conducted several investigations into pension disclosures and the potential for illegal acts. These investigations have thus far resulted in 17 "interim reports" detailing the City Attorney's conclusions on pension disclosures and other illegal acts. The City Attorney's findings have not been adopted by the Audit Committee, the SEC, or any court of law. The City Attorney's findings do not necessarily agree with the position of the City Council, nor have the Council members taken action to adopt the City Attorney's findings.

The City Attorney's reports concluded that City staff and City officials, including certain current City Council members, violated federal, state and local laws as described below. It should be noted that the City Attorney's findings of violations of law covered a wider array of illegal conduct and identified a greater number of individuals, including specifically certain current members of the City Council, than were identified in either the V&E or Kroll reports.

It is the City Attorney's opinion that City officials, City employees and SDCERS' board members and management engaged in illegal acts concerning the City's funding of SDCERS beginning with the adoption in 1996 of MP-1. In summary the City Attorney believes that the City negotiated an agreement with its unions whereby pension benefits to retired City employees would be increased, but only if the board of SDCERS would allow the City to fund SDCERS at a level below what would be required by generally accepted accounting and actuarial principles. The City Attorney has asserted that that this agreement violated the California Constitution, the San Diego City Charter and the San Diego Municipal Code and constituted a breach of the fiduciary duties of the SDCERS' board and management.

Similarly, the City Attorney has asserted that City officials (including certain current City Council Members), City employees and SDCERS' board members and management engaged in illegal acts concerning the approval in 2002 of MP-2. The City Attorney believes that the action taken in MP-2 was again to increase pension benefits in exchange for continuing to allow the City to fund SDCERS at a reduced rate and to remove certain funding level safeguards put in place by MP-1. The City Attorney alleges that the approval and enactment of MP-2 violated the California Constitution, the San Diego City Charter, and the San Diego Municipal Code and constitutes a breach of the fiduciary duties of the board and management of SDCERS.

The City Attorney's conclusions expressly state that there was illegal conduct on the part of the City Council in the approving MP-1 and MP-2 which the City Attorney believes resulted is an illegally funded pension system. The City Attorney has initiated proceedings in the Superior Court to invalidate the benefits conferred by MP-1 and MP-2. This action is ongoing and the City Attorney states that it is not possible to determine an outcome at this time. The City

Attorney believes that the City Council violated Section 10(b) and Rule 10b-5 of the Securities and Exchange Act of 1934 and Section 17(a) of the Securities Act of 1933 because they were at least reckless in approving City disclosures regarding the wastewater system and the pension fund that were materially misleading.

In May 2007, the City Attorney announced that his office was commencing an illegal acts investigation into the role of City Management in the issuance of permits for an office building that has been determined to have violated Federal Aviation Administration regulations on the height of structures in close proximity to municipal airports. The City Attorney has indicated that any potential liability to the City as a result of this matter is inestimable nor has he identified when the underlying event that could potentially cause liability to the City occurred. As such, the City has elected to disclose this matter in Note 22: Subsequent Events.

The City Attorney detailed his findings regarding matters identified by the County Grand Jury in his Interim Report #10. The City Attorney concluded that improper billing practices had occurred within the City Attorney's office and that the practice had been discontinued upon the current City Attorney taking office in December 2004.

All of the City Attorney's Interim Reports are available on the City Attorney's website at:

<http://www.sandiego.gov/cityattorney/reports/index.shtml>

REMEDATION ON ILLEGAL ACTS

Beginning with the issuance of the V&E report the City has taken steps to correct its control environment and initiate the remediation process concerning more specific control activities. The first action was to amend the municipal code by way of ordinance (O-19320) in October 2004. This ordinance among other things:

- Created a Disclosure Practices Working Group.
- Required the City Attorney to designate a deputy city attorney for finance and securities.¹
- Mandated an annual review of Internal Controls to be conducted by the City's Auditor and Comptroller.

The City's first annual report on Internal Controls was published in January 2006 and can be found at www.sandiego.gov.

In January 2006, pursuant to a charter amendment, the City adopted a Strong Mayor form of government. This form of governance places the accountability for the operations of the City principally with the Mayor. In response to the Kroll report and the SEC administrative order, the Mayor has proposed to the City Council a comprehensive remediation plan that addresses the deficiencies identified by Kroll and the SEC. The Mayor's plan, which is currently pending approval by the City Council, is proposed to be implemented over the course of three years at an estimated cost of \$45 million. Additionally, some of the proposed remediation will require ballot initiatives that will need to be approved by a vote of the public. It includes:

- The appointment of an independent consultant to:
 - 1) Conduct annual reviews for a three-year period 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 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 Councilmembers regarding compliance with disclosure obligations;
 - 2) Make recommendations concerning these policies, procedures, and internal controls with a view to assuring compliance with the City's disclosure obligations under the federal securities laws; and

¹The City Attorney has hired three attorneys to fulfill this obligation

3) 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.

- Significant changes to the organizational structure of the City, including the centralization of the various components of the City's newly created Finance Department. This includes enhanced accountability for the City's Chief Financial Officer.
- The formation of an Audit Committee.
- The appointment of an independent Auditor General who reports to the Audit Committee.
- Guidelines and regulations over the hiring and retention of an Independent Audit firm.
- Modifications to the City Ethics Laws to impose criminal penalties for violations.
- The retention of an independent actuary to assist the City in reviewing the SDCERS actuarial valuation and to provide analysis of the financial effects of retirement related decisions.
- Modifications to the City's internal controls governing the disclosure process.
- The acquisition of a new information system to record and maintain records of the City's operating results.
- Increased training for employees responsible for financial management, reporting and grant management.

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 3,000 notices of claims.

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 in the Supplementary Information. 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.

William J. McGuigan v. City of San Diego (McGuigan)

In McGuigan, the plaintiff alleges the City has under-funded its pension plan in violation of its own Charter and Municipal code. A tentative settlement has been reached in which the City has agreed to pay \$173,000 plus interest on amounts outstanding, into the San Diego City Employees Retirement System (SDCERS) over a period of 5 years. The City has already contributed \$95,000 pursuant to this settlement agreement through the securitization of tobacco revenue. An additional requirement of the tentative settlement is that the City provides SDCERS real property collateral totaling \$100,000, to be returned upon the full payment of the settlement. Amounts related to this settlement were not accrued in the City's Self Insurance Fund because the settlement has not been finalized and because the City has already recorded a Net Pension Obligation in its financial statements. As of the issue date of this report, this case has

yet to be settled and settlement is being contested by a number of third parties. If the case is not settled, the City has been threatened by the California Superior Court with a default judgment of \$173,000.

William Newsome III v. San Diego City Employees Retirement System, City of San Diego (Newsome)

On November 14, 2005, William Newsome, a former employee of the City of San Diego, filed a complaint against SDCERS and the City of San Diego for Breach of Fiduciary Duty, Aiding and Abetting and Conspiracy. On January 25, 2006, SDCERS filed an answer to the complaint and filed a cross-complaint against the City of San Diego for declaratory relief. On September 7, 2006, the parties entered into a stipulation that dismissed the case without prejudice. In addition, the plaintiff agreed not to re-file the lawsuit if within five years the City made an additional contribution above the McGuigan settlement amounts of the lesser of (a) \$100,000; or (b) an amount sufficient to allow SDCERS to achieve a funded ratio of 82.3%.

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 \$29,200. 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.

San Diego City Employees Retirement System v. San Diego City Attorney Michael Aguirre and City of San Diego

SDCERS filed this lawsuit in January 2005 to assert its right to independent legal counsel. The City Attorney has filed a cross complaint alleging that the pension benefits provided pursuant to the MP-1 and MP-2 agreements are illegal. The financial statements and accompanying notes presented herein are prepared under the assumption that said benefits are legal and that related liabilities are binding (see note 12 and required supplementary information). If the City Attorney were to prevail in his cross complaint, the impact of that determination by a court could reduce the City's current Unfunded Actuarially Accrued Liability (UAAL). In a proposed statement of decision issued December 14, 2006, the court ruled that the City could not challenge the pension benefits granted by MP-1 and MP-2. This decision has not been made final and the City is objecting to it in the lower court. If the City does not prevail, it will go to the court of appeal either by writ or appeal.

Shames v. City of San Diego, et al.

This is a class action lawsuit alleging that the City of San Diego employed an improper method in calculating sewer rates. As a result of the improper billing calculation, the plaintiff alleges that residential users were overcharged while industrial users were undercharged (discussed in the illegal acts section of this note). A settlement agreement has been entered into and the liability is reported on the City's financial statements; however, Council still needs to approve a rate increase in the future to fund this liability.

Weisblat, et al v. City of San Diego

Plaintiffs own rental property in San Diego and are bringing this action on behalf of all owners of rental property in San Diego. Plaintiffs claim that a processing fee charged by the City is in reality an illegal tax because the fee was not approved by a super-majority of voters as required by Proposition 218. 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).

Internal Revenue Service Code Violations

This regulatory action relates to the City and SDCERS practice of using pension plan assets, and later a bifurcation of City contributions to the Pension Plan to fund retirement healthcare benefits. The funding mechanism, which was in effect in various forms from 1982 to 2005, is alleged to have violated the provisions of Internal Revenue Code §401(a) and (h). The cumulative value of funds diverted from the pension plan assets is approximately \$8,200, not including lost interest earnings to the Pension Trust Fund. SDCERS has filed a voluntary disclosure with the IRS and the matter is still pending. The potential range of outcomes includes a disqualification of SDCERS tax exempt status and/or the City having to repay SDCERS for the funds diverted for retiree healthcare benefits. The range of loss to the City if forced to repay funds to SDCERS could be from \$10,000 to \$33,000 depending on how the effects of the funding mechanism on plan assets is calculated. It is the City's position that the diverted funds resulted in an increased Unfunded Actuarially Accrued Liability for the pension plan. Thus, the City's annually required contribution for the periods covered included the amortized cost of diverted plan assets. As a result, a significant portion of the City's liability is included in the Net Pension Obligation (NPO) as reported on the City's financial statements; the portion not already accrued within NPO is approximately \$2,000 and is accrued within the City's Self Insurance Fund.

Civil Actions Related to Ongoing SEC Investigations

As discussed previously in this footnote, in November 2006 the City was found by the SEC to have violated securities laws. The City Attorney has determined that the City could be subject to civil actions brought by holders of the City's bonds as a result of these sanctions. Such actions could potentially subject the City to significant liability. Specifically, the City Attorney has determined that since the City has not defaulted on its Bond obligations, potential civil actions could arise from changes in the market value of the City's bonds as a result of failures to disclose the City's pension and healthcare liabilities. At this time, no cases have been filed against the City and potential liabilities arising from aforementioned disclosure failures are not estimable. Most of the City's bonds were insured, minimizing or eliminating the risk of any liability related to interest rate reductions.

See Risk Management Note 15 for additional information.

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 perceives 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 or moderate 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.

As of June 30, 2004, the status of all third party bonds issued is as follows (in thousands):

	Original Amount	Balance June 30, 2004
Mortgage Revenue	\$ 132,390	\$ 125,415
Industrial Development Revenue	345,805	342,005
1911 Act Special Assessment	236	25
Total	<u>\$ 478,431</u>	<u>\$ 467,445</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 POSTCLOSURE 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 postclosure 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 postclosure care costs as an operating expense in each period based on landfill capacity used as of each financial statement date.

The \$12,600 reported as landfill closure and postclosure care liability at June 30, 2004 represents the cumulative amount reported to date based on the use of 72.6% of the estimated capacity of the landfill.

The City will recognize the remaining estimated cost of closure and postclosure care of \$4,800 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, 2004. 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, 2004, cash or equity in pooled cash and investments of \$26,700 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 \$3,100 related to ARJIS for the year ended June 30, 2004.

City of San Diego and San Diego Medical Services Enterprise, LLC

On July 1, 1997, the City entered into an operating agreement with San Diego Medical Services Enterprise, LLC (SDMSE) to provide emergency medical services and emergency medical transportation services. On June 30, 2002, the City exercised the provision to renew the operating agreement with SDMSE for an additional three years. Under the agreement the City paid SDMSE \$788. SDMSE did not make a profit distribution to its partners during fiscal year 2004.

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 1, 2004, the City privately placed a Tax Revenue Anticipation Note in an amount not to exceed \$129,000. The City borrowed \$114,000 to meet its cash flow needs and repaid the borrowing by May 2005.

On July 26, 2004, the City and the San Diego Chargers football team (Chargers) entered into Supplement Number Eight to the 1995 Agreement for Partial Use and Occupancy of Qualcomm Stadium. The agreement was approved by Ordinance No. O-19302, and is on file in the City Clerk's Office as Document No. O-19302. This agreement, among other items, eliminated the ticket guarantee, whereby the City was obligated to pay the Chargers for unsold home game tickets, up to 60,000 tickets per game. The agreement also reduced the rent paid to the City by approximately two thirds. The Chargers will pay \$2,500 through the 2013 regular season, rising to \$4,000 by the 2020 regular season. Additionally, the Chargers were granted the right to negotiate with third parties to relocate the team outside of the City after the 2008 regular season; any such move under the agreement would require payment to the City of an early termination fee of approximately \$56,000 in 2009 and decreasing in subsequent years.

On July 28, 2004, the Redevelopment Agency of the City of San Diego issued \$147,700 of Subordinate Tax Allocation and Tax Allocation Housing Bonds for the purpose of financing redevelopment activities, including the development of low and moderate income housing, and make payments pursuant to an MOU with the San Diego Padres in connection with development of the new PETCO Ballpark. A portion of the bonds were issued to refund \$33,500 of the Agency's outstanding Series 1993 Bonds. The Series 2004 A and B Bonds are payable from and secured by subordinate pledged tax revenues, and the Series 2004 C and D Bonds are payable from and secured by pledged housing tax revenues. The interest rates on the bonds range from 2.26 to 6.28 percent, with maturity dates of September 1, 2029 for the Series A, C and D Bonds and September 1, 2010 for the Series B Bonds.

On October 27, 2004, the Sewer Utility experienced several sewer overflows including a 2.26 million gallon overflow at the Point Loma Wastewater Treatment Plant, all due to extraordinary rain in the region. All overflows have been properly reported to the regulatory agencies, explaining the cause and extent of the overflows. To date no corrective action or penalty letters have been issued.

On February 14, 2005, Council authorized the sale of City Vehicle License Fee ("VLF") Receivables to the California Statewide Communities Development Authority. The use of the approximately \$20,000 in proceeds was to pay down the majority of the outstanding principal and accrued interest on the 1994 Open Space Refunding Bonds. On April 21, 2005, VLF proceeds of \$20,435 and Environmental Growth Fund 2/3 Fund monies of \$4,355 were used towards the partial redemption of the 1994 Open Space Refunding Bond principal and interest.

On July 1, 2005, the City privately placed a fiscal year 2005- 2006 Tax Revenue Anticipation Note in an amount not to exceed \$155,000. The City borrowed \$145,000 to meet its cash flow needs and repaid the borrowing by May 2006.

On July 6, 2005, the City received a State Revolving Fund Loan disbursement from the State of California Department of Health Services totaling \$21,500 to assist in funding the Alvarado Water Treatment Plant, Earl Thomas Reservoir Replacement Project. The pay back period for the loan is 20 years with an annual interest rate of 2.5132%. Net System Revenues of the Water Utility Fund have been designated as the dedicated source of funds for repayment of the Loan.

On August 15, 2005 (and March 13, 2006) the San Diego Police Officers' Association (SDPOA) filed a lawsuit against the City for alleged violations of the Fair Labor Standards Act, various California Labor Code provisions, as well as breach of contract and unfair competition relating to the terms of their employment. The courts dismissed the unfair competition claim but denied a motion to dismiss the breach of contract claim. Extensive discovery is about to commence for both parties, and therefore the range of loss cannot be estimated at this time. Plaintiffs have claimed \$230,000, but Plaintiffs counsel has proposed a mediation of the dispute before a third-party mediator. The City is currently considering this

proposal.

On December 20, 2005, the City received a State Revolving Fund Loan disbursement from the State of California Water Resources Control Board totaling \$10,000 for the construction of the Environmental Monitoring & Technical Services Lab. The pay back 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 percent match for the loan, resulting in an effective interest rate of 2.42%.

On June 14, 2006, the City of San Diego established the Tobacco Settlement Revenue Funding Corporation, a California Nonprofit Public Benefit Corporation. In November 1998, the Attorney General of California signed a Master Settlement Agreement with the four major tobacco companies. The Corporation was formed to acquire future Tobacco Settlement Revenues from the City of San Diego. The Corporation has purchased from the City of San Diego the rights to receive up to the first \$10,100 annually of the tobacco settlement revenues due to the City under the Master Settlement Agreement (the "MSA"), the Memorandum of Understanding (the "MOU") entered into on August 5, 1998, among the State of California, various cities and counties in the State and certain other parties, as augmented by the Agreement Regarding Interpretation of Memorandum of Understanding (ARIMOU). On June 21, 2006, the Corporation issued \$105,400 of Tobacco Settlement Asset-Backed Bonds, Series 2006. The Series 2006 Term Bonds are limited obligations of the Corporation, payable from and secured solely by Pledged Tobacco Settlement Revenues. The Term bonds have an interest rate of 7.125 percent, and the scheduled maturity date is June 1, 2032.

On June 22, 2006, the Redevelopment Agency of The City of San Diego issued \$76,200 of Subordinate and \$33,800 of Housing Tax Allocation Bonds. The Subordinate bonds were issued for the purpose of financing certain redevelopment activities within the Centre City Project, to pay the costs of debt service reserve surety bonds and the costs of issuance in connection with the Series 2006A Subordinate Bonds. The Housing bonds were issued for the purpose of financing certain improvements relating to, or increasing the development of low and moderate income housing, to pay the costs of the debt service reserve surety bonds and the costs of the issuance for the Series 2006B Housing Bonds. The Series 2006 A and B Bonds are payable from and secured by subordinate pledged tax revenues derived from the Centre City Redevelopment Project Area. The interest rate on the bonds ranges from 4.25 to 6.20 percent and the maturity date for the 2006A issue is September 1, 2032 and for the 2006B issue is September 1, 2031.

On July 3, 2006, the City privately placed a fiscal year 2006-2007 Tax Revenue Anticipation Note in an amount not to exceed \$160,000. Pursuant to the actual cash flow needs, the City borrowed \$142,000 on July 3, 2006 on a 13 month term.

On July 13, 2006, the City issued \$16,000 of Community Facilities District No. 3 Special Tax Bonds. This was a private placement/non-public offering. These bonds financed public improvements in order to meet the increased demands placed upon the City as a result of the redevelopment and reuse of the former Naval Training Center property. The Series 2006 A bonds were issued pursuant to the Mello-Roos Community Facilities Act of 1982 and are special obligations of the District, payable solely from annual special taxes levied on certain taxable land within the improvement areas. The interest rate on the bonds ranges from 5.0 to 5.75 percent, and the maturity date is September 1, 2036.

On July 18, 2006 the SDPOA filed one lawsuit and has another pending case against the City of San Diego. The SDPOA alleges several violations of state and federal law arising from failed labor negotiations between the City and SDPOA in 2005. SDPOA also alleges state and federal claims based on the City's underfunding of the City's retirement system. The City is vigorously contesting this matter and the estimated loss, if any, is not known at this time.

On October 17, 2006, the City Council authorized the 2nd and 3rd Amendments to the Master Lease Agreement with Bank of America Leasing and Capital, LLC. The 2nd Amendment to the Master Lease Agreement authorizes the lease-purchase of Motive Equipment in an amount not to exceed \$6,800. The 3rd Amendment to the Master Lease Agreement authorizes the lease-purchase of Fire Apparatus in an amount not to exceed \$2,550.

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 December 15, 2006, the City brought action against Sunroad Centrum L.P. for public nuisance abatement, injunction and violation of Unfair Practices Act as a result of their construction of an office building that has been deemed a hazard to air navigation at Montgomery Airport. Sunroad Centrum L.P. filed a cross-complaint against the City, alleging the City issued building permits to Sunroad Centrum L.P. for construction of this office building. The City is vigorously pursuing the nuisance abatement action and the cross-action complaint and the estimated loss, if any, arising from the cross complaint by Sunroad Centrum L.P. is not estimable at this time.

On January 30, 2007, the Public Facilities Financing Authority of the City of San Diego issued \$57,000 of Non-Transferable Subordinated Water Revenue Notes to finance upgrades to and expansion of its water system. This was a private placement/non-public offering. The Series 2007A Notes are secured by and payable solely from net system revenues of the Water Utility Fund. The notes bear an interest rate of 4.06 percent, and the maturity date is January 30, 2009.

On March 12, 2007, the Public Facilities Financing Authority of the City of San Diego issued \$156,560 of Lease Revenue Refunding Bonds to refund the existing Public Facilities Financing Authority Ballpark Lease Revenue Bonds, Series 2002. This was a private placement/non-public offering. 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 pay back 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 percent match for the loan, resulting in an effective interest rate of 2.42%.

On March 27, 2007, the City 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 \$223,830 of Subordinate Sewer Revenue Notes, Series 2007 to finance upgrades to its sewer system and to refund the outstanding balance on the Series 2004 Subordinated Bonds in the amount of \$144,400. This was a private placement/non-public offering. 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 percent, and the maturity date is May 15, 2009.

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.

On May 15, 2007, the City 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.

**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)
6/30/2002	\$ 2,448,208	\$ 3,237,947	\$ 789,739	75.61%	\$ 535,157	147.57%
6/30/2003	2,375,431	3,607,173	1,231,742	65.85%	533,595	230.84%
6/30/2004	2,628,680	4,077,833	1,449,153	64.46%	540,181	268.27%

* Projected Unit Credit method used for determining actuarial accrued liability.

** The funded ratio has been adjusted to reflect the impact of the Corbett contingent benefit. The Actuarial Valuation provided by the actuary does not include this contingent benefit in the funded ratio.

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 Interest on Long-Term Debt. Appropriations are made from the fund annually.

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2004
(In Thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES				
Property Tax	\$ 199,949	\$ 200,376	\$ 201,133	\$ 757
Sales Tax	127,948	145,449	137,360	(8,089)
Transient Occupancy Tax	57,998	59,293	59,530	237
Other Local Taxes	60,559	62,555	64,977	2,422
Licenses and Permits	23,507	23,507	23,699	192
Fines, Forfeitures and Penalties	27,748	30,150	31,832	1,682
Revenue from Use of Money and Property	32,288	31,439	28,629	(2,810)
Revenue from Federal Agencies	1,185	2,661	4,055	1,394
Revenue from Other Agencies	82,848	83,754	74,204	(9,550)
Charges for Current Services	71,789	87,446	98,956	11,510
Other Revenue	3,822	4,375	2,870	(1,505)
TOTAL REVENUES	689,641	731,005	727,245	(3,760)
EXPENDITURES				
Current:				
General Government and Support	141,474	147,355	140,293	7,062
Public Safety - Police	274,483	284,194	282,693	1,501
Public Safety - Fire and Life Safety	125,262	139,231	138,501	730
Parks, Recreation, Culture and Leisure	109,168	108,619	101,328	7,291
Transportation	19,757	21,057	20,820	237
Sanitation and Health	39,074	40,593	39,880	713
Neighborhood Services	24,757	28,027	26,893	1,134
Debt Service:				
Principal Retirement	1,924	2,318	2,318	-
Interest	6,103	5,442	5,442	-
TOTAL EXPENDITURES	742,002	776,836	758,168	18,668
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(52,361)	(45,831)	(30,923)	14,908
OTHER FINANCING SOURCES (USES)				
Transfers from Proprietary Funds	2,747	4,557	2,941	(1,616)
Transfers from Other Funds	40,445	45,998	37,994	(8,004)
Transfers to Proprietary Funds	(5,969)	(13,707)	(13,707)	-
Transfers to Other Funds	(16,299)	(15,665)	(15,665)	-
Net Income (Loss) from Joint Venture	-	-	(485)	(485)
TOTAL OTHER FINANCING SOURCES (USES)	20,924	21,183	11,078	(10,105)
NET CHANGE IN FUND BALANCE	(31,437)	(24,648)	(19,845)	4,803
Fund Balance Undesignated at July 1, 2003	43,893	43,893	43,893	-
Reserved for Encumbrances at July 1, 2003	17,333	17,333	17,333	-
Reserved for Minority Interest in Joint Venture at July 1, 2003	-	-	2,007	2,007
Reserved for Minority Interest in Joint Venture at June 30, 2004	-	-	(1,522)	(1,522)
Designated for Subsequent Years' Expenditures at July 1, 2003	806	806	806	-
Designated for Subsequent Years' Expenditures at June 30, 2004	-	-	(1,333)	(1,333)
FUND BALANCE UNDESIGNATED AT JUNE 30, 2004	\$ 30,595	\$ 37,384	\$ 41,339	\$ 3,955

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

Notes to Required Supplementary Information For the Year Ended June 30, 2004

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.

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 excess (deficiency) of revenues over expenditures prepared on a GAAP basis to that prepared on the budgetary basis for the year ended June 30, 2004 (in thousands):

	General Fund
Net Change in Fund Balances - GAAP Basis	\$ (5,830)
Add (Deduct):	
Encumbrances Outstanding, June 30, 2004	(14,888)
Reserved for Advances and Deposits, June 30, 2004	(2,140)
Reserved for Advances and Deposits, June 30, 2003	2,142
Designated for Unrealized Gains, June 30, 2003	871
Net Change in Fund Balances - Budgetary Basis	<u>\$ (19,845)</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)
FOR THE YEAR ENDED JUNE 30, 2004
(In Thousands)**

	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
PROPERTY TAX					
One Percent Property Tax Allocation	\$ -	\$ -	\$ -	\$ 200,178	\$ (200,178)
Current Year - Secured	171,671	-	171,671	-	171,671
Current Year Supplemental - Secured	9,744	-	9,744	-	9,744
Current Year - Unsecured	8,333	-	8,333	-	8,333
Current Unsecured Supplemental Roll	213	-	213	-	213
Homeowners' Exemptions - Secured	2,705	-	2,705	-	2,705
Homeowners' Exemptions - Unsecured	3	-	3	-	3
Prior Years' - Secured	3,319	-	3,319	198	3,121
Prior Years' - Unsecured	(259)	-	(259)	-	(259)
Interest and Penalties on Delinquent Taxes	479	-	479	-	479
Escapes - Secured	65	-	65	-	65
Escapes - Unsecured	386	-	386	-	386
Other Property Taxes	877	-	877	-	877
State Secured Unitary	3,597	-	3,597	-	3,597
TOTAL PROPERTY TAX	201,133	-	201,133	200,376	757
SALES TAX	137,360	-	137,360	145,449	(8,089)
TRANSIENT OCCUPANCY TAX	59,530	-	59,530	59,293	237
OTHER LOCAL TAXES					
Franchises	54,415	-	54,415	52,087	2,328
Property Transfer Tax	10,562	-	10,562	10,468	94
TOTAL OTHER LOCAL TAXES	64,977	-	64,977	62,555	2,422
LICENSES AND PERMITS					
General Business Licenses	5,115	-	5,115	5,537	(422)
Refuse Collection Business Licenses	1,001	-	1,001	1,400	(399)
Other Regulatory Business Licenses	2,783	-	2,783	2,337	446
Rental Unit Tax	5,103	-	5,103	4,502	601
Parking Meter Revenue	6,700	-	6,700	7,237	(537)
Street and Curb Permits	139	-	139	64	75
Other Licenses and Permits	2,858	-	2,858	2,430	428
TOTAL LICENSES AND PERMITS	23,699	-	23,699	23,507	192
FINES, FORFEITURES AND PENALTIES					
California Vehicle Code Violations	25,834	-	25,834	26,060	(226)
Other City Ordinance Code Violations	5,995	-	5,995	4,090	1,905
Other California Statutory Violations	3	-	3	-	3
TOTAL FINES, FORFEITURES AND PENALTIES	31,832	-	31,832	30,150	1,682
REVENUE FROM USE OF MONEY AND PROPERTY					
Interest on Investments	525	871	1,396	3,562	(2,166)
Balboa Park Rents and Concessions	641	-	641	923	(282)
Mission Bay Park Rents and Concessions	20,487	-	20,487	20,044	443
Other Rents and Concessions	6,105	-	6,105	6,910	(805)
TOTAL REVENUE FROM USE OF MONEY AND PROPERTY	27,758	871	28,629	31,439	(2,810)
REVENUE FROM FEDERAL AGENCIES	4,055	-	4,055	2,661	1,394

Continued on Next Page

**GENERAL FUND
SCHEDULE OF REVENUE AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2004
(In Thousands)**

	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
REVENUE FROM OTHER AGENCIES					
State Motor Vehicle License Fees	\$ 58,952	\$ -	\$ 58,952	\$ 75,799	\$ (16,847)
Off-Highway Motor Vehicle License Fees	37	-	37	-	37
Local Relief	5,310	-	5,310	5,223	87
Tobacco Revenue	7,781	-	7,781	-	7,781
State Grants	2,124	-	2,124	2,732	(608)
TOTAL REVENUE FROM OTHER AGENCIES	74,204	-	74,204	83,754	(9,550)
CHARGES FOR CURRENT SERVICES					
Administrative Services to Other Agencies	80	-	80	27	53
Cemetery Revenue	758	-	758	701	57
Engineering Services	285	-	285	812	(527)
Fire Services	11,443	-	11,443	11,361	82
Library Revenue	1,870	-	1,870	1,907	(37)
Miscellaneous Recreation Revenue	2,373	-	2,373	2,425	(52)
Other Services	548	-	548	356	192
Paramedic Services	184	-	184	193	(9)
Planning and Miscellaneous Filing Fees	276	-	276	258	18
Police Services	3,525	-	3,525	3,043	482
Swimming Pools Revenue	1,424	-	1,424	1,252	172
Services Rendered to Other Funds for:					
General Government and Financial	38,519	-	38,519	35,804	2,715
Engineering	21,781	-	21,781	19,626	2,155
Park Design	3,838	-	3,838	2,045	1,793
Miscellaneous Services	12,052	-	12,052	7,636	4,416
TOTAL CHARGES FOR CURRENT SERVICES	98,956	-	98,956	87,446	11,510
OTHER REVENUE					
Other Refunds of Prior Years' Expenditures	472	-	472	362	110
Repairs and Damage Recoveries	257	-	257	110	147
Sale of Personal Property	222	-	222	181	41
Miscellaneous Revenue	1,919	-	1,919	3,722	(1,803)
TOTAL OTHER REVENUE	2,870	-	2,870	4,375	(1,505)
TOTAL REVENUES	726,374	871	727,245	731,005	(3,760)
TRANSFERS FROM PROPRIETARY FUNDS					
Enterprise Funds:					
City of San Diego:					
Airports	2	-	2	1	1
City Store	-	-	-	-	-
Golf Course	1,692	-	1,692	1,682	10
Environmental Services	26	-	26	7	19
Planning and Development Review	12	-	12	12	-
Recycling	7	-	7	7	-
Sewer	254	-	254	-	254
Water Utility	238	-	238	80	158
Internal Service Funds:					
City of San Diego:					
Central Garage and Machine Shop	221	-	221	300	(79)
Print Shop	11	-	11	-	11
Self Insurance	219	-	219	-	219
Central Stores	13	-	13	-	13
Miscellaneous Internal Service	56	-	56	-	56
Special Engineering	-	-	-	658	(658)
San Diego Data Processing Corporation	190	-	190	1,810	(1,620)
TOTAL TRANSFERS FROM PROPRIETARY FUNDS	2,941	-	2,941	4,557	(1,616)

**GENERAL FUND
SCHEDULE OF REVENUE AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2004
(In Thousands)**

	<u>Actual</u>	<u>Adjustment to Budgetary Basis</u>	<u>Actual on Budgetary Basis</u>	<u>Final Budget</u>	<u>Variance with Final Budget Positive (Negative)</u>
TRANSFERS FROM OTHER FUNDS					
Special Revenue Funds:					
Redevelopment Agency	\$ 34	\$ -	\$ 34	\$ 1,000	\$ (966)
City of San Diego:					
Environmental Growth Fund	692	-	692	692	-
Special Gas Tax Street Improvement	3,346	-	3,346	3,546	(200)
Transient Occupancy Tax	16,900	-	16,900	18,859	(1,959)
Zoological Exhibits.....	9	-	9	5,354	(5,345)
Street Division Operations.....	37	-	37	-	37
Police Decentralization.....	70	-	70	-	70
Other Special Revenue-Budgeted	5,399	-	5,399	5,354	45
Other Special Revenue-Unbudgeted	5,866	-	5,866	5,891	(25)
Capital Projects Funds:					
City of San Diego:					
Other Construction	5,275	-	5,275	4,927	348
Permanent Funds:					
Cemetery Perpetuity	366	-	366	375	(9)
TOTAL TRANSFERS FROM OTHER FUNDS	37,994	-	37,994	45,998	(8,004)
PROCEEDS FROM CAPITAL LEASES					
Proceeds from Capital Leases	3,634	(3,634)	-	-	-
Net Income (Loss) from Joint Venture	(485)	-	(485)	-	(485)
TOTAL REVENUE AND TRANSFERS	\$ 770,458	\$ (2,763)	\$ 767,695	\$ 781,560	\$ (13,865)

**GENERAL FUND
SCHEDULE OF EXPENDITURES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2004
(In Thousands)**

	Current Year				
		Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
GENERAL GOVERNMENT AND SUPPORT	Actual				
Departmental:					
Mayor					
Salaries and Wages	\$ 1,839	\$ -	\$ 1,839	\$ 1,841	\$ 2
Non-Personnel	805	5	810	855	45
Total Mayor	2,644	5	2,649	2,696	47
City Council District 1					
Salaries and Wages	454	-	454	469	15
Non-Personnel	234	1	235	236	1
Total City Council District 1	688	1	689	705	16
City Council District 2					
Salaries and Wages	568	-	568	581	13
Non-Personnel	259	1	260	277	17
Total City Council District 2	827	1	828	858	30
City Council District 3					
Salaries and Wages	549	-	549	562	13
Non-Personnel	244	1	245	248	3
Total City Council District 3	793	1	794	810	16
City Council District 4					
Salaries and Wages	593	-	593	593	-
Non-Personnel	268	1	269	269	-
Total City Council District 4	861	1	862	862	-
City Council District 5					
Salaries and Wages	465	-	465	508	43
Non-Personnel	235	1	236	280	44
Total City Council District 5	700	1	701	788	87
City Council District 6					
Salaries and Wages	500	-	500	508	8
Non-Personnel	253	1	254	280	26
Total City Council District 6	753	1	754	788	34
City Council District 7					
Salaries and Wages	558	-	558	559	1
Non-Personnel	251	1	252	281	29
Total City Council District 7	809	1	810	840	30
City Council District 8					
Salaries and Wages	582	-	582	583	1
Non-Personnel	271	1	272	290	18
Total City Council District 8	853	1	854	873	19
Council Administration					
Salaries and Wages	433	-	433	459	26
Non-Personnel	290	1	291	348	57
Total Council Administration	723	1	724	807	83
City Attorney					
Salaries and Wages	20,729	-	20,729	20,729	-
Non-Personnel	9,330	70	9,400	9,429	29
Total City Attorney	30,059	70	30,129	30,158	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)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,839	\$ -	\$ 1,839	\$ 1,841	\$ 2
2	-	2	5	3	807	5	812	860	48
2	-	2	5	3	2,646	5	2,651	2,701	50
-	-	-	-	-	454	-	454	469	15
-	-	-	1	1	234	1	235	237	2
-	-	-	1	1	688	1	689	706	17
-	-	-	-	-	568	-	568	581	13
1	-	1	2	1	260	1	261	279	18
1	-	1	2	1	828	1	829	860	31
-	-	-	-	-	549	-	549	562	13
-	-	-	-	-	244	1	245	248	3
-	-	-	-	-	793	1	794	810	16
-	-	-	-	-	593	-	593	593	-
2	-	2	3	1	270	1	271	272	1
2	-	2	3	1	863	1	864	865	1
-	-	-	-	-	465	-	465	508	43
-	-	-	1	1	235	1	236	281	45
-	-	-	1	1	700	1	701	789	88
-	-	-	-	-	500	-	500	508	8
-	-	-	1	1	253	1	254	281	27
-	-	-	1	1	753	1	754	789	35
-	-	-	-	-	558	-	558	559	1
-	-	-	1	1	251	1	252	282	30
-	-	-	1	1	809	1	810	841	31
-	-	-	-	-	582	-	582	583	1
-	-	-	-	-	271	1	272	290	18
-	-	-	-	-	853	1	854	873	19
-	-	-	-	-	433	-	433	459	26
-	-	-	1	1	290	1	291	349	58
-	-	-	1	1	723	1	724	808	84
-	-	-	-	-	20,729	-	20,729	20,729	-
49	10	59	62	3	9,379	80	9,459	9,491	32
49	10	59	62	3	30,108	80	30,188	30,220	32

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**GENERAL FUND
SCHEDULE OF EXPENDITURES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2004
(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	\$ 5,899	\$ -	\$ 5,899	\$ 6,086	\$ 187
Non-Personnel	2,561	28	2,589	2,702	113
Total City Auditor and Comptroller	8,460	28	8,488	8,788	300
City Clerk					
Salaries and Wages	1,921	-	1,921	1,998	77
Non-Personnel	1,203	59	1,262	1,367	105
Total City Clerk	3,124	59	3,183	3,365	182
City Manager					
Salaries and Wages	303	-	303	303	-
Non-Personnel	112	-	112	113	1
Total City Manager	415	-	415	416	1
Engineering and Capital Projects - Administration					
Salaries and Wages	228	-	228	273	45
Non-Personnel	456	39	495	496	1
Total Engineering and Capital Projects - Administration	684	39	723	769	46
Field Engineering					
Salaries and Wages	7,947	-	7,947	7,953	6
Non-Personnel	4,001	62	4,063	4,164	101
Total Field Engineering	11,948	62	12,010	12,117	107
Public Buildings & Parks					
Salaries and Wages	2,777	-	2,777	2,779	2
Non-Personnel	1,311	39	1,350	1,355	5
Total Public Buildings & Parks	4,088	39	4,127	4,134	7
Equal Opportunity Contracting					
Salaries and Wages	1,493	-	1,493	1,495	2
Non-Personnel	730	-	730	860	130
Total Equal Opportunity Contracting	2,223	-	2,223	2,355	132
Budget and Management Services					
Salaries and Wages	1,787	-	1,787	1,841	54
Non-Personnel	781	-	781	855	74
Total Budget and Management Services	2,568	-	2,568	2,696	128
City Treasurer					
Salaries and Wages	3,717	-	3,717	3,717	-
Non-Personnel	3,354	685	4,039	4,081	42
Total City Treasurer's	7,071	685	7,756	7,798	42
Financing Services					
Salaries and Wages	919	-	919	1,027	108
Non-Personnel	428	-	428	507	79
Total Financing Services	1,347	-	1,347	1,534	187
General Services - Administration					
Salaries and Wages	504	-	504	505	1
Non-Personnel	201	24	225	226	1
Total General Services - Administration	705	24	729	731	2
Station 38					
Salaries and Wages	-	-	-	3	3
Non-Personnel	-	-	-	39	39
Total General Services - Administration	-	-	-	42	42

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)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,899	\$ -	\$ 5,899	\$ 6,086	\$ 187
3	-	3	14	11	2,564	28	2,592	2,716	124
3	-	3	14	11	8,463	28	8,491	8,802	311
-	-	-	-	-	1,921	-	1,921	1,998	77
2	-	2	22	20	1,205	59	1,264	1,389	125
2	-	2	22	20	3,126	59	3,185	3,387	202
-	-	-	-	-	303	-	303	303	-
-	-	-	-	-	112	-	112	113	1
-	-	-	-	-	415	-	415	416	1
-	-	-	-	-	228	-	228	273	45
3	13	16	16	-	459	52	511	512	1
3	13	16	16	-	687	52	739	785	46
-	-	-	-	-	7,947	-	7,947	7,953	6
30	50	80	80	-	4,031	112	4,143	4,244	101
30	50	80	80	-	11,978	112	12,090	12,197	107
-	-	-	-	-	2,777	-	2,777	2,779	2
1	5	6	14	8	1,312	44	1,356	1,369	13
1	5	6	14	8	4,089	44	4,133	4,148	15
-	-	-	-	-	1,493	-	1,493	1,495	2
78	5	83	102	19	808	5	813	962	149
78	5	83	102	19	2,301	5	2,306	2,457	151
-	-	-	-	-	1,787	-	1,787	1,841	54
-	7	7	7	-	781	7	788	862	74
-	7	7	7	-	2,568	7	2,575	2,703	128
-	-	-	-	-	3,717	-	3,717	3,717	-
133	408	541	608	67	3,487	1,093	4,580	4,689	109
133	408	541	608	67	7,204	1,093	8,297	8,406	109
-	-	-	-	-	919	-	919	1,027	108
-	-	-	-	-	428	-	428	507	79
-	-	-	-	-	1,347	-	1,347	1,534	187
-	-	-	-	-	504	-	504	505	1
1	-	1	1	-	202	24	226	227	1
1	-	1	1	-	706	24	730	732	2
-	-	-	-	-	-	-	-	3	3
-	-	-	-	-	-	-	-	39	39
-	-	-	-	-	-	-	-	42	42

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**GENERAL FUND
SCHEDULE OF EXPENDITURES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2004
(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	\$ 7,190	\$ -	\$ 7,190	\$ 7,210	\$ 20
Non-Personnel	8,653	484	9,137	9,169	32
Total Facilities Maintenance	15,843	484	16,327	16,379	52
Purchasing					
Salaries and Wages	1,096	-	1,096	1,097	1
Non-Personnel	648	2	650	685	35
Total Purchasing	1,744	2	1,746	1,782	36
Storm Water					
Salaries and Wages	1,215	-	1,215	1,216	1
Non-Personnel	1,097	216	1,313	1,336	23
Total Storm Water	2,312	216	2,528	2,552	24
Governmental Relations					
Salaries and Wages	261	-	261	279	18
Non-Personnel	404	63	467	467	-
Total Governmental Relations	665	63	728	746	18
Human Resources					
Salaries and Wages	475	-	475	495	20
Non-Personnel	204	-	204	224	20
Total Human Resources	679	-	679	719	40
Organizational Effectiveness Program					
Salaries and Wages	449	-	449	450	1
Non-Personnel	231	-	231	236	5
Total Organizational Effectiveness Program	680	-	680	686	6
Personnel					
Salaries and Wages	3,649	-	3,649	3,700	51
Non-Personnel	1,989	321	2,310	2,391	81
Total Personnel	5,638	321	5,959	6,091	132
Public and Media Affairs					
Salaries and Wages	161	-	161	196	35
Non-Personnel	127	-	127	158	31
Total Public and Media Affairs	288	-	288	354	66
Real Estate Assets					
Salaries and Wages	2,458	-	2,458	2,811	353
Non-Personnel	1,243	6	1,249	1,476	227
Total Real Estate Assets	3,701	6	3,707	4,287	580
Special Projects					
Salaries and Wages	1,249	-	1,249	1,249	-
Non-Personnel	726	65	791	2,033	1,242
Total Special Projects	1,975	65	2,040	3,282	1,242
Citizens Assistance					
Salaries and Wages	112	-	112	130	18
Non-Personnel	57	-	57	70	13
Total Citizens Assistance	169	-	169	200	31

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)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,190	\$ -	\$ 7,190	\$ 7,210	\$ 20
234	13	247	750	503	8,887	497	9,384	9,919	535
234	13	247	750	503	16,077	497	16,574	17,129	555
-	-	-	-	-	1,096	-	1,096	1,097	1
3	-	3	3	-	651	2	653	688	35
3	-	3	3	-	1,747	2	1,749	1,785	36
-	-	-	-	-	1,215	-	1,215	1,216	1
40	77	117	126	9	1,137	293	1,430	1,462	32
40	77	117	126	9	2,352	293	2,645	2,678	33
-	-	-	-	-	261	-	261	279	18
-	37	37	37	-	404	100	504	504	-
-	37	37	37	-	665	100	765	783	18
-	-	-	-	-	475	-	475	495	20
-	-	-	-	-	204	-	204	224	20
-	-	-	-	-	679	-	679	719	40
-	-	-	-	-	449	-	449	450	1
-	-	-	-	-	231	-	231	236	5
-	-	-	-	-	680	-	680	686	6
-	-	-	-	-	3,649	-	3,649	3,700	51
52	-	52	154	102	2,041	321	2,362	2,545	183
52	-	52	154	102	5,690	321	6,011	6,245	234
-	-	-	-	-	161	-	161	196	35
-	2	2	2	-	127	2	129	160	31
-	2	2	2	-	288	2	290	356	66
-	-	-	-	-	2,458	-	2,458	2,811	353
1	14	15	16	1	1,244	20	1,264	1,492	228
1	14	15	16	1	3,702	20	3,722	4,303	581
-	-	-	-	-	1,249	-	1,249	1,249	-
-	10	10	10	-	726	75	801	2,043	1,242
-	10	10	10	-	1,975	75	2,050	3,292	1,242
-	-	-	-	-	112	-	112	130	18
-	-	-	-	-	57	-	57	70	13
-	-	-	-	-	169	-	169	200	31

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GENERAL FUND
SCHEDULE OF EXPENDITURES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2004
(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	\$ 192	\$ -	\$ 192	\$ 267	\$ 75
Non-Personnel	123	4	127	213	86
Total Ethics Commission	315	4	319	480	161
Total Departmental	116,352	2,181	118,533	122,488	3,955
Citywide Program:					
Assessments to Public Property					
Non-Personnel	226	-	226	260	34
Citywide Elections					
Non-Personnel	-	-	-	11	11
Competition Program					
Salaries and Wages	3	-	3	6	3
Non-Personnel	1	-	1	8	7
Total Competition Program	4	-	4	14	10
Employee Personal Property Damage					
Non-Personnel	5	-	5	10	5
Fellowship Program					
Salaries and Wages	6	-	6	12	6
Non-Personnel	32	-	32	64	32
Total Fellowship Program	38	-	38	76	38
Financial Accounting Systems					
Salaries and Wages	63	-	63	63	-
Non-Personnel	874	25	899	899	-
Total Financial Accounting Systems	937	25	962	962	-
General Government Printing					
Non-Personnel	34	-	34	66	32
Independent Audit					
Non-Personnel	3	598	601	601	-
Total Financial Accounting Systems	3	598	601	601	-
Insurance					
Non-Personnel	1,085	-	1,085	1,151	66
Labor Relations					
Salaries and Wages	161	-	161	162	1
Non-Personnel	79	-	79	92	13
Total Labor Relations	240	-	240	254	14
Management Compensation Plan					
Non-Personnel	324	-	324	379	55
Total Management Compensation Plan	324	-	324	379	55

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)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 192	\$ -	\$ 192	\$ 267	\$ 75
26	-	26	26	-	149	4	153	239	86
26	-	26	26	-	341	4	345	506	161
661	651	1,312	2,065	753	117,013	2,832	119,845	124,553	4,708
-	-	-	-	-	226	-	226	260	34
-	-	-	-	-	-	-	-	11	11
-	-	-	-	-	3	-	3	6	3
1	-	1	1	-	2	-	2	9	7
1	-	1	1	-	5	-	5	15	10
-	-	-	-	-	5	-	5	10	5
-	-	-	-	-	6	-	6	12	6
-	-	-	-	-	32	-	32	64	32
-	-	-	-	-	38	-	38	76	38
-	-	-	-	-	63	-	63	63	-
-	-	-	-	-	874	25	899	899	-
-	-	-	-	-	937	25	962	962	-
-	-	-	-	-	34	-	34	66	32
63	130	193	193	-	66	728	794	794	-
63	130	193	193	-	66	728	794	794	-
-	76	76	76	-	1,085	76	1,161	1,227	66
-	-	-	-	-	161	-	161	162	1
-	-	-	-	-	79	-	79	92	13
-	-	-	-	-	240	-	240	254	14
-	-	-	-	-	324	-	324	379	55
-	-	-	-	-	324	-	324	379	55

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**GENERAL FUND
SCHEDULE OF EXPENDITURES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2004
(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	\$ 590	\$ -	\$ 590	\$ 594	\$ 4
Municipal Activities					
Non-Personnel	35	-	35	37	2
Property Tax Administration					
Non-Personnel	2,255	-	2,255	2,255	-
Public Works Projects					
Salaries and Wages	168	-	168	176	8
Non-Personnel	273	38	311	399	88
Total Public Works Projects	441	38	479	575	96
Random Drug Testing					
Salaries and Wages	37	-	37	42	5
Non-Personnel	73	52	125	136	11
Total Random Drug Testing	110	52	162	178	16
Special Pay					
Non-Personnel	-	-	-	169	169
Training					
Salaries and Wages	-	-	-	4	4
Non-Personnel	-	-	-	12	12
Total Training	-	-	-	16	16
Travel Contingency					
Non-Personnel	-	-	-	14	14
San Diego Geographic Info Source					
Non-Personnel	545	27	572	587	15
Total San Diego Geographic Info Source	545	27	572	587	15
Space Rental					
Salaries and Wages	44	-	44	47	3
Non-Personnel	6,003	246	6,249	6,304	55
Total Space Rental	6,047	246	6,293	6,351	58
Other Special Projects					
Salaries and Wages	454	-	454	471	17
Non-Personnel	3,813	366	4,179	5,457	1,278
Total Other Special Projects	4,267	366	4,633	5,928	1,295
Total Citywide Program	17,186	1,352	18,538	20,488	1,950
TOTAL GENERAL GOVERNMENT AND SUPPORT	133,538	3,533	137,071	142,976	5,905

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)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 590	\$ -	\$ 590	\$ 594	\$ 4
-	-	-	-	-	35	-	35	37	2
-	-	-	-	-	2,255	-	2,255	2,255	-
-	-	-	-	-	168	-	168	176	8
22	171	193	193	-	295	209	504	592	88
22	171	193	193	-	463	209	672	768	96
-	-	-	-	-	37	-	37	42	5
13	-	13	47	34	86	52	138	183	45
13	-	13	47	34	123	52	175	225	50
-	-	-	-	-	-	-	-	169	169
-	-	-	-	-	-	-	-	4	4
-	-	-	-	-	-	-	-	12	12
-	-	-	-	-	-	-	-	16	16
-	-	-	-	-	-	-	-	14	14
15	-	15	16	1	560	27	587	603	16
15	-	15	16	1	560	27	587	603	16
-	-	-	-	-	44	-	44	47	3
3	538	541	542	1	6,006	784	6,790	6,846	56
3	538	541	542	1	6,050	784	6,834	6,893	59
-	-	-	-	-	454	-	454	471	17
549	329	878	1,246	368	4,362	695	5,057	6,703	1,646
549	329	878	1,246	368	4,816	695	5,511	7,174	1,663
666	1,244	1,910	2,314	404	17,852	2,596	20,448	22,802	2,354
1,327	1,895	3,222	4,379	1,157	134,865	5,428	140,293	147,355	7,062

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**GENERAL FUND
SCHEDULE OF EXPENDITURES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2004
(In Thousands)**

	Current Year				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
PUBLIC SAFETY - POLICE					
Departmental:					
Police					
Salaries and Wages	\$ 184,725	\$ -	\$ 184,725	\$ 184,730	\$ 5
Non-Personnel	97,903	(1,136)	96,767	96,853	86
Total Police	282,628	(1,136)	281,492	281,583	91
Citywide Program:					
Police Review Board					
Salaries and Wages	142	-	142	147	5
Non-Personnel	78	-	78	87	9
Total Police Review Board	220	-	220	234	14
Total Citywide Program	220	-	220	234	14
TOTAL PUBLIC SAFETY - POLICE	282,848	(1,136)	281,712	281,817	105
PUBLIC SAFETY - FIRE AND LIFE SAFETY					
Departmental:					
Fire-Rescue					
Salaries and Wages	94,603	-	94,603	94,603	-
Non-Personnel	40,992	608	41,600	41,603	3
Total Fire-Rescue	135,595	608	136,203	136,206	3
Citywide Program:					
Emergency Medical Services					
Salaries and Wages	141	-	141	177	36
Non-Personnel	893	272	1,165	1,262	97
Total Emergency Medical Services	1,034	272	1,306	1,439	133
Other Special Projects					
Non-Personnel	255	(255)	-	20	20
Total Citywide Program	1,289	17	1,306	1,459	153
TOTAL PUBLIC SAFETY - FIRE AND LIFE SAFETY.....	136,884	625	137,509	137,665	156

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)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 184,725	\$ -	\$ 184,725	\$ 184,730	\$ 5
899	82	981	2,377	1,396	98,802	(1,054)	97,748	99,230	1,482
899	82	981	2,377	1,396	283,527	(1,054)	282,473	283,960	1,487
-	-	-	-	-	142	-	142	147	5
-	-	-	-	-	78	-	78	87	9
-	-	-	-	-	220	-	220	234	14
-	-	-	-	-	220	-	220	234	14
899	82	981	2,377	1,396	283,747	(1,054)	282,693	284,194	1,501
-	-	-	-	-	94,603	-	94,603	94,603	-
797	39	836	1,409	573	41,789	647	42,436	43,012	576
797	39	836	1,409	573	136,392	647	137,039	137,615	576
-	-	-	-	-	141	-	141	177	36
156	-	156	157	1	1,049	272	1,321	1,419	98
156	-	156	157	1	1,190	272	1,462	1,596	134
-	-	-	-	-	255	(255)	-	20	20
156	-	156	157	1	1,445	17	1,462	1,616	154
953	39	992	1,566	574	137,837	664	138,501	139,231	730

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**GENERAL FUND
SCHEDULE OF EXPENDITURES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2004
(In Thousands)**

	Current Year				Variance with Final Budget Positive (Negative)
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	
PARKS, RECREATION, CULTURE AND LEISURE					
Departmental:					
Reservoir Concessions					
Salaries and Wages	\$ 674	\$ -	\$ 674	\$ 999	\$ 325
Non-Personnel	405	52	457	1,028	571
Total Reservoir Concessions	1,079	52	1,131	2,027	896
Park and Rec-Administrative Services					
Salaries and Wages	651	-	651	651	-
Non-Personnel	338	1	339	339	-
Total Park and Rec - Administration Services	989	1	990	990	-
Community Parks I					
Salaries and Wages	5,346	-	5,346	5,808	462
Non-Personnel	6,595	635	7,230	8,140	910
Total Community Parks I	11,941	635	12,576	13,948	1,372
Community Parks II					
Salaries and Wages	8,901	-	8,901	9,193	292
Non-Personnel	7,472	524	7,996	8,264	268
Total Community Parks II	16,373	524	16,897	17,457	560
Developed Regional Parks					
Salaries and Wages	11,778	-	11,778	12,520	742
Non-Personnel	14,385	781	15,166	15,465	299
Total Developed Regional Parks	26,163	781	26,944	27,985	1,041
Open Space Division					
Salaries and Wages	1,178	-	1,178	1,455	277
Non-Personnel	1,688	727	2,415	2,655	240
Total Open Space Division	2,866	727	3,593	4,110	517
Park and Planning Development					
Salaries and Wages	2,750	-	2,750	2,752	2
Non-Personnel	1,205	40	1,245	1,552	307
Total Park and Planning Development	3,955	40	3,995	4,304	309
Library					
Salaries and Wages	17,546	-	17,546	17,837	291
Non-Personnel	14,673	605	15,278	16,410	1,132
Total Library	32,219	605	32,824	34,247	1,423
Total Departmental	95,585	3,365	98,950	105,068	6,118
Citywide Program:					
Park and Recreation Programs					
Non-Personnel	19	3	22	137	115
TOTAL PARKS, RECREATION CULTURE AND LEISURE	95,604	3,368	98,972	105,205	6,233

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)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 674	\$ -	\$ 674	\$ 999	\$ 325
-	-	-	-	-	405	52	457	1,028	571
-	-	-	-	-	1,079	52	1,131	2,027	896
-	-	-	-	-	651	-	651	651	-
-	-	-	17	17	338	1	339	356	17
-	-	-	17	17	989	1	990	1,007	17
-	-	-	-	-	5,346	-	5,346	5,808	462
294	8	302	974	672	6,889	643	7,532	9,114	1,582
294	8	302	974	672	12,235	643	12,878	14,922	2,044
-	-	-	-	-	8,901	-	8,901	9,193	292
267	1	268	278	10	7,739	525	8,264	8,542	278
267	1	268	278	10	16,640	525	17,165	17,735	570
-	-	-	-	-	11,778	-	11,778	12,520	742
596	107	703	850	147	14,981	888	15,869	16,315	446
596	107	703	850	147	26,759	888	27,647	28,835	1,188
-	-	-	-	-	1,178	-	1,178	1,455	277
180	17	197	207	10	1,868	744	2,612	2,862	250
180	17	197	207	10	3,046	744	3,790	4,317	527
-	-	-	-	-	2,750	-	2,750	2,752	2
58	438	496	565	69	1,263	478	1,741	2,117	376
58	438	496	565	69	4,013	478	4,491	4,869	378
-	-	-	-	-	17,546	-	17,546	17,837	291
381	9	390	523	133	15,054	614	15,668	16,933	1,265
381	9	390	523	133	32,600	614	33,214	34,770	1,556
1,776	580	2,356	3,414	1,058	97,361	3,945	101,306	108,482	7,176
-	-	-	-	-	19	3	22	137	115
1,776	580	2,356	3,414	1,058	97,380	3,948	101,328	108,619	7,291

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**GENERAL FUND
SCHEDULE OF EXPENDITURES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2004
(In Thousands)**

	Current Year				
		Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
	Actual				
TRANSPORTATION					
Departmental:					
Parking Management					
Salaries and Wages	\$ 4,255	\$ -	\$ 4,255	\$ 4,256	\$ 1
Non-Personnel	3,175	119	3,294	3,297	3
Total Parking Management	7,430	119	7,549	7,553	4
Transportation Management					
Salaries and Wages	196	-	196	196	-
Non-Personnel	113	-	113	117	4
Total Transportation Management	309	-	309	313	4
Transportation Design					
Salaries and Wages	4,226	-	4,226	4,309	83
Non-Personnel	2,103	36	2,139	2,282	143
Total Transportation Design	6,329	36	6,365	6,591	226
Traffic Engineering					
Salaries and Wages	3,380	-	3,380	3,381	1
Non-Personnel	2,254	186	2,440	2,441	1
Total Traffic Engineering	5,634	186	5,820	5,822	2
Total Departmental.....	19,702	341	20,043	20,279	236
Citywide Program:					
Transportation					
Non-Personnel	359	70	429	429	-
TOTAL TRANSPORTATION	20,061	411	20,472	20,708	236
SANITATION AND HEALTH					
Departmental:					
Collection Services					
Salaries and Wages	7,237	-	7,237	7,238	1
Non-Personnel	24,637	312	24,949	25,549	600
Total Collection Services	31,874	312	32,186	32,787	601
Environmental Protection					
Salaries and Wages	264	-	264	315	51
Non-Personnel	274	-	274	302	28
Total Environmental Protection	538	-	538	617	79
Resource Management					
Salaries and Wages	220	-	220	227	7
Non-Personnel	103	-	103	111	8
Total Resource Management	323	-	323	338	15
Mt. Hope Cemetery					
Salaries and Wages	498	-	498	499	1
Non-Personnel	817	24	841	842	1
Total Mt. Hope Cemetery	1,315	24	1,339	1,341	2
Total Departmental	34,050	336	34,386	35,083	697

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)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,255	\$ -	\$ 4,255	\$ 4,256	\$ 1
147	161	308	308	-	3,322	280	3,602	3,605	3
147	161	308	308	-	7,577	280	7,857	7,861	4
-	-	-	-	-	196	-	196	196	-
-	-	-	-	-	113	-	113	117	4
-	-	-	-	-	309	-	309	313	4
-	-	-	-	-	4,226	-	4,226	4,309	83
3	5	8	8	-	2,106	41	2,147	2,290	143
3	5	8	8	-	6,332	41	6,373	6,599	226
-	-	-	-	-	3,380	-	3,380	3,381	1
8	24	32	33	1	2,262	210	2,472	2,474	2
8	24	32	33	1	5,642	210	5,852	5,855	3
158	190	348	349	1	19,860	531	20,391	20,628	237
-	-	-	-	-	359	70	429	429	-
158	190	348	349	1	20,219	601	20,820	21,057	237
-	-	-	-	-	7,237	-	7,237	7,238	1
152	140	292	292	-	24,789	452	25,241	25,841	600
152	140	292	292	-	32,026	452	32,478	33,079	601
-	-	-	-	-	264	-	264	315	51
-	-	-	-	-	274	-	274	302	28
-	-	-	-	-	538	-	538	617	79
-	-	-	-	-	220	-	220	227	7
-	-	-	-	-	103	-	103	111	8
-	-	-	-	-	323	-	323	338	15
-	-	-	-	-	498	-	498	499	1
34	2	36	41	5	851	26	877	883	6
34	2	36	41	5	1,349	26	1,375	1,382	7
186	142	328	333	5	34,236	478	34,714	35,416	702

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**GENERAL FUND
SCHEDULE OF EXPENDITURES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2004
(In Thousands)**

	Current Year				Variance with Final Budget Positive (Negative)
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	
Citywide Program:					
Animal Regulation					
Non-Personnel	\$ 4,754	\$ 119	\$ 4,873	\$ 4,873	\$ -
Health Services Furnished by County					
Non-Personnel	4	-	4	15	11
Refuse Container Fund					
Non-Personnel	116	-	116	116	-
Total Citywide Program	4,874	119	4,993	5,004	11
TOTAL SANITATION AND HEALTH	38,924	455	39,379	40,087	708
NEIGHBORHOOD SERVICES:					
Departmental:					
Community and Economic Development					
Salaries and Wages	5,167	-	5,167	5,197	30
Non-Personnel	7,029	259	7,288	7,819	531
Total Community and Economic Development	12,196	259	12,455	13,016	561
Development Services					
Non-Personnel	74	-	74	182	108
Total Development Services	74	-	74	182	108
Building Development Review					
Non-Personnel	-	-	-	-	-
Total Building Development Review	-	-	-	-	-
Neighborhood Code Compliance					
Salaries and Wages	3,742	-	3,742	3,789	47
Non-Personnel	2,231	44	2,275	2,335	60
Total Neighborhood Code Compliance	5,973	44	6,017	6,124	107
Planning					
Salaries and Wages	4,832	-	4,832	4,833	1
Non-Personnel	2,501	55	2,556	2,635	79
Total Planning	7,333	55	7,388	7,468	80
Total Departmental	25,576	358	25,934	26,790	856
Citywide Program:					
Community and Economic Development Special Projects					
Non-Personnel	-	-	-	11	11
Total Community and Economic Development Special Projects ..	-	-	-	11	11
Nuisance Abatement					
Non-Personnel	-	-	-	4	4
Total Citywide Program	-	-	-	15	15
TOTAL NEIGHBORHOOD SERVICES	25,576	358	25,934	26,805	871
DEBT SERVICE:					
Principal	2,318	-	2,318	2,318	-
Interest	2,646	-	2,646	2,646	-
TOTAL DEBT SERVICE	4,964	-	4,964	4,964	-
TOTAL EXPENDITURES	738,399	7,614	746,013	760,227	14,214

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)
\$ -	\$ 172	\$ 172	\$ 172	\$ -	\$ 4,754	\$ 291	\$ 5,045	\$ 5,045	\$ -
1	-	1	1	-	5	-	5	16	11
-	-	-	-	-	116	-	116	116	-
1	172	173	173	-	4,875	291	5,166	5,177	11
187	314	501	506	5	39,111	769	39,880	40,593	713
-	-	-	-	-	5,167	-	5,167	5,197	30
307	272	579	683	104	7,336	531	7,867	8,502	635
307	272	579	683	104	12,503	531	13,034	13,699	665
-	-	-	-	-	74	-	74	182	108
-	-	-	-	-	74	-	74	182	108
-	-	-	9	9	-	-	-	9	9
-	-	-	9	9	-	-	-	9	9
-	-	-	-	-	3,742	-	3,742	3,789	47
25	9	34	37	3	2,256	53	2,309	2,372	63
25	9	34	37	3	5,998	53	6,051	6,161	110
-	-	-	-	-	4,832	-	4,832	4,833	1
89	257	346	493	147	2,590	312	2,902	3,128	226
89	257	346	493	147	7,422	312	7,734	7,961	227
421	538	959	1,222	263	25,997	896	26,893	28,012	1,119
-	-	-	-	-	-	-	-	11	11
-	-	-	-	-	-	-	-	11	11
-	-	-	-	-	-	-	-	4	4
-	-	-	-	-	-	-	-	15	15
421	538	959	1,222	263	25,997	896	26,893	28,027	1,134
-	-	-	-	-	2,318	-	2,318	2,318	-
2,796	-	2,796	2,796	-	5,442	-	5,442	5,442	-
2,796	-	2,796	2,796	-	7,760	-	7,760	7,760	-
8,517	3,638	12,155	16,609	4,454	746,916	11,252	758,168	776,836	18,668

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GENERAL FUND
SCHEDULE OF EXPENDITURES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2004
(In Thousands)

	Current Year				Variance with Final Budget Positive (Negative)
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	
TRANSFERS TO PROPRIETARY FUNDS					
Internal Service Funds:					
City of San Diego:					
Central Garage and Machine Shop	\$ 382	\$ -	\$ 382	\$ 382	\$ -
Self Insurance	13,079	-	13,079	13,079	-
Miscellaneous Internal Service	246	-	246	246	-
Total Internal Service Funds	13,707	-	13,707	13,707	-
TOTAL TRANSFERS TO PROPRIETARY FUNDS	13,707	-	13,707	13,707	-
TRANSFERS TO OTHER FUNDS					
Special Revenue Funds:					
City of San Diego:					
Acquisition, Improvement and Operation.....	682	-	682	682	-
Other Special Revenue - Budgeted	1,573	-	1,573	1,573	-
Qualcomm Stadium Operations.....	6	-	6	6	-
Grants.....	114	-	114	114	-
Other Special Revenue - Unbudgeted	12,349	-	12,349	12,349	-
Total Special Revenue Funds	14,724	-	14,724	14,724	-
Capital Projects Funds:					
Redevelopment Agency.....	-	-	-	-	-
Capital Projects Funds:					
City of San Diego:					
Capital Outlay.....	159	-	159	159	-
Other Construction	535	-	535	535	-
Total Capital Projects Funds	694	-	694	694	-
TOTAL TRANSFERS TO OTHER FUNDS	15,418	-	15,418	15,418	-
TOTAL EXPENDITURES AND TRANSFERS	\$ 767,524	\$ 7,614	\$ 775,138	\$ 789,352	\$ 14,214

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)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 382	\$ -	\$ 382	\$ 382	\$ -
-	-	-	-	-	13,079	-	13,079	13,079	-
-	-	-	-	-	246	-	246	246	-
-	-	-	-	-	13,707	-	13,707	13,707	-
-	-	-	-	-	13,707	-	13,707	13,707	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	682	-	682	682	-
53	-	53	53	-	1,626	-	1,626	1,626	-
-	-	-	-	-	6	-	6	6	-
-	-	-	-	-	114	-	114	114	-
-	-	-	-	-	12,349	-	12,349	12,349	-
53	-	53	53	-	14,777	-	14,777	14,777	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	159	-	159	159	-
194	-	194	194	-	729	-	729	729	-
194	-	194	194	-	888	-	888	888	-
247	-	247	247	-	15,665	-	15,665	15,665	-
\$ 8,764	\$ 3,638	\$ 12,402	\$ 16,856	\$ 4,454	\$ 776,288	\$ 11,252	\$ 787,540	\$ 806,208	\$ 18,668

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NONMAJOR GOVERNMENTAL FUNDS

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**NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
June 30, 2004
(In Thousands)**

	Special Revenue	Debt Service	Capital Projects	Permanent	Total Nonmajor Governmental Funds
ASSETS					
Cash and Investments	\$ 396,617	\$ -	\$ 344,805	\$ 2,493	\$ 743,915
Receivables:					
Taxes - Net	10,649	34	3,060	-	13,743
Accounts, Net of Allowance for Uncollectibles (Special Revenue \$1,527)	6,415	-	248	15	6,678
Claims - Net	45	-	-	-	45
Special Assessments - Net	464	572	28	-	1,064
Notes	23,560	-	6,866	-	30,426
Accrued Interest	677	359	1,046	14	2,096
Grants	18,712	-	22,760	-	41,472
From Other Funds	1	731	51,226	-	51,958
From Other Agencies	813	-	659	-	1,472
Advances to Other Funds	2,322	-	804	-	3,126
Advances to Other Agencies	3,246	-	20	-	3,266
Land Held for Resale	12,691	-	23,870	-	36,561
Prepaid Items	1,569	906	-	-	2,475
Restricted Cash and Investments	-	97,233	-	10,582	107,815
TOTAL ASSETS	<u>\$ 477,781</u>	<u>\$ 99,835</u>	<u>\$ 455,392</u>	<u>\$ 13,104</u>	<u>\$ 1,046,112</u>
LIABILITIES					
Accounts Payable	\$ 19,345	\$ -	\$ 9,579	\$ -	\$ 28,924
Accrued Wages and Benefits	2,227	-	-	-	2,227
Other Accrued Liabilities	678	-	-	-	678
Due to Other Funds	51,066	-	13,618	-	64,684
Due to Component Unit	592	-	-	-	592
Due to Other Agencies	249	-	291	-	540
Deferred Revenue	17,796	328	24,226	-	42,350
Unearned Revenue	14,884	-	6,776	-	21,660
Advances from Other Funds	3,354	-	-	-	3,354
Sundry Trust Liabilities	108	-	4,382	-	4,490
Interfund Interest Payable	-	-	562	-	562
Interfund Loan Payable	-	-	2,386	-	2,386
TOTAL LIABILITIES	<u>110,299</u>	<u>328</u>	<u>61,820</u>	<u>-</u>	<u>172,447</u>
FUND BALANCES:					
Reserved for Land Held for Resale	12,691	-	22,543	-	35,234
Reserved for Encumbrances	43,186	1	82,946	-	126,133
Reserved for Advances	5,568	-	824	-	6,392
Reserved for Permanent Endowments	-	-	-	12,225	12,225
Reserved for Debt Service	128	97,856	-	-	97,984
Unreserved:					
Designated for Unrealized Gains	153	247	1	870	1,271
Designated for Debt Service	67,334	-	-	-	67,334
Designated for Subsequent Years' Expenditures	92,915	-	194,195	7	287,117
Undesignated	145,507	1,403	93,063	2	239,975
TOTAL FUND BALANCES	<u>367,482</u>	<u>99,507</u>	<u>393,572</u>	<u>13,104</u>	<u>873,665</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 477,781</u>	<u>\$ 99,835</u>	<u>\$ 455,392</u>	<u>\$ 13,104</u>	<u>\$ 1,046,112</u>

NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2004
(In Thousands)

	Special Revenue	Debt Service	Capital Projects	Permanent	Total Nonmajor Governmental Funds
REVENUES					
Property Taxes	\$ 35,985	\$ 25,241	\$ 16,731	\$ -	\$ 77,957
Special Assessments	12,010	13,646	1,160	-	26,816
Sales Taxes	68,261	-	32,809	-	101,070
Transient Occupancy Taxes	53,679	-	-	-	53,679
Other Local Taxes	75,039	-	-	-	75,039
Licenses and Permits	1,520	-	5,373	-	6,893
Fines, Forfeitures and Penalties	2,038	-	-	-	2,038
Revenue from Use of Money and Property	27,391	1,283	5,846	990	35,510
Revenue from Federal Agencies	34,166	-	12,272	-	46,438
Revenue from Other Agencies	39,419	-	40,936	-	80,355
Revenue from Private Sources	28,770	-	33,123	250	62,143
Charges for Current Services	30,325	-	-	69	30,394
Other Revenue	1,625	-	5,967	-	7,592
TOTAL REVENUES	410,228	40,170	154,217	1,309	605,924
EXPENDITURES					
Current:					
General Government and Support	39,068	791	24,102	-	63,961
Public Safety - Police	29,640	-	-	-	29,640
Public Safety - Fire and Life Safety	14,236	-	-	-	14,236
Parks, Recreation, Culture and Leisure	72,638	-	95	50	72,783
Transportation	97,114	-	286	-	97,400
Sanitation and Health	3,071	-	-	2	3,073
Neighborhood Services	43,272	-	34,936	-	78,208
Capital Projects	26,476	-	147,870	-	174,346
Debt Service:					
Principal Retirement	4,096	37,765	4,939	-	46,800
Interest	2,076	59,737	1,545	-	63,358
Arbitrage Rebate	-	421	-	-	421
TOTAL EXPENDITURES	331,687	98,714	213,773	52	644,226
EXCESS (DEFICIENCY) OF REVENUES					
OVER EXPENDITURES	78,541	(58,544)	(59,556)	1,257	(38,302)
OTHER FINANCING SOURCES (USES)					
Transfers from Proprietary Funds	4,171	-	261	-	4,432
Transfers from Other Funds	100,147	63,064	44,390	-	207,601
Transfers to Proprietary Funds	(2,237)	-	(530)	-	(2,767)
Transfers to Other Funds	(172,172)	(18,463)	(38,823)	(472)	(229,930)
Transfers to Escrow Agent	-	(10,132)	-	-	(10,132)
Proceeds from Sales of Capital Assets	-	-	301	-	301
SANDAG Loans Issued	-	-	6,400	-	6,400
Section 108 Loans Issued	21,107	-	-	-	21,107
Tax Allocation Bonds Issued	37,180	-	-	-	37,180
Special Assessment Bonds Issued	25	11,727	17,493	-	29,245
Premium on Bonds Issued	-	-	2	-	2
Discount on Bonds Issued	(11)	-	(248)	-	(259)
TOTAL OTHER FINANCING SOURCES (USES)	(11,790)	46,196	29,246	(472)	63,180
NET CHANGE IN FUND BALANCES	66,751	(12,348)	(30,310)	785	24,878
Fund Balances at Beginning of Year	300,731	111,855	423,882	12,319	848,787
FUND BALANCES AT END OF YEAR	\$ 367,482	\$ 99,507	\$ 393,572	\$ 13,104	\$ 873,665

NONMAJOR 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.

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
COMBINING BALANCE SHEET
June 30, 2004
(In Thousands)

	City of San Diego	Centre City Development Corporation
ASSETS		
Cash and Investments	\$ 223,903	\$ 131
Receivables:		
Taxes - Net	7,776	-
Accounts, Net of Allowance for Uncollectibles (City of San Diego \$1,527)	6,415	-
Claims - Net	45	-
Special Assessments - Net	464	-
Notes	2,217	-
Accrued Interest	392	-
Grants	18,712	-
From Other Funds	1	-
From Other Agencies	-	637
Advances to Other Funds	2,322	-
Advances to Other Agencies	3,246	-
Land Held for Resale	-	-
Prepaid Items	1,567	2
TOTAL ASSETS	\$ 267,060	\$ 770
LIABILITIES		
Accounts Payable	\$ 18,998	\$ 65
Accrued Wages and Benefits	2,227	-
Other Accrued Liabilities	618	60
Due to Other Funds	12,726	-
Due to Component Unit	592	-
Due to Other Agencies	249	-
Deferred Revenue	15,611	-
Unearned Revenue	14,884	-
Advances from Other Funds	300	645
Sundry Trust Liabilities	-	-
TOTAL LIABILITIES	66,205	770
FUND BALANCES:		
Reserved for Land Held for Resale	-	-
Reserved for Encumbrances	25,451	-
Reserved for Advances	5,568	-
Reserved for Debt Service	128	-
Unreserved:		
Designated for Unrealized Gains	45	-
Designated for Debt Service	-	-
Designated for Subsequent Years' Expenditures	61,179	-
Undesignated	108,484	-
TOTAL FUND BALANCES	200,855	-
TOTAL LIABILITIES AND FUND BALANCES	\$ 267,060	\$ 770

Public Facilities Financing Authority	Redevelopment Agency	San Diego Industrial Development Authority	Southeastern Economic Development Corporation	Total
\$ 40	\$ 172,469	\$ 53	\$ 21	\$ 396,617
-	2,873	-	-	10,649
-	-	-	-	6,415
-	-	-	-	45
-	-	-	-	464
-	21,343	-	-	23,560
-	285	-	-	677
-	-	-	-	18,712
-	-	-	-	1
-	-	-	176	813
-	-	-	-	2,322
-	-	-	-	3,246
-	12,691	-	-	12,691
-	-	-	-	1,569
<u>\$ 40</u>	<u>\$ 209,661</u>	<u>\$ 53</u>	<u>\$ 197</u>	<u>\$ 477,781</u>
\$ -	\$ 239	\$ -	\$ 43	\$ 19,345
-	-	-	-	2,227
-	-	-	-	678
1	38,339	-	-	51,066
-	-	-	-	592
-	-	-	-	249
-	2,185	-	-	17,796
-	-	-	-	14,884
-	2,250	-	159	3,354
-	108	-	-	108
<u>1</u>	<u>43,121</u>	<u>-</u>	<u>202</u>	<u>110,299</u>
-	12,691	-	-	12,691
2	17,733	-	-	43,186
-	-	-	-	5,568
-	-	-	-	128
-	108	-	-	153
-	67,334	-	-	67,334
37	31,684	15	-	92,915
-	36,990	38	(5)	145,507
<u>39</u>	<u>166,540</u>	<u>53</u>	<u>(5)</u>	<u>367,482</u>
<u>\$ 40</u>	<u>\$ 209,661</u>	<u>\$ 53</u>	<u>\$ 197</u>	<u>\$ 477,781</u>

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2004
(In Thousands)

	City of San Diego	Centre City Development Corporation
REVENUES		
Property Taxes	\$ 6,172	\$ -
Special Assessments	12,010	-
Sales Taxes	68,261	-
Transient Occupancy Taxes	53,679	-
Other Local Taxes	75,039	-
Licenses and Permits	1,520	-
Fines, Forfeitures and Penalties	2,038	-
Revenue from Use of Money and Property	25,452	-
Revenue from Federal Agencies	34,166	-
Revenue from Other Agencies	32,225	5,382
Revenue from Private Sources	28,636	-
Charges for Current Services	30,325	-
Other Revenue	1,416	11
TOTAL REVENUES	370,939	5,393
EXPENDITURES		
Current:		
General Government and Support	22,260	5,360
Public Safety - Police	29,640	-
Public Safety - Fire and Life Safety	14,236	-
Parks, Recreation, Culture and Leisure	72,638	-
Transportation	97,114	-
Sanitation and Health	3,071	-
Neighborhood Services	40,341	-
Capital Projects	26,391	33
Debt Service:		
Principal Retirement	4,096	-
Interest	2,076	-
TOTAL EXPENDITURES	311,863	5,393
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	59,076	-
OTHER FINANCING SOURCES (USES)		
Transfers from Proprietary Funds	4,171	-
Transfers from Other Funds	83,413	-
Transfers to Proprietary Funds	(2,237)	-
Transfers to Other Funds	(125,535)	-
Section 108 Loans Issued	21,107	-
Tax Allocation Bonds Issued	-	-
Special Assessment Bonds Issued	25	-
Discount on Bonds Issued	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(19,056)	-
NET CHANGE IN FUND BALANCES	40,020	-
Fund Balances at Beginning of Year	160,835	-
FUND BALANCES AT END OF YEAR	\$ 200,855	\$ -

Public Facilities Financing Authority	Redevelopment Agency	San Diego Industrial Development Authority	Southeastern Economic Development Corporation	Total
\$ -	\$ 29,813	\$ -	\$ -	\$ 35,985
-	-	-	-	12,010
-	-	-	-	68,261
-	-	-	-	53,679
-	-	-	-	75,039
-	-	-	-	1,520
-	-	-	-	2,038
1	1,937	1	-	27,391
-	-	-	-	34,166
-	-	-	1,812	39,419
-	134	-	-	28,770
-	-	-	-	30,325
-	198	-	-	1,625
<u>1</u>	<u>32,082</u>	<u>1</u>	<u>1,812</u>	<u>410,228</u>
342	9,330	-	1,776	39,068
-	-	-	-	29,640
-	-	-	-	14,236
-	-	-	-	72,638
-	-	-	-	97,114
-	-	-	-	3,071
-	2,931	-	-	43,272
-	-	-	52	26,476
-	-	-	-	4,096
-	-	-	-	2,076
<u>342</u>	<u>12,261</u>	<u>-</u>	<u>1,828</u>	<u>331,687</u>
<u>(341)</u>	<u>19,821</u>	<u>1</u>	<u>(16)</u>	<u>78,541</u>
-	-	-	-	4,171
350	16,384	-	-	100,147
-	-	-	-	(2,237)
-	(46,637)	-	-	(172,172)
-	-	-	-	21,107
-	37,180	-	-	37,180
-	-	-	-	25
-	(11)	-	-	(11)
<u>350</u>	<u>6,916</u>	<u>-</u>	<u>-</u>	<u>(11,790)</u>
9	26,737	1	(16)	66,751
<u>30</u>	<u>139,803</u>	<u>52</u>	<u>11</u>	<u>300,731</u>
<u>\$ 39</u>	<u>\$ 166,540</u>	<u>\$ 53</u>	<u>\$ (5)</u>	<u>\$ 367,482</u>

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN UNDESIGNATED FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS)
For the Year Ended June 30, 2004
(In Thousands)

	City of San Diego	
	Actual on Budgetary Basis	Final Budget
REVENUES		
Property Taxes	\$ 6,151	\$ 5,408
Special Assessments	11,990	12,137
Sales Taxes	66,408	66,885
Transient Occupance Taxes	53,679	52,726
Other Local Taxes	75,039	76,510
Licenses and Permits	1,203	1,408
Fines, Forfeitures and Penalties	1,383	1,165
Revenue from Use of Money and Property	17,010	17,714
Revenue from Federal Agencies	242	-
Revenue from Other Agencies	10,082	7,500
Revenue from Private Sources	291	188
Charges for Current Services	29,170	28,192
Other Revenue	342	1,505
Excess Revenue Appropriated	-	140
TOTAL REVENUES	272,990	271,478
EXPENDITURES		
Current:		
General Government and Support	12,813	13,737
Public Safety - Police	10,806	11,032
Public Safety - Fire and Life Safety	9,363	9,824
Parks, Recreation, Culture and Leisure	71,866	84,816
Transportation	78,212	79,936
Sanitation and Health	2,603	2,766
Neighborhood Services	6,053	6,862
Capital Projects	17,753	39,114
Debt Service:		
Principal Retirement	551	639
Interest	118	159
TOTAL EXPENDITURES	210,138	248,885
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	62,852	22,593
OTHER FINANCING SOURCES (USES)		
Transfers from Proprietary Funds	834	760
Transfers from Other Funds	56,594	52,830
Transfers to Proprietary Funds	(2,012)	(2,012)
Transfers to Other Funds	(106,487)	(110,930)
TOTAL OTHER FINANCING SOURCES (USES)	(51,071)	(59,352)
NET CHANGE IN FUND BALANCES	11,781	(36,759)
Fund Balances Undesignated at July 1, 2003	57,482	57,482
Reserved for Encumbrances at July 1, 2003	12,533	12,532
Reserved for Debt Service at July 1, 2003	569	569
Reserved for Debt Service at June 30, 2004	(128)	-
Designated for Subsequent Years' Expenditures at July 1, 2003	22,906	22,906
Designated for Subsequent Years' Expenditures at June 30, 2004	(22,205)	-
FUND BALANCES UNDESIGNATED AT JUNE 30, 2004	\$ 82,938	\$ 56,730

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	
\$ -	\$ -	\$ -	\$ -	\$ 6,151	\$ 5,408	\$ 743
-	-	-	-	11,990	12,137	(147)
-	-	-	-	66,408	66,885	(477)
-	-	-	-	53,679	52,726	953
-	-	-	-	75,039	76,510	(1,471)
-	-	-	-	1,203	1,408	(205)
-	-	-	-	1,383	1,165	218
-	-	-	-	17,010	17,714	(704)
-	-	-	-	242	-	242
5,382	5,640	1,812	1,943	17,276	15,083	2,193
-	-	-	-	291	188	103
-	-	-	-	29,170	28,192	978
11	20	-	-	353	1,525	(1,172)
-	-	-	-	-	140	(140)
5,393	5,660	1,812	1,943	280,195	279,081	1,114
5,393	5,660	1,691	1,853	19,897	21,250	1,353
-	-	-	-	10,806	11,032	226
-	-	-	-	9,363	9,824	461
-	-	-	-	71,866	84,816	12,950
-	-	-	-	78,212	79,936	1,724
-	-	-	-	2,603	2,766	163
-	-	-	-	6,053	6,862	809
-	-	137	90	17,890	39,204	21,314
-	-	-	-	551	639	88
-	-	-	-	118	159	41
5,393	5,660	1,828	1,943	217,359	256,488	39,129
-	-	(16)	-	62,836	22,593	40,243
-	-	-	-	834	760	74
-	-	-	-	56,594	52,830	3,764
-	-	-	-	(2,012)	(2,012)	-
-	-	-	-	(106,487)	(110,930)	4,443
-	-	-	-	(51,071)	(59,352)	8,281
-	-	(16)	-	11,765	(36,759)	48,524
-	-	11	11	57,493	57,493	-
-	-	-	-	12,533	12,532	1
-	-	-	-	569	569	-
-	-	-	-	(128)	-	(128)
-	-	-	-	22,906	22,906	-
-	-	-	-	(22,205)	-	(22,205)
\$ -	\$ -	\$ (5)	\$ 11	\$ 82,933	\$ 56,741	\$ 26,192

**CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
COMBINING BALANCE SHEET
June 30, 2004
(In Thousands)**

	Budgeted				
	Acquisition, Improvement and Operations	Environmental Growth	Police Decentralization	Public Transportation	Qualcomm Stadium Operations
ASSETS					
Cash and Investments	\$ 11,926	\$ 3,989	\$ 2,540	\$ 2,075	\$ 2,227
Receivables:					
Taxes - Net	-	2,608	-	-	-
Accounts, Net of Allowance for Uncollectibles (TOT \$720, Unbudgeted Other \$807)	571	-	-	-	247
Claims - Net	19	-	-	-	-
Special Assessments - Net	327	-	-	-	-
Notes	-	-	-	-	-
Accrued Interest	23	8	-	9	(2)
Grants	-	-	-	-	-
From Other Funds	-	-	-	-	-
Advances to Other Funds	-	-	-	-	-
Advances to Other Agencies	636	-	-	-	-
Prepaid Items	-	-	-	-	5
TOTAL ASSETS	<u>\$ 13,502</u>	<u>\$ 6,605</u>	<u>\$ 2,540</u>	<u>\$ 2,084</u>	<u>\$ 2,477</u>
LIABILITIES					
Accounts Payable	\$ 465	\$ 20	\$ 790	\$ -	\$ 240
Accrued Wages and Benefits	95	-	-	-	90
Other Accrued Liabilities	-	-	-	-	-
Due to Other Funds	-	-	-	-	-
Due to Component Unit	-	-	-	-	-
Due to Other Agencies	-	-	-	-	-
Deferred Revenue	805	-	-	-	272
Unearned Revenue	-	-	-	-	-
Advances from Other Funds	-	-	-	-	-
TOTAL LIABILITIES	<u>1,365</u>	<u>20</u>	<u>790</u>	<u>-</u>	<u>602</u>
FUND BALANCES:					
Reserved for Encumbrances	1,169	293	-	-	199
Reserved for Advances	636	-	-	-	-
Reserved for Debt Service	-	-	-	-	-
Unreserved:					
Designated for Unrealized Gains	-	-	-	-	-
Designated for Subsequent Years' Expenditures	461	223	-	-	44
Undesignated	9,871	6,069	1,750	2,084	1,632
TOTAL FUND BALANCES	<u>12,137</u>	<u>6,585</u>	<u>1,750</u>	<u>2,084</u>	<u>1,875</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 13,502</u>	<u>\$ 6,605</u>	<u>\$ 2,540</u>	<u>\$ 2,084</u>	<u>\$ 2,477</u>

Special Gas Tax Street Improvement	Street Division Operations	Transient Occupancy Tax	Underground Surcharge	Zoological Exhibits	Other Special Revenue	Unbudgeted		Total
						Grants	Other Special Revenue	
\$ 1,554	\$ 5,236	\$ 50,609	\$ 25,910	\$ 3,345	\$ 11,787	\$ 126	\$ 102,579	\$ 223,903
-	-	4,920	-	244	-	-	4	7,776
2,281	440	171	-	-	1,867	-	838	6,415
2	24	-	-	-	-	-	-	45
-	-	-	-	-	-	-	137	464
-	-	-	-	-	-	-	2,217	2,217
18	2	93	70	-	19	13	139	392
-	-	-	-	-	-	18,712	-	18,712
-	-	-	-	-	-	-	1	1
-	72	-	-	-	-	-	2,250	2,322
-	-	2,329	-	-	-	201	80	3,246
-	-	1,167	-	-	130	-	265	1,567
<u>\$ 3,855</u>	<u>\$ 5,774</u>	<u>\$ 59,289</u>	<u>\$ 25,980</u>	<u>\$ 3,589</u>	<u>\$ 13,803</u>	<u>\$ 19,052</u>	<u>\$ 108,510</u>	<u>\$ 267,060</u>
\$ 1	\$ 418	\$ 2,449	\$ 9,740	\$ -	\$ 72	\$ 2,469	\$ 2,334	\$ 18,998
3	1,227	43	24	-	675	58	12	2,227
-	-	-	-	-	-	527	91	618
-	-	-	-	-	-	10,100	2,626	12,726
-	-	53	-	-	-	-	539	592
-	-	-	-	-	-	249	-	249
34	463	171	-	160	58	10,719	2,929	15,611
-	-	-	-	-	-	4,298	10,586	14,884
-	-	-	-	-	-	-	300	300
<u>38</u>	<u>2,108</u>	<u>2,716</u>	<u>9,764</u>	<u>160</u>	<u>805</u>	<u>28,420</u>	<u>19,417</u>	<u>66,205</u>
80	3,410	6,390	813	-	817	4	12,276	25,451
-	72	2,329	-	-	-	201	2,330	5,568
-	128	-	-	-	-	-	-	128
-	-	-	-	-	-	-	45	45
146	56	10,627	8,718	-	1,930	187	38,787	61,179
<u>3,591</u>	<u>-</u>	<u>37,227</u>	<u>6,685</u>	<u>3,429</u>	<u>10,251</u>	<u>(9,760)</u>	<u>35,655</u>	<u>108,484</u>
<u>3,817</u>	<u>3,666</u>	<u>56,573</u>	<u>16,216</u>	<u>3,429</u>	<u>12,998</u>	<u>(9,368)</u>	<u>89,093</u>	<u>200,855</u>
<u>\$ 3,855</u>	<u>\$ 5,774</u>	<u>\$ 59,289</u>	<u>\$ 25,980</u>	<u>\$ 3,589</u>	<u>\$ 13,803</u>	<u>\$ 19,052</u>	<u>\$ 108,510</u>	<u>\$ 267,060</u>

CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2004
(In Thousands)

	Budgeted				
	Acquisition, Improvement and Operations	Environmental Growth	Police Decentralization	Public Transportation	Qualcomm Stadium Operations
REVENUES					
Property Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Special Assessments	11,990	-	-	-	-
Sales Taxes	924	-	12,765	-	-
Transient Occupancy Taxes	-	-	-	-	-
Other Local Taxes	-	10,776	-	-	-
Licenses and Permits	1,201	-	-	-	-
Fines, Forfeitures and Penalties	-	-	-	-	-
Revenue from Use of Money and Property	45	(3)	70	31	15,446
Revenue from Federal Agencies	-	242	-	-	-
Revenue from Other Agencies	-	-	-	-	-
Revenue from Private Sources	52	-	-	-	-
Charges for Current Services	2,967	-	-	-	-
Other Revenue	216	-	-	-	-
TOTAL REVENUES	17,395	11,015	12,835	31	15,446
EXPENDITURES					
Current:					
General Government and Support	1,641	-	-	-	-
Public Safety - Police	-	-	8,518	-	-
Public Safety - Fire and Life Safety	-	-	-	-	-
Parks, Recreation, Culture and Leisure	9,504	1,916	-	-	14,582
Transportation	-	-	-	24	-
Sanitation and Health	-	-	-	-	-
Neighborhood Services	6,081	-	-	-	-
Capital Projects	15	277	-	-	50
Debt Service:					
Principal Retirement	-	-	-	-	148
Interest	-	-	-	-	70
TOTAL EXPENDITURES	17,241	2,193	8,518	24	14,850
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	154	8,822	4,317	7	596
OTHER FINANCING SOURCES (USES)					
Transfers from Proprietary Funds	-	-	-	-	-
Transfers from Other Funds	1,440	-	-	5,103	6,006
Transfers to Proprietary Funds	-	-	-	(1,512)	(500)
Transfers to Other Funds	(46)	(8,001)	(4,317)	(3,689)	(5,545)
Section 108 Loans Issued	-	-	-	-	-
Special Assessment Bonds Issued	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	1,394	(8,001)	(4,317)	(98)	(39)
NET CHANGE IN FUND BALANCES	1,548	821	-	(91)	557
Fund Balances at Beginning of Year	10,589	5,764	1,750	2,175	1,318
FUND BALANCES AT END OF YEAR	\$ 12,137	\$ 6,585	\$ 1,750	\$ 2,084	\$ 1,875

Special Gas Tax Street Improvement	Street Division Operations	Transient Occupancy Tax	Underground Surcharge	Zoological Exhibits	Other Special Revenue	Unbudgeted		Total
						Grants	Other Special Revenue	
\$ -	\$ -	\$ -	\$ -	\$ 6,151	\$ -	\$ -	\$ 21	\$ 6,172
-	-	-	-	-	-	-	20	12,010
-	13,689	36,230	-	-	2,800	-	1,853	68,261
-	-	53,679	-	-	-	-	-	53,679
24,164	-	-	40,099	-	-	-	-	75,039
-	-	-	-	-	-	-	319	1,520
-	1	-	-	-	1,382	1	654	2,038
104	44	756	129	9	140	184	8,497	25,452
-	-	-	-	-	-	33,828	96	34,166
-	237	8,556	-	-	1,289	18,732	3,411	32,225
-	239	-	-	-	-	-	28,345	28,636
17	4,354	40	-	-	21,792	-	1,155	30,325
-	10	6	-	-	110	687	387	1,416
24,285	18,574	99,267	40,228	6,160	27,513	53,432	44,758	370,939
179	-	567	832	-	9,223	511	9,307	22,260
-	-	-	-	-	2,025	18,854	243	29,640
-	-	-	-	-	9,177	1,537	3,522	14,236
-	-	35,202	-	3,002	159	3,966	4,307	72,638
11	43,949	-	31,023	-	-	-	22,107	97,114
-	-	130	-	-	2,220	464	257	3,071
-	-	-	-	-	-	25,894	8,366	40,341
128	770	11,957	866	-	-	5,757	6,571	26,391
-	401	-	-	-	-	1,736	1,811	4,096
-	48	-	-	-	-	1,520	438	2,076
318	45,168	47,856	32,721	3,002	22,804	60,239	56,929	311,863
23,967	(26,594)	51,411	7,507	3,158	4,709	(6,807)	(12,171)	59,076
66	8	-	-	-	760	-	3,337	4,171
4	28,277	2,200	8,709	-	4,855	3,909	22,910	83,413
-	-	-	-	-	-	-	(225)	(2,237)
(21,906)	(183)	(54,640)	-	(9)	(8,151)	(1,480)	(17,568)	(125,535)
-	-	-	-	-	-	-	21,107	21,107
-	-	-	-	-	-	-	25	25
(21,836)	28,102	(52,440)	8,709	(9)	(2,536)	2,429	29,586	(19,056)
2,131	1,508	(1,029)	16,216	3,149	2,173	(4,378)	17,415	40,020
1,686	2,158	57,602	-	280	10,825	(4,990)	71,678	160,835
\$ 3,817	\$ 3,666	\$ 56,573	\$ 16,216	\$ 3,429	\$ 12,998	\$ (9,368)	\$ 89,093	\$ 200,855

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)
For the Year Ended June 30, 2004
(In Thousands)

	Acquisition, Improvement and Operations				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
REVENUES					
Property Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Special Assessments	11,990	-	11,990	12,137	(147)
Sales Taxes	924	-	924	923	1
Transient Occupancy Taxes	-	-	-	-	-
Other Local Taxes	-	-	-	-	-
Licenses and Permits	1,201	2	1,203	1,408	(205)
Fines, Forfeitures and Penalties	-	-	-	-	-
Revenue from Use of Money and Property	45	37	82	310	(228)
Revenue from Federal Agencies	-	-	-	-	-
Revenue from Other Agencies	-	-	-	-	-
Revenue from Private Sources	52	-	52	140	(88)
Charges for Current Services	2,967	-	2,967	2,650	317
Other Revenue	216	-	216	305	(89)
Excess Revenue Appropriated	-	-	-	-	-
TOTAL REVENUES	17,395	39	17,434	17,873	(439)
EXPENDITURES					
Current:					
General Government and Support	1,641	83	1,724	2,187	463
Public Safety - Police	-	-	-	-	-
Public Safety - Fire and Life Safety	-	-	-	-	-
Parks, Recreation, Culture and Leisure	9,504	1,059	10,563	17,759	7,196
Transportation	-	-	-	-	-
Sanitation and Health	-	-	-	-	-
Neighborhood Services	6,081	(28)	6,053	6,862	809
Capital Projects	15	-	15	450	435
Debt Service:					
Principal Retirement	-	-	-	-	-
Interest	-	-	-	-	-
TOTAL EXPENDITURES	17,241	1,114	18,355	27,258	8,903
EXCESS (DEFICIENCY) OF REVENUES					
OVER EXPENDITURES	154	(1,075)	(921)	(9,385)	8,464
OTHER FINANCING SOURCES (USES)					
Transfers from Proprietary Funds	-	-	-	-	-
Transfers from Other Funds	1,440	-	1,440	3,125	(1,685)
Transfers to Proprietary Funds	-	-	-	-	-
Transfers to Other Funds	(46)	-	(46)	(68)	22
TOTAL OTHER FINANCING SOURCES (USES)	1,394	-	1,394	3,057	(1,663)
NET CHANGE IN FUND BALANCES	\$ 1,548	\$ (1,075)	473	(6,328)	6,801
Fund Balances Undesignated at July 1, 2003			9,281	9,281	-
Reserved for Encumbrances at July 1, 2003			913	913	-
Reserved for Debt Service at July 1, 2003			-	-	-
Reserved for Debt Service at June 30, 2004			-	-	-
Designated for Subsequent Years' Expenditures at July 1, 2003			15	15	-
Designated for Subsequent Years' Expenditures at June 30, 2004			(461)	-	(461)
FUND BALANCES UNDESIGNATED AT JUNE 30, 2004	\$		10,221	\$ 3,881	\$ 6,340

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)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	12,765	-	12,765	12,065	700
-	-	-	-	-	-	-	-	-	-
10,776	-	10,776	10,149	627	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
(3)	14	11	106	(95)	70	-	70	-	70
242	-	242	-	242	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	700	(700)
-	-	-	-	-	-	-	-	-	-
11,015	14	11,029	10,255	774	12,835	-	12,835	12,765	70
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	8,518	-	8,518	8,518	-
-	-	-	-	-	-	-	-	-	-
1,916	287	2,203	2,419	216	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
277	5	282	505	223	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
2,193	292	2,485	2,924	439	8,518	-	8,518	8,518	-
8,822	(278)	8,544	7,331	1,213	4,317	-	4,317	4,247	70
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
(8,001)	-	(8,001)	(8,001)	-	(4,317)	-	(4,317)	(4,247)	(70)
(8,001)	-	(8,001)	(8,001)	-	(4,317)	-	(4,317)	(4,247)	(70)
\$ 821	\$ (278)	543	(670)	1,213	\$ -	\$ -	-	-	-
		5,464	5,464	-			1,750	1,750	-
		126	126	-			-	-	-
		-	-	-			-	-	-
		-	-	-			-	-	-
		159	159	-			-	-	-
		(223)	-	(223)			-	-	-
		\$ 6,069	\$ 5,079	\$ 990			\$ 1,750	\$ 1,750	\$ -

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)
For the Year Ended June 30, 2004
(In Thousands)

	Public Transportation				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
REVENUES					
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	31	8	39	250	(211)
Revenue from Federal Agencies	-	-	-	-	-
Revenue from Other Agencies	-	-	-	-	-
Revenue from Private Sources	-	-	-	-	-
Charges for Current Services	-	-	-	-	-
Other Revenue	-	-	-	-	-
Excess Revenue Appropriated	-	-	-	-	-
TOTAL REVENUES	31	8	39	250	(211)
EXPENDITURES					
Current:					
General Government and Support	-	-	-	-	-
Public Safety - Police	-	-	-	-	-
Public Safety - Fire and Life Safety	-	-	-	-	-
Parks, Recreation, Culture and Leisure	-	-	-	-	-
Transportation	24	-	24	60	36
Sanitation and Health	-	-	-	-	-
Neighborhood Services	-	-	-	-	-
Capital Projects	-	-	-	-	-
Debt Service:					
Principal Retirement	-	-	-	-	-
Interest	-	-	-	-	-
TOTAL EXPENDITURES	24	-	24	60	36
EXCESS (DEFICIENCY) OF REVENUES					
OVER EXPENDITURES	7	8	15	190	(175)
OTHER FINANCING SOURCES (USES)					
Transfers from Proprietary Funds	-	-	-	-	-
Transfers from Other Funds	5,103	-	5,103	5,003	100
Transfers to Proprietary Funds	(1,512)	-	(1,512)	(1,512)	-
Transfers to Other Funds	(3,689)	-	(3,689)	(3,738)	49
TOTAL OTHER FINANCING SOURCES (USES)	(98)	-	(98)	(247)	149
NET CHANGE IN FUND BALANCES	\$ (91)	\$ 8	(83)	(57)	(26)
Fund Balances Undesignated at July 1, 2003			2,133	2,133	-
Reserved for Encumbrances at July 1, 2003			34	33	1
Reserved for Debt Service at July 1, 2003			-	-	-
Reserved for Debt Service at June 30, 2004			-	-	-
Designated for Subsequent Years' Expenditures at July 1, 2003			-	-	-
Designated for Subsequent Years' Expenditures at June 30, 2004			-	-	-
FUND BALANCES UNDESIGNATED AT JUNE 30, 2004			\$ 2,084	\$ 2,109	\$ (25)

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)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	24,164	-	24,164	23,075	1,089
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
15,446	5	15,451	15,557	(106)	104	20	124	429	(305)
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	17	-	17	-	17
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
15,446	5	15,451	15,557	(106)	24,285	20	24,305	23,504	801
-	-	-	-	-	179	-	179	180	1
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
14,582	196	14,778	16,524	1,746	-	-	-	-	-
-	-	-	-	-	11	-	11	-	(11)
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
50	-	50	69	19	128	80	208	358	150
148	2	150	153	3	-	-	-	-	-
70	-	70	67	(3)	-	-	-	-	-
14,850	198	15,048	16,813	1,765	318	80	398	538	140
596	(193)	403	(1,256)	1,659	23,967	(60)	23,907	22,966	941
-	-	-	-	-	66	-	66	-	66
6,006	-	6,006	6,000	6	4	-	4	-	4
(500)	-	(500)	(500)	-	-	-	-	-	-
(5,545)	-	(5,545)	(5,556)	11	(21,906)	-	(21,906)	(23,325)	1,419
(39)	-	(39)	(56)	17	(21,836)	-	(21,836)	(23,325)	1,489
\$ 557	\$ (193)	364	(1,312)	1,676	\$ 2,131	\$ (60)	2,071	(359)	2,430
		183	183	-			1,308	1,308	-
		1,104	1,104	-			172	172	-
		-	-	-			-	-	-
		-	-	-			-	-	-
		25	25	-			186	186	-
		(44)	-	(44)			(146)	-	(146)
		\$ 1,632	\$ -	\$ 1,632			\$ 3,591	\$ 1,307	\$ 2,284

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)
For the Year Ended June 30, 2004
(In Thousands)

Street Division Operations					
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
REVENUES					
Property Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Special Assessments	-	-	-	-	-
Sales Taxes	13,689	-	13,689	13,689	-
Transient Occupancy Taxes	-	-	-	-	-
Other Local Taxes	-	-	-	-	-
Licenses and Permits	-	-	-	-	-
Fines, Forfeitures and Penalties	1	-	1	-	1
Revenue from Use of Money and Property	44	2	46	9	37
Revenue from Federal Agencies	-	-	-	-	-
Revenue from Other Agencies	237	-	237	45	192
Revenue from Private Sources	239	-	239	48	191
Charges for Current Services	4,354	-	4,354	3,126	1,228
Other Revenue	10	-	10	-	10
Excess Revenue Appropriated	-	-	-	107	(107)
TOTAL REVENUES	18,574	2	18,576	17,024	1,552
EXPENDITURES					
Current:					
General Government and Support	-	-	-	-	-
Public Safety - Police	-	-	-	-	-
Public Safety - Fire and Life Safety	-	-	-	-	-
Parks, Recreation, Culture and Leisure	-	-	-	-	-
Transportation	43,949	3,205	47,154	48,853	1,699
Sanitation and Health	-	-	-	-	-
Neighborhood Services	-	-	-	-	-
Capital Projects	770	205	975	1,811	836
Debt Service:					
Principal Retirement	401	-	401	486	85
Interest	48	-	48	92	44
TOTAL EXPENDITURES	45,168	3,410	48,578	51,242	2,664
EXCESS (DEFICIENCY) OF REVENUES					
OVER EXPENDITURES	(26,594)	(3,408)	(30,002)	(34,218)	4,216
OTHER FINANCING SOURCES (USES)					
Transfers from Proprietary Funds	8	-	8	-	8
Transfers from Other Funds	28,277	-	28,277	32,280	(4,003)
Transfers to Proprietary Funds	-	-	-	-	-
Transfers to Other Funds	(183)	-	(183)	(146)	(37)
TOTAL OTHER FINANCING SOURCES (USES)	28,102	-	28,102	32,134	(4,032)
NET CHANGE IN FUND BALANCES	\$ 1,508	\$ (3,408)	(1,900)	(2,084)	184
Fund Balances Undesignated at July 1, 2003			-	-	-
Reserved for Encumbrances at July 1, 2003			1,515	1,515	-
Reserved for Debt Service at July 1, 2003			569	569	-
Reserved for Debt Service at June 30, 2004			(128)	-	(128)
Designated for Subsequent Years' Expenditures at July 1, 2003			-	-	-
Designated for Subsequent Years' Expenditures at June 30, 2004			(56)	-	(56)
FUND BALANCES UNDESIGNATED AT JUNE 30, 2004			\$ -	\$ -	\$ -

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)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-	-	-
36,230	-	36,230	37,408	(1,178)	-	-	-	-	-
53,679	-	53,679	52,726	953	-	-	-	-	-
-	-	-	-	-	40,099	-	40,099	43,286	(3,187)
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
756	138	894	1,003	(109)	129	-	129	-	129
-	-	-	-	-	-	-	-	-	-
8,556	-	8,556	6,418	2,138	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
40	-	40	11	29	-	-	-	115	(115)
6	-	6	-	6	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
99,267	138	99,405	97,566	1,839	40,228	-	40,228	43,401	(3,173)
567	40	607	664	57	832	99	931	1,322	391
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
35,202	5,958	41,160	42,306	1,146	-	-	-	-	-
-	-	-	-	-	31,023	-	31,023	31,023	-
130	35	165	166	1	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
11,957	2,686	14,643	24,606	9,963	866	714	1,580	11,315	9,735
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
47,856	8,719	56,575	67,742	11,167	32,721	813	33,534	43,660	10,126
51,411	(8,581)	42,830	29,824	13,006	7,507	(813)	6,694	(259)	6,953
-	-	-	-	-	-	-	-	-	-
2,200	-	2,200	2,585	(385)	8,709	-	8,709	-	8,709
-	-	-	-	-	-	-	-	-	-
(54,640)	-	(54,640)	(55,836)	1,196	-	-	-	-	-
(52,440)	-	(52,440)	(53,251)	811	8,709	-	8,709	-	8,709
\$ (1,029)	\$ (8,581)	(9,610)	(23,427)	13,817	\$ 16,216	\$ (813)	15,403	(259)	15,662
		30,887	30,887	-			-	-	-
		8,225	8,225	-			-	-	-
		-	-	-			-	-	-
		-	-	-			-	-	-
		18,351	18,351	-			-	-	-
		(10,627)	-	(10,627)			(8,718)	-	(8,718)
		\$ 37,226	\$ 34,036	\$ 3,190			\$ 6,685	\$ (259)	\$ 6,944

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)
For the Year Ended June 30, 2004
(In Thousands)

	Zoological Exhibits				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
REVENUES					
Property Taxes	\$ 6,151	\$ -	\$ 6,151	\$ 5,408	\$ 743
Special Assessments	-	-	-	-	-
Sales Taxes	-	-	-	-	-
Transient Occupancy Taxes	-	-	-	-	-
Other Local Taxes	-	-	-	-	-
Licenses and Permits	-	-	-	-	-
Fines, Forfeitures and Penalties	-	-	-	-	-
Revenue from Use of Money and Property	9	-	9	-	9
Revenue from Federal Agencies	-	-	-	-	-
Revenue from Other Agencies	-	-	-	-	-
Revenue from Private Sources	-	-	-	-	-
Charges for Current Services	-	-	-	-	-
Other Revenue	-	-	-	-	-
Excess Revenue Appropriated	-	-	-	-	-
TOTAL REVENUES	6,160	-	6,160	5,408	752
EXPENDITURES					
Current:					
General Government and Support	-	-	-	-	-
Public Safety - Police	-	-	-	-	-
Public Safety - Fire and Life Safety	-	-	-	-	-
Parks, Recreation, Culture and Leisure	3,002	-	3,002	5,646	2,644
Transportation	-	-	-	-	-
Sanitation and Health	-	-	-	-	-
Neighborhood Services	-	-	-	-	-
Capital Projects	-	-	-	-	-
Debt Service:					
Principal Retirement	-	-	-	-	-
Interest	-	-	-	-	-
TOTAL EXPENDITURES	3,002	-	3,002	5,646	2,644
EXCESS (DEFICIENCY) OF REVENUES					
OVER EXPENDITURES	3,158	-	3,158	(238)	3,396
OTHER FINANCING SOURCES (USES)					
Transfers from Proprietary Funds	-	-	-	-	-
Transfers from Other Funds	-	-	-	-	-
Transfers to Proprietary Funds	-	-	-	-	-
Transfers to Other Funds	(9)	-	(9)	-	(9)
TOTAL OTHER FINANCING SOURCES (USES)	(9)	-	(9)	-	(9)
NET CHANGE IN FUND BALANCES	\$ 3,149	\$ -	3,149	(238)	3,387
Fund Balances Undesignated at July 1, 2003	-	-	-	-	-
Reserved for Encumbrances at July 1, 2003	-	-	-	-	-
Reserved for Debt Service at July 1, 2003	-	-	-	-	-
Reserved for Debt Service at June 30, 2004	-	-	-	-	-
Designated for Subsequent Years' Expenditures at July 1, 2003	-	-	280	280	-
Designated for Subsequent Years' Expenditures at June 30, 2004	-	-	-	-	-
FUND BALANCES UNDESIGNATED AT JUNE 30, 2004	\$ 3,429	\$ 42	\$ 3,387	\$ 3,387	

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)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,151	\$ -	\$ 6,151	\$ 5,408	\$ 743
-	-	-	-	-	11,990	-	11,990	12,137	(147)
2,800	-	2,800	2,800	-	66,408	-	66,408	66,885	(477)
-	-	-	-	-	53,679	-	53,679	52,726	953
-	-	-	-	-	75,039	-	75,039	76,510	(1,471)
-	-	-	-	-	1,201	2	1,203	1,408	(205)
1,382	-	1,382	1,165	217	1,383	-	1,383	1,165	218
140	15	155	50	105	16,771	239	17,010	17,714	(704)
-	-	-	-	-	242	-	242	-	242
1,289	-	1,289	1,037	252	10,082	-	10,082	7,500	2,582
-	-	-	-	-	291	-	291	188	103
21,792	-	21,792	22,290	(498)	29,170	-	29,170	28,192	978
110	-	110	500	(390)	342	-	342	1,505	(1,163)
-	-	-	33	(33)	-	-	-	140	(140)
27,513	15	27,528	27,875	(347)	272,749	241	272,990	271,478	1,512
9,223	149	9,372	9,384	12	12,442	371	12,813	13,737	924
2,025	263	2,288	2,514	226	10,543	263	10,806	11,032	226
9,177	186	9,363	9,824	461	9,177	186	9,363	9,824	461
159	1	160	162	2	64,365	7,501	71,866	84,816	12,950
-	-	-	-	-	75,007	3,205	78,212	79,936	1,724
2,220	218	2,438	2,600	162	2,350	253	2,603	2,766	163
-	-	-	-	-	6,081	(28)	6,053	6,862	809
-	-	-	-	-	14,063	3,690	17,753	39,114	21,361
-	-	-	-	-	549	2	551	639	88
-	-	-	-	-	118	-	118	159	41
22,804	817	23,621	24,484	863	194,695	15,443	210,138	248,885	38,747
4,709	(802)	3,907	3,391	516	78,054	(15,202)	62,852	22,593	40,259
760	-	760	760	-	834	-	834	760	74
4,855	-	4,855	3,837	1,018	56,594	-	56,594	52,830	3,764
-	-	-	-	-	(2,012)	-	(2,012)	(2,012)	-
(8,151)	-	(8,151)	(10,013)	1,862	(106,487)	-	(106,487)	(110,930)	4,443
(2,536)	-	(2,536)	(5,416)	2,880	(51,071)	-	(51,071)	(59,352)	8,281
\$ 2,173	\$ (802)	1,371	(2,025)	3,396	\$ 26,983	\$ (15,202)	11,781	(36,759)	48,540
		6,476	6,476	-			57,482	57,482	-
		444	444	-			12,533	12,532	1
		-	-	-			569	569	-
		-	-	-			(128)	-	(128)
		3,890	3,890	-			22,906	22,906	-
		(1,930)	-	(1,930)			(22,205)	-	(22,205)
		\$ 10,251	\$ 8,785	\$ 1,466			\$ 82,938	\$ 56,730	\$ 26,208

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CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
ENVIRONMENTAL GROWTH FUND
COMBINING BALANCE SHEET
JUNE 30, 2004
(In Thousands)

	<u>Two-Thirds Requirement</u>	<u>One-Third Requirement</u>	<u>Total</u>
ASSETS			
Cash or Equity in Pooled Cash and Investments	\$ 2,906	\$ 1,083	\$ 3,989
Receivables:			
Taxes - Net	1,739	869	2,608
Accrued Interest	4	4	8
TOTAL ASSETS	<u>\$ 4,649</u>	<u>\$ 1,956</u>	<u>\$ 6,605</u>
LIABILITIES			
Accounts Payable	\$ -	\$ 20	\$ 20
FUND EQUITY			
Fund Balances:			
Reserved for Encumbrances	-	293	293
Unreserved:			
Designated for Subsequent Years' Expenditures	-	223	223
Undesignated	4,649	1,420	6,069
TOTAL FUND EQUITY	<u>4,649</u>	<u>1,936</u>	<u>6,585</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 4,649</u>	<u>\$ 1,956</u>	<u>\$ 6,605</u>

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2004
(In Thousands)

	<u>Two-Thirds Requirement</u>	<u>One-Third Requirement</u>	<u>Total</u>
REVENUES			
Other Local Taxes	\$ 7,184	\$ 3,592	\$ 10,776
Revenue from Use of Money and Property	(9)	6	(3)
Revenue from Federal Agencies	-	242	242
TOTAL REVENUES	<u>7,175</u>	<u>3,840</u>	<u>11,015</u>
EXPENDITURES			
Current:			
Parks, Recreation, Culture and Leisure	-	1,916	1,916
Capital Projects	-	277	277
TOTAL EXPENDITURES	<u>-</u>	<u>2,193</u>	<u>2,193</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>7,175</u>	<u>1,647</u>	<u>8,822</u>
OTHER FINANCING SOURCES (USES)			
Transfers to Other Funds	(7,176)	(825)	(8,001)
NET CHANGE IN FUND BALANCES	<u>(1)</u>	<u>822</u>	<u>821</u>
Fund Balances at Beginning of Year	4,650	1,114	5,764
FUND BALANCES AT END OF YEAR	<u>\$ 4,649</u>	<u>\$ 1,936</u>	<u>\$ 6,585</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)
 FOR THE YEAR ENDED JUNE 30, 2004
 (In Thousands)

	Two-Thirds Requirement				Variance with Final Budget Positive (Negative)
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	
REVENUES					
Other Local Taxes	\$ 7,184	\$ -	\$ 7,184	\$ 6,748	\$ 436
Revenue from Use of Money and Property	(9)	12	3	53	(50)
Revenue from Federal Agencies	-	-	-	-	-
TOTAL REVENUES	<u>7,175</u>	<u>12</u>	<u>7,187</u>	<u>6,801</u>	<u>386</u>
EXPENDITURES					
Current:					
Parks, Recreation, Culture and Leisure	-	-	-	-	-
Capital Projects	-	-	-	-	-
TOTAL EXPENDITURES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>7,175</u>	<u>12</u>	<u>7,187</u>	<u>6,801</u>	<u>386</u>
OTHER FINANCING SOURCES (USES)					
Transfers to Other Funds	(7,176)	-	(7,176)	(7,176)	-
NET CHANGE IN FUND BALANCES	<u>\$ (1)</u>	<u>\$ 12</u>	<u>11</u>	<u>(375)</u>	<u>386</u>
Fund Balances Undesignated at July 1, 2003			4,638	4,638	-
Reserved for Encumbrances at July 1, 2003			-	-	-
Designated for Subsequent Years' Expenditures at July 1, 2003			-	-	-
Designated for Subsequent Years' Expenditures at June 30, 2004			-	-	-
FUND BALANCES UNDESIGNATED AT JUNE 30, 2004			<u>\$ 4,649</u>	<u>\$ 4,263</u>	<u>\$ 386</u>

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)
\$ 3,592	\$ -	\$ 3,592	\$ 3,401	\$ 191	\$ 10,776	\$ -	\$ 10,776	\$ 10,149	\$ 627
6	2	8	53	(45)	(3)	14	11	106	(95)
242	-	242	-	242	242	-	242	-	242
3,840	2	3,842	3,454	388	11,015	14	11,029	10,255	774
1,916	287	2,203	2,419	216	1,916	287	2,203	2,419	216
277	5	282	505	223	277	5	282	505	223
2,193	292	2,485	2,924	439	2,193	292	2,485	2,924	439
1,647	(290)	1,357	530	827	8,822	(278)	8,544	7,331	1,213
(825)	-	(825)	(825)	-	(8,001)	-	(8,001)	(8,001)	-
\$ 822	\$ (290)	532	(295)	827	\$ 821	\$ (278)	543	(670)	1,213
		826	826	-			5,464	5,464	-
		126	126	-			126	126	-
		159	159	-			159	159	-
		(223)	-	(223)			(223)	-	(223)
		\$ 1,420	\$ 816	\$ 604			\$ 6,069	\$ 5,079	\$ 990

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NONMAJOR 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 District Act of 1982. These bonds are serviced by assessments and special taxes levied on property owners within each assessment area.

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. This fund was established to account for financial resources accumulated for the payment of long-term debt principal and interest. This fund is serviced by City contributions and investment income.

NONMAJOR GOVERNMENTAL FUNDS - DEBT SERVICE
COMBINING BALANCE SHEET
June 30, 2004
(In Thousands)

	City of San Diego	City of San Diego/MTDB Authority
ASSETS		
Receivables:		
Taxes - Net	\$ 34	\$ -
Special Assessments - Net	572	-
Accrued Interest	23	-
From Other Funds	-	-
Prepaid Items	-	-
Restricted Cash and Investments	25,584	10,637
TOTAL ASSETS	\$ 26,213	\$ 10,637
LIABILITIES		
Deferred Revenue	\$ 328	\$ -
TOTAL LIABILITIES	328	-
FUND BALANCES:		
Reserved for Encumbrances	1	-
Reserved for Debt Service	24,481	10,637
Unreserved:		
Designated for Unrealized Gains	-	-
Undesignated	1,403	-
TOTAL FUND BALANCES	25,885	10,637
TOTAL LIABILITIES AND FUND BALANCES	\$ 26,213	\$ 10,637

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2004
(In Thousands)

REVENUES		
Property Taxes	\$ 2,332	\$ -
Special Assessments	13,646	-
Revenue from Use of Money and Property	352	182
TOTAL REVENUES	16,330	182
EXPENDITURES		
Current:		
General Government and Support	7	57
Debt Service:		
Principal Retirement	3,500	6,790
Interest	7,516	1,908
Arbitrage Rebate	-	421
TOTAL EXPENDITURES	11,023	9,176
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	5,307	(8,994)
OTHER FINANCING SOURCES (USES)		
Transfers from Other Funds	1,536	8,636
Transfers to Other Funds	(4,930)	-
Transfers to Escrow Agent	(10,132)	-
Special Assessment Bonds Issued	11,727	-
TOTAL OTHER FINANCING SOURCES (USES)	(1,799)	8,636
NET CHANGE IN FUND BALANCES	3,508	(358)
Fund Balances at Beginning of Year	22,377	10,995
FUND BALANCES AT END OF YEAR	\$ 25,885	\$ 10,637

Convention Center Expansion Financing Authority	Public Facilities Financing Authority	Redevelopment Agency	San Diego Facilities and Equipment Leasing Corporation	San Diego Open Space Park Facilities District #1	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 34
-	-	-	-	-	572
-	244	84	-	8	359
-	-	731	-	-	731
-	-	3	-	903	906
81	22,194	37,798	1	938	97,233
<u>\$ 81</u>	<u>\$ 22,438</u>	<u>\$ 38,616</u>	<u>\$ 1</u>	<u>\$ 1,849</u>	<u>\$ 99,835</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 328
-	-	-	-	-	328
-	-	-	-	-	1
81	22,348	38,459	1	1,849	97,856
-	90	157	-	-	247
-	-	-	-	-	1,403
81	22,438	38,616	1	1,849	99,507
<u>\$ 81</u>	<u>\$ 22,438</u>	<u>\$ 38,616</u>	<u>\$ 1</u>	<u>\$ 1,849</u>	<u>\$ 99,835</u>
\$ -	\$ -	\$ 22,909	\$ -	\$ -	\$ 25,241
-	-	-	-	-	13,646
3	385	275	1	85	1,283
3	385	23,184	1	85	40,170
390	7	329	-	1	791
4,330	3,685	11,270	3,100	5,090	37,765
9,369	20,004	16,706	2,148	2,086	59,737
-	-	-	-	-	421
14,089	23,696	28,305	5,248	7,177	98,714
(14,086)	(23,311)	(5,121)	(5,247)	(7,092)	(58,544)
13,696	15,600	11,173	5,247	7,176	63,064
-	(9,119)	(4,414)	-	-	(18,463)
-	-	-	-	-	(10,132)
-	-	-	-	-	11,727
13,696	6,481	6,759	5,247	7,176	46,196
(390)	(16,830)	1,638	-	84	(12,348)
471	39,268	36,978	1	1,765	111,855
<u>\$ 81</u>	<u>\$ 22,438</u>	<u>\$ 38,616</u>	<u>\$ 1</u>	<u>\$ 1,849</u>	<u>\$ 99,507</u>

**CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - DEBT SERVICE
COMBINING BALANCE SHEET
June 30, 2004
(In Thousands)**

	<u>Budgeted</u>	<u>Unbudgeted</u>	
	<u>Public Safety Communications Project</u>	<u>Other Special Assessments</u>	<u>Total</u>
ASSETS			
Receivables:			
Taxes - Net	\$ 34	\$ -	\$ 34
Special Assessments - Net	-	572	572
Accrued Interest	2	21	23
Restricted Cash and Investments	2,116	23,468	25,584
TOTAL ASSETS	\$ 2,152	\$ 24,061	\$ 26,213
LIABILITIES			
Deferred Revenue	-	328	328
TOTAL LIABILITIES	-	328	328
FUND BALANCES:			
Reserved for Encumbrances.....	-	1	1
Reserved for Debt Service	2,152	22,329	24,481
Unreserved:			
Undesignated.....	-	1,403	1,403
TOTAL FUND BALANCES	2,152	23,733	25,885
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,152	\$ 24,061	\$ 26,213

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2004
(In Thousands)**

REVENUES			
Property Taxes	\$ 2,332	\$ -	\$ 2,332
Special Assessments	-	13,646	13,646
Revenue from Use of Money and Property	(9)	361	352
TOTAL REVENUES	2,323	14,007	16,330
EXPENDITURES			
Current:			
General Government and Support	1	6	7
Debt Service:			
Principal Retirement	1,300	2,200	3,500
Interest	1,048	6,468	7,516
TOTAL EXPENDITURES	2,349	8,674	11,023
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(26)	5,333	5,307
OTHER FINANCING SOURCES (USES)			
Transfers from Other Funds	-	1,536	1,536
Transfers to Other Funds	-	(4,930)	(4,930)
Transfers to Escrow Agent	-	(10,132)	(10,132)
Special Assessment Bonds Issued	-	11,727	11,727
TOTAL OTHER FINANCING SOURCES (USES)	-	(1,799)	(1,799)
NET CHANGE IN FUND BALANCES	(26)	3,534	3,508
Fund Balances at Beginning of Year	2,178	20,199	22,377
FUND BALANCES AT END OF YEAR	\$ 2,152	\$ 23,733	\$ 25,885

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)
FOR THE YEAR ENDED JUNE 30, 2004
(In Thousands)

<u>Public Safety Communications Project</u>					
	<u>Actual</u>	<u>Adjustment to Budgetary Basis</u>	<u>Actual on Budgetary Basis</u>	<u>Final Budget</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES					
Property Taxes	\$ 2,332	\$ -	\$ 2,332	\$ 2,291	\$ 41
Revenue from Use of Money and Property	(9)	8	(1)	40	(41)
TOTAL REVENUES	<u>2,323</u>	<u>8</u>	<u>2,331</u>	<u>2,331</u>	<u>-</u>
EXPENDITURES					
Current:					
General Government and Support	1	-	1	-	(1)
Debt Service:					
Principal Retirement	1,300	-	1,300	1,300	-
Interest	1,048	-	1,048	1,049	1
TOTAL EXPENDITURES	<u>2,349</u>	<u>-</u>	<u>2,349</u>	<u>2,349</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(26)</u>	<u>8</u>	<u>(18)</u>	<u>(18)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>\$ (26)</u>	<u>\$ 8</u>	<u>(18)</u>	<u>(18)</u>	<u>-</u>
Reserved for Debt Service at July 1, 2003			2,170	2,170	-
Reserved for Debt Service at June 30, 2004.....			(2,152)	(2,152)	-
FUND BALANCES UNDESIGNATED AT JUNE 30, 2004.....			<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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NONMAJOR 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

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.

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 Special Assessment Districts, under various sections of State law, and 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, 2004
(In Thousands)

	City of San Diego	Public Facilities Financing Authority
ASSETS		
Cash and Investments	\$ 277,720	\$ 27,028
Receivables:		
Accounts - Net	248	-
Special Assesments Net.....	28	-
Taxes Net.....	3,060	-
Notes	-	-
Accrued Interest	854	115
Grants	22,760	-
From Other Funds	13,618	-
From Other Agencies	659	-
Advances to Other Funds	-	-
Advances to Other Agencies	-	-
Land Held for Resale.....	1,327	-
TOTAL ASSETS	\$ 320,274	\$ 27,143
LIABILITIES		
Accounts Payable	\$ 3,607	\$ 428
Due to Other Funds	13,618	-
Due to Other Agencies	291	-
Deferred Revenue	19,607	-
Unearned Revenue	6,776	-
Sundry Trust Liabilities.....	-	-
Interfund Interest Payable	562	-
Interfund Loan Payable	2,386	-
TOTAL LIABILITIES	46,847	428
FUND BALANCES:		
Reserved for Land Held for Resale.....	-	-
Reserved for Encumbrances	45,791	12,361
Reserved for Advances and Deposits	-	-
Unreserved:		
Designated for Unrealized Gains	-	-
Designated for Subsequent Years' Expenditures	145,038	13,255
Undesignated	82,598	1,099
TOTAL FUND BALANCES	273,427	26,715
TOTAL LIABILITIES AND FUND BALANCES	\$ 320,274	\$ 27,143

Redevelopment Agency	San Diego Facilities and Equipment Leasing Corporation	Total
\$ 40,051	\$ 6	\$ 344,805
-	-	248
		28
		3,060
6,866	-	6,866
77	-	1,046
-	-	22,760
37,608	-	51,226
-	-	659
804	-	804
20	-	20
<u>22,543</u>	<u>-</u>	<u>23,870</u>
<u>\$ 107,969</u>	<u>\$ 6</u>	<u>\$ 455,392</u>
\$ 5,544	\$ -	\$ 9,579
-	-	13,618
-	-	291
4,619	-	24,226
-	-	6,776
4,382	-	4,382
-	-	562
<u>-</u>	<u>-</u>	<u>2,386</u>
<u>14,545</u>	<u>-</u>	<u>61,820</u>
22,543	-	22,543
24,794	-	82,946
824	-	824
1	-	1
35,896	6	194,195
<u>9,366</u>	<u>-</u>	<u>93,063</u>
<u>93,424</u>	<u>6</u>	<u>393,572</u>
<u>\$ 107,969</u>	<u>\$ 6</u>	<u>\$ 455,392</u>

NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2004
(In Thousands)

	City of San Diego	Public Facilities Financing Authority
REVENUES		
Property Taxes	\$ -	\$ -
Special Assessments.....	1,160	-
Sales Taxes	32,809	-
Licenses and Permits	5,373	-
Revenue from Use of Money and Property	2,788	598
Revenue from Federal Agencies	12,272	-
Revenue from Other Agencies	40,936	-
Revenue from Private Sources	27,201	-
Other Revenue	945	-
TOTAL REVENUES	123,484	598
EXPENDITURES		
Current:		
General Government and Support	5,247	-
Parks, Recreation, Culture and Leisure	95	-
Transportation	286	-
Neighborhood Services	269	-
Capital Projects	107,361	38,235
Debt Service:		
Principal Retirement	4,439	-
Interest	873	-
TOTAL EXPENDITURES	118,570	38,235
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	4,914	(37,637)
OTHER FINANCING SOURCES (USES)		
Transfers from Proprietary Funds	261	-
Transfers from Other Funds	2,564	9,638
Transfers to Proprietary Funds	(530)	-
Transfers to Other Funds	(24,966)	(1,780)
Proceeds from Sales of Capital Assets.....	301	-
SANDAG Loans Issued	6,400	-
Special Assessment Bonds Issued	17,493	-
Premium on Bonds Issued	2	-
Discount on Bonds Issued	(248)	-
TOTAL OTHER FINANCING SOURCES (USES)	1,277	7,858
NET CHANGE IN FUND BALANCES	6,191	(29,779)
Fund Balances at Beginning of Year	267,236	56,494
FUND BALANCES AT END OF YEAR	\$ 273,427	\$ 26,715

Redevelopment Agency	San Diego Facilities and Equipment Leasing Corporation	Total
\$ 16,731	\$ -	\$ 16,731
-	-	1,160
-	-	32,809
-	-	5,373
2,459	1	5,846
-	-	12,272
-	-	40,936
5,922	-	33,123
5,022	-	5,967
<u>30,134</u>	<u>1</u>	<u>154,217</u>
18,684	171	24,102
-	-	95
-	-	286
34,667	-	34,936
2,274	-	147,870
500	-	4,939
672	-	1,545
<u>56,797</u>	<u>171</u>	<u>213,773</u>
<u>(26,663)</u>	<u>(170)</u>	<u>(59,556)</u>
-	-	261
32,188	-	44,390
-	-	(530)
(12,046)	(31)	(38,823)
-	-	301
-	-	6,400
-	-	17,493
-	-	2
-	-	(248)
<u>20,142</u>	<u>(31)</u>	<u>29,246</u>
(6,521)	(201)	(30,310)
<u>99,945</u>	<u>207</u>	<u>423,882</u>
<u>\$ 93,424</u>	<u>\$ 6</u>	<u>\$ 393,572</u>

CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS
COMBINING BALANCE SHEET
June 30, 2004
(In Thousands)

	Budgeted		Unbudgeted		
	Underground Surcharge	Capital Outlay	Park & Recreation Districts	Facilities Benefit Assesments	Impact Fees
ASSETS					
Cash and Investments	\$ -	\$ 2,022	\$ 7,386	\$ 170,419	\$ 25,809
Receivables:					
Accounts - Net	-	243	-	-	-
Special Assesments Net.....	-	-	-	-	-
Taxes Net.....	-	-	-	-	-
Accrued Interest	-	191	19	458	60
Grants	-	22,458	-	-	-
From Other Funds	-	-	-	1,418	-
From Other Agencies	-	-	-	-	-
Land Held for Resale	-	1,327	-	-	-
TOTAL ASSETS	\$ -	\$ 26,241	\$ 7,405	\$ 172,295	\$ 25,869
LIABILITIES					
Accounts Payable	\$ -	\$ 844	\$ 1	\$ 1,648	\$ 17
Due to Other Funds	-	12,468	-	-	-
Due to Other Agencies	-	191	-	-	-
Deferred Revenue	-	19,295	1	-	-
Unearned Revenue	-	4,712	-	-	-
Interfund Interest Payable	-	562	-	-	-
Interfund Loan Payable	-	2,386	-	-	-
TOTAL LIABILITIES	-	40,458	2	1,648	17
FUND BALANCES:					
Reserved for Encumbrances	-	2,655	184	32,119	1,154
Unreserved:					
Designated for Subsequent Years' Expenditures	-	2,352	2,993	101,756	8,785
Undesignated	-	(19,224)	4,226	36,772	15,913
TOTAL FUND BALANCES	-	(14,217)	7,403	170,647	25,852
TOTAL LIABILITIES AND FUND BALANCES	\$ -	\$ 26,241	\$ 7,405	\$ 172,295	\$ 25,869

Special Assessment / Special Tax Bonds	TransNet	Other Construction	Total
\$ 24,049	\$ 3,332	\$ 44,703	\$ 277,720
-	5	-	248
28			28
	3,060		3,060
21	34	71	854
-	-	302	22,760
-	12,200	-	13,618
-	659	-	659
-	-	-	1,327
<u>\$ 24,098</u>	<u>\$ 19,290</u>	<u>\$ 45,076</u>	<u>\$ 320,274</u>
\$ -	\$ 707	\$ 390	\$ 3,607
-	-	1,150	13,618
-	-	100	291
5	4	302	19,607
-	844	1,220	6,776
-	-	-	562
-	-	-	2,386
<u>5</u>	<u>1,555</u>	<u>3,162</u>	<u>46,847</u>
236	5,537	3,906	45,791
63	12,198	16,891	145,038
<u>23,794</u>	<u>-</u>	<u>21,117</u>	<u>82,598</u>
<u>24,093</u>	<u>17,735</u>	<u>41,914</u>	<u>273,427</u>
<u>\$ 24,098</u>	<u>\$ 19,290</u>	<u>\$ 45,076</u>	<u>\$ 320,274</u>

CITY OF SAN DIEGO
 NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 For the Year Ended June 30, 2004
 (In Thousands)

	Budgeted	Unbudgeted			
	Underground Surcharge	Capital Outlay	Park & Recreation Districts	Facilities Benefit Assesments	Impact Fees
REVENUES					
Special Assessments	\$ -	\$ -	\$ -	\$ -	\$ -
Sales Taxes	-	381	-	-	-
Licenses and Permits	-	-	5	-	5,339
Revenue from Use of Money and Property	-	197	58	1,508	156
Revenue from Federal Agencies	-	12,574	-	-	-
Revenue from Other Agencies	-	20,859	-	-	-
Revenue from Private Sources	-	-	120	25,515	-
Other Revenue	-	943	-	-	-
TOTAL REVENUES	-	34,954	183	27,023	5,495
EXPENDITURES					
Current:					
General Government and Support	-	1,341	-	1,320	356
Parks, Recreation, Culture and Leisure	-	39	-	-	-
Transportation	-	-	-	-	-
Neighborhood Services	-	-	-	-	-
Capital Projects	-	35,703	370	26,665	1,760
Debt Service:					
Principal Retirement	-	-	-	-	-
Interest	-	-	-	-	-
TOTAL EXPENDITURES	-	37,083	370	27,985	2,116
EXCESS (DEFICIENCY) OF REVENUES					
OVER EXPENDITURES	-	(2,129)	(187)	(962)	3,379
OTHER FINANCING SOURCES (USES)					
Transfers from Proprietary Funds	-	-	-	-	-
Transfers from Other Funds	-	631	-	-	-
Transfers to Proprietary Funds	-	-	-	-	-
Transfers to Other Funds	(8,709)	(700)	-	(432)	-
Proceeds from the Sale of Capital Assets	-	301	-	-	-
SANDAG Loans Issued	-	-	-	-	-
Special Assessment Bonds Issued	-	-	-	-	-
Premium on Bonds Issued	-	-	-	-	-
Discount on Bonds Issued	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(8,709)	232	-	(432)	-
NET CHANGE IN FUND BALANCES	(8,709)	(1,897)	(187)	(1,394)	3,379
Fund Balances at Beginning of Year	8,709	(12,320)	7,590	172,041	22,473
FUND BALANCES AT END OF YEAR	\$ -	\$ (14,217)	\$ 7,403	\$ 170,647	\$ 25,852

Special Assesment / Special Tax Bonds	TransNet	Other Construction	Total
\$ 1,160	\$ -	\$ -	\$ 1,160
-	32,428	-	32,809
-	-	28	5,373
131	85	653	2,788
-	-	(302)	12,272
-	-	20,077	40,936
325	-	1,242	27,201
-	2	-	945
<u>1,616</u>	<u>32,515</u>	<u>21,698</u>	<u>123,484</u>
1,577	249	404	5,247
-	-	56	95
-	-	286	286
-	230	39	269
7,711	13,334	21,818	107,361
-	4,439	-	4,439
-	873	-	873
<u>9,288</u>	<u>19,125</u>	<u>22,603</u>	<u>118,570</u>
(7,672)	13,390	(905)	4,914
-	-	261	261
468	432	1,033	2,564
-	(530)	-	(530)
(665)	(14,079)	(381)	(24,966)
-	-	-	301
-	6,400	-	6,400
17,493	-	-	17,493
2	-	-	2
(248)	-	-	(248)
<u>17,050</u>	<u>(7,777)</u>	<u>913</u>	<u>1,277</u>
9,378	5,613	8	6,191
<u>14,715</u>	<u>12,122</u>	<u>41,906</u>	<u>267,236</u>
<u>\$ 24,093</u>	<u>\$ 17,735</u>	<u>\$ 41,914</u>	<u>\$ 273,427</u>

CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN UNDESIGNATED FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS)
For the Year Ended June 30, 2004
(In Thousands)

Underground Surcharge					
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
REVENUES					
Revenue from Use of Money and Property	\$ -	\$ 32	\$ 32	\$ -	\$ 32
OTHER FINANCING SOURCES (USES)					
Transfers to Other Funds	(8,709)	-	(8,709)	(8,709)	-
NET CHANGE IN FUND BALANCES	<u>\$ (8,709)</u>	<u>\$ 32</u>	(8,677)	(8,709)	32
Fund Balances Undesignated at July 1, 2003			4949	4949	-
Reserved for Encumbrances at July 1, 2003			118	118	-
Designated for Subsequent Years Expenditures at June 30, 2003			3,610	3,610	-
FUND BALANCES UNDESIGNATED AT JUNE 30, 2004			<u>\$ -</u>	<u>\$ (32)</u>	<u>\$ 32</u>

NONMAJOR 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.

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.

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.

**CITY OF SAN DIEGO
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS - PERMANENT
June 30, 2004
(In Thousands)**

	Carmel Valley Sewer Maintenance	Cemetery Perpetuity	Effie Sergeant
ASSETS			
Cash and Investments	\$ 5	\$ 591	\$ 184
Receivables:			
Accounts - Net	-	15	-
Accrued Interest	1	12	-
Restricted Cash and Investments	35	8,675	285
TOTAL ASSETS	<u>\$ 41</u>	<u>\$ 9,293</u>	<u>\$ 469</u>
FUND BALANCES:			
Reserved for Permanent Endowments	\$ 41	\$ 8,702	\$ 433
Unreserved:			
Designated for Unrealized Gains	-	591	36
Designated for Subsequent Years' Expenditures	-	-	-
Undesignated	-	-	-
TOTAL FUND BALANCES	<u>\$ 41</u>	<u>\$ 9,293</u>	<u>\$ 469</u>

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2004
(In Thousands)**

REVENUES			
Revenue from Use of Money and Property	\$ 1	\$ 492	\$ 67
Revenue from Private Sources	-	-	-
Charges for Current Services	-	69	-
TOTAL REVENUES	<u>1</u>	<u>561</u>	<u>67</u>
EXPENDITURES			
Current:			
Parks, Recreation, Culture and Leisure	-	-	40
Sanitation and Health	2	-	-
TOTAL EXPENDITURES	<u>2</u>	<u>-</u>	<u>40</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1)	561	27
OTHER FINANCING SOURCES (USES)			
Transfers to Other Funds	-	(366)	-
NET CHANGE IN FUND BALANCES	(1)	195	27
Fund Balances at Beginning of Year	42	9,098	442
FUND BALANCES AT END OF YEAR	<u>\$ 41</u>	<u>\$ 9,293</u>	<u>\$ 469</u>

Gladys Edna Peters	Los Penasquitos Canyon	Montezuma Road Median Maintenance	Southcrest Park Estates II	Sycamore Estates	Zoological Society - Mission Trails	Total
\$ 138	\$ 1,566	\$ 8	\$ 1	\$ -	\$ -	\$ 2,493
-	-	-	-	-	-	15
-	-	1	-	-	-	14
200	958	100	10	250	69	10,582
<u>\$ 338</u>	<u>\$ 2,524</u>	<u>\$ 109</u>	<u>\$ 11</u>	<u>\$ 250</u>	<u>\$ 69</u>	<u>\$ 13,104</u>
\$ 321	\$ 2,298	\$ 100	\$ 11	\$ 250	\$ 69	\$ 12,225
17	226	-	-	-	-	870
-	-	7	-	-	-	7
-	-	2	-	-	-	2
<u>\$ 338</u>	<u>\$ 2,524</u>	<u>\$ 109</u>	<u>\$ 11</u>	<u>\$ 250</u>	<u>\$ 69</u>	<u>\$ 13,104</u>
\$ 48	\$ 382	\$ 1	\$ -	\$ -	\$ (1)	\$ 990
-	-	-	-	250	-	250
-	-	-	-	-	-	69
48	382	1	-	250	(1)	1,309
6	4	-	-	-	-	50
-	-	-	-	-	-	2
6	4	-	-	-	-	52
42	378	1	-	250	(1)	1,257
-	(106)	-	-	-	-	(472)
42	272	1	-	250	(1)	785
296	2,252	108	11	-	70	12,319
<u>\$ 338</u>	<u>\$ 2,524</u>	<u>\$ 109</u>	<u>\$ 11</u>	<u>\$ 250</u>	<u>\$ 69</u>	<u>\$ 13,104</u>

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NONMAJOR 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, 2004
(In Thousands)

	<u>Airports</u>	<u>City Store</u>
ASSETS		
Cash and Investments	\$ 6,479	\$ 75
Receivables:		
Accounts - Net	527	-
Accrued Interest	16	-
Grants	427	-
From Other Funds	-	-
Inventories	-	90
Prepaid Expenses	2	-
Restricted Cash and Investments	-	-
Advances to Other Funds	-	-
Capital Assets - Non-Depreciable	3,007	-
Capital Assets - Depreciable	7,675	10
TOTAL ASSETS	<u>18,133</u>	<u>175</u>
LIABILITIES		
Accounts Payable	73	24
Accrued Wages and Benefits	61	-
Interest Accrued on Long-Term Debt	-	-
Long Term Debt Due Within One Year	37	-
Due to Other Funds	-	-
Due to Other Agencies	-	-
Unearned Revenue	-	-
Contract Deposits	-	-
Deposits/Advances from Others	-	-
Estimated Landfill Closure and Postclosure Care	-	-
Compensated Absences	51	-
Liability Claims	3,570	-
Capital Lease Obligations	-	-
Net Pension Obligation	181	-
TOTAL LIABILITIES	<u>3,973</u>	<u>24</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	10,682	10
Restricted for Closure/Postclosure maintenance	-	-
Unrestricted	3,478	141
TOTAL NET ASSETS	<u>\$ 14,160</u>	<u>\$ 151</u>

Development Services	Environmental Services	Golf Course	Recycling	Total
\$ 14,964	\$ 32,791	\$ 11,005	\$ 9,135	\$ 74,449
12	1,634	143	67	2,383
47	154	24	32	273
13	-	-	121	561
2,626	69	-	-	2,695
-	-	-	-	90
3	-	1	-	6
-	26,668	-	-	26,668
106	38	-	-	144
-	24,831	646	-	28,484
2,238	47,171	8,133	6,784	72,011
20,009	133,356	19,952	16,139	207,764
199	946	109	641	1,992
2,582	834	208	565	4,250
-	-	-	8	8
1,328	653	137	1,644	3,799
69	-	-	-	69
-	-	-	10	10
3,491	17	-	348	3,856
-	95	-	33	128
-	64	-	-	64
-	12,679	-	-	12,679
1,826	765	190	313	3,145
-	-	-	-	3,570
-	-	-	3,494	3,494
5,296	1,774	476	1,138	8,865
14,791	17,827	1,120	8,194	45,929
2,169	71,905	8,779	1,873	95,418
-	26,735	-	-	26,735
3,049	16,889	10,053	6,072	39,682
\$ 5,218	\$ 115,529	\$ 18,832	\$ 7,945	\$ 161,835

NONMAJOR BUSINESS-TYPE FUNDS - OTHER ENTERPRISE
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
For the Year Ended June 30, 2004
(In Thousands)

	Airports	City Store
OPERATING REVENUES		
Charges for Services	\$ -	\$ 852
Usage Fees	3,731	-
Other	96	-
TOTAL OPERATING REVENUES	3,827	852
OPERATING EXPENSES		
Maintenance and Operations	5,643	409
Cost of Materials Issued	-	347
Administration	764	101
Depreciation	483	1
TOTAL OPERATING EXPENSES	6,890	858
OPERATING INCOME (LOSS)	(3,063)	(6)
NONOPERATING REVENUES (EXPENSES)		
Earnings on Investments	41	1
Federal Grant Assistance	11	-
Other Agency Grant Assistance	1	-
Gain (Loss) on Sale/Retirement of Capital Assets	(474)	-
Debt Service Interest Expense	-	-
Other	-	15
TOTAL NONOPERATING REVENUES (EXPENSES)	(421)	16
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(3,484)	10
Capital Contributions	787	-
Transfers In	-	-
Transfers from Governmental Funds.....	-	-
Transfers Out	(22)	-
Transfers to Governmental Funds	(11)	-
CHANGE IN NET ASSETS	(2,730)	10
Net Assets at Beginning of Year	16,890	141
NET ASSETS AT END OF YEAR	\$ 14,160	\$ 151

Development Services	Environmental Services	Golf Course	Recycling	Total
\$ 58,291	\$ 910	\$ 10,658	\$ 2,901	\$ 73,612
-	37,275	1,109	9,730	51,845
121	192	144	3,538	4,091
58,412	38,377	11,911	16,169	129,548
44,581	27,804	6,235	16,462	101,134
-	-	-	-	347
7,024	4,854	579	1,988	15,310
440	6,095	647	1,084	8,750
52,045	38,753	7,461	19,534	125,541
6,367	(376)	4,450	(3,365)	4,007
(161)	340	50	107	378
6	16	-	127	160
-	79	-	-	80
(57)	(1,567)	-	8	(2,090)
(9)	(10)	-	(226)	(245)
-	1,884	-	49	1,948
(221)	742	50	65	231
6,146	366	4,500	(3,300)	4,238
-	-	-	-	787
32	105	15	10	162
1,549	586	-	99	2,234
(27)	(35)	(1)	(252)	(337)
(531)	(197)	(1,713)	(40)	(2,492)
7,169	825	2,801	(3,483)	4,592
(1,951)	114,704	16,031	11,428	157,243
\$ 5,218	\$ 115,529	\$ 18,832	\$ 7,945	\$ 161,835

NONMAJOR BUSINESS-TYPE FUNDS - OTHER ENTERPRISE
COMBINING STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2004
(In Thousands)

	Airports	City Store
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers and Users	\$ 3,782	\$ 867
Payments to Suppliers	(1,615)	(862)
Payments to Employees	(1,199)	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	968	5
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers In	-	-
Transfers from Governmental Funds	-	-
Transfers Out	(22)	-
Transfers to Governmental Funds	(11)	-
Operating Grants Received	259	-
Due from Other Funds	-	-
Due to Other Funds	-	-
Proceeds from Advances and Deposits	-	-
Payments for Advances and Deposits	-	-
NET CASH PROVIDED BY (USED FOR)		
NONCAPITAL FINANCING ACTIVITIES	226	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Capital Contributions	787	-
Acquisition of Capital Assets	(931)	-
Principal Payments on Capital Leases	-	-
Interest Paid on Long-Term Debt	-	-
NET CASH USED FOR CAPITAL		
AND RELATED FINANCING ACTIVITIES	(144)	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and Dividends Received on Investments	39	1
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	39	1
Net Increase (Decrease) in Cash and Cash Equivalents	1,089	6
Cash and Cash Equivalents at Beginning of Year	5,390	69
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 6,479	\$ 75
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities:		
Operating Income (Loss)	\$ (3,063)	\$ (6)
Adjustments to Reconcile Operating Income (Loss) to		
Net Cash Provided By Operating Activities:		
Depreciation	483	1
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables:		
Accounts - Net	(46)	-
Claims - Net	-	-
From Other Funds	-	-
(Increase) Decrease in Inventories	-	1
(Increase) Decrease in Prepaid Expenses	(2)	5
Increase (Decrease) in Accounts Payable	(16)	(11)
Increase (Decrease) in Accrued Wages and Benefits	(2)	-
Increase (Decrease) in Other Accrued Liabilities	-	-
Increase (Decrease) in Liability Claims	3,570	-
Increase (Decrease) in Due to Other Funds	-	-
Increase (Decrease) in Due to Other Agencies	-	-
Increase (Decrease) in Deferred Revenue	-	-
Increase (Decrease) in Contract Deposits	-	-
Increase (Decrease) in Net Pension Obligation	44	-
Increase (Decrease) in Estimated Landfill Closure and Postclosure Care	-	-
Other Nonoperating Revenue (Expenses)	-	15
Total Adjustments	4,031	11
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 968	\$ 5

Development Services	Environmental Services	Golf Course	Recycling	Total
\$ 58,120	\$ 40,004	\$ 11,810	\$ 18,601	\$ 133,184
(11,402)	(18,687)	(2,788)	(9,123)	(44,477)
<u>(37,345)</u>	<u>(12,801)</u>	<u>(3,807)</u>	<u>(8,509)</u>	<u>(63,661)</u>
9,373	8,516	5,215	969	25,046
32	105	15	10	162
1,549	586	-	99	2,234
(27)	(35)	(1)	(252)	(337)
(531)	(197)	(1,713)	(40)	(2,492)
6	95	-	6	366
(1,022)	131	-	-	(891)
(131)	-	-	-	(131)
-	15	-	-	15
<u>(106)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(106)</u>
(230)	700	(1,699)	(177)	(1,180)
-	-	-	-	787
-	(6,287)	(577)	-	(7,795)
-	(92)	-	(1,365)	(1,457)
<u>(9)</u>	<u>(10)</u>	<u>-</u>	<u>(218)</u>	<u>(237)</u>
(9)	(6,389)	(577)	(1,583)	(8,702)
(165)	331	47	105	358
(165)	331	47	105	358
8,969	3,158	2,986	(686)	15,522
5,995	56,301	8,019	9,821	85,595
<u>\$ 14,964</u>	<u>\$ 59,459</u>	<u>\$ 11,005</u>	<u>\$ 9,135</u>	<u>\$ 101,117</u>
\$ 6,367	\$ (376)	\$ 4,450	\$ (3,365)	\$ 4,007
440	6,095	647	1,084	8,750
(7)	(188)	(100)	2,309	1,968
-	-	-	-	-
-	-	-	-	-
-	-	-	-	1
(3)	-	1	-	1
107	(471)	66	537	212
1,330	166	30	(21)	1,503
-	-	-	-	-
-	-	-	-	3,570
-	-	-	-	-
-	-	(1)	(3)	(4)
(285)	17	-	88	(180)
-	(86)	-	(14)	(100)
1,424	470	122	305	2,365
-	1,005	-	-	1,005
<u>-</u>	<u>1,884</u>	<u>-</u>	<u>49</u>	<u>1,948</u>
3,006	8,892	765	4,334	21,039
<u>\$ 9,373</u>	<u>\$ 8,516</u>	<u>\$ 5,215</u>	<u>\$ 969</u>	<u>\$ 25,046</u>

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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.

PRINT SHOP

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, 2004
(In Thousands)**

	<u>City of San Diego</u>	
	<u>Central Garage and Machine Shop</u>	<u>Central Stores</u>
ASSETS		
Cash and Investments	\$ 42,295	\$ 2,149
Receivables:		
Accounts - Net	81	465
Claims - Net	7	-
Contributions	-	-
Accrued Interest	-	-
Inventories	-	2,578
Prepaid Expenses	447	-
Advances to Other Funds	35	-
Capital Assets - Non-Depreciable	-	-
Capital Assets - Depreciable	71,960	174
TOTAL ASSETS	<u>114,825</u>	<u>5,366</u>
LIABILITIES		
Accounts Payable	894	1,323
Accrued Wages and Benefits	689	75
Interest Accrued on Long-Term Debt	169	-
Long-Term Debt Due Within One Year	6,410	26
Unearned Revenue	-	-
Compensated Absences	543	36
Liability Claims	-	-
Capital Lease Obligations	9,952	-
Net Pension Obligation	1,523	183
TOTAL LIABILITIES	<u>20,180</u>	<u>1,643</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	55,986	174
Unrestricted	38,659	3,549
TOTAL NET ASSETS	<u>\$ 94,645</u>	<u>\$ 3,723</u>

Print Shop	Self Insurance	Special Engineering	Miscellaneous Internal Service	San Diego Data Processing Corporation	Total
\$ 799	\$ 23,033	\$ 4,719	\$ 7,840	\$ 1,407	\$ 82,242
27	557	-	16	2,192	3,338
-	33	-	-	-	40
-	-	-	359	-	359
-	-	3	14	-	17
-	-	-	-	40	2,618
-	-	-	-	1,186	1,633
-	-	34	24	-	93
-	-	-	-	1,984	1,984
<u>1,002</u>	<u>-</u>	<u>595</u>	<u>-</u>	<u>13,510</u>	<u>87,241</u>
<u>1,828</u>	<u>23,623</u>	<u>5,351</u>	<u>8,253</u>	<u>20,319</u>	<u>179,565</u>
356	1,344	115	197	4,879	9,108
93	89	1,055	1,847	1,023	4,871
-	-	-	-	-	169
58	42,423	482	1,757	476	51,632
-	-	-	-	64	64
81	13	663	2,460	669	4,465
-	160,500	-	-	-	160,500
-	-	-	-	-	9,952
<u>251</u>	<u>-</u>	<u>2,213</u>	<u>827</u>	<u>-</u>	<u>4,997</u>
<u>839</u>	<u>204,369</u>	<u>4,528</u>	<u>7,088</u>	<u>7,111</u>	<u>245,758</u>
1,002	-	595	-	15,494	73,251
<u>(13)</u>	<u>(180,746)</u>	<u>228</u>	<u>1,165</u>	<u>(2,286)</u>	<u>(139,444)</u>
<u>\$ 989</u>	<u>\$ (180,746)</u>	<u>\$ 823</u>	<u>\$ 1,165</u>	<u>\$ 13,208</u>	<u>\$ (66,193)</u>

INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
For the Year Ended June 30, 2004
(In Thousands)

	<u>City of San Diego</u>	
	<u>Central Garage and Machine Shop</u>	<u>Central Stores</u>
OPERATING REVENUES		
Charges for Services	\$ 1,992	\$ 26,338
Usage Fees	40,785	-
Other	520	119
TOTAL OPERATING REVENUES	43,297	26,457
OPERATING EXPENSES		
Benefit and Claim Expenses	-	-
Maintenance and Operations	24,900	1,480
Cost of Materials Issued	-	25,212
Administration	1,355	156
Depreciation	13,211	31
TOTAL OPERATING EXPENSES	39,466	26,879
OPERATING INCOME (LOSS)	3,831	(422)
NONOPERATING REVENUES (EXPENSES)		
Earnings on Investments	675	13
Gain (Loss) on Sale/Retirement of Capital Assets	470	(13)
Debt Service Interest Expense	(839)	-
Other	170	-
TOTAL NONOPERATING REVENUES (EXPENSES)	476	-
INCOME (LOSS) BEFORE TRANSFERS	4,307	(422)
Transfers In	621	-
Transfers from Governmental Funds	382	-
Transfers Out	(388)	-
Transfers to Governmental Funds	(723)	(53)
CHANGE IN NET ASSETS	4,199	(475)
Net Assets at Beginning of Year	90,446	4,198
NET ASSETS AT END OF YEAR	\$ 94,645	\$ 3,723

<u>Print Shop</u>	<u>Self Insurance</u>	<u>Special Engineering</u>	<u>Miscellaneous Internal Service</u>	<u>San Diego Data Processing Corporation</u>	<u>Total</u>
\$ 4,745	\$ 32,455	\$ 25,140	\$ 19,216	\$ 51,113	\$ 160,999
-	-	-	-	-	40,785
2	344	-	15	1,124	2,124
<u>4,747</u>	<u>32,799</u>	<u>25,140</u>	<u>19,231</u>	<u>52,237</u>	<u>203,908</u>
-	87,875	-	11,950	-	99,825
4,892	-	15,433	-	-	46,705
-	-	-	-	-	25,212
374	-	9,363	7,846	45,006	64,100
190	-	363	7	5,403	19,205
<u>5,456</u>	<u>87,875</u>	<u>25,159</u>	<u>19,803</u>	<u>50,409</u>	<u>255,047</u>
<u>(709)</u>	<u>(55,076)</u>	<u>(19)</u>	<u>(572)</u>	<u>1,828</u>	<u>(51,139)</u>
11	219	(23)	92	-	987
10	-	(68)	-	-	399
-	-	-	-	-	(839)
-	1,338	4	-	-	1,512
<u>21</u>	<u>1,557</u>	<u>(87)</u>	<u>92</u>	<u>-</u>	<u>2,059</u>
(688)	(53,519)	(106)	(480)	1,828	(49,080)
-	250	37	152	-	1,060
-	13,579	-	279	-	14,240
-	-	(1)	-	(301)	(690)
(24)	(444)	(77)	(225)	(198)	(1,744)
(712)	(40,134)	(147)	(274)	1,329	(36,214)
<u>1,701</u>	<u>(140,612)</u>	<u>970</u>	<u>1,439</u>	<u>11,879</u>	<u>(29,979)</u>
<u>\$ 989</u>	<u>\$ (180,746)</u>	<u>\$ 823</u>	<u>\$ 1,165</u>	<u>\$ 13,208</u>	<u>\$ (66,193)</u>

**INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2004
(In Thousands)**

	City of San Diego	
	Central Garage and Machine Shop	Central Stores
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers and Users	\$ 44,068	\$ 27,138
Payments to Suppliers	(14,160)	(24,934)
Payments to Employees	(11,262)	(1,550)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	18,646	654
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers In	621	-
Transfers from Governmental Funds	382	-
Transfers Out	(388)	-
Transfers to Governmental Funds	(723)	(53)
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES	(108)	(53)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of Capital Assets	(6,684)	-
Proceeds from the Sale of Capital Assets	826	-
Principal Payments on Capital Leases	(7,021)	-
Interest Paid on Long-Term Debt	(838)	-
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(13,717)	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and Dividends Received on Investments	675	13
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	675	13
Net Increase (Decrease) in Cash and Cash Equivalents	5,496	614
Cash and Cash Equivalents at Beginning of Year	36,799	1,535
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 42,295	\$ 2,149
Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:		
Operating Income (Loss)	\$ 3,831	\$ (422)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:		
Depreciation	13,211	31
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables:		
Accounts - Net	606	681
Claims - Net	(5)	-
(Increase) Decrease in Inventories	-	81
(Increase) Decrease in Prepaid Expenses	149	1
Increase (Decrease) in Accounts Payable	197	218
Increase (Decrease) in Accrued Wages and Benefits	95	15
Increase (Decrease) in Unearned Revenue	-	-
Increase (Decrease) in Liability Claims	-	-
Increase (Decrease) in Net Pension Obligation	392	49
Other Nonoperating Revenue (Expenses)	170	-
Total Adjustments	14,815	1,076
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	\$ 18,646	\$ 654
Noncash Investing, Capital, and Financing Activities:		
Capital Leases	\$ 604	\$ -

Print Shop	Self Insurance	Special Engineering	Miscellaneous Internal Service	San Diego Data Processing Corporation	Total
\$ 4,882	\$ 33,350	\$ 25,144	\$ 19,191	\$ 51,496	\$ 205,269
(3,302)	(8,817)	(7,927)	(1,940)	(16,767)	(77,847)
(1,780)	(28,753)	(15,929)	(17,635)	(29,236)	(106,145)
(200)	(4,220)	1,288	(384)	5,493	21,277
-	250	37	152	-	1,060
-	13,579	-	279	-	14,240
-	-	(1)	-	(301)	(690)
(24)	(444)	(77)	(225)	(198)	(1,744)
(24)	13,385	(41)	206	(499)	12,866
(1)	-	(30)	-	(4,441)	(11,156)
-	-	-	-	1	827
-	-	-	-	-	(7,021)
-	-	-	-	-	(838)
(1)	-	(30)	-	(4,440)	(18,188)
11	219	(20)	91	-	989
11	219	(20)	91	-	989
(214)	9,384	1,197	(87)	554	16,944
1,013	13,649	3,522	7,927	853	65,298
\$ 799	\$ 23,033	\$ 4,719	\$ 7,840	\$ 1,407	\$ 82,242
\$ (709)	\$ (55,076)	\$ (19)	\$ (572)	\$ 1,828	\$ (51,139)
190	-	363	7	5,403	19,205
135	(152)	-	(40)	(553)	677
-	(31)	-	-	-	(36)
-	-	-	-	628	709
19	-	-	37	(254)	(48)
128	908	52	33	(1,312)	224
(26)	(32)	272	(45)	(60)	219
-	-	-	-	(187)	(187)
-	48,825	-	-	-	48,825
63	-	616	196	-	1,316
-	1,338	4	-	-	1,512
509	50,856	1,307	188	3,665	72,416
\$ (200)	\$ (4,220)	\$ 1,288	\$ (384)	\$ 5,493	\$ 21,277
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 604

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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 401(h) FUND

Retiree Health Insurance 401(h) fund is a separate reserve account within the CERS fund solely for providing retiree health benefits. It is established and maintained by the Retirement Board of Administration to reflect the amounts the City contributes to pay retiree health benefits. Amounts credited to this account are invested with other CERS fund assets.

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, 2004
(In Thousands)**

	City Employees' Retirement System	City of San Diego Supplemental Pension Savings Plan	401(k) Plan	Total
ASSETS				
Cash or Equity in Pooled Cash and Investments	\$ 3,643	\$ -	\$ 430	\$ 4,073
Cash with Custodian/Fiscal Agent	340,209	-	-	340,209
Investments at Fair Value:				
Short Term Investments	214,401	-	-	214,401
Domestic Fixed Income Securities (Bonds)	468,962	-	-	468,962
International Fixed Income Securities (Bonds)	148,759	-	-	148,759
Domestic Equity Securities (Stocks)	1,296,360	-	-	1,296,360
International Equity Securities (Stocks)	531,527	-	-	531,527
Mortgages	17	-	-	17
Real Estate Equity and Real Estate Securities	277,669	-	-	277,669
Defined Contribution Investments (Mutual Funds of \$467,201 and Collective Funds of \$81,810)....	-	403,249	145,762	549,011
Receivables:				
Contributions	32,346	2,655	-	35,001
Accrued Interest	10,889	-	-	10,889
Loans	-	18,059	6,119	24,178
Securities Sold	44,965	-	-	44,965
Prepaid Expenses	3	-	-	3
Securities Lending Collateral	319,748	-	-	319,748
Capital Assets - Depreciable	191	-	-	191
TOTAL ASSETS	3,689,689	423,963	152,311	4,265,963
LIABILITIES				
Accounts Payable	5,189	-	-	5,189
Accrued Wages and Benefits	639	-	-	639
Net Pension Obligation	601	-	-	601
DROP Liabilities	185,108	-	-	185,108
Securities Lending Obligations	319,748	-	-	319,748
Securities Purchased	85,658	-	-	85,658
TOTAL LIABILITIES	596,943	-	-	596,943
NET ASSETS				
Held in Trust for Pension Benefits and Other Purposes	3,083,662	423,963	152,311	3,659,936
Held in Trust for Postemployment Healthcare Benefits	9,084	-	-	9,084
TOTAL NET ASSETS	\$ 3,092,746	\$ 423,963	\$ 152,311	\$ 3,669,020

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
For the Year Ended June 30, 2004
(In Thousands)**

ADDITIONS				
Employer Contributions	\$ 121,813	\$ 24,160	\$ -	\$ 145,973
Employee Contributions	92,627	23,948	25,015	141,590
Earnings on Investments:				
Investment Income	551,177	39,531	15,148	605,856
Investment Expense	(14,859)	-	-	(14,859)
Net Investment Income	536,318	39,531	15,148	590,997
Securities Lending:				
Gross Earnings	3,410	-	-	3,410
Borrower Rebates	(2,168)	-	-	(2,168)
Administrative Expenses (Lending Agent)	(364)	-	-	(364)
Net Securities Lending Income	878	-	-	878
TOTAL OPERATING ADDITIONS	751,636	87,639	40,163	879,438
DEDUCTIONS				
DROP Interest Expense	12,735	-	-	12,735
Benefit and Claim Payments	176,598	60,017	17,575	254,190
Administration	11,581	-	-	11,581
Depreciation	76	-	-	76
TOTAL OPERATING DEDUCTIONS	200,990	60,017	17,575	278,582
CHANGE IN NET ASSETS	550,646	27,622	22,588	600,856
Net Assets at Beginning of Year	2,542,100	396,341	129,723	3,068,164
NET ASSETS AT END OF YEAR	\$ 3,092,746	\$ 423,963	\$ 152,311	\$ 3,669,020

**FIDUCIARY FUNDS
AGENCY FUNDS
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2004
(In Thousands)**

	<u>Employee Benefits</u>	<u>Other Miscellaneous Agency</u>	<u>Total</u>
ASSETS			
Cash or Equity in Pooled Cash and Investments	\$ 7,283	\$ 12,963	\$ 20,246
Receivables:			
Accounts - Net	58	2	60
Accrued Interest	3	2	5
Restricted Cash and Investments	-	17,271	17,271
TOTAL ASSETS	<u>\$ 7,344</u>	<u>\$ 30,238</u>	<u>\$ 37,582</u>
LIABILITIES			
Accounts Payable	\$ 275	\$ 466	\$ 741
Advances from Other Funds	2,085	-	2,085
Due to Component Unit	-	371	371
Deposits/Advances from Others	-	9,823	9,823
Sundry Trust Liabilities	4,984	19,578	24,562
TOTAL LIABILITIES	<u>\$ 7,344</u>	<u>\$ 30,238</u>	<u>\$ 37,582</u>

FIDUCIARY FUNDS
AGENCY FUNDS
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
For the Year Ended June 30, 2004
(In Thousands)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Employee Benefits				
ASSETS				
Cash or Equity in Pooled Cash and Investments	\$ 7,428	\$ 77,501	\$ 77,646	\$ 7,283
Receivables:				
Accounts - Net	51	539	532	58
Accrued Interest	2	38	37	3
TOTAL ASSETS	<u>\$ 7,481</u>	<u>\$ 78,078</u>	<u>\$ 78,215</u>	<u>\$ 7,344</u>
LIABILITIES				
Accounts Payable	\$ 253	\$ 14,833	\$ 14,811	\$ 275
Advances from Other Funds	1,979	106	-	2,085
Sundry Trust Liabilities	5,249	83,711	83,976	4,984
TOTAL LIABILITIES	<u>\$ 7,481</u>	<u>\$ 98,650</u>	<u>\$ 98,787</u>	<u>\$ 7,344</u>
Other Miscellaneous Agency				
ASSETS				
Cash or Equity in Pooled Cash and Investments	\$ 21,263	\$ 648,943	\$ 657,243	\$ 12,963
Receivables:				
Accounts - Net	286	7	291	2
Accrued Interest	-	16	14	2
Restricted Cash and Investments	11,976	6,869	1,574	17,271
TOTAL ASSETS	<u>\$ 33,525</u>	<u>\$ 655,835</u>	<u>\$ 659,122</u>	<u>\$ 30,238</u>
LIABILITIES				
Accounts Payable	\$ 9,355	\$ 118,742	\$ 127,631	\$ 466
Due to Component Unit	-	682	311	371
Deposits/Advances from Others	9,215	3,784	3,176	9,823
Sundry Trust Liabilities	14,955	422,553	417,930	19,578
TOTAL LIABILITIES	<u>\$ 33,525</u>	<u>\$ 545,761</u>	<u>\$ 549,048</u>	<u>\$ 30,238</u>
TOTAL AGENCY FUNDS				
ASSETS				
Cash or Equity in Pooled Cash and Investments	\$ 28,691	\$ 726,444	\$ 734,889	\$ 20,246
Receivables:				
Accounts - Net	337	546	823	60
Accrued Interest	2	54	51	5
Restricted Cash and Investments	11,976	6,869	1,574	17,271
TOTAL ASSETS	<u>\$ 41,006</u>	<u>\$ 733,913</u>	<u>\$ 737,337</u>	<u>\$ 37,582</u>
LIABILITIES				
Accounts Payable	\$ 9,608	\$ 133,575	\$ 142,442	\$ 741
Due to Component Unit	-	682	311	371
Advances from Other Funds	1,979	106	-	2,085
Deposits/Advances from Others	9,215	3,784	3,176	9,823
Sundry Trust Liabilities	20,204	506,264	501,906	24,562
TOTAL LIABILITIES	<u>\$ 41,006</u>	<u>\$ 644,411</u>	<u>\$ 647,835</u>	<u>\$ 37,582</u>

STATISTICAL SECTION [NOT AUDITED]

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Table 1

**GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION
LAST TEN FISCAL YEARS (UNAUDITED)
(In Thousands)**

Fiscal Year Ended June 30	General Government and Support	Public Safety	Public Safety - Police	Public Safety - Fire and Life Safety	Parks, Recreation, Culture, and Leisure
1995	\$ 90,224	\$ 255,100	\$ -	\$ -	\$ 96,559
1996	83,791	275,678	-	-	103,943
1997	71,379	298,982	-	-	105,222
1998	73,424	317,858	-	-	111,834
1999	77,906	362,367	-	-	123,818
2000	83,351	396,009	-	-	132,656
2001	95,992	406,590	-	-	147,859
2002 *	189,128	-	288,809	131,974	174,485
2003	193,980	-	301,839	141,967	177,584
2004	198,826	-	313,387	152,073	170,163

* Expenditure functions were reclassified in 2002:

"General Government and Support" includes Engineering & Capital Projects and other support functions previously classified as Public Works. "Other now includes Transportation, Neighborhood Services, and Sanitation and Health.

Table 2

**GENERAL GOVERNMENTAL REVENUES BY SOURCE
LAST TEN FISCAL YEARS (UNAUDITED)
(In Thousands)**

Fiscal Year Ended June 30	Property Taxes	Special Assessments	Sales Taxes	Other Local Taxes	Licenses and Permits
1995	\$ 139,719	\$ 17,196	\$ 139,714	\$ 119,703	\$ 30,878
1996	137,997	20,367	114,218	150,684	29,806
1997	139,404	23,142	132,628	156,684	26,553
1998	150,409	17,573	174,615	155,587	30,735
1999	160,658	19,630	179,037	161,928	34,854
2000	179,048	18,457	198,622	171,141	30,381
2001	201,801	18,775	221,724	193,177	34,803
2002	223,100	22,491	221,383	202,364	25,194
2003	248,276	25,748	223,023	203,493	29,268
2004	279,090	26,816	238,430	253,225	30,592

Both tables include General, Special Revenue, Debt Service, Capital Projects, and Permanent funds.

Table 1

Public Works	Community Development, Transportation and Social Services	Other	Debt Service	Capital Projects	Total
\$ 104,392	\$ 18,832	\$ 1,989	\$ 64,261	\$ 215,378	\$ 846,735
106,864	25,248	2,517	84,514	326,797	1,009,352
110,961	34,347	12,959	92,160	381,991	1,108,001
124,580	28,667	2,838	123,528	289,299	1,072,028
136,474	28,542	12,891	130,187	440,153	1,312,338
152,444	37,599	2,274	170,647	413,216	1,388,196
152,558	49,914	5,425	179,563	473,373	1,511,274
-	-	200,684	88,971	208,083	1,282,134
-	-	225,734	115,074	229,496	1,385,674
-	-	264,008	118,339	174,346	1,391,142

Table 2

Fines and Forfeitures	Revenue from Use of Money and Property	Revenue from Agencies and Private Sources	Charges for Current Services	Other	Total
\$ 18,443	\$ 66,402	\$ 144,409	\$ 73,887	\$ 18,114	\$ 768,465
17,498	77,748	169,220	76,787	9,968	804,293
18,370	77,189	187,705	78,324	18,046	858,045
17,953	82,234	207,817	76,432	23,640	936,995
25,541	103,211	267,069	85,498	10,544	1,047,970
31,141	121,268	357,058	95,000	15,462	1,217,578
32,902	109,067	340,799	101,781	11,544	1,266,373
25,854	97,213	355,157	110,418	10,074	1,293,248
26,679	86,789	275,620	123,461	10,594	1,252,951
33,870	63,268	267,195	129,350	10,462	1,332,298

ASSESSED VALUATION OF ALL TAXABLE PROPERTY - EXCLUDING REDEVELOPMENT AREAS
100% OF FULL VALUE IN THOUSANDS OF DOLLARS (UNAUDITED)
Fiscal Years 1995 to 2004

	2004	2003	2002
<u>GROSS</u>			
Secured - Locally Assessed	\$ 114,984,353	\$ 105,438,590	\$ 96,470,488
Utilities - State Assessed	132,419	164,303	64,164
Total Secured Valuation	115,116,772	105,602,893	96,534,652
Unsecured - Locally Assessed	6,842,254	7,230,861	6,959,602
Total Gross Valuation	<u>\$ 121,959,026</u>	<u>\$ 112,833,754</u>	<u>\$ 103,494,254</u>
<u>EXEMPTIONS (EXCLUDING HOMEOWNERS' AND BUSINESS INVENTORY)</u>			
Secured - Locally Assessed	\$ 3,664,513	\$ 3,419,708	\$ 2,920,273
Unsecured - Locally Assessed	606,690	586,538	269,491
Total Exemptions	<u>\$ 4,271,203</u>	<u>\$ 4,006,246</u>	<u>\$ 3,189,764</u>
<u>NET ASSESSED VALUATION FOR TAX RATE</u>			
Secured - Locally Assessed	\$ 111,319,840	\$ 102,018,882	\$ 93,550,215
Utilities - State Assessed	132,419	164,303	64,164
Net Secured	111,452,259	102,183,185	93,614,379
Unsecured - Locally Assessed	6,235,564	6,644,323	6,690,111
Net Assessed Valuation for Tax Rate	<u>\$ 117,687,823</u>	<u>\$ 108,827,508</u>	<u>\$ 100,304,490</u>
Percentage Increase (Decrease) Over Base Year	8.142%	8.497%	8.407%
<u>STATE SUBVENTIONS HOMEOWNERS' EXEMPTIONS</u>			
Secured - Locally Assessed	\$ 1,413,595	\$ 1,403,496	\$ 1,384,958
Unsecured - Locally Assessed	5,856	5,793	2,347
Total Homeowners' Exemptions	<u>\$ 1,419,451</u>	<u>\$ 1,409,289</u>	<u>\$ 1,387,305</u>
<u>NET ASSESSED VALUATION AFTER ALL EXEMPTIONS</u>			
Secured - Locally Assessed	\$ 109,906,245	\$ 100,615,386	\$ 92,165,257
Utilities - State Assessed	132,419	164,303	64,164
Net Secured	110,038,664	100,779,689	92,229,421
Unsecured - Locally Assessed	6,229,708	6,638,530	6,687,764
Net Assessed Valuation	<u>\$ 116,268,372</u>	<u>\$ 107,418,219</u>	<u>\$ 98,917,185</u>

* 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.

Table 3

2001	2000	1999	1998	1997	1996	1995
\$ 89,204,182	\$ 82,140,464	\$ 75,735,993	\$ 68,569,476	\$ 63,490,451	\$ 61,816,965	\$ 61,723,445
55,135	54,775	52,758	79,133	72,137	76,937	70,315
89,259,317	82,195,239	75,788,751	68,648,609	63,562,588	61,893,902	61,793,760
6,838,926	6,347,101	5,852,822	5,337,916	4,988,950	4,353,543	4,303,198
<u>\$ 96,098,243</u>	<u>\$ 88,542,340</u>	<u>\$ 81,641,573</u>	<u>\$ 73,986,525</u>	<u>\$ 68,551,538</u>	<u>\$ 66,247,445</u>	<u>\$ 66,096,958</u>
\$ 2,979,594	\$ 2,718,748	\$ 2,661,739	\$ 2,681,423	\$ 2,526,872	\$ 2,261,774	\$ 2,297,545
592,594	530,732	325,881	313,391	383,881	93,400	191,962
<u>\$ 3,572,188</u>	<u>\$ 3,249,480</u>	<u>\$ 2,987,620</u>	<u>\$ 2,994,814</u>	<u>\$ 2,910,753</u>	<u>\$ 2,355,174</u>	<u>\$ 2,489,507</u>
\$ 86,224,588	\$ 79,421,716	\$ 73,074,254	\$ 65,888,053	\$ 60,963,579	\$ 59,555,191	\$ 59,425,900
55,135	54,775	52,758	79,133	72,137	76,937	70,315
86,279,723	79,476,491	73,127,012	65,967,186	61,035,716	59,632,128	59,496,215
6,246,332	5,816,369	5,526,941	5,024,525	4,605,069	4,260,143	4,111,236
<u>\$ 92,526,055</u>	<u>\$ 85,292,860</u>	<u>\$ 78,653,953</u>	<u>\$ 70,991,711</u>	<u>\$ 65,640,785</u>	<u>\$ 63,892,271</u>	<u>\$ 63,607,451</u>
8.480%	8.441%	10.793%	8.152%	2.737%	0.448%	1.138%
\$ 1,381,021	\$ 1,354,076	\$ 1,338,820	\$ 1,276,862	\$ 1,277,934	\$ 1,261,478	\$ 1,260,398
2,215	2,491	2,491	2,211	2,106	1,863	1,475
<u>\$ 1,383,236</u>	<u>\$ 1,356,567</u>	<u>\$ 1,341,311</u>	<u>\$ 1,279,073</u>	<u>\$ 1,280,040</u>	<u>\$ 1,263,341</u>	<u>\$ 1,261,873</u>
\$ 84,843,567	\$ 78,067,640	\$ 71,735,434	\$ 64,611,191	\$ 59,685,645	\$ 58,293,713	\$ 58,165,502
55,135	54,775	52,758	79,133	72,137	76,937	70,315
84,898,702	78,122,415	71,788,192	64,690,324	59,757,782	58,370,650	58,235,817
6,244,117	5,813,878	5,524,450	5,022,314	4,602,963	4,258,280	4,109,761
<u>\$ 91,142,819</u>	<u>\$ 83,936,293</u>	<u>\$ 77,312,642</u>	<u>\$ 69,712,638</u>	<u>\$ 64,360,745</u>	<u>\$ 62,628,930</u>	<u>\$ 62,345,578</u>

Table 4

ASSESSED VALUATION OF ALL TAXABLE PROPERTY - REDEVELOPMENT AREAS ONLY
100% OF FULL VALUE IN THOUSANDS (UNAUDITED)
Fiscal Years 1995 to 2005

	2004-05	2003-04	2002-03
<u>GROSS</u>			
Secured - Locally Assessed	\$9,543,879	\$9,648,576	\$8,273,576
Utilities - State Assessed	14,166	14,030	14,248
Total Secured Valuation	9,558,045	9,662,606	8,287,824
Unsecured - Locally Assessed	483,522	593,738	526,423
Total Gross Valuation	<u>\$10,041,567</u>	<u>\$10,256,344</u>	<u>\$8,814,247</u>
<u>EXEMPTIONS (EXCLUDING HOMEOWNERS' AND BUSINESS INVENTORY)</u>			
Secured - Locally Assessed	\$452,062	\$402,900	\$398,524
Unsecured - Locally Assessed	30,463	31,801	14,345
Total Exemptions	<u>\$482,525</u>	<u>\$434,701</u>	<u>\$412,869</u>
<u>NET ASSESSED VALUATION FOR TAX RATE</u>			
Secured - Locally Assessed	\$9,091,817	\$9,245,676	\$7,875,052
Utilities - State Assessed	14,166	14,030	14,248
Net Secured	9,105,983	9,259,706	7,889,300
Unsecured - Locally Assessed	453,059	561,937	512,078
Net Assessed Valuation for Tax Rate	<u>\$9,559,042</u>	<u>\$9,821,643</u>	<u>\$8,401,378</u>
Percentage Increase (Decrease) Over Base Year	-2.674%	16.905%	11.272%
<u>STATE SUBVENTIONS HOMEOWNERS' EXEMPTIONS</u>			
Secured - Locally Assessed	\$48,933	\$45,754	\$44,073
Unsecured - Locally Assessed	-	-	-
Total Homeowners' Exemptions	<u>\$48,933</u>	<u>\$45,754</u>	<u>\$44,073</u>
<u>NET ASSESSED VALUATION AFTER ALL EXEMPTIONS</u>			
Secured - Locally Assessed	\$9,042,884	\$9,199,922	\$7,830,979
Utilities - State Assessed	14,166	14,030	14,248
Net Secured	9,057,050	9,213,952	7,845,227
Unsecured - Locally Assessed	453,059	561,937	512,078
Net Assessed Valuation	<u>\$9,510,109</u>	<u>\$9,775,889</u>	<u>\$8,357,305</u>

* 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.

Table 4

2001-02	2000-01	1999-2000	1998-99	1997-98	1996-97	1995-96
\$7,412,026	\$6,622,511	\$6,049,675	\$4,419,599	\$4,134,677	\$4,025,263	\$4,135,274
8,874	15,384	15,096	6,522	4,761	4,738	5,062
7,420,900	6,637,895	6,064,771	4,426,121	4,139,438	4,030,001	4,140,336
482,155	466,314	435,459	283,966	210,919	207,457	209,922
<u>\$7,903,055</u>	<u>\$7,104,209</u>	<u>\$6,500,230</u>	<u>\$4,710,087</u>	<u>\$4,350,357</u>	<u>\$4,237,458</u>	<u>\$4,350,258</u>
\$314,511	\$330,932	\$288,034	\$252,455	\$209,544	\$183,474	\$178,509
38,228	30,508	17,663	9,660	2,182	812	2,049
<u>\$352,739</u>	<u>\$361,440</u>	<u>\$305,697</u>	<u>\$262,115</u>	<u>\$211,726</u>	<u>\$184,286</u>	<u>\$180,558</u>
\$7,097,515	\$6,291,579	\$5,761,641	\$4,167,144	\$3,925,133	\$3,841,789	\$3,956,765
8,874	15,384	15,096	6,522	4,761	4,738	5,062
7,106,389	6,306,963	5,776,737	4,173,666	3,929,894	3,846,527	3,961,827
443,927	435,806	417,796	274,306	208,737	206,645	207,873
<u>\$7,550,316</u>	<u>\$6,742,769</u>	<u>\$6,194,533</u>	<u>\$4,447,972</u>	<u>\$4,138,631</u>	<u>\$4,053,172</u>	<u>\$4,169,700</u>
11.976%	8.850%	39.266%	7.474%	2.108%	-2.795%	-5.571%
\$41,421	\$41,420	\$41,066	\$31,658	\$31,086	\$29,752	\$29,560
212	212	-	-	95	95	49
<u>\$41,633</u>	<u>\$41,632</u>	<u>\$41,066</u>	<u>\$31,658</u>	<u>\$31,181</u>	<u>\$29,847</u>	<u>\$29,609</u>
\$7,056,094	\$6,250,159	\$5,720,575	\$4,135,486	\$3,894,047	\$3,812,037	\$3,927,205
8,874	15,172	15,096	6,522	4,761	4,738	5,062
7,064,968	6,265,331	5,735,671	4,142,008	3,898,808	3,816,775	3,932,267
443,715	435,806	417,796	274,306	208,642	206,550	207,824
<u>\$7,508,683</u>	<u>\$6,701,137</u>	<u>\$6,153,467</u>	<u>\$4,416,314</u>	<u>\$4,107,450</u>	<u>\$4,023,325</u>	<u>\$4,140,091</u>

Table 5

**TAX RATES PER \$100 OF ASSESSED VALUATION
LAST TEN FISCAL YEARS (UNAUDITED)**

Fiscal Year Ended June 30	Zoological Exhibits Fund	Bond Interest & Redemption Fund	Total City	Schools	One Percent Property Tax Allocation (A)	Grand Total (B)
1995	0.005	0.0033	0.0083	0.1002	1.00	1.1085
1996	0.005	0.0033	0.0083	0.1002	1.00	1.1085
1997	0.005	0.0034	0.0084	0.0993	1.00	1.1077
1998	0.005	0.0034	0.0084	0.0993	1.00	1.1077
1999	0.005	0.0029	0.0079	0.0963	1.00	1.1042
2000	0.005	0.0026	0.0076	0.0958	1.00	1.1034
2001	0.005	0.0024	0.0074	0.0958	1.00	1.1032
2002	0.005	0.0023	0.0073	0.0958	1.00	1.1031
2003	0.005	0.0021	0.0071	0.0958	1.00	1.1029
2004	0.005	0.0018	0.0068	0.0000	1.00	1.0068

(A) Under existing provisions of the California Constitution, the maximum ad valorem property tax rate which may be imposed on real property may not exceed \$4.00 except to pay the interest and redemption charges on any indebtedness approved by the voters prior to July 1, 1978. The City shares this tax rate in proportion to other local agencies based on an average of property tax received in the three fiscal years prior to 1978-79.

(B) Effective January 1, 1981, a change in state law required the County Assessor to assess all taxable property at 100% full value as opposed to the prior practice of assessing property at 25% of full value. As a result, taxing agencies were required to fix tax rates based on full value instead of the prior practice of fixing tax rates based on 25% of full value.

Table 6

**SCHEDULE OF LEGAL DEBT MARGIN (UNAUDITED)
June 30, 2004
(In Thousands)**

	General Obligation Bonds*		
	For Water Purposes	For Other Purposes	Total
Assessed Valuation: July 1, 2004 - \$ 117,687,823 **			
Debt Limits***	\$17,653,173	\$11,768,782	\$29,421,955
Outstanding General Obligation Bonds	-	14,390	14,390
Less: Cash Reserve for Matured and Unpaid Bonds	-	-	-
Outstanding General Obligation Bonds Applicable to Debt Limit	-	14,390	14,390
LEGAL DEBT MARGIN	\$17,653,173	\$11,754,392	\$29,407,565
Percentage of Outstanding Debt to Legal Debt Margin	0.00%	0.12%	0.05%

* All City of San Diego General Obligation Bonds are serially numbered and redeemable from special tax levy.

** From Table 3 - Assessed Valuation of all Taxable Property - Excluding Redevelopment Areas

*** 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, for a total debt limit for all municipal improvements equal to 25% of the last preceding assessed valuation of all real and personal property of the City subject to direct taxation.

Table 7

**LEVIES AND TAXES RECEIVED BY CITY - SECURED PROPERTY
LAST TEN FISCAL YEARS (UNAUDITED)
(In Thousands)**

Fiscal Year Ended June 30	Total Tax Levy	Current Tax Collections	Percentage of Current Tax Collected	Delinquent Tax Collections	Total Tax Collected	Ratio of Total Tax Collections to Total Tax Levy	Outstanding Delinquent Taxes *	Ratio of Delinquent Taxes to Total Tax Levy
1994	\$ 109,881	\$ 105,911	96.39 %	\$ 4,827	\$ 110,738	100.78 %	\$ 10,968	9.98 %
1995	109,754	104,295	95.03	3,897	108,192	98.58	9,920	9.04
1996	111,281	108,137	97.17	2,376	110,513	99.31	9,203	8.27
1997	111,719	108,676	97.28	1,887	110,563	98.97	8,523	7.63
1998	116,912	114,311	97.78	3,118	117,429	100.44	7,639	6.53
1999	127,846	124,267	97.20	2,656	126,923	99.28	6,593	5.16
2000	141,963	137,859	97.11	2,366	140,225	98.78	6,736	4.74
2001	155,060	150,900	97.32	2,506	153,406	98.93	6,346	4.09
2002	167,077	163,357	97.77	2,089	165,446	99.02	5,641	3.38
2003	181,687	175,943	96.84	2,398	178,341	98.16	6,061	3.34
2004	199,630	191,224	95.79	3,175	194,399	97.38	6,866	3.44

* Estimated

Table 8

**RATIO OF NET GENERAL OBLIGATION BONDED DEBT TO ASSESSED
VALUE AND NET BONDED DEBT PER CAPITA
LAST TEN FISCAL YEARS (UNAUDITED)
(In Thousands)**

Fiscal Year Ended June 30	Estimated Population	Assessed Valuation *	Gross Bonded Debt **	Debt Service Monies Available *	Debt Payable from Enterprise Revenues	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value (%)	Net Bonded Debt Per Capita
1995	1,202,200	\$ 62,891,891	\$ 91,970	\$ 3,780	-	\$ 88,190	0.140	\$ 0.07
1996	1,197,676	63,607,451	89,090	3,861	-	85,229	0.134	0.07
1997	1,197,077	63,892,271	82,625	2,142	-	80,483	0.126	0.07
1998	1,224,848	65,640,785	78,600	2,515	-	76,085	0.116	0.06
1999	1,254,281	78,653,953	74,255	2,723	-	71,532	0.091	0.06
2000	1,277,168	85,292,860	68,700	2,941	-	65,759	0.077	0.05
2001	1,250,700	92,526,055	63,595	3,266	-	60,329	0.065	0.05
2002	1,255,742	100,304,490	58,095	3,576	-	54,519	0.054	0.04
2003	1,275,112	108,827,508	52,165	3,932	-	48,233	0.044	0.04
2004	1,294,000	117,687,823	45,755	4,001	-	41,754	0.035	0.03

* Excludes Redevelopment.

** Represents all General Obligation Debt.

Table 9

**REVENUE BOND COVERAGE - WATER BONDS
LAST TEN FISCAL YEARS (UNAUDITED)
(IN THOUSANDS)**

Fiscal Year Ended June 30	Total Income	Total Expenses	Net System Revenue	Less: Interest Earnings on Reserve Fund - Parity	Adjusted Net System Revenue	Adjusted Debt Service Requirements - Parity Obligations					Adjusted Debt Service Coverage - Parity Obligations
				Obligations		Principal	Interest	Total	Less: Parity Interest Earnings	Adjusted Debt Service	
1999	\$ 210,490	\$ 195,407	\$ 15,083	\$ (884)	\$ 14,199	\$ -	\$ 9,365	\$ 9,365	\$ (884)	\$ 8,481	1.67
2000	255,736	213,358	42,378	-	42,378	-	18,730	18,730	-	18,730	2.26
2001	255,974	214,056	41,918	(54)	41,864	-	18,730	18,730	(54)	18,676	2.24
2002	261,333	222,104	39,229	(3,444)	35,785	6,780	18,594	25,374	(3,444)	21,930	1.63
2003	256,968	226,058	30,910	(1,305)	29,605	7,055	16,308	23,363	(1,305)	22,058	1.34
2004	267,649	232,193	35,456	(1,296)	34,160	7,345	14,010	21,355	(1,296)	20,059	1.70

Note: The Water Utility had no bonded debt for years 1994 through 1998.

Table 10

**REVENUE BOND COVERAGE - SEWER BONDS
LAST TEN FISCAL YEARS (UNAUDITED)
(IN THOUSANDS)**

Fiscal Year Ended June 30	Total Income	Total Expenses	Net System Revenue	Total Debt Service Requirements			Debt Service Coverage
				Principal	Interest	Total	
1995	\$ 228,496	\$ 112,232	\$ 116,264	\$ 4,360	\$ 11,960	\$ 16,320	7.12
1996	246,937	134,845	112,092	4,500	19,929	24,429	4.59
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

Table 11

SCHEDULE OF DIRECT AND OVERLAPPING BONDED DEBT (UNAUDITED)

June 30, 2004
(In Thousands)

Jurisdiction	Debt Outstanding June 30, 2004	Percentage Applicable to City of San Diego	Amount Applicable to City of San Diego
City of San Diego	\$ 14,390 *	100.0%	\$ 14,390
City of San Diego Certificates of Participation	47,355 *	100.0%	47,355
City of San Diego 1915 Act Bonds	14,755	100.0%	14,755
City of San Diego Mello-Roos Bonds	125,885	100.0%	125,885
City of San Diego Redevelopment Agency Tax Allocation Bonds	308,576 *	100.0%	308,576
City of San Diego Redevelopment Agency Parking Revenue Bonds	31,880 *	100.0%	31,880
City of San Diego Metropolitan Transit Development Board (MTDB)	36,785 *	100.0%	36,785
Convention Center Expansion Authority	192,480 *	100.0%	192,480
Metropolitan Water District	447,475	8.9%	39,825
North City West School Community Facilities District	90,253	100.0%	90,253
Poway Unified School Community Facilities District #1	135,670	100.0%	135,670
Poway Unified School Community Improvement District No. 2002-1	75,000	68.5%	51,375
Public Facilities Financing Authority	257,220 *	100.0%	257,220
San Diego Community College District	93,685	99.9%	93,591
San Diego Community College District General Fund Obligations	-	0.0%	-
San Diego County General Fund Obligations	431,715	47.2%	203,769
San Diego County Pension Obligations	1,268,878	47.2%	598,910
San Diego County Water Authority	-	0.0%	-
San Diego Open Space Park Facilities District # 1	31,385	100.0%	31,385
San Diego Unified School District	1,114,968	99.9%	1,113,853
Other School and Community College Districts	43,141	various	43,141
Other Special Districts	57,164	various	57,164
Other High School and School Districts	46,504	various	46,504
Otay Municipal Water District Certificates of Participation	25,380	7.1%	1,802
TOTAL GROSS DIRECT AND OVERLAPPING BONDED DEBT			\$3,536,568 **
Less:			
100% Self-Supporting			
Otay Mesa Water District			\$ 1,796
Grossmont Union High School District COP's			-
San Diego Open Space Park Facilities District #1			31,385
TOTAL BONDED DEBT SUPPORTED BY OTHER THAN PROPERTY TAX			33,181
NET DIRECT AND OVERLAPPING BONDED DEBT			\$3,503,387

2002-03 Assessed Valuation (100% of Full Value):

\$118,649,151 (including the redevelopment tax allocation increment of \$9,821,643)

Ratios to Assessed Valuation

* City of San Diego Gross Direct Debt (\$888,686)	0.75%
City of San Diego Net Direct Debt (excludes Redevelopment Agency) (\$548,230)	0.46%
City of San Diego and Open Space District Gross Direct Debt (\$920,071)	0.78%
City of San Diego and Open Space District Net Direct Debt (\$579,615)	0.49%
TOTAL GROSS DEBT	2.98%
TOTAL NET DEBT	2.95%

** Excludes revenue and tax anticipation notes.

Sources: Responsible Agencies
California Municipal Statistics, Inc.

Table 12

**RATIO OF ANNUAL DEBT SERVICE
FOR GENERAL BONDED DEBT TO TOTAL GENERAL EXPENDITURES
LAST TEN FISCAL YEARS (UNAUDITED)
(In Thousands)**

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>	<u>Total General Expenditures</u>	<u>Ratio of Debt Service to General Expenditures</u>
1995	\$ 24,888	\$ 39,373	\$ 64,261	\$ 846,735	7.59%
1996	35,496	49,018	84,514	1,009,352	8.37%
1997	29,311	62,849	92,160	1,108,001	8.32%
1998	42,512	81,016	123,528	1,072,028	11.52%
1999	38,310	84,507	122,817	1,312,338	9.36%
2000	41,727	120,891	162,618	1,388,196	11.71%
2001	52,758	119,094	171,852	1,511,274	11.37%
2002	33,958	45,946	79,904	1,282,134	6.23%
2003	40,559	59,795	100,354	1,385,674	7.24%
2004	37,765	59,737	97,502	1,409,070	6.92%

Table 13

**SPECIAL ASSESSMENT BILLINGS AND COLLECTIONS
LAST TEN FISCAL YEARS (UNAUDITED)
(In Thousands)**

<u>Fiscal Year Ended June 30</u>	<u>Current Assessments Due</u>	<u>Current Assessments Collected</u>	<u>Ratio of Collections to Amount Due (%)</u>	<u>Total Outstanding Assessments</u>
1995	\$ 11,478	\$ 9,565	83.33	\$ 118,350
1996	12,564	11,692	93.06	125,650
1997	12,394	11,515	92.91	120,900
1998	11,929	11,359	95.22	113,105
1999	10,843	10,576	97.54	110,835
2000	11,041	10,783	97.66	108,180
2001	9,353	9,143	97.75	164,101
2002	10,145	10,024	98.81	158,772
2003	13,197	13,061	98.97	153,414
2004	14,530	14,360	98.83	168,724

Table 14

**DEMOGRAPHIC STATISTICS
LAST TEN FISCAL YEARS (UNAUDITED)**

Fiscal Year Ended June 30	Estimated Population (1)	Public School Enrollment (K-12) (2)	Continuing Education Enrollment* (2)	Civilian Labor Force (3)	Unemployment Rate (3)
1995	1,197,676	174,735	168,509	1,222,458	6.8%
1996	1,183,102	156,461	161,105	1,227,952	6.0%
1997	1,197,077	173,344	159,673	1,243,258	4.8%
1998	1,224,848	179,197	164,438	1,289,383	3.8%
1999	1,254,281	182,590	173,002	1,334,167	3.5%
2000	1,277,168	187,462	173,209	1,373,017	3.2%
2001	1,250,700	184,842	186,461	1,417,767	2.3%
2002	1,255,742	186,232	193,548	1,448,125	3.7%
2003	1,275,112	189,910	189,452	1,480,933	4.4%
2004	1,294,000	187,607	178,010	1,480,417	5.0%

*Composed of College, Community College and Adult Schools (Includes part-time).

Sources:

(1) Table 8

(2) Table 17

(3) Employment Development Department

Table 15

**PRINCIPAL TAXPAYERS IN CITY OF SAN DIEGO (UNAUDITED)
June 30, 2004
(In Thousands)**

Taxpayers	Type of Business	Assessed Valuation	Percentage of Net Assessed Valuation (1)	Approximate Tax Paid
San Diego Family Housing LLC	Real Estate	\$ 985,543	0.85%	\$8,278
Kilroy Realty LP	Real Estate	660,848	0.57%	7,144
Qualcomm Inc	Electronics	512,483	0.44%	5,749
Manchester Resorts	Hotel	443,514	0.38%	4,800
Fashion Valley Mall LLC	Shopping Center	419,626	0.36%	4,694
Sea World Inc	Entertainment	349,404	0.30%	3,909
Pacific Gateway LTD	Developer/Property Manager	260,093	0.22%	2,909
ERP Operating LTD Partnership	Developer/Property Manager	249,646	0.21%	2,844
Fenton HG	Developer/Property Manager	230,687	0.20%	2,802
Irvine Apartment Communities	Real Estate	236,257	0.20%	2,740
		<u>\$4,348,101</u>	<u>3.73%</u>	

(1) Total Net Assessed Valuation of \$116,268,372 per Table 3

Note: This table excludes public utilities, including San Diego Gas & Electric Company, Pacific Bell and American Telephone and Telegraph (AT&T), because valuations within the City of San Diego cannot be readily determined.

Source: County of San Diego Assessor's Office.

Table 16

**COMPARISON OF CONSTRUCTION, BANK DEPOSITS AND PROPERTY VALUES
LAST TEN FISCAL YEARS (UNAUDITED)
(In Thousands)**

Fiscal Year Ended June 30	Construction (1)			Property Values (2)			Deposits (3)			
	Residential Construction Permits	Non- Residential Construction Permits	Total Valuation	Commercial/ Industrial	Residential	Other	Commercial Banks	Savings & Loans	Credit Unions	Total
1995	\$ 4,887	\$ 4,624	\$ 815,471	\$ 14,975,973	\$ 44,197,890	\$ 2,300,779	\$ 9,684,057	\$ 3,088,156	\$ 2,544,261	\$ 15,316,474
1996	5,243	4,551	846,982	14,804,114	44,513,532	2,278,247	9,306,278	2,847,576	3,545,202	15,699,056
1997	5,907	4,813	1,020,330	15,306,561	45,589,632	2,414,340	10,595,219	3,370,761	3,724,548	17,690,528
1998	7,545	5,804	1,466,646	17,318,763	48,341,937	2,151,401	N/A	N/A	N/A	N/A
1999	7,080	5,186	1,640,853	19,850,778	53,121,440	2,788,667	N/A	N/A	N/A	N/A
2000	6,603	5,766	2,146,478	21,853,386	57,932,679	3,040,634	N/A	N/A	N/A	N/A
2001*	8,227	3,517	1,875,072	24,084,993	63,663,266	3,155,499	N/A	N/A	N/A	N/A
2002	9,840	2,615	2,099,748	26,157,468	69,834,055	3,421,104	N/A	N/A	N/A	N/A
2003	9,997	2,591	1,907,029	28,135,314	78,128,254	3,548,325	N/A	N/A	N/A	N/A
2004	9,255	2,543	1,949,373	30,431,509	87,269,304	3,759,894	N/A	N/A	N/A	N/A

N/A = Not available.

* Beginning in FY 2001, Development Services Department implemented a change in permit classifications.

Source:

(1) City of San Diego Development Services Department

(2) County of San Diego, Office of Assessor

(3) Sheshunoff Bank, California/Hawaii

TABLE 17

MISCELLANEOUS STATISTICAL DATA (UNAUDITED)
JUNE 30, 2004

GEOGRAPHICAL LOCATION	Southern Coast of California contiguous to the Mexican Border	
ALTITUDE OF CITY	Sea Level to 1,591 Feet	
AREA OF CITY (SQUARE MILES)	Land -	330
	Water -	73
	Total -	403
DATE OF INCORPORATION	March 27, 1850	
POPULATION	<u>(Official U. S. Census)</u>	<u>Increase</u>
	1900 -	17,700
	1910 -	39,578 124%
	1920 -	74,361 88%
	1930 -	147,995 99%
	1940 -	203,341 37%
	1950 -	334,387 64%
	1960 -	573,244 71%
	1970 -	697,027 22%
	1980 -	875,504 26%
	1990 -	1,110,549 27%
	2000 -	1,223,400 10%
	Estimate at January 1, 2004 - 1,294,000	
	Population per Square Mile (Land) - 3,864	
FORM OF GOVERNMENT	Council / Manager	
CITY CHARTER ADOPTED	April 7, 1931	
FISCAL YEAR BEGINS	July 1	
TOTAL NUMBER OF CITY EMPLOYEES	Salaries -	10,682
	Hourly -	1,610
	Limited -	N/A
	Total -	12,292
RAINFALL:		
2003-2004 SEASON	5.18 Inches	
AVERAGE SEASONAL RAINFALL DURING LAST 20 YEARS	10.03 Inches	
AVERAGE TEMPERATURE, 2003-2004	Daytime -	70.1 F
	Nighttime -	59.0 F
	Mean -	64.6 F
AVERAGE ANNUAL TEMPERATURE OF FORTY YEAR PERIOD, 1963-2003	64.1 F	
RECREATION:		
PARKS, SQUARES, AND RECREATION CENTERS	Number -	444
	Acres -	38,890
SPECIAL FACILITIES	Municipal Golf Courses:	
	City Operated:	
	18-Hole Courses	4
	9-Hole Courses	1
	Pitch and Putt Courses	0
	Leased:	
	18-Hole Courses	2
	Par 3 Course	1
	Pitch and Putt Courses	2
	Municipal Swimming Pools	13
	Municipal Tennis Courts	25
	Ocean Fishing Piers	2

MISCELLANEOUS STATISTICAL DATA (UNAUDITED)
JUNE 30, 2004

TABLE 17 (Cont'd.)

FIRE PROTECTION	Number of Stations - 45 Number of Employees - 1,277 (includes EMS)
POLICE PROTECTION	Number of Stations - 10 Number of Employees - 2,773 (includes hourly)
MILES OF ASPHALT, CONCRETE, AND DIRT STREETS AND ALLEYS	2,985
MILES OF SEWERS	3,028
SEWER SERVICE LATERALS	270,365
MUNICIPAL WATER PLANT	Number of Water Meters in Service - 270,022 Average Daily Consumption - 208.7 Million Gallons Average Daily Consumption per Capita - 161.28 Miles of Water Distribution Mains - 3,317.24 Number of Fire Hydrants - 24,428
MUNICIPAL AIRPORTS	Number - 2 Number of Acres - 1,448 Length of Main Runways - 7,999 Feet and 4,577 Feet
UNIFIED PORT DISTRICT:	
WHARVES	Number - 4 Length - 14,095 (Lineal Feet or Berthing) Number of Craft in Port (Excluding Military) - 600 Commercial Tonnage Handled through the Port during the Year - 2,421,217 metric tons
TIDELANDS	Number of Acres - 5,360
AIRPORTS	Number - 0 Number of Acres - 0 Length of Main Runways - 0 Feet
EDUCATION:	
COLLEGES	Number 6 Number of Teachers 7,612 (Includes Part-Time) Number of Students 93,635 (Includes Part-Time)
COMMUNITY COLLEGES AND ADULT SCHOOLS	Number 10 Number of Teachers 2,402 (Includes Part-Time) Number of Students 84,375 (Includes Part-Time)
HIGH SCHOOLS	Number 25 Number of Teachers 3,109 Number of Students 41,135
JUNIOR HIGH SCHOOLS / MIDDLE SCHOOLS	Number 28 Number of Teachers 1,584 Number of Students 32,952
ELEMENTARY SCHOOLS	Number 165 Number of Teachers 5,660 Number of Students 113,520

Source: Various Agencies

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