**RATING: S&P: "A"**
**See the caption "RATING"**

**NEW ISSUE – BOOK-ENTRY ONLY**

*In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming certain representations and compliance with certain covenants and requirements described in this Official Statement, interest (and original issue discount) on the Series 2013A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest (and original issue discount) on the Series 2013A Bonds is exempt from State of California personal income tax. See the caption "TAX MATTERS" with respect to tax consequences relating to the Series 2013A Bonds.*

# $4,830,000
# ESCONDIDO JOINT POWERS FINANCING AUTHORITY
# LEASE REVENUE REFUNDING BONDS, SERIES 2013A

**Dated: Date of Delivery** **Due: October 1, as shown on inside cover**

The Escondido Joint Powers Financing Authority Lease Revenue Refunding Bonds, Series 2013A (the "Series 2013A Bonds") are payable from base rental payments (the "Base Rental Payments") to be made by the City of Escondido (the "City") for the right to use certain real property consisting of an 18-hole golf course, a related flood water detention basin, water well and certain ancillary facilities and related improvements (collectively, the "Property") pursuant to a Lease Agreement, dated as of February 1, 2013 (the "Lease Agreement"), by and between the City, as lessee, and the Escondido Joint Powers Financing Authority (the "Authority"), as lessor. See the captions "THE PROPERTY" and "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013A BONDS."

The Series 2013A Bonds are being issued to provide funds: (i) to currently refund the Authority's 2001 Lease Revenue Bonds (Reidy Creek Project) (the "2001 Bonds"); and (ii) to pay the costs incurred in connection with the issuance of the Series 2013A Bonds. See the caption "THE REFUNDING PLAN." The City has covenanted under the Lease Agreement to make all Base Rental Payments provided for therein, to include all such payments as a separate line item in its annual budgets and to make all the necessary annual appropriations for such Base Rental Payments. The City's obligation to make Base Rental Payments is subject to abatement during any period in which, by reason of material damage to, or destruction or condemnation of, the Property, or any defects in title to the Property, there is substantial interference with the City's right to use and occupy any portion of the Property. See the caption "RISK FACTORS—Abatement."

The Series 2013A Bonds are being issued in fully registered book-entry only form, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Interest on the Series 2013A Bonds is payable semiannually on October 1, 2013 and each April 1 and October 1 thereafter. Purchasers will not receive certificates representing their interest in the Series 2013A Bonds. Individual purchases will be in principal amounts of $5,000 or integral multiples thereof. Principal of and interest and premium, if any, on the Series 2013A Bonds will be paid by The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), to DTC for subsequent disbursement to DTC Participants, who are obligated to remit such payments to the Beneficial Owners of the Series 2013A Bonds. See the caption "THE SERIES 2013A BONDS—Book-Entry Only System."

The Series 2013A Bonds will be issued pursuant to an Indenture, dated as of February 1, 2013 (the "Indenture"), by and among the City, the Authority and the Trustee. The Series 2013A Bonds and any additional bonds issued pursuant to the Indenture ("Additional Bonds") are collectively referred to as the "Bonds."

The Series 2013A Bonds are subject to optional and extraordinary redemption prior to maturity as described under the caption "THE SERIES 2013A BONDS—Redemption."

**The Series 2013A Bonds are special obligations of the Authority, payable solely from Base Rental Payments and the other assets pledged therefor under the Indenture. Neither the faith and credit nor the taxing power of the Authority, the City or the State of California (the "State"), or any political subdivision thereof, is pledged to the payment of the Series 2013A Bonds.**

**The obligation of the City to make the Base Rental Payments does not constitute a debt of the City or the State or of any political subdivision thereof within the meaning of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the City or the State is obligated to levy or pledge any form of taxation or for which the City or the State has levied or pledged any form of taxation. The Authority has no taxing power.**

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

*The Series 2013A Bonds will be offered when, as and if issued and received by the Underwriter, subject to the approval as to their validity by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel. Stradling Yocca Carlson and Rauth, a Professional Corporation, Newport Beach, California, is also acting as Disclosure Counsel to the City. Certain legal matters will be passed upon for the City and the Authority by Jeffrey Epp, Esquire, City Attorney and General Counsel to the Authority, for the Underwriter by Best Best & Krieger LLP and for the Trustee by its counsel. It is anticipated that the Series 2013A Bonds will be available for delivery through the facilities of DTC on or about March 28, 2013.*

STONE & YOUNGBERG
A DIVISION OF STIFEL NICOLAUS

Dated: March 7, 2013

**$4,830,000**
**ESCONDIDO JOINT POWERS FINANCING AUTHORITY**
**LEASE REVENUE REFUNDING BONDS, SERIES 2013A**

**MATURITY SCHEDULE**

**BASE CUSIP®†: 29634D**

| *Maturity Date (October 1)* | *Principal Amount* | *Interest Rate* | *Yield* | *CUSIP®†* |
|---|---|---|---|---|
| 2013 | $205,000 | 2.000% | 0.700% | EJ9 |
| 2014 | 210,000 | 2.000 | 0.950 | EK6 |
| 2015 | 215,000 | 2.000 | 1.260 | EL4 |
| 2016 | 220,000 | 3.000 | 1.530 | EM2 |
| 2017 | 230,000 | 3.000 | 1.860 | EN0 |
| 2018 | 235,000 | 3.000 | 2.160 | EP5 |
| 2019 | 245,000 | 3.000 | 2.530 | EQ3 |
| 2020 | 250,000 | 3.000 | 2.830 | ER1 |
| 2021 | 260,000 | 3.000 | 3.040 | ES9 |
| 2022 | 265,000 | 3.000 | 3.280 | ET7 |
| 2023 | 275,000 | 3.250 | 3.500 | EU4 |
| 2024 | 285,000 | 3.375 | 3.650 | EV2 |
| 2025 | 295,000 | 3.500 | 3.750 | EW0 |
| 2026 | 305,000 | 3.625 | 3.850 | EX8 |
| 2027 | 315,000 | 3.750 | 3.940 | EY6 |
| 2028 | 325,000 | 3.875 | 4.020 | EZ3 |
| 2029 | 340,000 | 3.875 | 4.080 | FA7 |
| 2030 | 355,000 | 4.000 | 4.130 | FB5 |

No dealer, broker, salesperson or other person has been authorized by the City or the Authority to give any information or to make any representations in connection with the offer or sale of the Series 2013A Bonds other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the City or the Authority. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2013A Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers or Owners of the Series 2013A Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

The Underwriter has provided the following sentence for inclusion in this Official Statement:

> The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

This Official Statement and the information contained herein are subject to completion or amendment without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or the Authority or any other parties described herein since the date hereof. These securities may not be sold nor may an offer to buy be accepted prior to the time the Official Statement is delivered in final form. This Official Statement is being submitted in connection with the sale of the Series 2013A Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the City. All summaries of documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such provisions.

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "project," "budget," "intend" or similar words. Such forward-looking statements include, but are not limited to, certain statements contained under the captions "CITY FINANCIAL INFORMATION" and "RISK FACTORS."

**THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE CITY DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT. IN EVALUATING SUCH STATEMENTS, POTENTIAL INVESTORS SHOULD SPECIFICALLY CONSIDER THE VARIOUS FACTORS WHICH COULD CAUSE ACTUAL EVENTS OR RESULTS TO DIFFER MATERIALLY FROM THOSE INDICATED BY SUCH FORWARD-LOOKING STATEMENTS.**

**IN CONNECTION WITH THE OFFERING OF THE SERIES 2013A BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2013A BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE SERIES 2013A BONDS TO CERTAIN DEALERS, DEALER BANKS, BANKS ACTING AS AGENT AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICE STATED ON THE COVER PAGE HEREOF, AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.**

**THE SERIES 2013A BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT, AND HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.**

*The City maintains a website; however, information presented there is not a part of this Official Statement and should not be relied upon in making an investment decision with respect to the Series 2013A Bonds.*

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**CITY OF ESCONDIDO**

**MAYOR AND MEMBERS OF THE CITY COUNCIL**

Sam Abed, Mayor
Olga Diaz, Deputy Mayor
Michael Morasco, Member
Ed Gallo, Member
John Masson, Member

**ESCONDIDO JOINT POWERS FINANCING AUTHORITY**

Sam Abed, Chairperson
Olga Diaz, Chairperson Pro Tem
Michael Morasco, Member
Ed Gallo, Member
John Masson, Member

**STAFF**

Clay Phillips, City Manager/Authority Secretary
Jeffrey Epp, Esq., City Attorney/Authority Counsel
Gil Rojas, City Finance Director/Authority Auditor/Treasurer
Kenneth Hugins, Treasurer
Ed Domingue, Director of Public Works
Diane Halverson, City Clerk

**SPECIAL SERVICES**

**Bond Counsel and Disclosure Counsel**

Stradling Yocca Carlson & Rauth, a Professional Corporation
Newport Beach, California

**Trustee**

The Bank of New York Mellon Trust Company, N.A.
Los Angeles, California

**Verification Agent**

Causey Demgen & Moore Inc.
Denver, Colorado

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**\$4,830,000**
**ESCONDIDO JOINT POWERS FINANCING AUTHORITY**
**LEASE REVENUE REFUNDING BONDS, SERIES 2013A**

# INTRODUCTION

## General

This Official Statement, which includes the cover page and the appendices hereto (the "Official Statement"), provides certain information concerning the sale and delivery of the \$4,830,000 aggregate principal amount of Escondido Joint Powers Financing Authority Lease Revenue Refunding Bonds, Series 2013A (the "Series 2013A Bonds").

The net proceeds of the sale of the Series 2013A Bonds will be used: (i) to currently refund the Escondido Joint Powers Financing Authority 2001 Lease Revenue Bonds (Reidy Creek Project) (the "2001 Bonds"), which are currently outstanding in the aggregate principal amount of \$5,205,000; and (ii) to pay the costs incurred in connection with the issuance of the Series 2013A Bonds.

## Security for the Series 2013A Bonds

The Series 2013A Bonds are equally and ratably payable from rental payments (the "Base Rental Payments") to be made by the City of Escondido (the "City") for the right to use certain real property consisting of an 18-hole golf course, a related flood water detention basin, water well and certain ancillary facilities and related improvements (collectively, the "Property") pursuant to a Lease Agreement, dated as of February 1, 2013 (the "Lease Agreement"), by and between the City, as lessee, and the Escondido Joint Powers Financing Authority (the "Authority"), as lessor.

The Series 2013A Bonds will be issued pursuant to an Indenture, dated as of February 1, 2013 (the "Indenture"), by and among the Authority, the City and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). Pursuant to the Indenture, the Authority may issue additional bonds (the "Additional Bonds") payable from the Base Rental Payments on a parity with the Series 2013A Bonds (the Series 2013A Bonds and any such Additional Bonds being collectively referred to as the "Bonds"). See the caption "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013A BONDS—Additional Bonds."

Pursuant to a Ground Lease, dated as of February 1, 2013 (the "Ground Lease"), by and between the City and the Authority, the City has leased the Property to the Authority. The Authority has subleased the Property to the City under the Lease Agreement. The Lease Agreement obligates the City to make Base Rental Payments to the Authority.

The Trustee and the Authority have entered into an Assignment Agreement, dated as of February 1, 2013 (the "Assignment Agreement"), pursuant to which the Authority has assigned to the Trustee for the benefit of the Bond Owners substantially all of the Authority's right, title and interest in and to the Ground Lease and the Lease Agreement, including its right to receive the Base Rental Payments due under the Lease Agreement and to enforce any remedies in the event of a default by the City.

The City will covenant under the Lease Agreement to take such action as may be necessary to include all Rental Payments, which are comprised of Base Rental Payments and Additional Rental Payments (consisting of taxes and assessments affecting the Property, administrative costs of the Authority relating to the Property, fees and expenses of the Trustee and other amounts payable under the Lease Agreement) due under the Lease Agreement as a separate line item in its annual budgets, and to make the necessary annual appropriations therefor, subject to abatement as described in this Official Statement.

Base Rental Payments are subject to complete or partial abatement in the event and to the extent that there is substantial interference with the City's right to use and occupy the Property or any portion thereof. See the caption "RISK FACTORS—Abatement." Abatement of Base Rental Payments under the Lease Agreement, to the extent that payment is not made from alternative sources as described in this Official Statement, would result in all Bond Owners receiving less than the full amount of principal of and interest on the Bonds. To the extent that proceeds of insurance are available, Base Rental Payments (or a portion thereof) may be made during periods of abatement.

THE SERIES 2013A BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM BASE RENTAL PAYMENTS AND THE OTHER ASSETS PLEDGED THEREFOR UNDER THE INDENTURE. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE AUTHORITY, THE CITY OR THE STATE OF CALIFORNIA (THE "STATE"), OR ANY POLITICAL SUBDIVISION THEREOF, IS PLEDGED TO THE PAYMENT OF THE SERIES 2013A BONDS. THE AUTHORITY HAS NO TAXING POWER.

THE OBLIGATION OF THE CITY TO MAKE THE BASE RENTAL PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE CITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION, AND DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE CITY OR THE STATE IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY OR THE STATE HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

Neither the City nor the Authority has established a reserve fund in connection with the issuance of the Series 2013A Bonds.

**Book-Entry System**

The Series 2013A Bonds are being issued in fully registered book-entry only form, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Interest on the Series 2013A Bonds is payable semiannually on October 1, 2013 and each April 1 and October 1 thereafter. Purchasers will not receive certificates representing their interest in the Series 2013A Bonds. Individual purchases will be in principal amounts of $5,000 or integral multiples thereof. Principal of and interest on the Series 2013A Bonds will be paid by the Trustee to DTC for subsequent disbursement to DTC Participants, which are obligated to remit such payments to the Beneficial Owners of the Series 2013A Bonds. See the caption "THE SERIES 2013A BONDS—Book-Entry Only System."

**Redemption**

The Series 2013A Bonds are subject to optional and extraordinary redemption prior to maturity as described under the caption "THE SERIES 2013A BONDS—Redemption."

**Legal Matters**

The Bank of New York Mellon Trust Company, N.A., Los Angeles, California, will act as Trustee with respect to the Series 2013A Bonds. The Series 2013A Bonds will be issued subject to the approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel. Certain legal matters will be passed upon for the City and the Authority by Jeffrey Epp, Esquire, City Attorney and General Counsel to the Authority, and by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Disclosure Counsel. Certain legal matters will be passed upon for the Underwriter by Best Best & Krieger LLP and for the Trustee by its counsel.

## Miscellaneous

The City's financial statements for the fiscal year of the City ended June 30, 2012 (each fiscal year of the City ended June 30, a "Fiscal Year") included as Appendix B hereto have been audited by Lance, Soll & Lunghard, LLP, Certified Public Accountants, Brea, California (the "Auditor"). The City's financial statements are public documents and are included within this Official Statement without the prior approval of the Auditor. Accordingly, the Auditor has not performed any post-audit review of the financial condition of the City.

Certain events could affect the ability of the City to make the Base Rental Payments when due. See the caption "RISK FACTORS" for a discussion of certain factors that should be considered, in addition to other matters set forth herein, in evaluating an investment in the Series 2013A Bonds.

The presentation of information, including tables of receipt of revenues, is intended to show recent historical information and, except for a budget discussion for Fiscal Year 2013, is not intended to indicate future or continuing trends in the financial position or other affairs of the City. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future.

The summaries or references to the Indenture, the Lease Agreement, the Ground Lease, the Assignment Agreement and other documents, agreements and statutes referred to herein, and the description of the Series 2013A Bonds included in this Official Statement, do not purport to be comprehensive or definitive, and such summaries, references and descriptions are qualified in their entireties by reference to each such document or statute. All capitalized terms used in this Official Statement and not otherwise defined have the meanings set forth in Appendix A.

# THE SERIES 2013A BONDS

## General

The Series 2013A Bonds will be issued in fully registered form without coupons in denominations of $5,000 or any integral multiple thereof. The Series 2013A Bonds will be dated as of and bear interest (calculated on the basis of a 360-day year comprised of twelve 30-day months) from the dated date thereof at the rates set forth on the inside cover page hereof. Interest on the Series 2013A Bonds will be paid semiannually on October 1, 2013 and each April 1 and October 1 thereafter (each, an "Interest Payment Date").

Interest on the Series 2013A Bonds will be payable from the Interest Payment Date next preceding the date of authentication thereof unless: (a) a Series 2013A Bond is authenticated on or before an Interest Payment Date and after the close of business on the preceding Record Date, in which event it will bear interest from such Interest Payment Date; (b) a Series 2013A Bond is authenticated on or before the first Record Date, in which event interest thereon will be payable from the dated date thereof; or (c) interest on any Series 2013A Bond is in default as of the date of authentication thereof, in which event interest thereon will be payable from the date to which interest has been paid in full, payable on each Interest Payment Date. Interest will be paid in lawful money of the United States on each Interest Payment Date to the Persons in whose names the ownership of the Series 2013A Bonds is registered on the records maintained by the Trustee for the registration of ownership and registration of transfer of the Series 2013A Bonds pursuant to the Indenture (the "Registration Books") at the close of business on the immediately preceding Record Date, except as provided in the Indenture. Interest will be paid by check of the Trustee mailed by first class mail, postage prepaid, on each Interest Payment Date to the Series 2013A Bond Owners at their respective addresses shown on the Registration Books as of the close of business on the preceding Record Date.

The principal and premium, if any, of the Series 2013A Bonds will be payable in lawful money of the United States of America upon presentation and surrender thereof upon maturity or earlier redemption at the Office of the Trustee.

**Registration, Transfers and Exchanges**

The Series 2013A Bonds will be issued as fully registered bonds, registered in the name of Cede & Co., as nominee of DTC, and will be available to actual purchasers of the Series 2013A Bonds (the "Beneficial Owners") in the denominations set forth above, under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants (as defined in Appendix E) as described herein. Beneficial Owners will not be entitled to receive physical delivery of the Series 2013A Bonds. See the caption "—Book-Entry Only System."

**Redemption**

***Optional Redemption***. The Series 2013A Bonds maturing on or after October 1, 2024, are subject to optional redemption, in whole or in part, on any date on or after October 1, 2023, in Authorized Denominations, from and to the extent of prepaid Base Rental Payments paid pursuant to the Lease Agreement, at a Redemption Price equal to the principal amount of the Series 2013A Bonds to be redeemed, plus accrued interest thereon to the date of redemption, without premium.

***Extraordinary Redemption from Condemnation Award or Insurance Proceeds***. The Series 2013A Bonds are subject to redemption, in whole or in part, on any date, in Authorized Denominations, from and to the extent of any Net Insurance Proceeds (consisting of certain insurance proceeds or condemnation awards in excess of $50,000, paid with respect to any of the Property, remaining after payment therefrom of all reasonable expenses incurred in the collection thereof) deposited by the Trustee in the Redemption Fund pursuant to the Indenture, at a Redemption Price equal to the principal amount of the Series 2013A Bonds to be redeemed, plus accrued interest thereon to the date of redemption, without premium.

***Selection of Bonds for Redemption***. Whenever provision is made in the Indenture for the redemption of less than all of the Bonds, the Trustee will select the Bonds to be redeemed from all Bonds not previously called for redemption: (a) with respect to any optional redemption of Bonds of a Series, among maturities of Bonds of such Series as directed in a Written Request of the Authority; (b) with respect to any redemption from and to the extent of any insurance proceeds or condemnation award received with respect to all or a portion of the Property and the corresponding provision of any Supplemental Indenture pursuant to which Additional Bonds are issued, among maturities of all Series of Bonds on a pro rata basis as nearly as practicable; and (c) with respect to any other redemption of Additional Bonds, among maturities as provided in the Supplemental Indenture pursuant to which such Additional Bonds are issued, and by lot among Bonds of the same Series with the same maturity in any manner which the Trustee in its sole discretion deems appropriate and fair. For purposes of such selection, all Bonds will be deemed to be comprised of separate $5,000 denominations and such separate denominations will be treated as separate Bonds which may be separately redeemed.

***Notice of Redemption***. So long as the Bonds are held in book-entry form, notices of redemption will be mailed by the Trustee only to DTC and not to any Beneficial Owners. The Trustee on behalf and at the expense of the Authority will mail (by first class mail) notice of any redemption to the respective Owners of any Bonds designated for redemption at their respective addresses appearing on the Registration Books, to the Securities Depositories and to one or more Information Services, at least 20 but not more than 60 days prior to the date fixed for redemption. Such notice will state the date of the notice, the redemption date, the redemption place and the Redemption Price and designate the CUSIP numbers, the Bond numbers and the maturity or maturities (except in the event of redemption of all of the Bonds of such maturity or maturities in whole) of the Bonds to be redeemed, and will require that such Bonds be then surrendered at the Office of the Trustee for redemption at the Redemption Price, giving notice also that further interest on such Bonds will not accrue from and after the date fixed for redemption. Such notice may state that such redemption is conditioned upon sufficient funds being on deposit on the redemption date to redeem the Bonds so called for redemption. Such notice of redemption may also state that no representation is made as to the accuracy or correctness of the CUSIP numbers printed therein or on the Bonds. Neither the failure to receive any notice so mailed, nor any defect in such notice, will affect the validity of the proceedings for the redemption of the Bonds or the cessation of accrual of interest thereon from and after the date fixed for redemption.

***Partial Redemption of Bonds***. Upon surrender of any Bonds redeemed in part only, the Authority will execute and the Trustee will authenticate and deliver to the Owner thereof, at the expense of the Authority, a new Bond or Bonds of the same Series in authorized denominations equal in aggregate principal amount representing the unredeemed portion of the Bonds surrendered.

***Effect of Notice of Redemption***. Notice having been mailed as set forth in the Indenture, and moneys for the Redemption Price, and the interest to the applicable date fixed for redemption, having been set aside in the Redemption Fund, the Bonds will become due and payable on said date, and, upon presentation and surrender thereof at the Office of the Trustee, said Bonds will be paid at the Redemption Price thereof, together with interest accrued and unpaid to said date.

If, on the date fixed for redemption, moneys for the Redemption Price of all the Bonds to be redeemed, together with interest to said date, will be held by the Trustee so as to be available therefor on such date, and, if notice of redemption thereof has been mailed as aforesaid and not canceled, then, from and after said date, interest on said Bonds will cease to accrue and become payable. All moneys held by or on behalf of the Trustee for the redemption of Bonds will be held in trust for the account of the Owners of the Bonds so to be redeemed without liability to such Owners for interest thereon. All Bonds paid at maturity or redeemed prior to maturity pursuant to the provisions of the Indenture will be canceled upon surrender thereof and destroyed.

**Book-Entry Only System**

***General***. DTC will act as securities depository for the Series 2013A Bonds. The Series 2013A Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Series 2013A Bond will be issued for each maturity of the Series 2013A Bonds, each in the initial aggregate principal amount of such maturity, and will be deposited with DTC. See Appendix E for further information with respect to DTC and its book-entry only system.

***Transfer and Exchange of Bonds***. The following provisions regarding the exchange and transfer of the Series 2013A Bonds apply only during any period in which the Series 2013A Bonds are not subject to DTC's book-entry system. While the Series 2013A Bonds are subject to DTC's book-entry system, their exchange and transfer will be effected through DTC and the Participants and will be subject to the procedures, rules and requirements established by DTC.

Any Bond may, in accordance with its terms, be transferred upon the Registration Books by the Person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form acceptable to the Trustee. Whenever any Bond or Bonds is surrendered for transfer, the Authority will execute and the Trustee will authenticate and deliver a new Bond or Bonds in a like aggregate principal amount, in any Authorized Denomination. The Trustee will require the Bond Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer.

The Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of Bonds of the same Series of other authorized denominations. The Trustee will require the payment by the Bond Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

The Trustee is not obligated to make any transfer or exchange of Bonds during the period established by the Trustee for the selection of Bonds for redemption, or with respect to any Bonds selected for redemption.

## SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013A BONDS

### Pledge of Revenues

The Series 2013A Bonds are equally and ratably payable from and secured by Base Rental Payments and certain amounts on deposit in the funds and accounts established under the Indenture. Base Rental Payments will be paid by the City from any and all legally available funds. See the captions "THE CITY," "CITY FINANCIAL INFORMATION" and "RISK FACTORS." The City has covenanted in the Lease Agreement to take such action as may be necessary to include all Base Rental Payments and Additional Rental Payments due under the Lease Agreement as a separate line item in its annual budgets and to make the necessary annual appropriations therefor.

Pursuant to the Assignment Agreement, the Authority will assign to the Trustee for the benefit of the Series 2013A Bond Owners all of the Authority's right, title and interest in and to the Ground Lease and the Lease Agreement, including, without limitation, the Authority's right to receive Base Rental Payments to be paid by the City under and pursuant to the Lease Agreement; provided that the Authority will retain the rights to indemnification and to payment of reimbursement of its reasonable costs and expenses under the Lease Agreement. The City will pay Base Rental Payments directly to the Trustee, as assignee of the Authority. See the caption "—Base Rental Payments" below. Pursuant to the Indenture, the Authority may issue Additional Bonds payable from the Base Rental Payments on a parity with the Series 2013A Bonds. See Appendix A under the caption "INDENTURE—ISSUANCE OF BONDS; APPLICATION OF PROCEEDS."

Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture, all of the Base Rental Payments and any other amounts (including proceeds of the sale of the Bonds) held in the Base Rental Payment Fund, the Interest Fund, the Principal Fund and the Redemption Fund are pledged by the Authority pursuant to the Indenture to secure the payment of the principal of, premium, if any, and interest on the Bonds in accordance with their terms, the provisions of the Indenture and the Marks-Roos Local Bond Pooling Act of 1985, commencing with Section 6584 of the California Government Code. Said pledge constitutes a first lien on such assets.

THE SERIES 2013A BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM BASE RENTAL PAYMENTS AND THE OTHER ASSETS PLEDGED THEREFOR UNDER THE INDENTURE. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE AUTHORITY, THE CITY OR THE STATE, OR ANY POLITICAL SUBDIVISION THEREOF, IS PLEDGED TO THE PAYMENT OF THE SERIES 2013A BONDS. THE AUTHORITY HAS NO TAXING POWER.

### Base Rental Payments

Rental Payments, including Base Rental Payments, will be paid by the City to the Authority for and in consideration of the right to use and occupy the Property and in consideration of the continued right to the quiet use and enjoyment thereof during each Rental Period for which such Rental Payments are to be paid. Each Base Rental Payment will be deposited with the Trustee no later than the 15th day of the month next preceding each Interest Payment Date on which such Base Rental Payment is due. All Base Rental Payments will be paid directly by the City to the Trustee, and if received by the Authority at any time will be transferred by the Authority to the Trustee within one Business Day after the receipt thereof. All Base Rental Payments received by the Trustee will be deposited by the Trustee in the Base Rental Payment Fund.

Pursuant to the Indenture, on the Business Day immediately preceding each Interest Payment Date and on the Business Day immediately preceding each Principal Payment Date, the Trustee will transfer amounts in the Base Rental Payment Fund as are necessary to the Interest Fund and the Principal Fund to provide for the payment of the interest on and principal of the Series 2013A Bonds.

Scheduled Base Rental Payments relating to the Series 2013A Bonds are set forth below under the caption "BASE RENTAL PAYMENT SCHEDULE."

THE OBLIGATION OF THE CITY TO MAKE THE BASE RENTAL PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE CITY OR THE STATE OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION, AND DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE CITY OR THE STATE IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY OR THE STATE HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

**Additional Rental Payments**

For the right to use and occupy the Property, the Lease Agreement requires the City to pay, as Additional Rental Payments thereunder, in addition to the Base Rental Payments, such amounts as are required for the payment of the following:

(a) all taxes and assessments of any type or nature charged to the Authority or the City or affecting the Property or the respective interests or estates of the Authority or the City therein;

(b) all reasonable administrative costs of the Authority relating to the Property including, but without limiting the generality of the foregoing, salaries, wages, fees and expenses, compensation and indemnification of the Trustee payable by the Authority under the Indenture, fees of auditors, accountants, attorneys or engineers, and all other necessary and reasonable administrative costs of the Authority or charges required to be paid by it in order to maintain its existence or to comply with the terms of the Indenture or the Lease Agreement or to defend the Authority and its members, officers, agents and employees;

(c) Insurance premiums for all insurance required pursuant to the Lease Agreement;

(d) Any amounts with respect to the Lease Agreement or the Bonds required to be rebated to the federal government in accordance with section 148(f) of the Internal Revenue Code of 1986, as amended (the "Code"); and

(e) All other payments required to be paid by the City under the provisions of the Lease Agreement or the Indenture.

Amounts constituting Additional Rental Payments payable under the Lease Agreement will be paid by the City directly to the person or persons to whom such amounts are payable. The City will pay all such amounts when due or at such later time as such amounts may be paid without penalty or, in any other case, within 60 days after notice in writing from the Trustee to the City stating the amount of Additional Rental Payments then due and payable and the purpose thereof.

**Abatement**

Base Rental Payments and Additional Rental Payments are payable by the City in each Rental Period for and in consideration of the right to use and occupy the Property. Except as otherwise specifically provided in the Lease Agreement, during any period in which, by reason of material damage to, or destruction or condemnation of, the Property, or any defect in title to the Property, there is substantial interference with the City's right to use and occupy any portion of the Property, Rental Payments are subject to abatement proportionately, and the City waives the benefits of Civil Code §§ 1932(1), 1932(2) and 1933(4) and any and all other rights to terminate the Lease Agreement by virtue of any such interference, and the Lease Agreement will continue in full force and effect. The amount of such abatement will be agreed upon by the City and the Authority; provided, however, that the Rental Payments due for any Rental Period may not exceed the annual fair rental value of that portion of the Property available for use and occupancy by the City during such Rental Period.

Any such abatement will continue for the period commencing with the date of interference resulting from such damage, destruction, condemnation or title defect and, with respect to damage to or destruction of the Property, ending with the substantial completion of the work of repair or replacement of the Property, or the portion thereof so damaged or destroyed; and the term of the Lease Agreement will be extended as provided in the Lease Agreement, except that the term will in no event be extended ten years beyond the stated termination date of the Lease Agreement. The Trustee cannot terminate the Lease Agreement in the event of such substantial interference. Abatement of Base Rental Payments and Additional Rental Payments is not an event of default under the Lease Agreement and does not permit the Trustee to take any action or avail itself of any remedy against the City. See Appendix A under the caption "LEASE AGREEMENT—RENTAL PAYMENTS—Rental Abatement."

Notwithstanding the foregoing, to the extent that moneys are available for the payment of Rental Payments due under the Lease Agreement in any of the funds and accounts established under the Indenture (including as a result of the availability of insurance proceeds), such Rental Payments will not be abated as provided above but, rather, will be payable by the City as a special obligation payable solely from said funds and accounts. The City is permitted to apply Net Insurance Proceeds: (a) together with other legally available funds that the City elects to appropriate, to the repair, reconstruction or replacement of the damaged or destroyed portions of the Property; (b) to redeem Series 2013A Bonds; or (c) if the annual fair rental value of the property is at least equal to 100% of the Base Rental Payments, to any other lawful purpose. See the captions "THE SERIES 2013A BONDS—Redemption—Extraordinary Redemption from Condemnation Award or Insurance Proceeds," "RISK FACTORS—Abatement" and Appendix A under the caption "INDENTURE—Application of Net Insurance Proceeds."

**Substitution, Addition and Removal of Property**

The Authority and the City may amend the Lease Agreement to substitute alternate real property for any portion of the Property, to add additional real property or to release a portion of the Property from the Lease Agreement, upon compliance with all of the conditions set forth in the Lease Agreement and described below. After a substitution or release, the portion of the Property for which the substitution or release has been effected will be released from the leasehold encumbrance of the Lease Agreement.

The Lease Agreement provides that there will be no reduction in or abatement of the Base Rental Payments due from the City thereunder as a result of such substitution or release. Any such substitution or release is subject to the following specific conditions precedent to such substitution or release:

(a) an independent certified real estate appraiser selected by the City finds (and delivers a certificate to the City and the Trustee setting forth its findings) that the Property, as constituted after such substitution or release: (i) has an annual fair rental value at least equal to the maximum Base Rental Payments payable by the City in any Rental Period; and (ii) has a useful life in excess of the final maturity of any Outstanding Bonds;

(b) the City obtains or causes to be obtained a CLTA or ALTA title insurance policy or policies with respect to any substituted property in an amount at least equal to the aggregate principal amount of any Outstanding Bonds, of the type and with the endorsements described in the Lease Agreement;

(c) the City provides the Trustee with an opinion of counsel to the effect that such substitution or release will not, in and of itself, cause the interest on the Bonds to be included in gross income for federal income tax purposes;

(d) the City, the Authority and the Trustee execute, and the City causes to be recorded with the San Diego County Recorder, any document necessary to reconvey to the City the portion of the Property being released and to include any substituted real property in the description of the Property contained in the Lease Agreement and in the Ground Lease; and

(e) the City provides notice of such substitution to each rating agency then rating the Bonds.

See Appendix A under the caption "LEASE AGREEMENT—NO CONSEQUENTIAL DAMAGES; USE OF THE PROPERTY; SUBSTITUTION OR RELEASE—Substitution or Release of the Property."

**Additional Bonds**

Pursuant to the Indenture, the Authority may at any time issue Additional Bonds payable from Base Rental Payments on a parity with all other Bonds previously issued under the Indenture. Among other conditions to the issuance of such Additional Bonds, the Ground Lease must be amended, to the extent necessary, and the Lease Agreement must be amended so as to increase the Base Rental Payments payable by the City thereunder by an aggregate amount equal to the principal of and interest on such Additional Bonds, payable at such times and in such manner as may be necessary to provide for the payment of the principal of and interest on such Additional Bonds; provided, however, that no such amendment may be made such that the sum of Base Rental Payments, including any increase in the Base Rental Payments as a result of such amendment, plus Additional Rental Payments, in any Rental Period are in excess of the annual fair rental value of the Property after taking into account the use of the proceeds of any Additional Bonds issued in connection therewith (evidence of the satisfaction of such condition will be made by a Written Certificate of the City). See Appendix A under the captions "INDENTURE—Conditions for the Issuance of Additional Bonds" and "INDENTURE—Procedure for the Issuance of Additional Bonds" for a full description of the requirements that must be met in order for the Authority to issue Additional Bonds.

The City has no current plans to issue Additional Bonds under the Indenture. See the caption "RISK FACTORS—Substitution, Addition and Removal of Property; Additional Bonds."

**Action on Default**

Should the City default under the Lease Agreement, the Trustee, as assignee of the Authority under the Lease Agreement, may terminate the Lease Agreement and recover certain damages from the City, or may retain the Lease Agreement and hold the City liable for all Base Rental Payments thereunder on an annual basis, and will have the right to re-enter and re-let the Property. In the event that such re-letting occurs, the City would be liable for any resulting deficiency in Base Rental Payments. Base Rental Payments may not be accelerated upon a default under the Lease Agreement. See the caption "RISK FACTORS—Limited Recourse on Default; No Acceleration of Base Rental."

For purposes of certain actions of Bond Owners under the Indenture and the Lease, such as certain consents and amendments and the direction of remedies following default, Series 2013A Bond Owners do not act alone and may not control such matters to the extent that such matters are not supported by the requisite number of the Owners of all Series 2013A Bonds and Additional Bonds, if any.

For a description of the events of default and permitted remedies of the Trustee (as assignee of the Authority) contained in the Lease Agreement and the Indenture, see Appendix A under the captions "LEASE AGREEMENT—DEFAULTS AND REMEDIES" and "INDENTURE—DEFAULT AND LIMITATIONS OF LIABILITY."

**No Reserve Fund**

Neither the City nor the Authority has established a reserve fund in connection with the issuance of the Series 2013A Bonds.

**Insurance**

The Lease Agreement requires the City to maintain or cause to be maintained fire, lightning and special extended coverage insurance (which includes coverage for vandalism and malicious mischief, but need not include coverage for earthquake damage) on all improvements constituting any part of the Property in an amount equal to the greater of 100% of the replacement cost of such improvements or 100% of the outstanding principal amount of the Bonds, provided that such insurance may be subject to a deductible in an amount not to exceed $500,000. The City has an insurance policy which provides replacement cost coverage. The City's obligation to maintain the insurance described above (except for rental interruption insurance) may be satisfied by self-insurance, provided that such self-insurance complies with the requirements of the Lease Agreement. See Appendix A under the caption "LEASE AGREEMENT—INSURANCE."

The Lease Agreement requires the City to maintain rental interruption insurance to cover the Authority's loss, total or partial, of Base Rental Payments resulting from the loss, total or partial, of the use of any part of the Property as a result of any of the hazards covered by the casualty insurance described in the preceding paragraph, in an amount sufficient at all times to pay an amount not less than the product of two times the maximum amount of Base Rental Payments scheduled to be paid during any Rental Period. The City is not permitted to self-insure its obligation to maintain rental interruption insurance.

The City is also required to maintain or cause to be maintained, throughout the term of the Lease Agreement, a standard commercial general liability insurance policy or policies in protection of the City, the Authority and their respective members, officers, agents and employees, and worker's compensation insurance as described in Appendix A under the caption "LEASE AGREEMENT—INSURANCE."

A description of insurance coverages maintained by the City is set forth under the caption "THE CITY—Risk Management."

The City is required under the Lease Agreement to provide, at its own expense, one or more CLTA or ALTA title insurance policies for the Property, in the aggregate amount of not less than the initial aggregate principal amount of the Series 2013A Bonds, insuring the fee interest of the City in the Property, the Authority's leasehold estate in the Property under the Ground Lease, and the City's subleasehold estate in the Property under the Lease Agreement, subject only to Permitted Encumbrances, and providing that all proceeds thereunder are payable to the Trustee for the benefit of the Owners.

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## SOURCES AND USES OF FUNDS

The sources and uses of funds with respect to the Series 2013A Bonds are shown below.

| | |
|---|---|
| ***Sources***[1] | |
| Principal Amount of Series 2013A Bonds | $ 4,830,000 |
| 2001 Bonds Reserve Fund | 540,000 |
| Less Net Original Issue Discount | (9,840) |
| ***Total Sources*** | $ 5,360,160 |
| | |
| ***Uses***[1] | |
| Escrow Fund | $ 5,232,451 |
| Costs of Issuance[2] | 127,709 |
| ***Total Uses*** | $ 5,360,160 |

(1) Rounded to the nearest dollar.
(2) Includes certain fees of Bond Counsel, Disclosure Counsel, the Verification Agent, rating agencies and the Trustee, Underwriter's discount, printing costs and other miscellaneous costs of issuance.

## BASE RENTAL PAYMENT SCHEDULE

The annual schedule of Base Rental Payments due with respect to the Series 2013A Bonds is set forth below.

| ***Period Ending June 30*** | ***Principal*** | ***Interest*** | ***Total*** |
|---|---|---|---|
| 2013 | $ - | $ - | $ - |
| 2014 | 205,000.00 | 154,714.33 | 359,714.33 |
| 2015 | 210,000.00 | 149,268.76 | 359,268.76 |
| 2016 | 215,000.00 | 145,018.76 | 360,018.76 |
| 2017 | 220,000.00 | 139,568.76 | 359,568.76 |
| 2018 | 230,000.00 | 132,818.76 | 362,818.76 |
| 2019 | 235,000.00 | 125,843.76 | 360,843.76 |
| 2020 | 245,000.00 | 118,643.76 | 363,643.76 |
| 2021 | 250,000.00 | 111,218.76 | 361,218.76 |
| 2022 | 260,000.00 | 103,568.76 | 363,568.76 |
| 2023 | 265,000.00 | 95,693.76 | 360,693.76 |
| 2024 | 275,000.00 | 87,250.01 | 362,250.01 |
| 2025 | 285,000.00 | 77,971.88 | 362,971.88 |
| 2026 | 295,000.00 | 68,000.00 | 363,000.00 |
| 2027 | 305,000.00 | 57,309.38 | 362,309.38 |
| 2028 | 315,000.00 | 45,875.01 | 360,875.01 |
| 2029 | 325,000.00 | 33,671.88 | 358,671.88 |
| 2030 | 340,000.00 | 20,787.50 | 360,787.50 |
| 2031 | 355,000.00 | 7,100.00 | 362,100.00 |
| ***Total*** | $4,830,000.00 | $1,674,323.83 | $6,504,323.83 |

## THE REFUNDING PLAN

### General

The 2001 Bonds, which are currently outstanding in the aggregate principal amount of $5,205,000, were issued by the Authority pursuant to an Indenture of Trust, dated as of March 1, 2001 (the "2001 Indenture"), by and between the Authority and The Bank of New York Mellon Trust Company, N.A., successor in interest to BNY Western Trust Company, as trustee (the "2001 Trustee"). The 2001 Bonds are payable from lease payments made by the City under the Lease Agreement, dated as of March 1, 2001 (the "2001 Lease Agreement"), by and between the Authority, as lessor, and the City, as lessee. The Authority plans to apply a portion of the proceeds of the Series 2013A Bonds, together with certain moneys on deposit with the 2001 Trustee, to pay all principal of and interest on the 2001 Bonds pursuant to an early call for redemption on April 9, 2013 (at least five days after the issuance of the Series 2013A Bonds) (the "Redemption Date") at a redemption price equal to the principal amount thereof plus accrued interest to the Redemption Date, without premium.

Under an Escrow Agreement (2001 Bonds), dated as of February 1, 2013 (the "2001 Escrow Agreement"), by and among the City, the Authority and The Bank of New York Mellon Trust Company, N.A., as escrow agent (the "2001 Escrow Agent") and as 2001 Trustee, the Authority will deliver a portion of the proceeds of the Series 2013A Bonds to the 2001 Escrow Agent for deposit in the escrow fund (the "2001 Escrow Fund") established under the 2001 Escrow Agreement on or about the date of issuance of the Series 2013A Bonds. In addition, the 2001 Trustee will transfer certain moneys held in connection with the 2001 Bonds to the 2001 Escrow Agent for deposit in the 2001 Escrow Fund on or about the date of issuance of the Series 2013A Bonds. The 2001 Escrow Agent will hold the amounts so deposited in the 2001 Escrow Fund uninvested and apply such moneys to pay all principal of and accrued interest on the 2001 Bonds on the Redemption Date.

Sufficiency of the deposits in the 2001 Escrow Fund for those purposes will be verified by Causey, Demgen & Moore Inc., Denver, Colorado (the "Verification Agent"). Assuming the accuracy of such computations, as a result of the deposit and application of funds as provided in the 2001 Escrow Agreement, the 2001 Bonds will be defeased pursuant to the provisions of the 2001 Indenture and the 2001 Lease Agreement as of the date of issuance of the Series 2013A Bonds.

The amounts held by the 2001 Escrow Agent in the 2001 Escrow Fund are pledged solely to the payment of the 2001 Bonds. Neither the funds deposited in the 2001 Escrow Fund nor any interest thereon will be available for the payment of the principal of or interest on the Series 2013A Bonds.

**Verification**

Upon issuance of the Series 2013A Bonds, the Verification Agent will deliver a report on the mathematical accuracy of certain computations based upon certain information and assertions provided to it by the Underwriter relating to the adequacy of the deposits in the 2001 Escrow Fund to pay when due all principal of and accrued interest on the 2001 Bonds on April 9, 2013.

## THE PROPERTY

The Property consists of an 18-hole public golf course and a related flood water detention basin, water well and certain ancillary facilities and related improvements. The golf course opened to the public in 2002. Partially situated within a master planned community of single family homes, the golf course is located on approximately 65 acres in the City on North Broadway between Country Club Lane/Rincon Avenue and north of Jesmond Dene Road.

The golf course is a 2,582 yard course with all par 3 holes and a rating of 51.4 – 54.6. The holes on both the front nine and back nine range in distance from approximately 90 yards to 200 yards. There are numerous water features (ponds and creek) and sand bunkers included in the course design. The site topography allows walking by most golfers, with pull carts and motorized carts available.

A portion of the golf course is designed as a flood control detention basin to reduce peak-flow stormwater runoff from the adjacent Reidy Creek. The basin consists of an approximately 100 foot wide naturally contoured drainage channel with a 40 foot wide natural bottom. Channel slope heights range from less than 10 feet to approximately 15 feet. Flows from Reidy Creek that exceed system capacity from north of the site are diverted and detained west of North Broadway on holes 11 through 17 of the golf course. In addition, a water well has been constructed in the area of the flood control detention basin. The Property has been designed in a manner that will subject the detention basin to flooding during a ten year flood event. The golf course has been designed with elevated tees and greens that are not subject to flooding and in a manner designed to alleviate flood damage.

The golf course and a related clubhouse and a concessions facility (not a part of the Property) are operated and maintained pursuant to a Golf Course Consulting and Management Agreement, dated as of July 1, 2012, by and between the City and JC Management LLC, a California limited liability company, and a Lease and Concession Agreement, dated as of July 1, 2012, by and between the City and JC Resorts LLC, a Delaware limited liability company (collectively, the "Management Agreements"). The operating entities are collectively referred to herein as "JC Resorts." Pursuant to the terms of the Lease Agreement, the Management Agreements, which expire on June 30, 2022, are Permitted Encumbrances on the Property. Under the Management Agreements, the City is permitted to sell, lease and otherwise encumber the golf course without the consent of JC Resorts. However, transferees are required to take their interest subject to JC Resorts' rights under the Management Agreements (the "Non-Disturbance Rights"). In the event of a default by the City in the payment of Rental Payments under the Lease Agreement, the ability of the Trustee to sell or re-let the golf course may be severely limited. Moreover, the amount of money that could be raised through the exercise of such remedies may be materially lower than it would have been in light of the specialized nature of the Property and the Non-Disturbance Rights. Historically, revenues from the golf course's operations were insufficient to pay the lease payments securing the 2001 Bonds, and the City expects to fund the Rental Payments securing the Series 2013A Bonds from the General Fund. See the caption "RISK FACTORS—Limited Recourse on Default; No Acceleration of Base Rental." See Appendix A under the caption "LEASE AGREEMENT—DEFAULTS AND REMEDIES" for a full description of remedies available in the event of a default by the City under the Lease Agreement.

JC Resorts and its affiliated entities have managed resort and golf properties since 1971 and currently operate the Rancho Bernardo Inn Golf Course, the Encinitas Ranch Golf Course, the Twin Oaks San Marcos Golf Course and the Oaks North San Diego Golf Course in San Diego County, the Surf and Sand Resort in Orange County and the Avondale Palm Desert Golf Course and the Temecula Creek Inn in Riverside County, *inter alia*.

The golf course was designed by Cal Olson Golf Architecture ("Cal Olson"). Since its founding in 1979, Cal Olson has designed golf projects in the continental United States and Hawaii and Japan, Korea, Taiwan, French Polynesia, Singapore, Mexico, Spain and Canada.

A clubhouse and a concessions facility serving the golf course were not financed with the proceeds of the 2001 Bonds and do not constitute part of the Property. Such improvements are not subject to the Lease Agreement and would not be available to the Trustee in the event that the Trustee exercises remedies for a default thereunder.

The City has the right to substitute or release all or portion of the Property subject to certain conditions precedent. See the caption "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013A BONDS—Substitution, Addition and Removal of Property."

## THE AUTHORITY

The Authority is a public body duly organized and existing under the Joint Exercise of Powers Agreement, dated as of November 20, 1991 (the "JPA Agreement"), by and between the City and the Community Development Commission of the City of Escondido (the "Commission") and under the Constitution and laws of the State. The Authority was formed for the purpose of assisting the financing and refinancing of capital improvement projects of the City and to finance working capital for the City by exercising the powers referred to in the JPA Agreement, including the power to issue bonds to pay the costs of public improvements. Neither the City nor the Commission is responsible for repayment of the obligations of the other. The members of the Board of Directors of the Authority are the members of the City Council of the City.

## THE CITY

### General

The City is located approximately 30 miles northeast of San Diego, California. The City was incorporated in 1888 and is a general law city operating under a council/manager form of government. The City had a 2012 estimated population of 146,064, to which it provides police, fire, water and wastewater utilities, parks and recreation, public works, planning, engineering and other services.

The City had approximately 1,073 full and part-time employees as of June 30, 2012. City employees are represented by six labor unions and associations. The six employee groups are shown below. A total of approximately 145 management and confidential employees are exempt from collective bargaining. Salaries for exempt employees are set by the City Council. The City has never experienced a strike, slowdown or work stoppage.

| | ***Employee Group*** | ***Employees*** | ***Contract Expires*** |
|---|---|---|---|
| 1. | Police | 142 | December 31, 2013 |
| 2. | Police non-sworn | 30 | June 30, 2014 |
| 3. | Fire | 82 | December 31, 2013 |
| 4. | Administrative, Clerical and Engineering | 99 | June 30, 2014 |
| 5. | Maintenance and Operations | 145 | June 30, 2015 |
| 6. | Supervisory | 43 | June 30, 2014 |

Further information concerning the City is set forth in Appendices B and F.

### Government and Administration

The City operates under a council-manager form of government. The City Manager, appointed by the City Council, serves as the City's chief executive officer and is responsible for overseeing the daily operations of City departments. The City Manager serves as an advisor to the City Council on policy matters impacting the community and the City's organization, supports the informational and policymaking needs of the City Council, implements City Council decisions and prepares, manages, and implements the annual budgets for the City, as well as the City's Capital Improvement Program.

Clay Phillips is the City Manager. Mr. Phillips began his career with the City of Santa Ana from 1980 to 1983, as an accountant. Mr. Phillips also served as Deputy Finance Officer for the City of Irvine from 1983 to 1986. Mr. Phillips continued his career by accepting the Director of Finance position with the City in January of 1986. In 1993, Mr. Phillips was promoted to Director of Financial and Administrative Services. In 1997, Mr. Phillips was promoted to Deputy City Manager. On July 3, 2003, Mr. Phillips accepted his present position as City Manager for the City. Mr. Phillips graduated from Loma Linda University with a Bachelor of Science in Business Administration. Mr. Phillips has a Master of Business Administration from Pepperdine University.

Other key personnel responsible for management of the City include the Director of Finance. In addition, the City Attorney provides legal services to the City and the Authority.

Gil Rojas is the Director of Finance for the City. Mr. Rojas has served in that capacity since 2000. Prior to that time, Mr. Rojas was Assistant Finance Director with the City of Bakersfield, California.

Mr. Rojas' tenure with the City of Bakersfield spanned 21 years, during which he held various positions within the Finance Department as well as the Bakersfield Police Department. Mr. Rojas received his Bachelor's degree in 1977 from San Jose State University. Mr. Rojas is a member of the Government Finance Officer's Association and the California Society of Municipal Finance Officers.

Jeffrey R. Epp is the City Attorney. Mr. Epp has been with the City since 1985. Prior to that time, Mr. Epp served as a prosecutor for the City Attorney's Office of Cheyenne, Wyoming. Mr. Epp obtained a Bachelor's degree in Political Science and a Juris Doctorate degree from the University of Wyoming, where he was also the Senior Editor of the Land and Water Law Review of the University of Wyoming School of Law. Mr. Epp is a member of the International Municipal Lawyers Association, and both the North County and San Diego Bar Association. He has served as the President of the San Diego/Imperial County City Attorneys Association, the League of California Cities Committee on Transportation, Communications and Public Works, on the League's Legal Advocacy Committee and has been a member of the Executive Committee of the Public Law Section of the California State Bar.

**Risk Management**

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 maintains liability insurance coverage through the San Diego Pooled Insurance Program Authority ("SANDPIPA"), a joint exercise of powers authority of which the City is a member. The City carries a self-insured retention of $500,000 for liability and is insured for amounts between $500,000 and $2,500,000. In addition, SANDPIPA has purchased excess insurance coverage for amounts between $2,500,000 and $47,000,000 for its members, including the City. The City maintains workers' compensation insurance coverage through the California Public Entity Insurance Authority. The City carries a self-insured retention of $500,000 for workers' compensation and is insured for amounts between $500,000 and $5,000,000 through the California State Association of Counties Excess Insurance Authority, a joint exercise of powers authority, with additional reinsurance of $300,000,000 per occurrence. Claims have not exceeded the City's insurance coverage in any of the last three years.

The City purchases all risk, replacement cost value property insurance coverage through the Public Entity Property Insurance Program, issued through Alliant Insurance Services. The City is one of 12 cities insured by a joint policy with a shared limit of $1,000,000,000. The City has a deductible of $10,000 per loss. All property and improvements at the Property are insured under the City's property insurance coverage. See the caption "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Insurance." The City does not carry earthquake coverage.

## CITY FINANCIAL INFORMATION

**Accounting and Financial Reporting**

The City maintains its accounting records in accordance with Generally Accepted Accounting Principles and the standards established by the Governmental Accounting Standards Board ("GASB"). On a semiannual basis, a report is prepared for the City Council and City staff which reviews fiscal performance to date against the budget. Combined financial statements are produced following the close of each Fiscal Year.

The City Council employs an independent certified public accountant who examines at least annually the financial statements of the City in accordance with generally accepted auditing standards, including tests of the accounting records and other auditing procedures as such accountant considers necessary. As soon as practicable, after the end of the Fiscal Year, a final audit and report is submitted by the independent accountant to the City Council.

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

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. It is expected that the Base Rental Payments will be paid for from amounts in the General Fund. Reidy Creek golf course operations are primarily supported by General Fund appropriations, although the City committed approximately $63,000 in Fiscal Year 2012 to the golf course from its Parks and Recreation Fund. Tables 1 through 4 below set forth certain historical and current Fiscal Year budget information for the General Fund. Information on the remaining governmental funds of the City as of June 30, 2012 is set forth in Appendix B.

**General Economic Condition and Outlook of the City**

As of June 30, 2012, the General Fund had a year-end surplus (revenues in excess of expenditures) of approximately $935,000. This surplus was primarily due to actual revenues exceeding budgeted revenues by approximately $2.2 million. In particular, actual Fiscal Year 2012 sales taxes, the General Fund's largest revenue source, increased by approximately $1.7 million (6.7%) over the Fiscal Year 2012 budgeted amount and actual Fiscal Year other taxes (which include property taxes) increased by approximately $660,000 (2.0%) over the Fiscal Year 2012 budgeted amount.

For Fiscal Year 2013, the adopted General Fund operating budget projects revenues of $75,861,500, an increase of approximately $1.5 million (2.0%) over Fiscal Year 2012 actual revenues, and expenditures of $76,037,095, an increase of approximately $2.6 million (3.6%) over Fiscal Year 2012 actual expenditures. The City projects that sales taxes will continue to grow in Fiscal Year 2013, increasing by approximately 7.8% over the Fiscal Year 2012 amount. As discussed below under the caption "—Budget Procedure, Current Budget and Historical Budget Information," the City believes that, as of the mid-point of the current Fiscal Year, it is on track to meet its budgeted expectations.

**Budget Procedure, Current Budget and Historical Budget Information**

The City prepares and adopts a budget for each Fiscal Year. Prior to June 30 of each year, the City Manager submits to the City Council a proposed budget for the Fiscal Year commencing the following July 1. The budget includes proposed expenditures and the means of financing such expenditures. Prior to June 30 of each year, public hearings are conducted to obtain public comments and the budget is legally enacted through the passage of a resolution.

The City Manager is authorized to transfer budgeted amounts between line items within a department or activity provided that the total appropriation does not exceed the budgeted amount. Any other budget amendments require authorization by the City Council. The City Manager and affected department heads are mutually responsible for controlling expenditures within budgeted appropriations.

The City Council adopted the Fiscal Year 2013 budget on June 13, 2012. The City's Fiscal Year 2013 operating budget for all funds totals approximately $170.9 million and its General Fund operating budget totals approximately $76.0 million. The Fiscal Year 2013 General Fund operating budget projects an increase in revenues of approximately $2.8 million, or 3.9%, over the Fiscal Year 2012 adopted budget, derived principally from sales tax, property tax and property tax in lieu of sales tax revenues, some of which relates to a one time true-up payment from the State for the City's prior year in lieu of sales tax.

The Fiscal Year 2013 General Fund operating budget set forth in Table 1 below shows revenues and expenditures from City operations only; the City's return of money and transfer of property to the Successor Agency (as such term is defined under the caption "STATE OF CALIFORNIA BUDGET INFORMATION—Redevelopment Dissolution—General") on July 25, 2012 is not reflected in such budgeted operating revenues or expenditures. The City projects that it will have sufficient General Fund revenues to meet its expenditures regardless of whether such money or property is reinstated or other payments on the outstanding amount of the Redevelopment Loan (as such term is defined under the caption "STATE OF CALIFORNIA BUDGET INFORMATION—Redevelopment Dissolution—Repayment of Moneys to Successor Agency") are made in the future. The City expects that the net effect of the return of money and transfer of property to the Successor Agency in Fiscal Year 2013 will be to decrease the General Fund ending balance by approximately $8,347,410 (reflecting an increase related to the property transfer, a decrease related to the return of money and interest earnings thereon and an increase in deferred revenues related to the outstanding amount of the Redevelopment Loan), and that the Fiscal Year 2012 General Fund ending balance may be restated in its Fiscal Year 2013 financial statements to reflect such decrease. See Table 3 under the caption "—General Fund Balance Sheets."

As of December 31, 2012, the City reports that General Fund revenues are at 28.2% of budget, while expenditures are at 47.2% of budget and, based on the City's past history of revenue receipts and payment of expenditures through such period, the General Fund is on track to meet budgeted revenues and expenditures in the current Fiscal Year. Sales tax receipts reflect increases in line with budget expectations and expenditures have been slightly less than the expected amount at the mid-year point in the current Fiscal Year.

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Set forth in Table 1 are the General Fund budgets for Fiscal Years 2011, 2012 and 2013 and the audited General Fund results for Fiscal Years 2011 and 2012. During the course of each Fiscal Year, the budget is amended and revised as necessary by the City Council.

**TABLE 1**
**CITY OF ESCONDIDO**
**GENERAL FUND BUDGETS AND RESULTS**

| | *Adopted Fiscal Year 2011 Budget* | *Fiscal Year 2011 Results* | *Adopted Fiscal Year 2012 Budget* | *Fiscal Year 2012 Results* | *Adopted Fiscal Year 2013 Budget* |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Sales tax | $23,247,000 | $25,147,482 | $26,016,995 | $27,753,928 | $29,923,000 |
| Other taxes[(1)] | 29,161,000 | 28,630,700[(2)] | 30,663,000 | 31,278,441[(3)] | 30,680,000 |
| Licenses and permits | 994,000 | 1,156,228 | 1,181,000 | 821,380 | 994,000 |
| Fines and forfeits | 2,090,000 | 1,895,447 | 1,855,000 | 1,640,528 | 1,526,000 |
| Intergovernmental | 2,665,000 | 2,769,674[(2)] | 2,956,000 | 3,013,268[(3)] | 2,577,500 |
| Charges for services | 5,341,000 | 5,585,867 | 5,508,430 | 5,518,276 | 6,242,000 |
| Investment income | 800,000 | 15,613,188[(4)] | 532,000 | 479,015 | 560,000 |
| Miscellaneous | 3,296,000 | 3,826,721 | 3,379,230 | 3,834,415 | 3,359,000 |
| **Total Revenues** | $67,594,000 | $84,625,307 | $72,091,655 | $74,339,251 | $75,861,500 |
| **Expenditures** | | | | | |
| Current | | | | | |
| General government | $ 7,566,855 | $ 6,493,939 | $ 6,095,695 | $ 5,561,555 | $ 8,806,525 |
| Public safety | 49,116,590 | 49,456,324 | 50,134,440 | 50,492,610 | 50,553,235 |
| Public works | 9,202,245 | 8,761,589 | 9,251,405 | 9,167,920 | 9,532,355 |
| Community services | 6,278,570 | 6,327,405 | 5,387,015 | 5,461,190 | 4,126,375 |
| Community development | 2,814,885 | 2,651,499 | 2,845,245 | 2,720,161 | 3,018,605 |
| **Total Expenditures** | $74,979,145 | $73,690,756 | $73,713,800 | $73,403,436 | $76,037,095 |
| **Excess (Deficiency) of Revenues Over (Under) Expenditures** | $ (7,385,145) | $10,934,551 | $ (1,622,145) | $ 935,815 | $ (175,595) |

(1) Includes property tax revenues. See the caption "—Property Taxes."
(2) These amounts differ from the Fiscal Year 2011 Other taxes and Intergovernmental amounts shown on Table 2 because the City budgets property tax revenues in lieu of Vehicle License Fees as Other taxes, while the City's Auditor reflects such revenues as Intergovernmental. See the caption "—State of California Motor Vehicle In-Lieu Payments."
(3) These amounts differ from the Fiscal Year 2012 Other taxes and Intergovernmental amounts shown on Table 2 because the City budgets property tax revenues in lieu of Vehicle License Fees as Other taxes, while the City's Auditor reflects such revenues as Intergovernmental. See the caption "—State of California Motor Vehicle In-Lieu Payments."
(4) Increase from budgeted amount in Fiscal Year 2011 reflects payment to the City on the Redevelopment Loan. The City returned such moneys to the Successor Agency in Fiscal Year 2013. See the caption "STATE OF CALIFORNIA BUDGET INFORMATION—Redevelopment Dissolution—Repayment of Moneys to Successor Agency."

Sources: Adopted budgets of the City for Fiscal Years 2011, 2012 and 2013; audited financial statements of the City for Fiscal Years 2011 and 2012.

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## Change in Fund Balance of the City General Fund

Set forth in Table 2 are the City's audited General Fund statements of revenues, expenditures and changes in fund balance for Fiscal Years 2008 through 2012.

**TABLE 2**
**CITY OF ESCONDIDO**
**GENERAL FUND STATEMENT OF**
**REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**

| | *Fiscal Year Ending June 30,* | | | | |
|---|---|---|---|---|---|
| | *2008* | *2009* | *2010* | *2011* | *2012* |
| **Revenues** | | | | | |
| Sales tax | $ 30,165,853 | $ 25,403,452 | $ 21,798,209 | $ 25,147,482 | $ 27,753,928 |
| Other taxes[(1)] | 20,820,101 | 20,943,022 | 18,676,610 | 18,321,184[(2)] | 20,881,587[(3)] |
| Licenses and permits | 1,042,675 | 935,154 | 1,307,415 | 1,156,228 | 821,380 |
| Fines and forfeits | 2,775,808 | 2,552,099 | 2,186,227 | 1,895,447 | 1,640,528 |
| Intergovernmental | 14,690,429 | 14,461,112 | 13,194,970 | 13,079,190[(2)] | 13,410,122[(3)] |
| Charges for services | 6,332,064 | 6,270,500 | 6,088,241 | 5,585,867 | 5,518,276 |
| Investment income | 8,900,446 | 1,448,155 | 75,557 | 15,613,188[(4)] | 479,015 |
| Miscellaneous | 3,732,998 | 3,396,943 | 4,328,801 | 3,826,721 | 3,834,415 |
| **Total Revenues** | $ 88,460,374 | $ 75,410,437 | $ 67,656,030 | $ 84,625,307[(4)] | $ 74,339,251 |
| | | | | | |
| **Expenditures** | | | | | |
| Current | | | | | |
| General government | $ 7,681,652 | $ 6,280,746 | $ 6,345,031 | $ 6,493,939 | $ 5,542,551 |
| Public safety | 55,788,700 | 52,486,171 | 50,669,962 | 49,456,324 | 50,489,310 |
| Public works | 11,140,310 | 9,851,056 | 10,457,660 | 8,761,589 | 9,145,268 |
| Community services | 6,746,842 | 5,585,036 | 4,905,872 | 6,327,405 | 5,434,919 |
| Community development | 4,607,311 | 4,031,570 | 3,161,816 | 2,651,499 | 2,720,161 |
| Capital outlay | - | - | - | - | 52,928 |
| Debt service | | | | | |
| Principal retirements | - | - | - | - | 18,299 |
| Interest and fiscal charges | - | - | - | - | - |
| **Total Expenditures** | $ 85,964,815 | $ 78,234,579 | $ 75,540,341 | $ 73,690,756 | $ 73,403,436 |
| | | | | | |
| **Excess (Deficiency) of Revenues Over (Under) Expenditures** | $ 2,495,559 | $ (2,824,142) | $ (7,884,311) | $ 10,934,551 | $ 935,815 |
| | | | | | |
| **Other Financing Sources (Uses)** | | | | | |
| Sale of capital assets | $ - | $ - | $ - | $ 231,586 | $ - |
| Loan proceeds | - | - | - | - | 172,232 |
| Transfers in | 1,643,655 | 2,647,390 | 2,981,999 | 3,353,404 | 4,422,708 |
| Transfers out | (8,831,332) | (5,079,839) | (4,197,365) | (11,415,685)[(5)] | (1,730,678) |
| **Total Other Financing Sources (Uses)** | $ (7,187,677) | $ (2,432,449) | $ (1,215,366) | $ (7,830,695) | $ 2,864,262 |
| | | | | | |
| **Net Change in Fund Balance** | $ (4,692,118) | $ (5,256,591) | $ (9,099,677) | $ 3,103,856 | $ 3,800,077 |
| | | | | | |
| **Fund Balances, Beginning of Year** | $ 51,074,083 | $ 46,381,965 | $ 41,125,374 | $ 31,820,260[(6)] | $ 34,924,116 |
| **Fund Balances, End of Year** | $ 46,381,965 | $ 41,125,374 | $ 32,025,697 | $ 34,924,116 | $ 38,724,193[(7)] |

(1) Includes property tax revenues. See the caption "—Property Taxes."

(2) These amounts differ from the Fiscal Year 2011 Other taxes and Intergovernmental amounts shown on Table 1 because the City budgets property tax revenues in lieu of Vehicle License Fees as Other taxes, while the City's Auditor reflects such revenues as Intergovernmental. See the caption "—State of California Motor Vehicle In-Lieu Payments."

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(3) These amounts differ from the Fiscal Year 2012 Other taxes and Intergovernmental amounts shown on Table 1 because the City budgets property tax revenues in lieu of Vehicle License Fees as Other taxes, while the City's Auditor reflects such revenues as Intergovernmental. See the caption "—State of California Motor Vehicle In-Lieu Payments."

(4) Increase from Fiscal Year 2010 amount in Fiscal Year 2011 reflects payment to the City on the Redevelopment Loan. The City returned such moneys to the Successor Agency in Fiscal Year 2013. See the caption "STATE OF CALIFORNIA BUDGET INFORMATION—Redevelopment Dissolution—Repayment of Moneys to Successor Agency."

(5) Increase from Fiscal Year 2010 amount in Fiscal Year 2011 reflects expenditure of $6,740,744.82 from moneys paid to the City on the Redevelopment Loan to purchase two properties. The City transferred such properties to the Successor Agency in Fiscal Year 2013. See the caption "STATE OF CALIFORNIA BUDGET INFORMATION—Redevelopment Dissolution—Repayment of Moneys to Successor Agency."

(6) As restated. Prior to Fiscal Year 2011, the City's California Center for the Arts was previously treated as a blended component unit. Restatement reflects treatment of California Center for the Arts as a discrete unit.

(7) Does not reflect return of approximately $13,259,255.18 in cash and transfer of two properties to the Successor Agency on July 25, 2012. See the caption "STATE OF CALIFORNIA BUDGET INFORMATION—Redevelopment Dissolution—Repayment of Moneys to Successor Agency." The City expects that the net effect of such return and transfers in Fiscal Year 2013 will be to decrease the General Fund ending balance by $8,347,410 and that the Fiscal Year 2012 General Fund ending balance may be restated in its Fiscal Year 2013 financial statements to reflect such decrease. See the caption "—Budget Procedure, Current Budget and Historical Budget Information."

Sources: Audited financial statements for Fiscal Years 2008 through 2012.

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## General Fund Balance Sheets of the City

Set forth in Table 3 are the City's audited General Fund balance sheets for Fiscal Years 2008 through 2012.

**TABLE 3**
**CITY OF ESCONDIDO**
**GENERAL FUND BALANCE SHEETS**

| | *Fiscal Year Ending June 30,* | | | | |
|---|---|---|---|---|---|
| | ***2008*** | ***2009*** | ***2010*** | ***2011*** | ***2012*** |
| **Assets** | | | | | |
| Cash and investments | $ 32,699,001 | $ 28,907,893 | $ 21,301,284 | $ 32,088,917[(1)] | $ 31,790,494[(1)] |
| Receivables (net) | | | | | |
| Accounts | 2,006,949 | 1,632,400 | 1,710,145 | 2,474,736 | 5,224,649 |
| Interest | 516,853 | 345,153 | 239,221 | 307,078 | 199,926 |
| Taxes | 6,167,324 | 3,935,480 | 5,748,249 | 6,481,956 | 8,140,945 |
| Loan | 7,394 | 121,732 | 133,750 | 106,321 | 74,041 |
| Due from | | | | | |
| Other funds | 806,762 | 218,313 | 313,020 | 488,647 | 1,584,835 |
| Other governments | 220,812 | 143,671 | 89,900 | 108,204 | 14,783,697[(2)] |
| Prepaid expenditures | 1,202,500 | 500,000 | 170,000 | 270,000 | - |
| Deposits | - | - | - | - | 26,250 |
| Advances to other funds | 10,141,904 | 10,141,904 | 9,991,902 | 14,192,059[(3)] | 159,250 |
| **Total Assets** | $ 53,769,499 | $ 45,946,546 | $ 39,697,471 | $ 56,517,918 | $ 61,984,087 |
| **Liabilities and Fund Balances** | | | | | |
| Liabilities | | | | | |
| Payable | | | | | |
| Accounts | $ 1,119,863 | $ 700,692 | $ 1,348,621 | $ 972,306 | $ 1,824,760 |
| Deposits | 190,964 | 113,472 | 146,498 | 236,254 | 314,480 |
| Accrued expenditures | 3,542,654 | 2,804,909 | 2,876,877 | 3,013,764 | 1,179,956 |
| Due to other funds | 620,342 | 337,494 | - | - | - |
| Deferred revenue | 1,913,711 | 864,605 | 3,299,778 | 13,171,478[(3)] | 15,400,698 |
| Advances from other funds | - | - | - | 4,200,000 | 4,540,000 |
| **Total Liabilities** | $ 7,387,534 | $ 4,821,172 | $ 7,671,774 | $ 21,593,802 | $ 23,259,894 |
| **Fund Balances** | | | | | |
| Nonspendable | $ - | $ - | $ - | $ 5,456,377 | $ 5,180,347 |
| Committed to | - | - | - | 28,354,588 | 31,938,244 |
| Assigned to | - | - | - | 713,361 | 852,481 |
| Unassigned | - | - | - | 399,790 | 753,121 |
| Reserved for | | | | | |
| Advances to other funds | 10,141,904 | 10,141,904 | 9,991,902 | - | - |
| Noncurrent loans receivable | 7,394 | 121,732 | 133,750 | - | - |
| Prepaid expenditures | - | 500,000 | 170,000 | - | - |
| Encumbrances | - | - | 35,655 | - | - |
| Unreserved; designated – General Fund | | | | | |
| Capital improvements | 8,074,382 | - | - | - | - |
| Carryovers | 1,132,452 | 19,570 | 29,710 | - | - |
| Daley Ranch improvements | 715,170 | 111,457 | 196,465 | - | - |
| Economic development | 2,463,216 | 17,689,216 | - | - | - |
| Economic uncertainty | 8,123,842 | 11,619,254 | 20,241,562 | - | - |
| Library trust | 295,726 | 391,283 | 334,213 | - | - |
| Underground waivers | 170,403 | 170,403 | 191,317 | - | - |
| Downtown hotel | 15,226,000 | - | - | - | - |
| Investment fair value adjustment | - | - | 701,123 | - | - |
| Undesignated | 31,476 | 360,555 | - | - | - |
| **Total Fund Balances** | $ 46,381,965 | $ 41,125,374 | $ 32,025,697 | $ 34,924,116 | $ 38,724,193[(4)] |
| **Total Liabilities and Fund Balances** | $ 53,769,499 | $ 45,946,546 | $ 39,697,471 | $ 56,517,918 | $ 61,984,087[(4)] |

(1) Does not reflect return of approximately $13,259,255.18 in cash to the Successor Agency on July 25, 2012. See the caption "STATE OF CALIFORNIA BUDGET INFORMATION—Redevelopment Dissolution—Repayment of Moneys to Successor Agency."

(2) Reflects amount due on Redevelopment Loan. See the caption "STATE OF CALIFORNIA BUDGET INFORMATION—Redevelopment Dissolution—Repayment of Moneys to Successor Agency."

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(3) Reflects change in accounting treatment of Redevelopment Loan. See the caption "STATE OF CALIFORNIA BUDGET INFORMATION—Redevelopment Dissolution—Repayment of Moneys to Successor Agency."

(4) Does not reflect return of approximately $13,259,255.18 in cash and transfer of two properties to the Successor Agency on July 25, 2012. See the caption "STATE OF CALIFORNIA BUDGET INFORMATION—Redevelopment Dissolution—Repayment of Moneys to Successor Agency." The City expects that the net effect of such return and transfers in Fiscal Year 2013 will be to decrease the General Fund ending balance by $8,347,410 and that the Fiscal Year 2012 General Fund ending balance may be restated in its Fiscal Year 2013 financial statements to reflect such decrease. See the caption "—Budget Procedure, Current Budget and Historical Budget Information."

Source: Audited financial statements for Fiscal Years 2008 through 2012.

## Property Taxes

Property tax receipts of $9,939,516 provided the third largest tax revenue source of the City in Fiscal Year 2012, contributing approximately 20.4% of General Fund tax revenues and approximately 13.4% of total General Fund revenues during Fiscal Year 2012. Property tax revenues are included within "Other Revenues" in Tables 1 and 2 above. Property in the State which is subject to *ad valorem* taxes is classified as "secured" or "unsecured." The secured classification includes property on which any property tax levied by a county becomes a lien on that property. A tax levied on unsecured property does not become a lien against the taxed unsecured property, but may become a lien on certain other property owned by the taxpayer. Every tax which becomes a lien on secured property has priority over all other liens, arising pursuant to State law, on the secured property, regardless of the time of the creation of other liens. The valuation of property is determined as of January 1 each year, and installments of taxes levied upon secured property become delinquent on the following December 10th and April 10th of the subsequent calendar year. Taxes on unsecured property are due July 1 and become delinquent August 31.

Secured and unsecured properties are entered separately on the assessment roll maintained by the county assessor. The method of collecting delinquent taxes is substantially different for the two classifications of property. The exclusive means of forcing the payment of delinquent taxes with respect to property on the secured roll is the sale of the property securing the taxes of the State for the amount of taxes that are delinquent. The taxing authority has four methods of collecting unsecured personal property taxes: (1) filing a civil action against the taxpayer; (2) filing a certificate in the office of the county clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for recording in the county recorder's office in order to obtain a lien on certain property of the taxpayer; and (4) seizing and selling personal property, improvements or possessory interests belonging or taxable to the assessee.

A 10% penalty is added to delinquent taxes which have been levied with respect to property on the secured roll. In addition, beginning on the July 1 following a delinquency, interest begins accruing at the rate of 1.5% per month on the amount delinquent. Such property may thereafter be redeemed by the payment of the delinquent taxes and the 10% penalty, plus interest at the rate of 1.5% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is deeded to the State and then is subject to sale by the county tax collector. A 10% penalty also applies to the delinquent taxes or property on the unsecured roll, and further, an additional penalty of 1.5% per month accrues with respect to such taxes beginning on the varying dates related to the tax billing date.

Legislation enacted in 1984 (Section 25 *et seq*. of the California Revenue and Taxation Code), provides for the supplemental assignment and taxation of property as of the occurrence of a change in ownership or completion of new construction. Previously, statutes enabled the assessment of such changes only as of the next tax lien date following the change and thus delayed the realization of increased property taxes from the new assessment for up to 14 months. Collection of taxes based on supplemental assessments occurs throughout the year. Taxes due are prorated according to the amount of time remaining in the tax year, with the exception of tax bills dated January 1 through May 31, which are calculated on the basis of the remainder of the current Fiscal Year and the full 12 months of the next Fiscal Year.

For a number of years, the State Legislature has shifted property taxes from cities, counties and special districts to the Educational Revenue Augmentation Fund ("ERAF"). In Fiscal Years 1993 and 1994, in response to serious budgetary shortfalls, the State Legislature and administration permanently redirected over $3 billion of property taxes from cities, counties, and special districts to schools and community college districts pursuant to ERAF shifts. The Fiscal Year 2005 State Budget included an additional $1.3 billion shift of property taxes from certain local agencies, including the City, in Fiscal Years 2005 and 2006.

On November 2, 2004, State voters approved Proposition 1A, which amended the State Constitution to significantly reduce the State's authority over major local government revenue sources. Under Proposition 1A, the State may not: (i) reduce local sales tax rates or alter the method of allocating the revenue generated by such taxes; (ii) shift property taxes from local governments to schools or community colleges; (iii) change how property tax revenues are shared among local governments without two-thirds approval of both houses of the State Legislature; or (iv) decrease Vehicle License Fee revenues without providing local governments with equal replacement funding. Beginning in Fiscal Year 2009, the State may shift to schools and community colleges a limited amount of local government property tax revenue if certain conditions are met, including: (a) a proclamation by the Governor that the shift is needed due to a severe financial hardship of the State; and (b) approval of the shift by the State Legislature with a two-thirds vote of both houses. Under such a shift, the State must repay local governments for their property tax losses, with interest, within three years. Proposition 1A does allow the State to approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county.

On July 27, 2009, the Governor signed a revised Fiscal Year 2010 State budget that included an ERAF shift of approximately 8% of 1% *ad valorem* property tax revenues from certain local agencies, including the City. The City participated in the State of California Proposition 1A Receivables Program to securitize its receivable from the State, and, as a result, received the shifted funds in the amount of $2,314,710, without interest, in two installments in 2010 from the California Statewide Communities Development Authority.

Set forth in Table 4 are the property tax rates for the three largest tax rate areas within the City by assessed valuation for Fiscal Years 2009 through 2013.

**TABLE 4**
**CITY OF ESCONDIDO**
**TOTAL TAX RATE PER $100 OF ASSESSED VALUATION**
**(TAX RATE AREA NOS. 4-13, 4-25 and 4-225)**

| | *Fiscal Year* | | | | |
|---|---|---|---|---|---|
| | ***2009*** | ***2010*** | ***2011*** | ***2012*** | ***2013*** |
| General | 1.00000 | 1.00000 | 1.00000 | 1.00000 | 1.00000 |
| Palomar Pomerado Healthcare District | 0.01775 | 0.01775 | 0.02350 | 0.02350 | 0.02350 |
| Escondido Elementary School District | 0.02813 | 0.03269 | 0.03343 | 0.03351 | 0.03367 |
| Escondido Union High School District | 0.01723 | 0.02140 | 0.02299 | 0.02494 | 0.02724 |
| Palomar Community College District | 0.01322 | 0.00862 | 0.01472 | 0.01384 | 0.01365 |
| City of Escondido | 0.03666 | 0.04086 | 0.04074 | 0.04067 | 0.03923 |
| Metropolitan Water District | 0.00430 | 0.00430 | 0.00370 | 0.00370 | 0.00350 |
| Total | 1.11729 | 1.12562 | 1.13908 | 1.14016 | 1.14079 |

2012-13 Assessed Valuations of Tax Rate Areas

| | |
|---|---|
| 4-13 | $1,631,405,019 |
| 4-25 | 1,448,564,863 |
| 4-225 | 880,484,233 |

Source: California Municipal Statistics, Inc.

Set forth in Table 5 are the secured and unsecured assessed valuations for property in the City for the Fiscal Years 2009 through 2013.

**TABLE 5**
**CITY OF ESCONDIDO**
**ASSESSED VALUATION**

| *Fiscal Year* | *Local Secured* | *Utility* | *Unsecured* | *Total* |
|---|---|---|---|---|
| 2009 | $12,396,660,668 | $191,221,485 | $449,223,142 | $13,037,105,295 |
| 2010 | 11,395,386,920 | 200,996,794 | 475,717,296 | 12,072,101,010 |
| 2011 | 11,230,384,520 | 206,857,586 | 450,327,466 | 11,887,569,572 |
| 2012 | 11,321,440,297 | 228,696,526 | 443,202,400 | 11,993,339,223 |
| 2013 | 11,788,367,465 | 249,926,044 | 465,576,321 | 12,503,869,830 |

Source: City.

Set forth in Table 6 are property tax collections and delinquencies in the City as of June 30 for Fiscal Years 2008 through 2012. The County of San Diego (the "County") operates under a statutory program entitled the Alternate Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"). Under the Teeter Plan local taxing entities receive 100% of their tax levies net of delinquencies, but do not receive interest or penalties on delinquent taxes collected by the County. The City elected not to enroll in the Teeter Plan; accordingly, the City's receipt of its property tax revenues is impacted by delinquencies in payment, as well as by the collection of interest and penalties on past delinquencies.

**TABLE 6**
**CITY OF ESCONDIDO**
**PROPERTY TAX LEVIES AND COLLECTIONS**

| *Fiscal Year* | *Total Tax Levy* | *Current Tax Collections as of June 30* | *Percent of Levy Collected as of June 30* | *Outstanding Delinquent Taxes as of June 30*[(1)] |
|---|---|---|---|---|
| 2008 | $11,218,291 | $10,495,467 | 93.56% | $722,824 |
| 2009 | 10,560,667 | 10,048,236 | 95.15 | 512,431 |
| 2010 | 9,477,871 | 9,086,734 | 95.87 | 391,137 |
| 2011 | 9,382,618 | 9,097,417 | 96.96 | 285,201 |
| 2012 | 9,536,098 | 9,288,990 | 97.41 | 247,108 |

(1) Reflects delinquencies as of June 30 of the listed Fiscal Year; does not reflect current delinquencies for such Fiscal Years.
Source: City.

The 20 largest taxpayers in the City as shown on the Fiscal Year 2012 secured tax roll, the land use, the assessed valuation and the percentage of the City's total property tax revenues attributable to each are set forth in Table 7.

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**TABLE 7**
**CITY OF ESCONDIDO**
**TWENTY LARGEST TAXPAYERS**

| | *Property Owner* | *Land Use* | *Fiscal Year 2013 Assessed Valuation* | *% of Total*[1] |
|---|---|---|---|---|
| 1. | North County Fair LLC | Commercial | $179,307,426 | 1.52% |
| 2. | Prebys Conrad Trust | Residential | 75,062,598 | 0.64 |
| 3. | Cox Communications San Diego | Commercial | 44,000,409 | 0.37 |
| 4. | Frit Escondido Promenade, LLC | Commercial | 43,991,480 | 0.37 |
| 5. | Vons | Commercial | 42,193,128 | 0.36 |
| 6. | Luna Properties, LLC | Unknown | 41,295,463 | 0.35 |
| 7. | Garrick Motors Inc. | Vacant | 38,023,980 | 0.32 |
| 8. | OC/ SD Holdings LLC | Residential | 34,814,252 | 0.30 |
| 9. | Felicita Garp LLC | Vacant | 30,737,700 | 0.26 |
| 10. | Goal Line LP | Industrial | 28,459,926 | 0.24 |
| 11. | MG Morningview Apts. LP | Residential | 27,482,004 | 0.23 |
| 12. | Aimco Sunset Escondido LLC | Residential | 26,244,504 | 0.23 |
| 13. | Lowes of Escondido | Commercial | 26,118,819 | 0.22 |
| 14. | Emil Rose Partners II LP | Unknown | 25,399,169 | 0.22 |
| 15. | PKI Del Norte Plaza LP | Commercial | 24,500,000 | 0.21 |
| 16. | New Albertsons Inc. | Commercial | 23,700,000 | 0.20 |
| 17. | Realty Associates Fund VIII LP | Commercial | 23,500,000 | 0.20 |
| 18. | Escondido MVMBLLC | Residential | 22,888,658 | 0.19 |
| 19. | VSCRE Holdings LLC | Unknown | 22,700,000 | 0.19 |
| 20. | Williams Portfolio 6 | Residential | 22,107,662 | 0.19 |
| TOTAL | | | $802,527,178 | 6.81% |

[1] 2012-13 Local Secured Assessed Valuation: $11,788,367,465.
Source: City.

### Sales Taxes

Sales tax receipts of $27,753,928 provided the largest tax revenue source for the City in Fiscal Year 2012, contributing approximately 57.1% of General Fund tax revenues and approximately 37.3% of total General Fund revenues during Fiscal Year 2012. Automobile sales and retail sales at Westfield Shoppingtown North County mall contribute significantly to such receipts.

A sales tax is imposed on retail sales or consumption of personal property and collected and distributed by the State Board of Equalization. The basic sales tax rate is established by the State Legislature, and local overrides may be approved by voters. The current sales tax rate in the City is 8%.

On March 2, 2004, voters approved a bond initiative formally known as the "California Economic Recovery Act." This act authorized the issuance of $15 billion of Economic Recovery Bonds to finance ongoing State budget deficits, which are payable from a fund established by the redirection of tax revenues known as the "Triple Flip." The State issued $11.3 billion of Economic Recovery Bonds prior to June 30, 2004. Under the "Triple Flip," one-quarter of local governments' 1% share of the sales tax imposed on taxable transactions within their jurisdiction is being redirected to the State. In an effort to eliminate the adverse impact of the sales tax revenue redirection on local government, State legislation provides for certain property taxes to be redirected to local government. Because these property tax moneys were previously earmarked for schools, the legislation provides for schools to receive other State general fund revenues. It is expected that the swap of sales taxes for property taxes will terminate once the Economic Recovery Bonds are repaid, which is currently expected to occur by Fiscal Year 2017. See the caption "STATE OF CALIFORNIA BUDGET INFORMATION."

Additional information relating to sales tax receipts by the City is set forth in Appendix F.

**Other Taxes**

Other taxes of $10,942,071 collected by the City in Fiscal Year 2012, including but not limited to transient occupancy taxes, business licenses, franchise fees and property transfer taxes, provided approximately 22.5% of General Fund tax revenues and 14.7% of total General Fund revenues during Fiscal Year 2012.

**Services**

Fees of $5,518,276 collected for services provided by the City in Fiscal Year 2012, including but not limited to fees for plan checks and other planning services, issuance of building permits, police services, paramedic services, public works projects and parks and recreation programs, provided approximately 7.4% of General Fund revenues during Fiscal Year 2012.

**State of California Motor Vehicle In-Lieu Payments**

The State imposes a Vehicle License Fee (the "VLF"), which is the portion of the fees paid in lieu of personal property taxes on a vehicle. The VLF is based on vehicle value and declines as the vehicle ages. Prior to the adoption of the Fiscal Year 2005 State Budget, the VLF was 2% of the value of a vehicle. Through legislation in prior Fiscal Years, the State enacted VLF reductions under which the State was required to "backfill" local governments for their revenue losses resulting from the lowered fee. The Fiscal Year 2005 State Budget permanently reduced the VLF from 2% to 0.65% of the value of a vehicle and deleted the requirement for backfill payments, providing instead that the amount of the backfill requirement will be met by an increase in the property tax allocation to cities and counties. See the caption "STATE OF CALIFORNIA BUDGET INFORMATION."

As set forth in Table 8 below, for Fiscal Year 2012, the City received $10,774,275 in total VLF revenues, of which $10,696,854 was distributed from property tax receipts.

**TABLE 8**
**CITY OF ESCONDIDO**
**STATE OF CALIFORNIA MOTOR VEHICLE IN-LIEU PAYMENTS**

| | ***Fiscal Year*** | | | | |
|---|---|---|---|---|---|
| ***Source*** | ***2008*** | ***2009*** | ***2010*** | ***2011*** | ***2012*** |
| Motor Vehicle In-Lieu Payments | $11,208,913 | $11,295,813 | $10,464,849 | $10,309,516 | $10,696,854 |

Source: City.

**Indebtedness**

***General Fund-Supported Debt.***

*2007 LRBs*. On February 14, 2007, the Authority issued the 2007A Lease Revenue Refunding Bonds (1995 Refunding) and 2007B Lease Revenue Refunding Bonds (Taxable) (1995 Refunding) (collectively, the "2007 LRBs") to refinance the costs of constructing and acquiring the California Center for the Arts performing arts center adjacent to the City Civic Center and appurtenant improvements. The 2007 LRBs mature on September 1 of each year through 2018 in amounts ranging from $1,780,000 to $7,070,000 and bear interest at rates varying from 3.65% to 5.53% per annum. The 2007 LRBs are secured by lease payments (the "Lease Payments") payable by the City pursuant to a lease/purchase agreement with the

Authority. As of June 30, 2012, the 2007 LRBs were outstanding in the aggregate principal amount of $42,260,000.

The City has covenanted in the lease/purchase agreement to budget and appropriate moneys annually for the Lease Payments from legally available funds, including the General Fund, on a basis that is substantially similar to the Lease Agreement in connection with the Series 2013A Bonds. However, concurrently with the issuance of the 2007 LRBs, the City and the Commission entered into a First Amendment to Amended and Restated Reimbursement Agreement, dated as of January 1, 2007 (the "Reimbursement Agreement"), pursuant to which the Commission agreed to apply certain tax increment revenues from the Escondido Redevelopment Project Area to the payment of the Lease Payments on substantially the same terms that the Commission had agreed to in connection with certain obligations that were refinanced by the 2007 LRBs.

See the caption "STATE OF CALIFORNIA BUDGET INFORMATION—Redevelopment Dissolution" for information with respect to the impact of certain legislation on the Commission's repayment obligations under the Reimbursement Agreement.

The Palomar Community College District ("Palomar") was one of several taxing entities that executed tax sharing agreements with the predecessor to the Commission when the Escondido Redevelopment Project Area was first created in 1984. In late January 2013, Palomar filed a lawsuit against the City and the Successor Agency (as such term is defined under the caption "STATE OF CALIFORNIA BUDGET INFORMATION—Redevelopment Dissolution") alleging that the Commission did not properly share tax increment revenues with Palomar pursuant to Palomar's tax sharing agreement since 1984. If successful, the lawsuit could require the Successor Agency to make a payment to Palomar, which would reduce tax increment revenues available to make payments under the Reimbursement Agreement.

The City expects to defend the lawsuit and its evaluation of the lawsuit is in its early stages. Although the City cannot predict and provides no assurances with respect to the outcome of Palomar's claims, the City Attorney estimates that maximum financial exposure to the Successor Agency is unlikely to exceed $2,000,000. The City Attorney believes that resolution in the City's favor is highly likely in light of the recent redevelopment dissolution legislation (AB 1x26, which is discussed under the caption "STATE OF CALIFORNIA BUDGET INFORMATION—Redevelopment Dissolution") and the fact that all such matters are now overseen by the Successor Agency, an oversight board, and the State Department of Finance. The City is reviewing Palomar's complaint. No answer has been filed in the case, and no court dates have been set.

*2006 GO Bonds*. On August 22, 2006, the City issued General Obligation Bonds, Election of 2004, Series A (the "2006 GO Bonds") to finance construction, upgrades and land acquisitions for City fire stations, an emergency response training center and a combined police and fire headquarters facility. The 2006 GO Bonds mature on September 1 of each year through 2036 in amounts ranging from $1,170,000 to $5,225,000 and bear interest at rates varying from 3.55% to 4.75% per annum. The 2006 GO Bonds are general obligations of the City payable from proceeds of a voter-approved *ad valorem* tax levied annually in excess of the base 1% *ad valorem* tax levy. As of June 30, 2012, the 2006 GO Bonds were outstanding in the aggregate principal amount of $77,295,000.

*CEC Loan*. In 2004, the City entered into a loan agreement with the California Energy Commission (the "CEC Loan") to finance various energy conservation projects. Payments under the CEC Loan are payable from several City funds, including the General Fund. As of June 30, 2012, the CEC Loan is outstanding in the aggregate principal amount of $876,191.

*1993 Certificates*. In 1993, the City issued caused the execution and delivery of Certificates of Participation (the "1993 Certificates") to finance construction of a municipal golf course (not the Reidy Creek Golf Course). The 1993 Certificates mature on September 1 of each year through 2014 in amounts ranging from $160,000 to $345,000 and evidence interest at rates varying from 5.50% to 8.40% per annum.

The 1993 Certificates are payable from the General Fund, although the City is entitled to reimbursement from the revenues of the golf course, which has resulted in reimbursements in excess of payments of principal and interest with respect to the 1993 Certificates in each year. As of June 30, 2012, the 1993 Certificates were outstanding in the aggregate principal amount of $1,790,000.

***Other Long Term Debt***. As of June 30, 2012, the City had a total of approximately $64,400,000 aggregate principal amount of obligations payable from revenues of the City's water system, including: (a) installment payments securing the Authority's Revenue Bonds (Water System Financing), Series 2012; (b) installment payments securing the City's Revenue Certificates of Participation, Series 2007; (c) a loan contract entered into with the State Department of Water Resources in 2002; and (d) a loan contract entered into with the State Department of Public Health in 2011.

As of June 30, 2012, the City had a total of approximately $78,400,000 aggregate principal amount of obligations payable from revenues of the City's wastewater system, including: (a) installment payments securing the Authority's Revenue Bonds (Wastewater System Financing), Series 2012; (b) installment payments securing the City's Revenue Certificates of Participation (2004 Wastewater Capital Projects) Series 2004A; (c) installment payments securing the City's Revenue Certificates of Participation (2004 Wastewater Capital Projects) Series 2004B (Taxable); (d) a loan contract entered into with the State Water Resources Control Board (the "SWRCB") in connection with Phase I of the Hale Avenue Resource Recovery Facility (the "HARRF"); (e) a loan contract entered into with the SWRCB in connection with a Water Reclamation Project; (f) a loan contract entered into with the SWRCB in connection with a Tertiary Treatment Facility at the HARRF; and (g) a loan contract entered into with the SWRCB to finance the acquisition of an automated aeration blower at the HARRF.

***Short-Term Debt***. The City currently has no short-term debt outstanding.

***Estimated Direct and Overlapping Bonded Debt***. The estimated direct and overlapping bonded debt of the City as of February 1, 2013 is set forth in Table 9. The information in Table 9 has been derived from data assembled and reported to the City by California Municipal Statistics, Inc. None of the City, the Authority or the Underwriter has independently verified the information in Table 9 and the City, the Authority and the Underwriter do not guarantee its accuracy.

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**TABLE 9**
**CITY OF ESCONDIDO**
**ESTIMATED DIRECT AND OVERLAPPING BONDED DEBT AS OF FEBRUARY 1, 2013**

2012-13 Assessed Valuation: $12,029,628,486

| DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT: | % Applicable | Debt 2/1/13 |
|---|---|---|
| Metropolitan Water District | 0.570% | $ 1,120,307 |
| Palomar Community College District | 13.312 | 42,408,558 |
| San Marcos Unified School District | 3.628 | 7,511,484 |
| San Marcos Unified School District School Facilities Improvement District No. 1 | 2.281 | 193,840 |
| San Marcos Unified School District Community Facilities District No. 1 | 100. | 960,000 |
| Valley Center Unified School District | 0.001 | 15 |
| Escondido Union High School District | 78.053 | 78,401,738 |
| Escondido Union School District | 78.822 | 34,192,686 |
| San Pasqual Union School District | 56.903 | 296,664 |
| **City of Escondido** | **100.** | **75,665,000**(1) |
| Palomar Pomerado Hospital District | 19.369 | 92,512,456 |
| City of Escondido Community Facilities District No. 2006-01 | 100. | 16,575,000 |
| City of Escondido Hidden Trails Community Facilities District | 100. | 2,505,000 |
| City of Escondido 1915 Act Bonds | 100. | 4,860,000 |
| TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT | | $357,202,748 |
| | | |
| DIRECT AND OVERLAPPING GENERAL FUND DEBT: | | |
| San Diego County General Fund Obligations | 3.148% | $ 12,585,074 |
| San Diego County Pension Obligations | 3.148 | 23,732,701 |
| San Diego County Superintendent of Schools Obligations | 3.148 | 549,720 |
| Palomar Community College District Certificates of Participation | 13.312 | 722,176 |
| San Marcos Unified School General Fund Obligations | 3.628 | 2,012,935 |
| Escondido Union High School District Certificates of Participation | 78.053 | 47,179,136 |
| Escondido Union School District Certificates of Participation | 78.822 | 16,753,616 |
| **City of Escondido General Fund Obligations** | **100.** | **41,990,000** |
| TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT | | $145,525,358 |
| | | |
| OVERLAPPING TAX INCREMENT DEBT: | | |
| Escondido Redevelopment Agency | 100. % | $568,893 |
| TOTAL OVERLAPPING TAX INCREMENT DEBT | | $568,893 |
| | | |
| COMBINED TOTAL DEBT | | $503,296,999(2) |

Ratios to 2012-13 Assessed Valuation:
**Direct Debt ($75,665,000)................................................................0.63%**
Total Overlapping Tax and Assessment Debt..................................2.97%
**Total Direct Debt ($117,655,000)...................................................0.98%**
Combined Total Debt.......................................................................4.18%

Ratios to Redevelopment Incremental Valuation ($2,355,293,134):
Total Overlapping Tax Increment Debt ............................................0.02%

(1) Excludes issue to be sold.
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.
Source: California Municipal Statistics, Inc.

## Retirement Contributions

The City contributes to the California Public Employees Retirement System ("CalPERS"), an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement, disability and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State, including the City. Copies of CalPERS' annual financial report may be obtained from its executive office at 400 Q Street, Sacramento, California 95811.

Required employer and employee contributions are determined from rates established by CalPERS based upon various actuarial assumptions which are revised annually. The City currently funds the normal pension costs, which are determined by CalPERS using the Entry Age Normal Actuarial Cost Method, as well as an amortization of the City's unfunded actuarial liability. For Fiscal Year 2012, the City's CalPERS contributions for its Safety Plan and its Miscellaneous Plan were $8,014,667 and $7,130,591, respectively. Such contributions were equal to the respective annual required contribution (the "ARC") described below. For Fiscal Year 2013, the City's CalPERS contributions for its Safety Plan and its Miscellaneous Plan are expected to be $7,975,297 and $8,874,237, respectively, assuming budgeted salaries and contribution rates of 33.701% of annual covered payroll for the Safety Plan and 23.827% of annual covered payroll for the Miscellaneous Plan, which are equal to the respective ARCs. The contribution rates for Fiscal Year 2014 have been established at 34.486% of annual covered payroll for the Safety Plan and 25.150% of annual covered payroll for the Miscellaneous Plan.

Participants under the City's Safety Plan are required to contribute 9% of their annual covered salary; the City pays all of the police employees' required contribution to the Safety Plan. By agreement with the City, Fire Department employees pay their own required contributions.

Participants in the City's Miscellaneous Plan are required to contribute 8% of their annual covered salary. Prior to June 26, 2011, the City paid 7% of the 8% contributions required of Miscellaneous Plan employees on their behalf and for their account; beginning on June 26, 2011, the City will no longer pay any portion of the contributions required of such employees on their behalf and such employees are required to make 100% of their required 8% contribution to the CalPERS plan.

On September 12, 2012, the Governor of the State signed Assembly Bill 340 ("AB 340"), which implements pension reform in the State. Effective January 1, 2013, AB 340: (i) requires public retirement systems and their participating employers to share equally with employees the normal cost rate (as described below) for such retirement systems; (ii) prohibits employers from paying employer-paid member contributions to such retirement systems for employees hired after January 1, 2013; (iii) establishes a compulsory maximum non-safety benefit formula of 2.5% at age 67; and (iv) defines final compensation as the highest average annual pensionable compensation earned during a 36-month period. The City Council adopted a resolution creating a second tier of CalPERS pension benefits for the City's Safety Plan and Miscellaneous Plan for employees hired after January 1, 2013 to comply with AB 340's compulsory reduced formula. See the caption "—California State Pension Reform Legislation" for further information with respect to AB 340.

The City had an unfunded accrued liability of $45,580,843 for its Safety Plan as of June 30, 2011, based on an actuarial value of assets of $219,102,277 as set forth in the most recent actuarial report prepared by CalPERS, and an estimated unfunded accrued liability of $45,000,000 for the Safety Plan for Fiscal Year 2012. The City had an unfunded accrued liability of $65,004,799 for its Miscellaneous Plan as of June 30, 2011, based on an actuarial value of assets of $224,366,487 as set forth in the most recent actuarial report prepared by CalPERS, and an estimated unfunded accrued liability of $65,000,000 for the Miscellaneous Plan for Fiscal Year 2012.

Under GASB Statement No. 27, an employer reports an annual pension cost equal to the ARC plus an adjustment for the cumulative difference between the annual pension cost and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation and may be positive or negative. The ARC for Fiscal Year 2012 was determined by an actuarial valuation of the plan as of June 30, 2009 and the ARC for Fiscal Year 2013 has been determined by an actuarial valuation of the plan as of June 30, 2010.

The staff actuaries at CalPERS annually prepare an actuarial valuation which covers a Fiscal Year ending approximately 15 months before the actuarial valuation is delivered (thus, the actuarial valuation delivered to the City in November 2012 covered the City's Fiscal Year ended June 30, 2011). The actuarial valuations express the City's required contribution rates in percentages of covered payroll, which percentages the City must contribute in the Fiscal Year immediately following the Fiscal Year in which the actuarial valuation is prepared (thus, the City's contribution rate derived from the actuarial valuation as of June 30, 2010, which was delivered in October 2011, affects the City's Fiscal Year 2013 required contribution rate). CalPERS rules require the City to implement the actuary's recommended rates.

In calculating the annual actuarially recommended contribution rates, the CalPERS actuary calculates on the basis of certain assumptions the actuarial present value of benefits that CalPERS will fund under the CalPERS plans, which includes two components, the normal cost and the unfunded actuarial accrued liability (the "UAAL"). The normal cost represents the actuarial present value of benefits that CalPERS will fund under the CalPERS plans that are attributed to the current year, and the actuarial accrued liability represents the actuarial present value of benefits that CalPERS will fund that are attributed to past years. The UAAL represents an estimate of the actuarial shortfall between actuarial value of assets on deposit at CalPERS and the present value of the benefits that CalPERS will pay under the CalPERS plans to retirees and active employees upon their retirement. The UAAL is based on several assumptions, including, among others, the rate of investment return, average life expectancy, average age of retirement, inflation, salary increases and occurrences of disabilities. In addition, the UAAL includes certain actuarial adjustments such as, among others, the actuarial practice of smoothing losses and gains over multiple years (which is described in more detail below). As a result, the UAAL may be considered an estimate of the unfunded actuarial present value of the benefits that CalPERS will fund under the CalPERS plans to retirees and active employees upon their retirement and not as a fixed expression of the liability that the City owes to CalPERS under its CalPERS plans.

In each actuarial valuation, the CalPERS actuary estimates the actuarial value of the assets (the "Actuarial Value") of the CalPERS plans at the end of the Fiscal Year (which assumes, among other things, that the rate of return during such Fiscal Year equaled the assumed rate of return, currently 7.75%). The CalPERS actuary uses a smoothing technique to determine Actuarial Value that is calculated based on certain policies. As described below, these policies changed significantly in 2012 and 2005, affecting the Actuarial Value calculation beginning in Fiscal Year 2007.

On March 14, 2012, the CalPERS Board approved a change in the inflation assumption used in the actuarial valuations used to determine employer contribution rates. The inflation assumption was changed from 3% to 2.75% effective July 1, 2012. The change impacted the inflation component of the annual investment return assumption and the long term payroll growth assumption as follows:

- The annual assumed investment return decreased from 7.75% to 7.5%.
- The long term payroll growth assumption decreased from 3.25% to 3%.
- The inflation component of individual salary scales decreased from 3.25% to 3%.

Although the full impact of the above changes is not yet clear, CalPERS has estimated that they could result in net increases in future contribution levels of approximately 1% to 2%.

In April 2005, the CalPERS Board adopted new policies aimed at stabilizing rising employer costs. These policies were used to set employer contribution rates for the City beginning in Fiscal Year 2007. These policies include:

- Spreading CalPERS market value asset gains and losses over 15 years rather than three years.
- Widening the "corridor" limits for establishing the actuarial value of assets from 90% to 110% of market value to 80% to 120% of market value (except for the 3-year phase-in of investment losses from Fiscal Year 2009, as described below).

- Establishing a rolling 30-year amortization on all remaining net unamortized gains or losses, instead of amortizing 10% of the net unamortized gain or loss each year pursuant to prior policy. Such an amortization schedule results in approximately 6% of unamortized gains and losses each year. Due to the excess of accrued liability over actuarial value of plan assets, the amortization payment of the total unfunded liability may be higher than the payment calculated over a 30-year amortization period.

- Requiring a minimum employer contribution rate equal to the employer normal costs minus a 30-year amortization of surplus (but not less than 0%).

Pursuant to the April 2005 policy change, multiple amortization bases (including those for benefit improvement or changes in actuarial methods or assumptions, which are typically less than 30 years) were combined into a single base (the gain and loss bases) and amortized over a rolling 30-year period to effect a "fresh start" as of June 30, 2004. The April 2005 policy did not affect other existing amortization bases for benefit improvements, assumptions changes and method changes.

Due to significant market investment losses of approximately 24% in the CalPERS trust fund for Fiscal Year 2009, CalPERS implemented a 3-year phase-in of the Fiscal Year 2009 investment loss. This phased in approach will be achieved by temporarily relaxing the constraints on the smoothed value of assets around the actual market value. The corridor will be widened and then contracted as follows:

- Increase the corridor limits from 80% to 120% of market value to 60% to 140% of market value to determine the actuarial value of assets for the June 30, 2009 valuation, which impacted the Fiscal Year 2012 contribution rate.

- Reduce the corridor limits from 60% to 140% of market value to 70% to 130% of market value to determine the actuarial value of assets for the June 30, 2010 valuation, which impacts the Fiscal Year 2013 contribution rate.

- Return to the 80% to 120% of market value corridor limits for the actuarial value of assets on June 30, 2011 and thereafter, which impacts contribution rates for Fiscal Year 2014 and beyond.

- Asset losses outside of the 80% to 120% corridor described above will be amortized pursuant to a fixed 30-year amortization schedule.

In addition, in February 2010, the CalPERS Board adopted a resolution requiring additional contributions for any plan or pool if the cash flows hamper adequate funding progress by preventing the expected funded status on a market value of assets basis of the plan to either:

- Increase by at least 15% by June 30, 2043; or
- Reach a level of 75% funded by June 30, 2043.

Such contributions have been factored into the City's contribution rates set by CalPERS.

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The following table summarizes the City's annual required contributions for its Safety Plan for Fiscal Years 2008 through 2012:

| *Fiscal Year* | *Employer Contribution* | *City-Funded Employee Contribution* | *Employee Contribution* | *Annual Pension Cost* | *Percentage of Annual Pension Cost Contributed* |
|---|---|---|---|---|---|
| 2008 | $6,643,726 | $1,986,668 | $46,917 | $6,645,597 | 99.97% |
| 2009 | 6,553,637 | 1,923,660 | 20,013 | 6,553,639 | 100.00 |
| 2010 | 6,445,287 | 1,724,738 | 202,680 | 6,448,527 | 99.95 |
| 2011 | 6,229,965 | 1,209,538 | 646,850 | 6,302,280 | 98.85 |
| 2012 | 6,850,763 | 1,163,902 | 651,350 | 6,850,763 | 100.00 |

The following table summarizes the City's annual required contributions for its Miscellaneous Plan for Fiscal Years 2008 through 2012:

| *Fiscal Year* | *Employer Contribution* | *City-Funded Employee Contribution* | *Employee Contribution* | *Annual Pension Cost* | *Percentage of Annual Pension Cost Contributed* |
|---|---|---|---|---|---|
| 2008 | $7,229,921 | $2,584,657 | $372,784 | $7,228,241 | 100.02% |
| 2009 | 7,046,518 | 2,550,227 | 370,619 | 7,045,855 | 100.01 |
| 2010 | 6,182,996 | 2,307,745 | 339,802 | 6,181,753 | 100.02 |
| 2011 | 6,265,276 | 2,170,405 | 322,381 | 6,264,788 | 100.01 |
| 2012 | 6,821,337 | 309,255 | 2,091,763 | 6,821,337 | 100.00 |

The following table sets forth the schedule of funding for the City's Safety Plan. The employer contribution rate for Fiscal Year 2013 is 33.701% of annual covered payroll.

| *Valuation Date* | *Entry Age Normal Accrued Liability* | *Actuarial Value of Assets* | *Unfunded Actuarial Accrued Liability* | *Market Value of Assets* | *Funded Ratio*[(1)] | *Annual Covered Payroll* |
|---|---|---|---|---|---|---|
| 06/30/07 | $212,421,505 | $171,850,308 | $40,571,197 | $199,896,837 | 94.1% | $21,950,579 |
| 06/30/08 | 229,203,520 | 186,315,077 | 42,888,443 | 190,503,105 | 83.1 | 22,568,495 |
| 06/30/09 | 242,874,783 | 196,476,776 | 46,398,007 | 143,876,356 | 59.2 | 21,466,012 |
| 06/30/10 | 252,291,718 | 207,089,159 | 45,201,859 | 162,984,448 | 64.6 | 21,499,550 |
| 06/30/11 | 264,683,120 | 219,102,277 | 45,580,843 | 195,816,048 | 73.9 | 20,389,124 |

(1) Based on the market value of assets.
Source: CalPERS Actuarial Report Dated October 2012.

The following table sets forth the schedule of funding for the City's Miscellaneous Plan. The employer contribution rate for Fiscal Year 2013 is 23.827% of annual covered payroll.

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| Valuation Date | Entry Age Normal Accrued Liability | Actuarial Value of Assets | Unfunded Actuarial Accrued Liability | Market Value of Assets | Funded Ratio[1] | Annual Covered Payroll |
|---|---|---|---|---|---|---|
| 06/30/07 | $215,442,908 | $168,559,289 | $46,883,619 | $194,329,503 | 90.2% | $38,261,322 |
| 06/30/08 | 239,649,475 | 186,898,291 | 52,751,184 | 189,323,085 | 79.0 | 37,557,576 |
| 06/30/09 | 263,284,777 | 199,668,046 | 63,616,731 | 145,596,482 | 55.3 | 36,734,986 |
| 06/30/10 | 273,248,044 | 211,856,211 | 61,391,833 | 166,134,811 | 60.8 | 33,837,511 |
| 06/30/11 | 289,371,286 | 224,366,287 | 65,004,799 | 199,803,578 | 69.0 | 32,582,511 |

(1) Based on the market value of assets.
Source: CalPERS Actuarial Report Dated October 2012.

CalPERS reported significant investment losses in 2009, which accounts for a portion of the increase in the City's unfunded actuarial liability from June 30, 2008 to June 30, 2009. In addition, the increase in the City's unfunded actuarial liability is attributable to CalPERS studies performed in Fiscal Year 2009 and the adjustment of assumptions made by CalPERS valuations for age at retirement, years of service, mortality rates, and certain other assumptions. CalPERS earnings reports for Fiscal Years 2010, 2011 and 2012 show an investment gain in excess of 13.0%, 21.7% and 1%, respectively. Future earnings performance and adjustments of assumptions may increase or decrease future contribution rates for plan participants, including the City.

The City's budget projections do not assume further unusual increases in CalPERS contributions or other labor costs. However, no assurance can be provided that such expenses will not increase significantly in the future.

For additional information relating to the City's CalPERS Plan, see Note 13 to the City's financial statements set forth in Appendix B.

**No Other Post-Employment Benefits**

The City does not currently provide other post-employment benefits to its employees.

**California State Pension Reform Legislation**

On September 12, 2012, the Governor signed AB 340, a comprehensive pension reform package affecting state and local government employees. AB 340 implements lower defined-benefit formulas with higher retirement ages for new employees hired on or after January 1, 2013, and includes provisions to increase current employee contributions. Though AB 340 covers most public employees in state government, cities, counties, special districts, school district, and community colleges, the following discussion relates only to AB 340's impact on City employee retirement.

Key changes to retirement plans affecting the City include:

- New defined-benefit formulas that increase retirement ages for new public employees hired on or after January 1, 2013;
- For new employees, a cap on pensionable income of $110,100 ($132,120 for employees not enrolled in Social Security). Annual increases on the cap would be limited to the Consumer Price Index for All Urban Consumers.
- A standard that employees pay at least 50% of normal costs.
- Establishes increases for current City civil service and related excluded employees who are not contributing at least half of normal costs.

Other provisions reduce the risk of the City incurring additional unfunded liabilities, including prohibiting retroactive benefits increases, generally prohibiting contribution holidays, and prohibiting purchases of additional non-qualified service credit ("air time").

If AB 340 is implemented fully, CalPERS estimates savings for local agency plans of approximately $1.653 billion to $2.355 billion over the next 30 years due primarily to increased employee contributions and, as the workforce turns over, lower benefit formulas that will gradually reduce normal costs. Savings specific to the City have not been quantified.

Provisions in AB 340 will not likely have a material effect on City contributions in the short term. However, additional employee contributions, limits on pensionable compensation and higher retirement ages for new members will reduce the City's UAAL and potentially reduce City contribution levels in the long term. See the caption "—Retirement Contributions."

**City Investment Policy**

The City invests its funds in accordance with the City's Investment Policy, most recently amended in June 2012. In accordance with Section 53600 *et seq*. of the California Government Code, idle cash management and investment transactions are the responsibility of the City Treasurer. The City's Investment Policy sets forth the policies and procedures applicable to the investment of City funds and designates eligible investments. The Investment Policy sets forth a stated objective, among others, of insuring the safety of invested funds by limiting credit and market risks. Eligible investments are generally limited to the Local Agency Investment Fund which is operated by the California State Treasurer, the San Diego County Investment Pool for local agencies, U.S. Treasury Bills, Notes and Bonds, obligations issued by United States Government agencies, FDIC-insured or negotiable certificates of deposit, repurchase agreements, banker's acceptances and commercial paper rated A1/P1, as applicable, or better, and money market funds rated in the highest category by Moody's Investor's Service, Inc. ("Moody's") or Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") or administered by a domestic bank with long-term debt rated in one of the top two categories of Moody's and S&P. Funds are invested in the following order of priority:

- Safety of Principal;
- Liquidity; and
- Return on Investment.

The City Treasurer is required to provide a quarterly report to the City Manager and the City Council showing the type of investment, date of maturity, amount invested, current market value, rate of interest, and other such information as may be required by the City Council.

A summary of the City's investments as of June 30, 2012 is set forth in the below table. As shown below, approximately 78% of the moneys held by the City (or approximately 54% of total City moneys, including moneys held by fiscal agents) are invested in federal agency securities. Approximately $31,790,494 (15%) of the total investment portfolio as of June 30, 2012 was attributed to the General Fund. Such amount is expected to be reduced by approximately 40% in Fiscal Year 2013 as a result of the return of the 2/16/11 Payment, as described under the caption "STATE OF CALIFORNIA BUDGET INFORMATION—Redevelopment Dissolution—Repayment of Moneys to Successor Agency."

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| | TOTAL | 18 months or less | 18-42 months | 42-60 months |
|---|---|---|---|---|
| U.S. Treasury Notes | $ 1,628,087 | $ 579,024 | $ 1,049,063 | $ |
| Federal Agency Securities | 114,099,079 | 39,672,855 | 27,201,440 | 47,224,784 |
| Money Market Funds | 1,679,634 | 1,679,634 | | |
| Negotiable Certificates of Deposit | 1,203,280 | 1,203,280 | | |
| State Investment Pool (LAIF) | 27,140,202 | 27,140,202 | | |
| Subtotal | 145,750,282 | 70,274,995 | 28,250,503 | 47,224,784 |
| Held by fiscal agent: | | | | |
| Federal Agency Securities | 6,316,095 | 6,316,095 | | |
| Money Market Funds | 59,955,690 | 59,955,690 | | |
| Certificates of Deposit | 230,000 | 230,000 | | |
| Subtotal | 66,501,785 | 66,501,785 | | |
| Total | $ 212,252,067 | $ 136,776,780 | $ 28,250,503 | $ 47,224,784 |

See Note 3 in Appendix B for further information with respect to City investments.

## RISK FACTORS

*The following factors, along with the other information in this Official Statement, should be considered by potential investors in evaluating the purchase of the Series 2013A Bonds. However, the following does not purport to be an exhaustive listing of risks and other considerations which may be relevant to an investment in the Series 2013A Bonds. In addition, the order in which the following factors are presented is not intended to reflect the relative importance of any such risks.*

**General Considerations – Security for the Series 2013A Bonds**

The Series 2013A Bonds are special obligations of the Authority, payable solely from Base Rental Payments and the other assets pledged under the Indenture. Neither the faith and credit nor the taxing power of the Authority, the City, the State, or any political subdivision thereof, is pledged to the payment of the Series 2013A Bonds. The Authority has no taxing power.

The obligation of the City to make the Base Rental Payments does not constitute a debt of the City or the State or any political subdivision thereof within the meaning of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the City or the State is obligated to levy or pledge any form of taxation or for which the City or the State has levied or pledged any form of taxation.

Although the Lease Agreement does not create a pledge, lien or encumbrance upon the funds of the City, the City is obligated under the Lease Agreement to pay the Base Rental Payments and Additional Rental Payments from any source of legally available funds, and the City has covenanted in the Lease Agreement that it will take such action as may be necessary to include all Base Rental Payments and Additional Rental Payments due under the Lease Agreement as a separate line item in its annual budgets and to make necessary annual appropriations for all such Rental Payments, subject to abatement. The City is currently liable and may become liable on other obligations payable from general revenues. See the caption "CITY FINANCIAL INFORMATION—Indebtedness—General Fund-Supported Debt."

The City has the capacity to enter into other obligations which may constitute additional charges against its revenues, including pension obligations and essential services. To the extent that additional obligations are incurred by the City, the funds available to make Base Rental Payments may be decreased. In the event the City's revenue sources are less than its total obligations, the City could choose to fund other activities before making Base Rental Payments and other payments due under the Lease Agreement. The same result could occur if, because of State Constitutional limits on expenditures, the City is not permitted to appropriate and spend all of its available revenues. However, the City's appropriations have never exceeded the limitation on appropriations under Article XIIIB of the State Constitution. See the caption "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS—Article XIIIB of the State Constitution."

**Abatement**

In the event of substantial interference with the City's right to use and occupy any portion of the Property by reason of damage to or destruction or condemnation of the Property, or any defects in title to the Property, Base Rental Payments will be subject to abatement. See the caption "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013A BONDS—Abatement." In the event that such portion of the Property, if damaged or destroyed by an insured casualty, could not be replaced during the period of time in which proceeds of the City's rental interruption insurance will be available in lieu of Base Rental Payments, plus the period in which funds are available from the funds and accounts established under the Indenture, or in the event that casualty insurance proceeds are insufficient to provide for complete repair or replacement of such portion of the Property or redemption of the Series 2013A Bonds, there could be insufficient funds to make payments to Owners in full.

It is not always possible to predict the circumstances under which abatement of rental may occur. In addition, there is no statute, case or other law specifying how such an abatement of rental should be measured. For example, it is not clear whether fair rental value is established as of commencement of the lease or at the time of the abatement. If the latter, the value of the Property could be substantially higher or lower than its value at the time of the issuance of the Series 2013A Bonds. Abatement, therefore, could have an uncertain and material adverse effect on the security for and payment of the Series 2013A Bonds.

If damage, destruction, title defect or eminent domain proceedings with respect to the Property results in abatement of the Base Rental Payments related to such Property and if such abated Base Rental Payments, if any, together with moneys from rental interruption or use and occupancy insurance (in the event of any insured loss due to damage or destruction), and eminent domain proceeds, if any, are insufficient to make all payments of principal and interest with respect to the Series 2013A Bonds during the period that the Property is being replaced, repaired or reconstructed, then all or a portion of such payments of principal and interest may not be made. Under the Lease Agreement and the Indenture, no remedy is available to the Series 2013A Bond Owners for nonpayment under such circumstances.

**No Reserve Fund**

Neither the City nor the Authority has established a reserve fund in connection with the issuance of the Series 2013A Bonds.

**Natural Disasters**

The occurrence of any natural disaster in the City, including, without limitation, fire, earthquake or flood, could have an adverse material impact on the economy within the City, its General Fund and the revenues available for the payment of the Base Rental Payments. A safety report for parts of the City's municipal water system states that there are four known earthquake fault zones located approximately 10 miles to 60 miles from portions of the City. The City does not maintain earthquake insurance for the Property.

Earthquakes are considered a threat to the City due to the highly active seismic region and the proximity of fault zones, which could influence the entire southern coastal portion of the State. However, no major earthquake has caused substantial damage to the City.

An earthquake along one of the faults in the vicinity, either known or unknown, could cause a number of casualties and extensive property damage. The effects of such a quake could be aggravated by aftershocks and secondary effects such as fires, landslides, dam failure, liquefaction and other threats to public health, safety and welfare. The potential direct and indirect consequences of a major earthquake could easily exceed the resources of the City and would require a high level of self-help, coordination and cooperation.

The occurrence of natural disasters in the City could result in substantial damage to the City which, in turn, could substantially reduce General Fund revenues and affect the ability of the City to make the Base Rental Payments. Reduced ability to make the Base Rental Payments could affect the payment of the principal of and interest on the Series 2013A Bonds. The City maintains liability insurance and property casualty insurance (for losses other than from seismic events) for the Property. See the caption "THE CITY—Risk Management." However, there can be no assurance that specific losses will be covered by insurance or, if covered, that claims will be paid in full by the applicable insurers.

**Hazardous Substances**

An additional environmental condition that may result in the reduction in the assessed value of property, and therefore property tax revenue available to make Base Rental Payments, would be the discovery of a hazardous substance that would limit the beneficial use of taxable property within the City. In general, the owners and operators of a property may be required by law to remedy conditions of the property relating to releases or threatened releases of hazardous substances. The Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as "CERCLA" or the "Superfund Act," is the most well-known and widely applicable of these laws, but State laws with regard to hazardous substances are also stringent and similar in effect. Under many of these laws, the owner or operator may be required to remedy a hazardous substance condition of property whether or not the owner or operator has anything to do with creating or handling the hazardous substance. The effect, therefore, should any of the property within the City be affected by a hazardous substance, could be to reduce the marketability and value of such property by the costs of remedying the condition, because the purchaser, upon becoming owner, will become obligated to remedy the condition just as is the seller.

The City has not independently verified, but is not aware of, the presence of any hazardous substances on the Property. Hazardous substance liabilities may arise in the future with respect to any of the property in the City resulting from the existence, currently, of a substance presently classified as hazardous but which has not been released or the release of which is not presently threatened, or may arise in the future resulting from the existence, currently, on the parcel of a substance not presently classified as hazardous but which may in the future be so classified. Additionally, such liabilities may arise from the method of handling such substance. These possibilities could significantly affect the value of a parcel and could result in substantial delays in completing planned development on parcels that are currently undeveloped.

**Other Financial Matters**

Due to weakness in the economy of the State and the United States, it is possible that the general revenues of the City will decline. Such financial matters may have a detrimental impact on the City's General Fund, and, accordingly, may reduce the City's ability to make Base Rental Payments. See the caption "CITY FINANCIAL INFORMATION."

In addition, City expenses could also rise as a result of unforeseen events, including but not limited to increases in pension obligations or a determination that the Successor Agency's payment obligation under the Reimbursement Agreement relating to the 2007 LRBs is not an enforceable obligation. Such a determination could require the City to make payments under the 2007 LRBs from General Fund moneys. See the caption "CITY FINANCIAL INFORMATION—Indebtedness—General Fund-Supported Debt—2007 LRBs."

**Substitution, Addition and Removal of Property; Additional Bonds**

The Authority and the City may amend the Lease Agreement: (a) to substitute alternate real property for any portion of the Property; (b) to add additional real property to the Property; or (c) to release a portion of the Property from the Lease Agreement, upon compliance with all of the conditions set forth in the Lease Agreement. After a substitution or release, the portion of the Property for which the substitution or release has been effected will be released from the leasehold encumbrance of the Lease Agreement. Moreover, the Authority may issue Additional Bonds secured by Base Rental Payments which are increased from current levels. See the captions "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013A BONDS—Substitution, Addition and Removal of Property" and "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013A BONDS—Additional Bonds."

Although the Lease Agreement requires, among other things, that the Property, as constituted after such substitution or release, have an annual fair rental value at least equal to the maximum Base Rental Payments payable by the City in any Rental Period, it does not require that such Property have an annual fair rental value equal to the annual fair rental value of the Property at the time of substitution or release. Thus, a portion of the Property could be replaced with less valuable real property, or could be released altogether. Such a replacement or release could have an adverse impact on the security for the Series 2013A Bonds, particularly if an event requiring abatement of Base Rental Payments were to occur subsequent to such substitution or release. See Appendix A under the caption "LEASE AGREEMENT—NO CONSEQUENTIAL DAMAGES; USE OF THE PROPERTY; SUBSTITUTION OR RELEASE—Substitution or Release of the Property."

The Indenture requires, among other things, that upon the issuance of Additional Bonds, the Ground Lease and the Lease Agreement will be amended, to the extent necessary, so as to increase the Base Rental Payments payable by the City thereunder by an aggregate amount equal to the principal of and interest on such Additional Bonds; provided, however, that no such amendment will be made such that the sum of Base Rental Payments, including any increase in the Base Rental Payments as a result of such amendment, plus Additional Rental Payments, in any Rental Period is in excess of the annual fair rental value of the Property after taking into account the use of the proceeds of any Additional Bonds issued in connection therewith. See Appendix A under the captions "INDENTURE—Conditions for the Issuance of Additional Bonds" and "INDENTURE—Procedure for the Issuance of Additional Bonds" for a full description of the requirements that must be met in order for the Authority to issue Additional Bonds.

**Limited Recourse on Default; No Acceleration of Base Rental**

Failure by the City to make Base Rental Payments or other payments required to be made under the Lease Agreement, or failure to observe and perform any other terms, covenants or conditions contained in the Lease Agreement or in the Indenture for a period of 30 days after written notice of such failure and request that it be remedied has been given to the City by the Authority or the Trustee, constitute events of default under the Lease Agreement and permit the Trustee or the Authority to pursue any and all remedies available. In the event of a default, notwithstanding anything in the Lease Agreement or in the Indenture to the contrary, there is no right under any circumstances to accelerate the Base Rental Payments or otherwise declare any Base Rental Payments not then in default to be immediately due and payable, nor do the Authority or the Trustee have any right to re-enter or re-let the Property except as described in the Lease Agreement.

The enforcement of any remedies provided in the Lease Agreement and the Indenture could prove both expensive and time consuming. If the City defaults on its obligation to make Base Rental Payments with respect to the Property, the Trustee, as assignee of the Authority, may retain the Lease Agreement and hold the City liable for all Base Rental Payments thereunder on an annual basis and enforce any other terms or provisions of the Lease Agreement to be kept or performed by the City.

Alternatively, the Authority or the Trustee may terminate the Lease Agreement, retake possession of the Property and proceed against the City to recover damages pursuant to the Lease Agreement. Due to the specialized and limited nature of the Property, existing Permitted Encumbrances on the Property, and the restrictions on its use, it is unlikely that the Trustee would be able to re-let the Property so as to provide rental income sufficient to make all payments of principal of, interest and premium, if any, on the Series 2013A Bonds when due while preserving the tax-exempt nature of the Series 2013A Bonds. Similar limitations and constraints would apply to any property substituted for the Property pursuant to the Lease Agreement. Moreover, the Trustee is not empowered to sell the Property for the benefit of the Owners of the Series 2013A Bonds. Any suit for money damages would be subject to limitations on legal remedies against cities in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest. See the captions "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013A BONDS" and "THE PROPERTY" and Appendix A under the caption "LEASE AGREEMENT—DEFAULTS AND REMEDIES."

**Possible Insufficiency of Insurance Proceeds**

The Lease Agreement obligates the City to keep in force various forms of insurance, subject to deductibles, for repair or replacement of the Property in the event of damage, destruction or title defects, subject to certain exceptions. The Authority and the City make no representation as to the ability of any insurer to fulfill its obligations under any insurance policy obtained pursuant to the Lease Agreement and no assurance can be given as to the adequacy of any such insurance to fund necessary repair or replacement or to pay principal of and interest on the Series 2013A Bonds when due. In addition, certain risks, such as earthquakes and floods, are not required to be covered under the Lease Agreement, and therefore, are not carried by the City. See the captions "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013A BONDS—Insurance" and "THE CITY—Risk Management."

**Limitations on Remedies**

The rights of the Owners of the Series 2013A Bonds are subject to the limitations on legal remedies against cities in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest. Furthermore, the remedies available to the Owners of the Series 2013A Bonds upon the occurrence of an event of default under the Indenture or the Lease Agreement are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

Additionally, enforceability of the rights and remedies of the Owners of the Series 2013A Bonds, and the obligations incurred by the City, may become subject to the provisions of Title 11 of the United States Code (the "Bankruptcy Code") and applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting the enforcement of creditors' rights generally, now or later in effect, equity principles which may limit the specific enforcement under State law of certain remedies, the exercise by the United States of America of the powers delegated to it by the federal Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose and the limitations on remedies against cities in the State. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the Owners of the Series 2013A Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation or modification of their rights. Under Chapter 9 of the Bankruptcy Code, which governs the bankruptcy proceedings for public agencies such as the City, there are no involuntary petitions in bankruptcy. If the City were to file a petition under Chapter 9 of the Bankruptcy Code, the Owners of the Series 2013A Bonds, the Trustee and the Authority could be prohibited from taking any steps to enforce their rights under the Lease Agreement, and from taking any steps to collect amounts due from the City under the Lease Agreement.

The opinion to be delivered by Bond Counsel concurrently with the execution and delivery of the Series 2013A Bonds will be subject to such limitations and the various other legal opinions to be delivered concurrently with the issuance of the Series 2013A Bonds will be similarly qualified. See Appendix C—"PROPOSED FORM OF OPINION OF BOND COUNSEL." In the event that the City fails to comply with its covenants under the Lease Agreement or fails to pay Base Rental Payments, there can be no assurance of the availability of remedies adequate to protect the interest of the Owners of the Series 2013A Bonds.

**Loss of Tax Exemption**

As discussed under the heading "TAX MATTERS," the interest on the Series 2013A Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date of delivery of the Series 2013A Bonds as a result of acts or omissions of the Authority or the City in violation of the covenants in the Indenture and the Lease Agreement. Should such an event of taxability occur, the Series 2013A Bonds would not be subject to a special redemption and would remain Outstanding until maturity or until redeemed under the redemption provisions contained in the Indenture.

**No Liability of Authority to the Owners**

Except as expressly provided in the Indenture, the Authority will not have any obligation or liability to the Owners of the Series 2013A Bonds with respect to: (a) the payment when due of the Base Rental Payments by the City; (b) the performance by the City of other agreements and covenants required to be performed by it contained in the Lease Agreement or the Indenture; or (c) the performance by the Trustee of any right or obligation required to be performed by it contained in the Indenture.

**Secondary Market**

There can be no guarantee that there will be a secondary market for the Series 2013A Bonds or, if a secondary market exists, that the Series 2013A Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

## STATE OF CALIFORNIA BUDGET INFORMATION

**State Budget**

Information about the State budget is regularly available at various State-maintained websites. Text of proposed and adopted budgets may be found at the website of the Department of Finance, http://www.dof.ca.gov, under the heading "California Budget." An impartial analysis of the budget is posted by the Legislative Analyst's Office at http://www.lao.ca.gov. In addition, various State official statements, many of which contain a summary of the current and past State budgets and the impact of those budgets on cities in the State, may be found at the website of the State Treasurer, http://www.treasurer.ca.gov. The information referred to is prepared by the respective State agency maintaining each website and not by the City, and the City can take no responsibility for the continued accuracy of these Internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references.

**State Budget for Fiscal Year 2013**

According to the State Constitution, the Governor of the State is required to propose a budget to the State Legislature by no later than January 10 of each year, and a final budget must be adopted by the vote of each house of the State Legislature by no later than June 15, although this deadline has been routinely breached in the past. The State budget becomes law upon the signature of the Governor, who may veto specific items of expenditure.

Prior to Fiscal Year 2011, the State budget had to be adopted by a two-thirds vote of each house of the State Legislature. However, in November 2010, the voters of the State passed Proposition 25, which reduced the vote required to adopt a budget to a majority vote of each house and which provided that there would be no appropriation from the current budget or future budget to pay any salary or reimbursement for travel or living expenses for members of the State Legislature for the period during which the budget was presented late to the Governor.

On June 27, 2012, the State's budget for Fiscal Year 2013 (the "2012 Budget Act") was enacted. The 2012 Budget Act projects State General Fund revenues and transfers for Fiscal Year 2013 at \$95.9 billion, an increase of \$9.1 billion compared to Fiscal Year 2012. General Fund expenditures for Fiscal Year 2013 are projected at \$91.3 billion, an increase of \$4.3 billion compared to Fiscal Year 2012.

The 2012 Budget Act closes a \$15.7 billion budget gap and rebuilds a nearly \$1 billion reserve. In closing the \$15.7 billion gap, the 2012 Budget Act relies on deep spending reductions combined with temporary taxes and other actions.

The 2012 Budget Act includes The Schools and Local Public Safety Protection Act (the "Governor's Tax Initiative"), which was approved by a majority of voters at the November 6, 2012 general election. The Governor's Tax Initiative temporarily increases the personal income tax on the State's wealthiest taxpayers for seven years, increases the sales tax by one-quarter percent for four years, and guarantees most of these new revenues to schools. The Governor estimates that the Governor's Tax Initiative will generate an estimated \$8.5 billion through Fiscal Year 2013 and will enable the State to meet the minimum funding guarantee for school districts, community college districts and other state agencies that provide direct elementary and secondary instructional programs for kindergarten through grade 14 (K-14) under Proposition 98, which was passed in 1988, and to increase funding for schools and community colleges by an additional \$2.9 billion. The Governor's Tax Initiative will provide a net benefit to the State General Fund of \$5.6 billion. In addition, the measure constitutionally guarantees certain funds for local public safety.

**Proposed State Budget for Fiscal Year 2014**

The Governor released his proposed Fiscal Year 2014 State budget (the "2014 Proposed State Budget") on January 10, 2013. The 2014 Proposed State Budget projects a balanced budget for Fiscal Year 2014 and proposes a multiyear plan that is balanced, maintains a \$1 billion reserve and pays down budgetary debt from past years. In comparison, a budget gap of approximately \$15.7 billion and \$26.6 billion was encountered in Fiscal Years 2013 and 2012, respectively. The 2014 Proposed State Budget provides that the projected balanced budget is largely the result of the various spending cuts implemented over the previous two Fiscal Years, and the passage of a temporary tax measure at the November 6, 2012 election. The 2014 Proposed State Budget acknowledges that the temporary tax measure will only provide temporary revenues, with the sales tax increase expiring at the end of 2016 and the income tax increase expiring at the end of 2018. Accordingly, the 2014 Proposed State Budget notes that the State must begin to plan now to ensure that the budget will remain balanced after such temporary tax increases expire. The 2014 Proposed State Budget also notes certain other risks that could return the State to fiscal deficits, including fiscal challenges of the federal government, deviation from projected economic growth, rising health care costs and federal government and court interference with the State's efforts to reduce spending.

Absent any changes, the 2014 Proposed State Budget projects that the Fiscal Year 2014 budget would be balanced but would lack an adequate reserve. To create a \$1 billion reserve, the 2014 Proposed State Budget proposes several measures, such as the suspension of certain newly identified mandates, the use of Fiscal Year 2013 funds appropriated above the Proposition 98 minimum guarantee to prepay certain obligations to schools under the Quality Education Investment Act, and the extension of the hospital quality assurance fee and the gross premiums tax on Medi-Cal managed care plans. The 2014 Proposed State Budget dedicates approximately $4.2 billion in Fiscal Year 2014 to pay down the State's budgetary debt (which budgetary debt amounted to approximately $34.7 billion at the end of Fiscal Year 2011 and is currently estimated to be approximately $27.8 billion at the end of Fiscal Year 2013) and estimates that such budgetary debt will be reduced to less than approximately $5.0 billion by the end of Fiscal Year 2017.

An overview of the Fiscal Year 2014 State budget is available on the website of the State's Legislative Analyst Office at http://www.lao.ca.gov. Neither the City nor the Authority can take any responsibility for the continued accuracy of this Internet address or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by such reference.

The final Fiscal Year 2014 State budget, which requires approval by a majority vote of each house of the State Legislature, may differ substantially from the Governor's budget proposal. Accordingly, neither the City nor the Authority can predict the impact that the final Fiscal Year 2014 State budget, or subsequent budgets, will have on its finances and operations. The final Fiscal Year 2014 State budget will be affected by national and State economic conditions and other factors which neither the City nor the Authority can predict.

**Potential Impact of State Financial Condition on the City**

The State has experienced significant financial stress in recent years, with budget shortfalls in the several billions of dollars. There can be no assurance that, as a result of such State financial stress, the State will not significantly reduce revenues to local governments (including the City) or shift financial responsibility for programs to local governments as part of its efforts to address the State financial difficulties. Although the State is not a significant source of City revenues, no prediction can be made by the City as to what measures the State will adopt to respond to the current or potential future financial difficulties. There can be no assurance that State actions to respond to State financial difficulties will not adversely affect the financial condition of the City.

**Redevelopment Dissolution**

***General***. On December 29, 2011, the State Supreme Court upheld Assembly Bill 1x26 ("AB 1x26"), which dissolved redevelopment agencies in the State. The effect of AB 1x26 upon the City is the termination of the Commission's redevelopment functions and the transfer of such functions to a successor agency (the City, referred to in this context as the "Successor Agency") tasked with winding down the Commission's redevelopment activities. Under AB 1x26, the Successor Agency cannot enter into new redevelopment projects or obligations and its assets can be used only to pay enforceable obligations in existence in mid-2011, when AB 1x26 was signed by the Governor. In addition, the Successor Agency will receive tax increment revenues in amounts that are sufficient to pay 100% (but no greater amount) of such enforceable obligations until such obligations are paid in full, at which time the Successor Agency will be dissolved. Certain tax revenues formerly allocable to the Commission will continue to be available to the Successor Agency to pay certain obligations, and a portion of such revenues may be redirected to other taxing agencies, such as the County, school districts and the City. The Successor Agency's activities are subject to review by an oversight board established under AB 1x26.

On June 27, 2012, the Governor signed Assembly Bill 1484 ("AB 1484"), which made certain amendments to AB 1x26. Under AB 1484, the County Auditor-Controller, the State Department of Finance and the State Controller may require the return of funds improperly spent or transferred to a public entity in conflict with the provisions of the Community Redevelopment Law, as amended by AB 1x26 and AB 1484, and if such funds are not returned within 60 days, they may be recovered through an offset of sales and use tax or property tax allocations to the local agency, which, in the case of the Successor Agency, is the City.

***Impact on the City***. Significant provisions of AB 1x26 and AB 1484 and implementing actions of affected parties, including the Successor Agency, the oversight board, the County and the State Department of

Finance, may be subject to legal challenge, statutory or administrative changes and other clarifications which could affect the impact of the dissolution of redevelopment on the City and its General Fund. The full extent of the impact of the implementation of AB 1x26 and AB 1484 on the City's General Fund is unknown at this time. While certain administrative costs previously charged to the Commission by the General Fund will no longer be supported by the Successor Agency, certain property tax revenues formerly allocated to the Commission will now be received by the City's General Fund.

On February 21, 2013, the oversight board approved a loan agreement in the maximum principal amount of $4,300,000 pursuant to which the City will advance moneys from the General Fund on or before September 1, 2013 to the Successor Agency in the event that the Successor Agency's funds on hand are insufficient to pay its various obligations. The loan agreement is subject to review by the State Department of Finance and there can be no assurance that the State Department of Finance will approve such loan agreement. However, the City expects that the State Department of Finance will determine that any advances under the loan agreement to pay enforceable obligations will themselves constitute enforceable obligations. The City expects to make advances from the General Fund in the total amount of $4,300,000 on or before September 1, 2013 to enable the Successor Agency to make payments under the Reimbursement Agreement supporting the 2007 LRBs. See the caption "CITY FINANCIAL INFORMATION—Indebtedness—General Fund-Supported Debt—2007 LRBs." Such advances will reduce cash available in the General Fund in the short term beginning in Fiscal Year 2015, although the City also expects that the Successor Agency will have sufficient funds in future years to repay such advances to the City as enforceable obligations.

There can be no assurance that the City and the Successor Agency will not enter into additional loan agreements in the future to enable the Successor Agency to meet its payment obligations in future years.

Except as noted below under the captions "—2007 LRBs" and "—Repayment of Moneys to Successor Agency," the City does not believe that it has received material amounts from the Commission or the Successor Agency which may be asserted to be in violation of AB 1x26 or AB 1484.

***2007 LRBs***. Although AB 1x26 generally invalidates agreements between host cities and their former redevelopment agencies, provision is made for the enforcement of agreements entered into with respect to bond obligations which meet certain specified criteria. The City believes that the Successor Agency's payment obligation under the Reimbursement Agreement relating to the 2007 LRBs (as described under the caption "CITY FINANCIAL INFORMATION—Indebtedness—General Fund-Supported Debt—2007 LRBs") is an enforceable obligation and the City expects that the Successor Agency will continue to be able to apply tax increment revenues to the payment of the Lease Payments securing the 2007 LRBs. The City has listed the Reimbursement Agreement in its Recognized Obligation Payment Schedule (the "ROPS"), which is required to be submitted to the oversight board and the State Department of Finance in accordance with AB 1x26. To date, none of the oversight board, the State Department of Finance, the State Controller or other State or County bodies implementing the dissolution of redevelopment have disputed the City's listing of the Reimbursement Agreement as an enforceable obligation on the ROPS. However, there can be no assurance that such entities or a court will not disagree with the City's interpretation and seek to prohibit the Successor Agency from making the Lease Payments in the future.

If the Reimbursement Agreement is held by a court not to be an enforceable obligation of the Successor Agency, the City would be required to pay the Lease Payments from legally available funds, including the General Fund, in accordance with the 2007 LRB documents. As described above, the largest annual Lease Payment under the 2007 LRBs is $7,070,000. Such payments, if required to be made by the City, would have a material effect on the General Fund until the maturity of the 2007 LRBs in 2018.

Although the City does not expect a challenge to its listing of the Reimbursement Agreement on the ROPS, it does expect that the Successor Agency will not have sufficient moneys in the short term to make full payments under the Reimbursement Agreement. As described above under the caption "—Impact on the City," the City expects to advance General Fund moneys in the amount of $4,300,000 to the Successor Agency on or before September 1, 2013 to enable the Successor Agency to make payments under the Reimbursement Agreement. Such advance will reduce cash available in the General Fund.

***Repayment of Moneys to Successor Agency***. From time to time since the inception of the Commission in 1984, the City loaned General Fund moneys to the Commission for redevelopment purposes (collectively, the "Redevelopment Loan") currently outstanding in the approximate aggregate principal amount of $29,000,000. On February 16, 2011, before the adoption of AB 1x26, the Commission adopted a resolution authorizing a partial payment on the Redevelopment Loan in the amount of $20,000,000 (the "2/16/11 Payment"), including approximately $15,100,000 in interest. The City's receipt of such amount is reflected in Tables 1 and 2 under the caption "CITY FINANCIAL INFORMATION." The City purchased two properties with a $6,740,744.82 portion of the repaid amount and retained approximately $13,259,255.18 in cash.

On April 20, 2012, the State Controller sent a letter to the City and the Successor Agency ordering the reversal of all payments received by cities from redevelopment agencies after January 1, 2011. By its terms, the letter applied to the 2/16/11 Payment on the Redevelopment Loan. The Successor Agency's listing of the Redevelopment Loan on previous ROPS has been rejected by the State Department of Finance. The City expects to challenge the determination that the Redevelopment Loan is not an enforceable obligation, but cannot predict the outcome of such challenge.

On July 9, 2012, pursuant to AB 1484, the County Auditor-Controller sent a letter to the City demanding payment of $10,145,052.16, representing moneys previously overpaid to the Successor Agency between July 1, 2011 and January 30, 2012. On July 25, 2012, the City adopted a resolution returning the 2/16/11 Payment (including the cash amount of $13,259,255.18 and the properties purchased) to the Successor Agency pursuant to AB 1484. From the returned cash, the Successor Agency paid the $10,145,052.16 amount demanded by the County Auditor-Controller. The remaining $3,114,203.02 in cash from the returned 2/16/11 Payment was retained by the Successor Agency as cash on hand.

The City cannot predict whether the amount or manner of the City's repayment of the 2/16/11 Payment (including the return of the two properties purchased with the proceeds of the 2/16/11 Payment) will be subsequently challenged by the State Department of Finance or others as part of the redevelopment dissolution process. Such a challenge could include claims for repayment of tax increment revenues transferred to the Successor Agency after the 2/16/11 Payment in order to pay enforceable obligations that could have been funded with Successor Agency cash on hand had the 2/16/11 Payment not been made. Although such a challenge could reduce cash available in the General Fund, the City believes that any such repayment of tax increment revenues would ultimately be reimbursable to the City from future tax increment revenues available to the Successor Agency pursuant to a loan agreement similar to the loan agreement described above under the caption "—Impact on the City." Accordingly, the City does not believe that any such challenge will have a material adverse effect on the City's ability to pay Base Rental Payments as they become due.

The Fiscal Year 2013 General Fund operating budget set forth in Table 1 under the caption "CITY FINANCIAL INFORMATION—Budget Procedure, Current Budget and Historical Budget Information" shows revenues and expenditures from City operations only; the City's return of money and transfer of property to the Successor Agency on July 25, 2012 is not reflected in such budgeted operating revenues or expenditures. The City projects that it will have sufficient General Fund revenues to meet its expenditures regardless of the outcome of all issues related to the Redevelopment Loan and the 2/16/11 Payment. The City expects that the net effect of the return of money and transfer of property to the Successor Agency in Fiscal Year 2013 will be to decrease the General Fund ending balance by approximately $8,347,410 (reflecting an increase related to the property transfer, a decrease related to the return of money and an increase in deferred revenues related to the outstanding amount of the Redevelopment Loan). See Table 3 under the caption "CITY FINANCIAL INFORMATION—General Fund Balance Sheets."

There can be no assurances that AB 1x26, AB 1484 and/or subsequent implementing statutes will not interfere with the receipt by the City from the Successor Agency of the amounts contemplated to be received by the City pursuant to the Reimbursement Agreement or the Redevelopment Loan or otherwise.

To the extent that the Successor Agency's assets are liquidated for distribution to the affected taxing entities, the City's General Fund will receive approximately 15.68% of such assets.

**Future State Budgets**

No prediction can be made by the City as to whether the State will continue to encounter budgetary problems in future years, and if it were to do so, it is not clear what measures would be taken by the State to balance its budget, as required by law. In addition, the City cannot predict the final outcome of future State budget negotiations, the impact that such budgets will have on City finances and operations or what actions will be taken in the future by the State Legislature and the Governor to deal with changing State revenues and expenditures. There can be no assurance that actions taken by the State to address its financial condition will not materially adversely affect the financial condition of the City. Current and future State budgets will be affected by national and State economic conditions and other factors, including the current economic downturn, over which the City has no control.

## CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS

There are a number of provisions in the State Constitution that limit the ability of the City to raise and expend tax revenues.

**Article XIIIA of the State Constitution**

On June 6, 1978, State voters approved an amendment (commonly known as both Proposition 13 and the Jarvis-Gann Initiative) to the State Constitution. The amendment, which added Article XIIIA to the State Constitution, among other things affects the valuation of real property for the purpose of taxation in that it defines the full cash property value to mean "the county assessor's valuation of real property as shown on the 1975/76 tax bill under 'full cash value', or thereafter, the appraised value of real property newly constructed, or when a change in ownership has occurred after the 1975 assessment." The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or a reduction in the consumer price index or comparable local data at a rate not to exceed 2% per year, or reduced in the event of declining property value caused by damage, destruction or other factors including a general economic downturn. The amendment further limits the amount of any *ad valorem* tax on real property to 1% of the full cash value, except that additional taxes may be levied to pay debt service on indebtedness approved by the voters prior to December 1, 1978, and bonded indebtedness for the acquisition or improvement of real property approved on or after December 1, 1978 by two-thirds of the votes cast by the voters voting on the proposition (55% in the case of certain school facilities). Property taxes subject to Proposition 13 are a significant source of revenues to the City's General Fund. See the caption "CITY FINANCIAL INFORMATION."

Legislation enacted by the State Legislature to implement Article XIIIA provides that all taxable property is shown at full assessed value as described above. Tax rates for voter approved bonded indebtedness are also applied to 100% of assessed value.

Future assessed valuation growth allowed under Article XIIIA (new construction, change of ownership, 2% annual value growth) is allocated on the basis of "situs" among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and school districts share the growth of "base" revenue from the tax rate area. Each year's growth allocation becomes part of each agency's allocation the following year. Article XIIIA effectively prohibits the levying of any other *ad valorem* property tax above the 1% limit except for taxes to support indebtedness approved by the voters as described above.

Article XIIIA has subsequently been amended to permit reduction of the "full cash value" base in the event of declining property values caused by damage, destruction or other factors, and to provide that there would be no increase in the "full cash value" base in the event of reconstruction of property damaged or destroyed in a disaster and in certain other limited circumstances.

**Article XIIIB of the State Constitution**

At the Statewide special election on November 6, 1979, the voters approved an initiative entitled "Limitation on Government Appropriations," which added Article XIIIB to the State Constitution. Under Article XIIIB, State and local government entities have an annual "appropriations limit" which limits the ability to spend certain moneys which are called "appropriations subject to limitation" (consisting of tax revenues and investment proceeds thereof, certain State subventions and regulatory license fees, user charges and user fees to the extent that the proceeds thereof exceed the costs of providing such services, together called "proceeds of taxes," and certain other funds) in an amount higher than the "appropriations limit." Article XIIIB does not affect the appropriation of moneys which are excluded from the definition of "appropriations limit," including debt service on indebtedness existing or authorized as of October 1, 1979, or bonded indebtedness subsequently approved by the voters. In general terms, the "appropriations limit" is to be based on certain 1978-79 expenditures and is to be adjusted annually to reflect changes in the consumer price index, population and services provided by these entities. Among other provisions of Article XIIIB, if those entities' revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

The City's appropriations have never exceeded the limitation on appropriations under Article XIIIB of the State Constitution.

**Proposition 62**

A statutory initiative ("Proposition 62") was adopted by the voters of the State at the November 4, 1986 general election which: (a) requires that any tax for general governmental purposes imposed by local governmental entities be approved by resolution or ordinance adopted by two-thirds vote of the governmental agency's legislative body and by a majority of the electorate of the governmental entity; (b) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local governmental entity be approved by a two-thirds vote of the voters within the jurisdiction; (c) restricts the use of revenues from a special tax to the purposes or for the service for which the special tax is imposed; (d) prohibits the imposition of *ad valorem* taxes on real property by local governmental entities except as permitted by Article XIIIA; (e) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities; and (f) requires that any tax imposed by a local governmental entity on or after August 1, 1985 be ratified by a majority vote of the electorate within two years of the adoption of the initiative or be terminated by November 15, 1988. The requirements imposed by Proposition 62 were upheld by the State Supreme Court in *Santa Clara County Local Transportation Authority v. Guardino*, 11 Cal.4th 220; 45 Cal.Rptr.2d 207 (1995).

Proposition 62 applies to the imposition of any taxes or the effecting of any tax increases after its enactment in 1986, but the requirements of Proposition 62 are largely subsumed by the requirements of Proposition 218 for the imposition of any taxes or the effecting of any tax increases after November 5, 1996. See the caption "—Proposition 218" below.

**Proposition 218**

On November 5, 1996, State voters approved Proposition 218, an initiative measure entitled the "Right to Vote on Taxes Act." Proposition 218 added Articles XIIIC and XIIID to the State Constitution, imposing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments and property-related fees and charges. Proposition 218 states that all taxes imposed by local governments are deemed to be either general taxes or special taxes. Special purpose districts, including school districts, have no power to levy general taxes. No local government may impose, extend or increase any general tax unless and until such tax is submitted to the electorate and approved by a majority vote. No local government may impose, extend or increase any special tax unless and until such tax is submitted to the electorate and approved by a two-thirds vote.

Proposition 218 also provides that no tax, assessment, fee or charge may be assessed by any agency upon any parcel of property or upon any person as an incident of property ownership except: (a) the *ad valorem* property tax imposed pursuant to Articles XIII and XIIIA of the State Constitution; (b) any special tax receiving a two-thirds vote pursuant to the State Constitution; and (c) assessments, fees and charges for property related services as provided in Proposition 218. Proposition 218 then goes on to add voter requirements for assessments and fees and charges imposed as an incident of property ownership, other than fees and charges for sewer, water, and refuse collection services. In addition, all assessments and fees and charges imposed as an incident of property ownership, including sewer, water, and refuse collection services, are subjected to various additional procedures, such as hearings and stricter and more individualized benefit requirements and findings. The effect of such new provisions will presumably be to increase the difficulty a local agency will have in imposing, increasing or extending such assessments, fees and charges.

Proposition 218 also extended the initiative power to reducing or repealing any local taxes, assessments, fees and charges. This extension of the initiative power is not limited to taxes imposed on or after November 6, 1996, the effective date of Proposition 218, and could result in retroactive repeal or reduction in any existing taxes, assessments, fees and charges, subject to overriding federal constitutional principles relating to the impairments of contracts. Legislation implementing Proposition 218 provides that the initiative power provided for in Proposition 218 "shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after (the effective date of Proposition 218) assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights" protected by the United States Constitution. However, no assurance can be given that the voters of the City will not, in the future, approve an initiative which reduces or repeals local taxes, assessments, fees or charges that currently are deposited into the City's General Fund.

Although a portion of the City's General Fund revenues are derived from general taxes purported to be governed by Proposition 218 as discussed under the caption "CITY FINANCIAL INFORMATION—Other Taxes," all of such taxes were imposed in accordance with the requirements of Proposition 218. No assurance can be given that the voters of the City will not, in the future, approve an initiative or initiatives which reduce or repeal local taxes, assessments, fees or charges which support the City's General Fund.

**Unitary Property**

Some amount of property tax revenue of the City is derived from utility property which is considered part of a utility system with components located in many taxing jurisdictions ("unitary property"). Under the State Constitution, such property is assessed by the State Board of Equalization (the "SBE") as part of a "going concern" rather than as individual pieces of real or personal property. State-assessed unitary and certain other property is allocated to the counties by the SBE, taxed at special county-wide rates, and the tax revenues distributed to taxing jurisdictions (including the City) according to statutory formula generally based on the distribution of taxes in the prior year.

**Proposition 22**

On November 2, 2010, voters in the State approved Proposition 22, which eliminates the State's ability to borrow or shift local revenues and certain State revenues that fund transportation programs. It restricts the State's authority over a broad range of tax revenues, including property taxes allocated to cities (including the City), counties and special districts, the VLF, State excise taxes on gasoline and diesel fuel, the State sales tax on diesel fuel, and the former State sales tax on gasoline. It also makes a number of significant other changes, including restricting the State's ability to use motor vehicle fuel tax revenues to pay debt service on voter-approved transportation bonds.

**Proposition 1A**

As part of former Governor Schwarzenegger's agreement with local jurisdictions, Senate Constitutional Amendment No. 4 was enacted by the State Legislature and subsequently approved by the voters as Proposition 1A ("Proposition 1A") at the November 2, 2004 general election. Proposition 1A amended the State Constitution to, among other things, reduce the State Legislature's authority over local government revenue sources by placing restrictions on the State's access to local governments' property, sales, and vehicle license fee revenues as of November 3, 2004. Beginning with Fiscal Year 2009, the State may borrow up to 8% of local property tax revenues, but only if the Governor proclaims that such action is necessary due to a severe State fiscal hardship and two-thirds of both houses of the State Legislature approve the borrowing. The amount borrowed is required to be paid back within three years. The State also will not be able to borrow from local property tax revenues for more than two Fiscal Years within a period of ten Fiscal Years. In addition, the State cannot reduce the local sales tax rate or restrict the authority of local governments to impose or change the distribution of the Statewide local sales tax.

The Fiscal Year 2010 State budget included a Proposition 1A diversion of $1.935 billion in local property tax revenues from cities, counties, and special districts to the State to offset State general fund spending. Such diverted revenues must be repaid, with interest, no later than June 30, 2013. The amount of the Proposition 1A diversion from the City was $2,314,710. The City participated in the State of California Proposition 1A Receivables Program to securitize its receivable from the State, and, as a result, received the shifted funds in the amount of $2,314,710, without interest, in two installments in 2010 from the California Statewide Communities Development Authority. See the caption "CITY FINANCIAL INFORMATION—Property Taxes."

**Proposition 26**

On November 2, 2010, voters in the State approved Proposition 26. Proposition 26 amends Article XIIIC of the State Constitution to expand the definition of "tax" to include "any levy, charge, or exaction of any kind imposed by a local government" except the following: (a) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (b) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (c) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (d) a charge imposed for entrance to or use of local government property, or the purchase, rental or lease of local government property; (e) a fine, penalty or other monetary charge imposed by the judicial branch of government or a local government as a result of a violation of law; (f) a charge imposed as a condition of property development; and (g) assessments and property-related fees imposed in accordance with the provisions of Article XIIID. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor's burdens on, or benefits received from, the governmental activity. The City does not believe that Proposition 26 will adversely affect its General Fund revenues.

**Future Initiatives**

Articles XIIIA and XIIIB and Propositions 62, 218, 1A, 22 and 26 were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiative measures could be adopted, further affecting the City's current revenues or its ability to raise and expend revenues.

## TAX MATTERS

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the Series 2013A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest (and original issue discount) on the Series 2013A Bonds is exempt from State personal income tax. Bond Counsel notes that, with respect to corporations, interest on the Series 2013A Bonds may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations.

The difference between the issue price of a Series 2013A Bond (the first price at which a substantial amount of the Series 2013A Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Series 2013A Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to the Owner of the Series 2013A Bond before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by the Owner of a Series 2013A Bond will increase the Owner's basis in the Series 2013A Bond. In the opinion of Bond Counsel, original issue discount that accrues to the Owner of a Series 2013A Bond is excluded from the gross income of such Owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State personal income tax.

The amount by which a Series 2013A Bond Owner's original basis for determining loss on sale or exchange in the applicable Series 2013A Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Code; such amortizable bond premium reduces the Series 2013A Bond Owner's basis in the applicable Series 2013A Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a Series 2013A Bond Owner realizing a taxable gain when a Series 2013A Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Series 2013A Bond to the Owner. Purchasers of the Series 2013A Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

Bond Counsel's opinion as to the exclusion from gross income for federal income tax purposes of the interest (and original issue discount) on the Series 2013A Bonds is based upon certain representations of fact and certifications made by the City and others and is subject to the condition that the City and the Authority comply with all requirements of the Code that must be satisfied subsequent to issuance of the Series 2013A Bonds to assure that the interest (and original issue discount) on the Series 2013A Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the Series 2013A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2013A Bonds. The City and the Authority have covenanted to comply with all such requirements applicable to each, respectively.

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Series 2013A Bonds will be selected for audit by the IRS. It is also possible that the market value of the Series 2013A Bonds might be affected as a result of such an audit of the Series 2013A Bonds (or by an audit of similar municipal obligations). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the Series 2013A Bonds to the extent that it adversely affects the exclusion from gross income of interest on the Series 2013A Bonds or their market value.

SUBSEQUENT TO THE ISSUANCE OF THE SERIES 2013A BONDS, THERE MIGHT BE FEDERAL, STATE OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY INTERPRETATIONS OF FEDERAL, STATE OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE OR LOCAL TAX TREATMENT OF THE SERIES 2013A BONDS OR THE MARKET VALUE OF THE SERIES 2013A BONDS. LEGISLATIVE CHANGES HAVE BEEN PROPOSED IN CONGRESS, WHICH, IF ENACTED, WOULD RESULT IN ADDITIONAL FEDERAL INCOME TAX BEING IMPOSED ON CERTAIN OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE SERIES 2013A BONDS. THE INTRODUCTION OR ENACTMENT OF ANY OF SUCH CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE SERIES 2013A BONDS. NO ASSURANCE CAN BE GIVEN THAT, SUBSEQUENT TO THE ISSUANCE OF THE SERIES 2013A BONDS, SUCH CHANGES (OR OTHER CHANGES) WILL NOT BE INTRODUCED OR ENACTED OR INTERPRETATIONS WILL NOT OCCUR. BEFORE PURCHASING ANY OF THE SERIES 2013A BONDS, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING POSSIBLE STATUTORY CHANGES OR JUDICIAL OR REGULATORY CHANGES OR INTERPRETATIONS, AND THEIR COLLATERAL TAX CONSEQUENCES RELATING TO THE SERIES 2013A BONDS.

Bond Counsel’s opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. Bond Counsel’s engagement with respect to the Series 2013A Bonds terminates upon their issuance and Bond Counsel disclaims any obligation to update the matters set forth in its opinion. The Indenture, the Lease Agreement and the Tax Certificate relating to the Series 2013A Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income for federal income tax purposes of interest (and original issue discount) due with respect to any Series 2013A Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

Although Bond Counsel has rendered an opinion that the interest (and original issue discount) on the Series 2013A Bonds is excluded from gross income for federal income tax purposes provided that the City and the Authority continue to comply with certain requirements of the Code, the ownership of the Series 2013A Bonds and the accrual or receipt of interest (and original issue discount) with respect to the Series 2013A Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the Series 2013A Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences with respect to the Series 2013A Bonds.

The form of Bond Counsel’s proposed opinion with respect to the Series 2013A Bonds is attached hereto in Appendix C.

## CERTAIN LEGAL MATTERS

The validity of the Series 2013A Bonds and certain other legal matters are subject to the approving opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel. Stradling Yocca Carlson & Rauth, a Professional Corporation, is also acting as Disclosure Counsel for the City. A complete copy of the proposed form of Bond Counsel opinion is contained in Appendix C. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Bond Counsel and Disclosure Counsel will receive compensation from the City contingent upon the sale and delivery of the Series 2013A Bonds. From time to time, Bond Counsel represents the Underwriter on matters unrelated to the Series 2013A Bonds. Certain legal matters will be passed upon for the City and the Authority by Jeffrey Epp, Esquire, City Attorney and General Counsel to the Authority, for the Underwriter by Best Best & Krieger LLP and for the Trustee by its counsel. Counsel to the Underwriter will receive compensation contingent upon the issuance of the Series 2013A Bonds.

## ABSENCE OF LITIGATION

To the best knowledge of the City and the Authority, there is no action, suit or proceeding pending or threatened either restraining or enjoining the execution or delivery of the Series 2013A Bonds, the Lease Agreement or the Indenture, or in any way contesting or affecting the validity of the foregoing or any proceedings of the Authority or the City taken with respect to any of the foregoing. There are a number of lawsuits and claims from time to time pending against the City. In the opinion of the City Attorney, and taking into account likely insurance coverage and litigation reserves, there are no lawsuits or claims pending against the City which will materially affect the City's finances so as to impair its ability to pay Base Rental Payments when due.

## UNDERWRITING

The Series 2013A Bonds are being purchased by Stifel, Nicolaus & Company, Incorporated (the "Underwriter"). The Underwriter will purchase the Series 2013A Bonds from the Authority at an aggregate purchase price of $4,796,010.25, representing the principal amount of the Series 2013A Bonds, less $9,839.75 of net original issue discount and less $24,150.00 of Underwriter's discount.

The Series 2013A Bonds are offered for sale at the initial prices stated on the inside cover page of this Official Statement, which may be changed from time to time by the Underwriter. The Series 2013A Bonds may be offered and sold to certain dealers at prices lower than the public offering prices.

## RATING

S&P has assigned the Series 2013A Bonds the rating of "A". There is no assurance that the credit rating given to the Series 2013A Bonds will be maintained for any period of time or that a rating may not be lowered or withdrawn entirely by S&P if, in the judgment of S&P, circumstances so warrant. Any downward revision or withdrawal of such rating may have an adverse effect on the market price of the Series 2013A Bonds. Such rating reflects only the views of S&P, and an explanation of the significance of such rating may be obtained from S&P.

## CONTINUING DISCLOSURE

Pursuant to a Continuing Disclosure Certificate of the City, dated as of the date of issuance of the Series 2013A Bonds (the "Disclosure Certificate"), the City has covenanted for the benefit of the holders and Beneficial Owners of the Bonds to provide certain financial information and operating data relating to the District by 270 days following the end of the City Fiscal Year (currently its Fiscal Year ends on June 30) (the "Annual Report"), commencing with the report for the Fiscal Year ended June 30, 2013, and to provide notices of the occurrence of certain enumerated events. The Annual Report and the notices of enumerated events will be filed by the City with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system, maintained on the Internet at http://emma.msrb.org. The specific nature of the information to be contained in the Annual Report and the notices of enumerated events are set forth in Appendix D. These covenants have been made in order to assist the Underwriter in complying with subsection (b)(5) of Rule 15c2-12 adopted by the Securities and Exchange Commission ("Rule 15c2-12").

The requirement that the City file its audited financial statements as a part of the Annual Report has been included in the Disclosure Certificate solely to satisfy the provisions of Rule 15c2-12. The inclusion of such information does not mean that the Series 2013A Bonds are secured by any resources or property of the City or any entity other than Base Rental Payments. See the captions "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013A BONDS" and "RISK FACTORS— General Considerations – Security for the Series 2013A Bonds."

The City and its related entities have previously entered into continuing disclosure undertakings under Rule 15c2-12 in connection with the issuance of municipal obligations. The City has not in the past five years failed to comply with such continuing disclosure undertakings in any material respect.

## FINANCIAL STATEMENTS OF THE CITY

Included as Appendix B are the audited financial statements of the City as of and for the year ended June 30, 2012, together with the report of the Auditor thereon dated February 5, 2013. Such audited financial statements have been included herein in reliance upon the report of the Auditor. The Auditor has not undertaken to update the audited financial statements of the City or its report, or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by the Auditor with respect to any event subsequent to its report dated February 5, 2013.

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## MISCELLANEOUS

Summaries of certain documents and reports do not purport to be complete or definitive and reference is made to such documents and reports for full and complete statements of the contents thereof. Copies of the Indenture, the Lease Agreement, the Ground Lease and other documents are available, upon request, and upon payment to the City of a charge for copying, mailing and handling, from the Finance Director at City of Escondido, 201 North Broadway, Escondido, California 92025-2798.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Authority or the City and the purchasers or Owners of any of the Series 2013A Bonds.

The execution and delivery of this Official Statement have been duly authorized by the Authority and the City.

**ESCONDIDO JOINT POWERS FINANCING AUTHORITY**

By: /s/Gil Rojas
Auditor/Treasurer

**CITY OF ESCONDIDO**

By: /s/Clay Phillips
City Manager

## APPENDIX A

## SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

*The following is a summary of certain provisions of the Indenture and the Lease Agreement which are not described elsewhere. This summary does not purport to be comprehensive and reference should be made to the respective document for a full and complete statement of the provisions thereof.*

### INDENTURE

DEFINITIONS; EQUAL SECURITY

Definitions. Unless the context otherwise requires, the terms defined in the Indenture for all purposes thereof and of any amendment thereof or supplement thereto and of the Bonds and of any certificate, opinion, request or other document mentioned in the Indenture or any amendment thereof or supplement thereto have the meanings defined in the Indenture, the following definitions to be equally applicable to both the singular and plural forms of any of the terms defined in the Indenture. Capitalized terms not otherwise defined in the Indenture have the meanings assigned to such terms in the Lease Agreement.

"Additional Bonds" means Bonds other than the Series 2013A Bonds issued under the Indenture in accordance with the provisions thereof.

"Act" means the Marks-Roos Local Bond Pooling Act of 1985, commencing with Section 6584 of the California Government Code.

"Additional Rental Payments" means all amounts payable by the City as Additional Rental Payments pursuant to the Lease Agreement.

"Assignment Agreement" means the Assignment Agreement, dated as of February 1, 2013, by and between the Authority and the Trustee.

"Authority" means the Escondido Joint Powers Financing Authority, a joint exercise of powers entity organized and existing under and by virtue of the laws of the State of California.

"Authorized Authority Representative" means the Chair, Vice Chair, Executive Director, Auditor and Treasurer and Secretary of the Authority, or any other person authorized by the Board of Commissioners of the Authority to act on behalf of the Authority under or with respect to the Indenture.

"Authorized City Representative" means the Mayor of the City, the City Manager of the City, the Finance Director of the City or the City Clerk, or any other person authorized by the City Council of the City to act on behalf of the City under or with respect to the Indenture.

"Authorized Denominations" means $5,000 or any integral multiple thereof.

"Base Rental Payment Fund" means the fund by that name established in accordance with the Indenture.

"Base Rental Payments" means all amounts payable to the Authority by the City as Base Rental Payments pursuant to the Lease Agreement.

"Beneficial Owner" means, whenever used with respect to a Book-Entry Bond, the person whose name is recorded as the beneficial owner of such Book-Entry Bond or a portion of such Book-Entry Bond by a Participant on the records of such Participant or such person's subrogee.

"Bonds" means the Series 2013A Bonds and any Additional Bonds issued under the Indenture.

"Book-Entry Bonds" means the Bonds of a Series registered in the name of the nominee of DTC, or any successor securities depository for such Series of Bonds, as the registered owner thereof pursuant to the terms and provisions of the Indenture.

"Business Day" means a day which is not: (a) a Saturday, Sunday or legal holiday; (b) a day on which banking institutions in the State of California, or in any state in which the Office of the Trustee is located, are required or authorized by law (including executive order) to close; or (c) a day on which the New York Stock Exchange is closed.

"Cede & Co." means Cede & Co., the nominee of DTC, and any successor nominee of DTC with respect to a Series of Book-Entry Bonds.

"City" means the City of Escondido, a municipal corporation and general law city duly organized and existing under and by virtue of the Constitution and laws of the State of California.

"Closing Date" means March 28, 2013.

"Code" means the Internal Revenue Code of 1986, as amended.

"Continuing Disclosure Certificate" means the Continuing Disclosure Certificate, dated as of February 1, 2013, executed by the City, as originally executed and as it may from time to time be amended in accordance with the provisions thereof.

"Costs of Issuance" means all the costs of issuing and delivering the Bonds, including, but not limited to, all printing and document preparation expenses in connection with the Indenture, the Lease Agreement, the Ground Lease, the Assignment Agreement, the Bonds and any preliminary official statement and final official statement pertaining to the Bonds, rating agency fees, CUSIP Service Bureau charges, market study fees, legal fees and expenses of counsel with the issuance and delivery of the Bonds, the initial fees and expenses of the Trustee and Escrow Agent and its counsel and other fees and expenses incurred in connection with the issuance and delivery of the Bonds, to the extent that such fees and expenses are approved by the City.

"Costs of Issuance Fund" means the fund by that name established in accordance with the Indenture.

"DTC" means The Depository Trust Company, a limited-purpose trust company organized under the laws of the State of New York, and its successors as securities depository for any Series of Book-Entry Bonds, including any such successor appointed pursuant to the Indenture.

"Escrow Agent" means The Bank of New York Mellon Trust Company, N.A., as escrow agent pursuant to the Escrow Agreement.

"Escrow Fund" means the fund established and held by the Escrow Agent pursuant to the Escrow Agreement.

"Escrow Agreement" means the Escrow Agreement, dated as of February 1, 2013, by and between the Authority and the Escrow Agent relating to the defeasance of the 2001 Bonds.

"Federal Securities" means: (a) direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America); and (b) obligations of any agency, department or instrumentality of the United States of America the timely payment of principal of and interest on which are fully guaranteed by the United States of America.

"Ground Lease" means the Ground Lease, dated as of February 1, 2013, by and between the City and the Authority, as originally executed and as it may from time to time be amended in accordance with the provisions thereof and of the Lease Agreement.

"Indenture" means the Indenture, dated as of February 1, 2013, by and among the City, the Authority and the Trustee, as originally executed and as it may be amended or supplemented from time to time by any Supplemental Indenture.

"Information Services" means Municipal Securities Rulemaking Board through the Electronic Municipal Marketplace Access (EMMA) website; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other services providing information with respect to called bonds as the Authority may designate in a Written Certificate of the Authority delivered to the Trustee.

"Interest Fund" means the fund by that name established in accordance with the Indenture.

"Interest Payment Date" means October 1, 2013 and each April 1 and October 1 thereafter.

"Lease Agreement" means the Lease Agreement, dated as of February 1, 2013, by and between the City and the Authority, as originally executed and as it may be from time to time amended in accordance with the provisions thereof.

"Moody's" means Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, except that if such corporation no longer performs the function of a securities rating agency for any reason, the term "Moody's" will be deemed to refer to any other nationally recognized securities rating agency selected by the Authority.

"Office of the Trustee" means the principal corporate trust office of the Trustee in Los Angeles, California, or such other office as may be specified to the Authority and the City by the Trustee in writing, except that with respect to presentation of Bonds for payment or for registration of transfer and exchange such term means the office or the agency of the Trustee at which, at any particular time, its corporate trust agency is conducted as specified to the Authority and the City by the Trustee in writing.

"Opinion of Counsel" means a written opinion of counsel of recognized national standing in the field of law relating to municipal bonds, appointed and paid by the Authority or the City and which written opinion is satisfactory to the Trustee.

"Outstanding," when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except: (a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (b) Bonds with respect to which all liability of the Authority has been discharged in accordance with the Indenture; and (c) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds have been authenticated and delivered by the Trustee pursuant to the Indenture.

"Owner" means, with respect to a Bond, the Person in whose name such Bond is registered on the Registration Books.

"Participant" means any entity which is recognized as a participant by DTC in the book-entry system of maintaining records with respect to Book-Entry Bonds.

"Participating Underwriter" has the meaning ascribed thereto in the Continuing Disclosure Certificate.

"Permitted Investments" means any of the following to the extent then permitted by the general laws of the State of California (provided that the Trustee is entitled to rely upon any investment directions from the City and Authority as conclusive certification to the Trustee that the investments described therein are so authorized under the laws of the State of California):

(1) (a) Direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America ("United States Treasury Obligations"); (b) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America;

(c) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America; or (d) evidences of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated (collectively "United States Obligations"). These include, but are not necessarily limited to: U.S. Treasury obligations: All direct or fully guaranteed obligations; Farmers Home Administration Certificates of beneficial ownership; General Services Administration participation certificates; U.S. Maritime Administration Guaranteed Title XI financing; Small Business Administration guaranteed participation certificates and guaranteed pool certificates; Government National Mortgage Association ("GNMA") GNMA-guaranteed mortgage-backed securities and GNMA-guaranteed participation certificates; U.S. Department of Housing & Urban Development local authority bonds; and Washington Metropolitan Area Transit Authority guaranteed transit bonds;

(2) Federal Housing Administration debentures;

(3) the listed obligations of government-sponsored agencies which are not backed by the full faith and credit of the United States of America: Federal Home Loan Mortgage Corporation (FHLMC) participation certificates (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts) and senior debt obligations; Farm Credit Banks (formerly: Federal Land Banks, Federal intermediate Credit Banks and Banks for Cooperatives) and consolidated systemwide bonds and notes; Federal Home Loan Banks (FHL Banks) consolidated debt obligations; Federal National Mortgage Association (FNMA) Senior debt obligations and mortgage-backed securities (excluded are stripped mortgages securities which are purchased at prices exceeding their principal amounts); Student Loan Marketing Association (SLMA) senior debt obligations (excluded are securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date); Financing Corporation (FICO) debt obligations; and Resolution Funding Corporation (REFCORP) debt obligations;

(4) unsecured certificates of deposit, time deposits, and bankers' acceptances (having maturities of not more than 180 days) of any bank, including the Trustee and its affiliates, the short-term obligations of which are rated "A-1+" or better by S&P and "P-1" or better by Moody's;

(5) deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation (FDIC), in banks, including the Trustee and its affiliates, which have capital and surplus of at least $5 million;

(6) commercial paper (having original maturities of not more than 270 days) rated "A-1+" by S&P and "Prime-1" by Moody's at the time of purchase;

(7) money market funds rated "AAm" or "AAm-G" or better by S&P and "Aa2" or better by Moody's, including such funds for which the Trustee, its affiliates or subsidiaries provide investment advisory or other management services or for which the Trustee or an affiliate of the Trustee serves as investment administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that: (i) the Trustee or an affiliate of the Trustee receives fees from funds for services rendered; (ii) the Trustee collects fees for services rendered pursuant to the Indenture, which fees are separate from the fees received from such funds; and (iii) services performed for such funds and pursuant to the Indenture may at times duplicate those provided to such funds by the Trustee or an affiliate of the Trustee;

(8) repurchase agreements: (a) with any domestic bank the long term debt of which is rated "AA" or better by S&P and "Aa" by Moody's (so long as an opinion is rendered that the repurchase agreement is a "repurchase agreement" as defined in the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") and that such bank is subject to FIRREA), or any foreign bank rated at least "AA" by S&P and "Aaa" by Moody's or "AA" by S & P and at least "Aa2" by Moody's; provided the term of such repurchase agreement is for one year or less; (b) with: (i) any broker-dealer with "retail customers" which has, or the parent company of which has, long-term debt rated at least "AA" by S&P and "Aa2" by Moody's, which broker-dealer falls under the

jurisdiction of the Securities Investors Protection Corp. (SIPC); provided that: A. the market value of the collateral is maintained for United States Treasury Obligations, at the levels shown below under "Collateral Levels for United States Treasury Obligations"; B. failure to maintain the requisite collateral percentage will require the City or the Trustee to liquidate the collateral; C. the Trustee, the City or a third party acting solely as agent therefor (the "Holder of the Collateral") has possession of the collateral or the collateral has been transferred to the Holder of the Collateral in accordance with applicable state and federal laws (other than by means of entries on the transferor's books); D. the repurchase agreement states, and an opinion of counsel is rendered to the effect, that the Trustee has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, the Holder of the Collateral is in possession); E. the transferor represents that the collateral is free and clear of any third-party liens or claims; F. an opinion is rendered that the repurchase agreement is a "repurchase agreement" as defined in the United States Bankruptcy Code; G. there is or will be a written agreement governing every repurchase transaction; H. the City represents that it has no knowledge of any fraud involved in the repurchase transaction; and I. the City and the Trustee receive an opinion of counsel (which opinion is addressed to the City and the Trustee) that such repurchase agreement is legal, valid and binding and enforceable against the provider in accordance with its terms;

(9) State Obligations: (a) direct general obligations of any state of the United States or any subdivision or agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation debt of which is rated "A2" by Moody's and "A" by S&P, or better, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured general obligation debt is so rated; (b) Direct, general short-term obligations of any state agency or subdivision described in (a) above and rated "A-1+" by S&P and "Prime-1" by Moody's; (c) Special Revenue Bonds (as defined in the United States Bankruptcy Code) of any state, state agency or subdivision described in (a) above and rated "AA" or better by S&P and "Aa2" or better by Moody's;

(10) Local Agency Investment Fund;

(11) Investment agreements with a domestic or foreign bank or corporation (other than a life or property casualty insurance company) the long-term debt of which, or, in the case of a guaranteed corporation the long-term debt of the guarantor, or in the case of a monoline financial guaranty insurance company the claims paying ability of the guarantor, is rated at least "AA" by S&P and "Aa2" by Moody's; provided, that prior written notice of an investment in the investment agreement is provided to S&P and, provided, further, by the terms of the investment agreement: (a) interest payments are to be made to the Trustee at times and in amounts as necessary to pay debt service (or, if the investment agreement is for the construction fund, construction draws) on the Bonds; (b) the invested funds are available for withdrawal without penalty or premium, at any time for purposes identified in the Indenture other than acquisition of alternative investment property upon not more than seven days prior notice (which notice may be amended or withdrawn at any time prior to the specified withdrawal date); provided that the Indenture specifically requires the Trustee or the City to give notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid; (c) the investment agreement must state that it is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof; (d) a guaranteed rate of interest is to be paid on invested funds and all future deposits, if any, required to be made to restore the amount of such funds to the level specified under the Indenture; (e) the Trustee and the City receive the opinion of domestic counsel (which opinion is addressed to the City) that such investment agreement is legal, valid and binding and enforceable against the provider in accordance with its terms and of foreign counsel (if applicable); (f) the investment agreement provides that if during its term: (A) the provider's or the guarantor's rating by either Moody's or S&P is withdrawn or suspended or falls below "AA" or "Aa2," respectively, or, with respect to a foreign bank, below the ratings of such provider at the delivery date of the investment agreement, the provider must, at the direction of the City or the Trustee (acting at the direction of the City) within 10 days of receipt of such direction, either: (1) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider's books) to the Trustee, the City or a Holder of the Collateral, United States Treasury Obligations which are free and clear of any third-party liens or claims at the Collateral Levels set forth below; or (2) repay the principal of and accrued but unpaid interest on the investment (the choice of (1) or (2) above will be that of the City or Trustee (acting at the direction of the City), as appropriate), and (B) the provider's or the guarantor's rating by either Moody's or S&P is withdrawn or suspended or falls below "A" or "A2," or, with respect to a foreign bank, below "AA" or "Aa2" by S&P or Moody's, as appropriate, the provider must, at the direction of the City or the Trustee

(acting at the direction of the City), within 10 days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium to the City or Trustee; (g) the investment agreement states, and an opinion of counsel is rendered to the effect, that the Trustee has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, the Trustee is in possession); and (h) the investment agreement must provide that if during its term (A) the provider defaults in its payment obligations, the provider's obligation under the investment agreement will, at the direction of the City or the Trustee, be accelerated and amounts invested and accrued but unpaid interest thereon will be repaid to the City or Trustee, as appropriate; and (B) the provider becomes insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc. ("event of insolvency"), the provider's obligations will automatically be accelerated and amounts invested and accrued but unpaid interest thereon will be repaid to the City or Trustee, as appropriate; and

(12) Pre-refunded municipal obligations rated "AAA" by S&P and "Aaa" by Moody's meeting the following requirements: (a) the municipal obligations are: (i) not subject to redemption prior to maturity; or (ii) the trustee for the municipal obligations has been given irrevocable instructions concerning their call and redemption and the issuer of the municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions; (b) the municipal obligations are secured by cash or United States Treasury Obligations which may be applied only to payment of the principal of, interest and premium on such municipal obligations; (c) the principal of and interest on the United States Treasury Obligations (plus any cash in the escrow) has been verified by the report of independent certified public accountants to be sufficient to pay in full all principal of, interest, and premium, if any, due and to become due on the municipal obligations ("Verification"); (d) the cash or United States Treasury Obligations serving as security for the municipal obligations are held by an escrow agent or trustee in trust for owners of the municipal obligations; and (e) no substitution of a United States Treasury Obligation is permitted except with another United States Treasury Obligation and upon delivery of a new Verification; and (f) the cash or the United States Treasury Obligations are not available to satisfy any other claims, including those by or against the trustee or escrow agent.

Collateral Levels For United States Treasury Obligations

| | Remaining Maturity | | | | |
|---|---|---|---|---|---|
| *Frequency of Valuation* | *1 year or less* | *5 years or less* | *10 years or less* | *15 years or less* | *30 years or less* |
| Daily | 102 | 105 | 106 | 108 | 114 |
| Weekly | 103 | 111 | 112 | 114 | 120 |
| Monthly | 105 | 117 | 120 | 125 | 133 |
| Quarterly | 107 | 120 | 130 | 133 | 140 |

Further Requirements: (a) On each valuation date, the City, or the custodian who confirms to the City and the Trustee, will value the market value (exclusive of accrued interest) of the collateral, which market value will be an amount equal to the requisite collateral percentage times the principal amount of the investment (including unpaid accrued interest thereon) that is being secured; (b) in the event that the collateral level is below its collateral percentage on a valuation date, such percentage will be restored within the following restoration periods: one Business Day for daily valuations, two Business Days for weekly and monthly valuations, and one month for quarterly valuations (the use of different restoration periods affect the requisite collateral percentage); (c) the City or the Trustee (acting at the direction of the City) terminates the repurchase agreement or the investment agreement, as the case may be, upon a failure to maintain the requisite collateral percentage after the restoration period and, if not paid by the counterparty in federal funds against transfer of the collateral, liquidate the collateral. The Trustee has no responsibility to monitor the ratings of Permitted Investments after the initial purchase of such Permitted Investments.

"Person" means an individual, corporation, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

"Principal Fund" means the fund by that name established in accordance with the Indenture.

"Rebate Fund" means the fund by that name established in accordance with the Indenture.

"Rebate Requirement" has the meaning ascribed thereto in the Tax Certificate.

"Record Date" means the fifteenth day of the month next preceding an Interest Payment Date, whether or not such day is a Business Day.

"Redemption Fund" means the fund by that name established in accordance with the Indenture.

"Redemption Price" means the aggregate amount of principal of and premium, if any, on the Bonds upon the redemption thereof pursuant to the Indenture.

"Registration Books" means the records maintained by the Trustee for the registration of ownership and registration of transfer of the Bonds pursuant to the Indenture.

"Rental Payments" means, collectively, the Base Rental Payments and the Additional Rental Payments.

"Rental Period" means the period from the Closing Date through September 30, 2013 and, thereafter, the twelve-month period commencing on October 1 of each year during the term of the Lease Agreement.

"Representation Letter" means the Letter of Representations from the Authority to DTC, or any successor securities depository for any Series of Book-Entry Bonds, in which the Authority makes certain representations with respect to issues of its securities for deposit by DTC or such successor depository.

"S&P" means Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business, its successors and assigns, except that if such entity no longer performs the functions of a securities rating agency for any reason, the term "S&P" will be deemed to refer to any other nationally recognized securities rating agency selected by the Authority.

"Securities Depositories" means The Depository Trust Company; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other securities depositories as the Authority may designate in a Written Certificate of the Authority delivered to the Trustee.

"Series" means the Series 2013A Bonds executed, authenticated and delivered on the Closing Date and identified pursuant to the Indenture and any Additional Bonds issued pursuant to a Supplemental Indenture and identified as a separate Series of Bonds.

"Series 2013A Bonds" means the Escondido Joint Powers Financing Authority Lease Revenue Refunding Bonds, Series 2013A issued under the Indenture.

"Supplemental Indenture" means any supplemental indenture amendatory of or supplemental to the Indenture, but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

"Tax Certificate" means the Tax Certificate executed by the Authority and the City at the time of issuance of the Series 2013A Bonds relating to the requirements of Section 148 of the Code, as originally executed and as it may from time to time be amended in accordance with the provisions thereof.

"Trustee" means The Bank of New York Mellon Trust Company, N.A., a national banking association duly organized and existing under and by virtue of the laws of the United States, or any successor thereto as Trustee under the Indenture, appointed as provided therein.

"Written Certificate of the Authority" and "Written Request of the Authority" mean, respectively, a written certificate or written request signed in the name of the Authority by an Authorized Authority Representative. Any such certificate or request may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined will be read and construed as a single instrument

"Written Certificate of the City" and "Written Request of the City" mean, respectively, a written certificate or written request signed in the name of the City by an Authorized City Representative. Any such certificate or request may, but need, not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined will be read and construed as a single instrument.

Equal Security. In consideration of the acceptance of the Bonds by the Owners thereof, the Indenture will be deemed to be and will constitute a contract among the Authority, the City, the Trustee and the Owners from time to time of all Bonds authorized, executed, issued and delivered thereunder and then Outstanding to secure the full and final payment of the principal of, premium, if any, and interest on all Bonds which may from time to time be authorized, executed, issued and delivered thereunder, subject to the agreements, conditions, covenants and provisions contained therein; and all agreements and covenants set forth therein to be performed by or on behalf of the Authority or the City are for the equal and proportionate benefit, protection and security of all Owners of the Bonds without distinction, preference or priority as to security or otherwise of any Bonds over any other Bonds by reason of the number or date thereof or the time of authorization, sale, execution, issuance or delivery thereof or for any cause whatsoever, except as expressly provided in the Indenture or the Bonds.

## THE BONDS

Transfer and Exchange of Bonds. Any Bond may, in accordance with its terms, be transferred upon the Registration Books by the Person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form acceptable to the Trustee. Whenever any Bond or Bonds are surrendered for transfer, the Authority will execute and the Trustee will authenticate and deliver a new Bond or Bonds of the same Series in a like aggregate principal amount, in any Authorized Denomination. The Trustee will require the Bond Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer.

The Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of Bonds of the same Series of other authorized denominations. The Trustee will require the payment by the Bond Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

The Trustee will not be obligated to make any transfer or exchange of Bonds of a Series pursuant to the Indenture during the period established by the Trustee for the selection of Bonds of such Series for redemption, or with respect to any Bonds of such Series selected for redemption.

Registration Books. The Trustee will keep or cause to be kept, at the Office of the Trustee, sufficient records for the registration and transfer of ownership of the Bonds, which will be open to inspection during regular business hours and upon reasonable notice by the City; and, upon presentation for such purpose, the Trustee will, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such records, the ownership of the Bonds as provided in the Indenture.

Temporary Bonds. The Bonds of a Series may be issued in temporary form exchangeable for definitive Bonds of such Series when ready for delivery. Any temporary Bonds may be printed, lithographed or typewritten, will be of such authorized denominations as may be determined by the Authority, will be in fully registered form without coupons and may contain such reference to any of the provisions of the Indenture as may be appropriate. Every temporary Bond will be executed by the Authority and authenticated by the Trustee upon the same conditions and in substantially the same manner as the definitive Bonds. If the Authority issues temporary Bonds of a Series it will execute and deliver definitive Bonds of such Series as promptly thereafter as practicable, and thereupon the temporary Bonds of such Series, may be surrendered, for cancellation, at the Office of the Trustee and the Trustee will authenticate and deliver in exchange for such temporary Bonds an equal aggregate principal amount of definitive Bonds of such Series in Authorized Denominations. Until so exchanged, the temporary Bonds of such Series are entitled to the same benefits under the Indenture as definitive Bonds of such Series authenticated and delivered under the Indenture.

Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond becomes mutilated, the Authority, at the expense of the Owner of said Bond, will execute, and the Trustee will thereupon authenticate and deliver, a new Bond of like tenor and Series in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. Every mutilated Bond so surrendered to the Trustee will be canceled by it and delivered to, or in accordance with the order of, the Authority. If any Bond is lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence and indemnity satisfactory to the Trustee is given, the Authority, at the expense of the Owner, will execute, and the Trustee will thereupon authenticate and deliver, a new Bond of like tenor and Series in lieu of and in replacement for the Bond so lost, destroyed or stolen (or if any such Bond has matured or has been selected for redemption, instead of issuing a replacement Bond, the Trustee may pay the same without surrender thereof). The Authority may require payment by the Owner of a sum not exceeding the actual cost of preparing each replacement Bond issued under the Indenture and of the expenses which may be incurred by the Authority and the Trustee. Any Bond of a Series issued under the provisions of the Indenture in lieu of any Bond of such Series alleged to be lost, destroyed or stolen will constitute an original additional contractual obligation on the part of the Authority whether or not the Bond so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and will be entitled to the benefits of the Indenture with all other Bonds of such Series secured by the Indenture.

Book-Entry Bonds. (a) Prior to the issuance of a Series of Bonds, the Authority may provide that such Series of Bonds will initially be issued as Book-Entry Bonds and, in such event, the Bonds of such Series for each maturity will be in the form of a separate single fully registered Bond (which may be typewritten). The Series 2013A Bonds will initially be issued as Book-Entry Bonds. Except as provided in the Indenture, the registered Owner of all of the Book-Entry Bonds will be Cede & Co., as nominee of DTC. Notwithstanding anything to the contrary contained in the Indenture, payment of interest with respect to any Book-Entry Bond registered as of each Record Date in the name of Cede & Co. will be made by wire transfer of same-day funds to the account of Cede & Co. on the Interest Payment Date at the address indicated on the Record Date for Cede & Co. in the Registration Books or as otherwise provided in the Representation Letter.

(b) The Trustee and the Authority may treat DTC (or its nominee) as the sole and exclusive Owner of Book-Entry Bonds registered in its name for the purposes of payment of the principal, premium, if any, or interest with respect to Book-Entry Bonds, selecting Book-Entry Bonds or portions thereof to be redeemed, giving any notice permitted or required to be given to Owners of Book-Entry Bonds under the Indenture, registering the transfer of Book-Entry Bonds, obtaining any consent or other action to be taken by Owners of Book-Entry Bonds and for all other purposes whatsoever, and neither the Trustee nor the Authority will be affected by any notice to the contrary. Neither the Trustee nor the Authority have any responsibility or obligation to any Participant, any person claiming a beneficial ownership interest in Book-Entry Bonds under or through DTC or any Participant, or any other person which is not shown on the Registration Books as being an Owner, with respect to the accuracy of any records maintained by DTC or any Participant, the payment by DTC or any Participant of any amount in respect of the principal, premium, if any, or interest with respect to Book-Entry Bonds, any notice which is permitted or required to be given to Owners of Book-Entry Bonds under the Indenture, the selection by DTC or any Participant of any person to receive payment in the event of a partial redemption of Book-Entry Bonds, or any consent given or other action taken by DTC as Owner of Book-Entry Bonds. The Trustee will pay all principal, premium, if any and interest with respect to Book-Entry Bonds, only to DTC, and all such payments will be valid and effective to fully satisfy and discharge the Authority's obligations with respect to the principal, premium, if any, and interest with respect to the Book-Entry Bonds to the extent of the sum or sums so paid. Except under the conditions of the Indenture, no person other than DTC will receive an executed Book-Entry Bond for each separate stated maturity. Upon delivery by DTC to the Trustee of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede & Co., and subject to the provisions in the Indenture with respect to record dates, the term "Cede & Co." in the Indenture will refer to such new nominee of DTC.

(c) In the event that: (i) DTC, including any successor as securities depository for a Series of Bonds, determines not to continue to act as securities depository for such Series of Bonds; or (ii) the Authority determines that the incumbent securities depository will no longer so act, and delivers a written certificate to the Trustee to that effect, then the Authority will discontinue the book-entry system with the incumbent securities depository for such Series of Bonds. If the Authority determines to replace the incumbent securities depository for such Series of Bonds with another qualified securities depository, the Authority will prepare or direct the preparation of a new single, separate fully registered Bond of such Series for the aggregate outstanding principal amount of

Bonds of such Series of each maturity, registered in the name of such successor or substitute qualified securities depository, or its nominee, or make such other arrangement acceptable to the Authority, the Trustee and the successor securities depository for the Bonds of such Series as are not inconsistent with the terms of the Indenture. If the Authority fails to identify another qualified successor securities depository for such Series of Bonds to replace the incumbent securities depository, then the Bonds of such Series will no longer be restricted to being registered in the Registration Books in the name of the incumbent securities depository or its nominee, but will be registered in whatever name or names the incumbent securities depository for such Series of Bonds, or its nominee, designate. In such event the Authority will execute, and deliver to the Trustee, a sufficient quantity of Bonds of such Series to carry out the transfers and exchanges provided in the Indenture. All such Bonds of such Series will be in fully registered form in Authorized Denominations.

(d) Notwithstanding any other provision of the Indenture to the contrary, so long as any Book-Entry Bond is registered in the name of DTC, or its nominee, all payments with respect to the principal, premium, if any, and interest with respect to such Book-Entry Bond and all notices with respect to such Book-Entry Bond will be made and given, respectively, as provided in the Representation Letter.

(e) In connection with any notice or other communication to be provided to Owners of Book-Entry Bonds pursuant to the Indenture by the Authority, the City or the Trustee with respect to any consent or other action to be taken by Owners, the Authority, the City or the Trustee, as the case may be, will establish a record date for such consent or other action and give DTC notice of such record date not less than 15 calendar days in advance of such record date to the extent possible.

ISSUANCE OF BONDS; APPLICATION OF PROCEEDS

Conditions for the Issuance of Additional Bonds. The Authority may at any time issue one or more Series of Additional Bonds (in addition to the Series 2013A Bonds) payable from Base Rental Payments as provided in the Indenture on a parity with all other Bonds theretofore issued thereunder, but only subject to the following conditions, which are conditions precedent to the issuance of such Additional Bonds:

(a) The issuance of such Additional Bonds has been authorized under and pursuant to the Indenture and has been provided for by a Supplemental Indenture which specifies the following: (1) the application of the proceeds of the sale of such Additional Bonds; (2) the principal amount and designation of such Series of Additional Bonds and the denomination or denominations of the Additional Bonds; (3) the date, the maturity date or dates, the interest payment dates and the dates on which mandatory sinking fund redemptions, if any, are to be made for such Additional Bonds; provided, however, that: (i) the serial Bonds of such Series of Additional Bonds are payable as to principal annually on October 1 of each year in which principal falls due, and the term Bonds of such Series of Additional Bonds have annual mandatory sinking fund redemptions on October 1; (ii) the Additional Bonds are payable as to interest semiannually on April 1 and October 1 of each year, except that the first installment of interest may be payable on either April 1 or October 1 and will be for a period of not longer than twelve months and the interest will be payable thereafter semiannually on April 1 and October 1; (iii) all Additional Bonds of a Series of like maturity will be identical in all respects, except as to number or denomination, and (iv) serial maturities of serial Bonds or mandatory sinking fund redemptions for term Bonds, or any combination thereof, will be established to provide for the redemption or payment of such Additional Bonds on or before their respective maturity dates; (4) the redemption premiums and terms, if any, for such Additional Bonds; (5) the form of such Additional Bonds; and (6) such other provisions that are appropriate or necessary and are not inconsistent with the provisions of the Indenture;

(b) The Authority is in compliance with all agreements, conditions, covenants and terms contained in the Indenture, the Lease Agreement and the Ground Lease required to be observed or performed by it;

(c) The Authority is in compliance with all agreements, conditions, covenants and terms contained in the Indenture, the Lease Agreement and the Ground Lease required to be observed or performed by it; and

(d) The Ground Lease has been amended, to the extent necessary, and the Lease Agreement has been amended so as to increase the Base Rental Payments payable by the City thereunder by an aggregate amount equal to the principal of and interest on such Additional Bonds, payable at such times and in such manner as may be necessary to provide for the payment of the principal of and interest on such Additional Bonds; provided, however, that no such amendment will be made such that the sum of Base Rental Payments, including any increase in the Base Rental Payments as a result of such amendment, plus Additional Rental Payments, in any Rental Period is in excess of the annual fair rental value of the Property after taking into account the use of the proceeds of any Additional Bonds issued in connection therewith (evidence of the satisfaction of such condition is be made by a Written Certificate of the City). Nothing contained in the Indenture limit the issuance of any bonds or other obligations payable from Base Rental Payments if, after the issuance and delivery of such bonds or other obligations, none of the Bonds theretofore issued under the Indenture will be Outstanding.

Procedure for the Issuance of Additional Bonds. At any time after the sale of any Additional Bonds in accordance with the Act, such Additional Bonds will be executed by the Authority for issuance under the Indenture and will be delivered to the Trustee and thereupon will be authenticated and delivered by the Trustee, but only upon receipt by the Trustee of the following:

(a) Certified copies of the Supplemental Indenture authorizing the issuance of such Additional Bonds, the amendment to the Lease Agreement required by the Indenture and the amendment to the Ground Lease, if any, required by the Indenture, together with satisfactory evidence that such amendment to the Lease Agreement and such amendment to the Ground Lease, if any, have been duly recorded;

(b) A Written Request of the Authority as to the delivery of such Additional Bonds;

(c) An opinion of Bond Counsel substantially to the effect that: (i) the Indenture (including all Supplemental Indentures), the Lease Agreement (including the amendment thereto required by the Indenture) and the Ground Lease (including any amendment thereto required by the Indenture) have been duly authorized, executed and delivered by, and constitute the valid and binding obligations of, the Authority and the City, enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights and by the application of equitable principles and by the exercise of judicial discretion in appropriate cases and subject to the limitations on legal remedies against political subdivisions in the State of California); (ii) such Additional Bonds constitute valid and binding special obligations of the Authority payable solely from Base Rental Payments as provided in the Indenture and are enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights and by the application of equitable principles and by the exercise of judicial discretion in appropriate cases and subject to the limitations on legal remedies against political subdivisions in the State of California); and (iii) the issuance of such Additional Bonds, in and of itself, will not adversely affect the exclusion of interest on the Bonds Outstanding prior to the issuance of such Additional Bonds from gross income for federal income tax purposes;

(d) a Written Certificate of the Authority that the requirements of the Indenture have been met;

(e) a Written Certificate of the City that the requirements of the Indenture and the Lease Agreement have been met, and a Written Certificate of the City as to the fair rental value of the Property, after giving effect to the execution and delivery of the Additional Bonds, and to the use of proceeds received therefrom; and

(f) Such further documents as are required by the provisions of the Indenture or by the provisions of the Supplemental Indenture authorizing the issuance of such Additional Bonds.

Additional Bonds. So long as any of the Bonds remain Outstanding, the Authority may not issue any Additional Bonds or obligations payable from the Base Rental Payments, except pursuant to the Indenture.

SECURITY FOR BONDS; FLOW OF FUNDS; INVESTMENTS

Pledge; Special Obligations. Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, all of the Base Rental Payments and any other amounts (including proceeds of the sale of the Bonds) held in the Base Rental Payment Fund, the Interest Fund, the Principal Fund and the Redemption Fund have been pledged to secure the payment of the principal of, premium, if any, and interest on the Bonds in accordance with their terms, the provisions of the Indenture and the Act. Such pledge constitutes a first lien on such assets.

All obligations of the Authority under the Indenture are special obligations of the Authority, payable solely from Rental Payments and the other assets pledged therefor under the Indenture; provided, however, that all obligations of the Authority under the Bonds are special obligations of the Authority, payable solely from Base Rental Payments and the other assets pledged therefor under the Indenture. Neither the faith and credit nor the taxing power of the Authority, the City or the State of California, or any political subdivision thereof, is pledged to the payment of the Bonds.

Flow of Funds. (a) The Trustee will establish and maintain separate funds designated the "Base Rental Payment Fund," the "Interest Fund," the "Principal Fund" and the "Redemption Fund." Within the Base Rental Fund, the Trustee will establish the "Prepaid Base Rental Account." All Base Rental Payments will be paid directly by the City to the Trustee, and if received by the Authority at any time will be transferred by the Authority with the Trustee within one Business Day after the receipt thereof. All Base Rental Payments received by the Trustee will be deposited by the Trustee in the Base Rental Payment Fund.

(b) The Trustee will transfer the amounts on deposit in the Base Rental Payment Fund, at the times and in the manner provided in the Indenture, to the following respective funds:

(i) Interest Fund. On the Business Day immediately preceding each Interest Payment Date, the Trustee will transfer from the Base Rental Fund to the Interest Fund the amount, if any, necessary to cause the amount on deposit in the Interest Fund to be equal to the interest due on the Bonds on such Interest Payment Date.

(ii) Principal Fund. On the Business Day immediately preceding each April 1 and October 1, commencing October 1, 2013, the Trustee will transfer from the Base Rental Fund to the Principal Fund the amount, if any, necessary to cause the amount on deposit in the Principal Fund to be equal to the principal amount of the Bonds due on such April 1 or October 1, either as a result of the maturity thereof or mandatory sinking fund redemption payments required to be made with respect thereto. Moneys in the Principal Fund will be used by the Trustee for the purpose of paying the principal of the Bonds when due and payable at their maturity dates or upon earlier mandatory sinking fund redemption.

(iii) Redemption Fund. The Trustee, on the redemption date specified in the Written Request of the City filed with the Trustee at the time that any prepaid Base Rental Payment is paid to the Trustee pursuant to the Lease Agreement, will deposit in the Redemption Fund that amount of moneys representing the portion of the Base Rental Payments designated as prepaid Base Rental Payments. Additionally, the Trustee will deposit in the Redemption Fund any amounts required to be deposited therein pursuant to the Indenture. Moneys in the Redemption Fund will be used by the Trustee for the purpose of paying the principal of and interest and premium, if any, on Series 2013A Bonds redeemed pursuant to the provisions of the Indenture and Additional Bonds redeemed pursuant to the corresponding provisions of the Supplemental Indenture pursuant to which such Additional Bonds are issued.

(c) Upon receipt of a Written Certificate of the City pursuant to the Lease Agreement that the City has commenced repairs of the Property, the Trustee will transfer moneys from the Prepaid Base Rental Account at the times and in the manner required by clause (b) above if and to the extent there are insufficient funds in the Base Rental Payment Fund to make such transfers. Upon receipt of a Written Certificate of the City pursuant to the Lease Agreement that the City has completed repairs of the Property and will recommence to make Base Rental Payments or that the City has determined not to make such repairs and made the certifications required pursuant to the Lease Agreement, the Trustee will transfer any funds remaining on deposit in the Prepaid Base Rental Account to the City for any lawful use.

Application of Net Insurance Proceeds. If the Property or any portion thereof is damaged or destroyed, subject to the further requirements of the Indenture, the City will, as expeditiously as possible, continuously and diligently prosecute or cause to be prosecuted the repair or replacement thereof, unless the City elects not to repair or replace the Property or the affected portion thereof in accordance with the provisions of the Indenture.

The Net Insurance Proceeds (other than Net Insurance Proceeds of rental interruption insurance), including the proceeds of any self-insurance, received on account of any damage or destruction of the Property or a portion thereof will as soon as possible be deposited with the Trustee and be held by the Trustee in a special account and made available for and, to the extent necessary, will be applied to the cost of repair or replacement of the Property or the affected portion thereof upon receipt of a Written Request of the City, together with invoices therefor. Pending such application, such proceeds may be invested by the Trustee as directed by the City in Permitted Investments that mature not later than such times moneys are expected to be needed to pay such costs of repair or replacement.

Notwithstanding the foregoing, the City will, within 60 days of the occurrence of the event of damage or destruction, notify the Trustee in writing as to whether the City intends to replace or repair the Property or the portions of the Property which were damaged or destroyed. If the City does intend to replace or repair the Property or portions thereof, the City will deposit with the Trustee the full amount of any insurance deductible to be credited to the special account.

In the event of any damage to or destruction of the Property caused by one of the perils covered by the insurance required by the Lease Agreement which would result in an abatement of rental payments or any portion thereof pursuant to the Lease Agreement, then the City will apply the Net Insurance Proceeds, together with other legally available funds that the City elects to contribute, to the repair, reconstruction or replacement of the damaged or destroyed portions of the Property; provided, however, that the City is not required to repair or replace any portion of the Property pursuant to the Indenture if such Net Insurance Proceeds, together with any other amounts held under the Indenture and any other legally available funds made available by the City at its election, are sufficient to prepay: (a) all of the Outstanding Bonds; or (b) a portion of the Outstanding Bonds such that the resulting Base Rental Payments in any Rental Period following such partial prepayment are sufficient to pay in such Rental Period the principal of and interest on all Bonds to remain Outstanding immediately after such partial redemption. If the City is not required to replace or repair the Property, or the affected portion thereof, or to use such amounts to redeem Bonds, in each case as set forth in the Indenture, then such proceeds will, if there is first delivered to the Trustee a Written Certificate of the City to the effect that the annual fair rental value of the Property after such damage or destruction, and after any repairs or replacements made as a result of such damage or destruction, is at least equal to 100% of the maximum amount of Base Rental Payments becoming due under the Lease Agreement in the then current Rental Period or any subsequent Rental Period and the fair replacement value of the Property after such damage or destruction is at least equal to the principal amount of the Outstanding Bonds, be paid to the City to be used for any lawful purpose.

The proceeds of any award in eminent domain received in respect to the Property will be deposited by the Trustee in the Redemption Fund and applied to the redemption of Bonds pursuant to the Indenture and the corresponding provisions of any Supplemental Indenture pursuant to which Additional Bonds are issued.

Title Insurance. Proceeds of any policy of title insurance received by the Trustee in respect of the Property will be applied and disbursed by the Trustee as follows: (a) if the City determines that the title defect giving rise to such proceeds has not substantially interfered with its use and occupancy of the Property and will not result in an abatement of Rental Payments payable by the City under the Lease Agreement, such proceeds will be remitted to the City and used for any lawful purpose thereof; or (b) if the City determines that the title defect giving rise to such proceeds has substantially interfered with its use and occupancy of the Property and will result in an abatement of Rental Payments payable by the City under the Lease Agreement, then the Trustee will immediately deposit such proceeds in the Redemption Fund and such proceeds will be applied to the redemption of Bonds in the manner provided in the Indenture and the corresponding provisions of any Supplemental Indenture pursuant to which Additional Bonds are issued.

Rebate Fund. (a) The Trustee will establish and maintain a special fund designated the "Rebate Fund." There will be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Tax Certificate, as specified in a Written Request of the Authority. All money at any time deposited in the Rebate Fund will be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement, for payment to the United States of America. Notwithstanding defeasance of the Bonds pursuant to the Indenture or anything to the contrary contained therein, all amounts required to be deposited into or on deposit in the Rebate Fund will be governed exclusively by the Indenture and by the Tax Certificate (which is incorporated in the Indenture by reference). The Trustee will be deemed conclusively to have complied with such provisions if it follows the written directions of the Authority, and has no liability or responsibility to enforce compliance by the Authority with the terms of the Tax Certificate. The Trustee may conclusively rely upon the Authority's determinations, calculations and certifications required by the Tax Certificate. The Trustee has no responsibility to independently make any calculation or determination or to review the Authority's calculations. (b) Any funds remaining in the Rebate Fund after payment in full of all of the Bonds and after payment of any amounts described in the Rebate Fund provisions of the Indenture will be withdrawn by the Trustee and remitted to the Authority.

Investment of Moneys. Except as otherwise provided in the Indenture, all moneys in any of the funds or accounts established pursuant to the Indenture and held by the Trustee will be invested by the Trustee solely in Permitted Investments, as directed in writing by the Authority. Moneys in all funds and accounts held by the Trustee will be invested in Permitted Investments maturing not later than the date on which it is estimated that such moneys will be required for the purposes specified in the Indenture; provided, however, that such Permitted Investments may be redeemed at par so as to be available on each Interest Payment Date. Absent timely written direction from the Authority, the Trustee will hold any funds held by it uninvested.

Subject to the provisions of the Indenture, all interest, profits and other income received from the investment of moneys in any fund or account established pursuant to the Indenture will be retained in such fund or account.

Permitted Investments acquired as an investment of moneys in any fund established under the Indenture will be credited to such fund. For the purpose of determining the amount in any fund, all Permitted Investments credited to such fund will be valued by the Trustee at the fair market value thereof, such valuation to be performed not less frequently than semiannually on or before each April 15 and October 15. In determining fair market value, the Trustee may use and rely conclusively on any generally recognized securities pricing service available to it (including brokers and dealers in securities).

The Trustee may act as principal or agent in the making or disposing of any investment. Upon the Written Request of the Authority, the Trustee will sell or present for redemption any Permitted Investments so purchased whenever necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund to which such Permitted Investments is credited, and the Trustee will not be liable or responsible for any loss resulting from any investment made or sold pursuant to the Indenture. For purposes of investment, the Trustee may commingle moneys in any of the funds and accounts established under the Indenture.

The Trustee may make any investments under the Indenture through the bond or investment department or trust investment department of the entity acting as Trustee thereunder, or those of such entity's parent or any affiliate, and such entity, or its parent or affiliate, as applicable, is entitled to its normal, customary and reasonable compensation for such services.

The entity acting as Trustee under the Indenture, or any of its affiliates, may act as sponsor, advisor or manager in connection with any investments made by the Trustee thereunder and such entity, or its affiliate, as applicable, is entitled to its normal, customary and reasonable compensation for such services.

The Authority and the City have acknowledged that, to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Authority and the City the right to receive brokerage confirmations of security transactions as they occur, at no additional cost, the Authority and the City have specifically waived receipt of such confirmations to the extent permitted by law.

## COVENANTS

Compliance with Agreements. The Trustee will not authenticate or deliver any Bonds in any manner other than in accordance with the provisions of the Indenture, and the Authority and the City will not suffer or permit any default by them to occur thereunder, but will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms thereof required to be complied with, kept, observed and performed by them.

Compliance with Ground Lease and Lease Agreement. The Authority and the City will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms contained in the Ground Lease and the Lease Agreement required to be complied with, kept, observed and performed by them and, together with the Trustee, will enforce the Ground Lease and the Lease Agreement against the other party thereto in accordance with their respective terms.

Observance of Laws and Regulations. The Authority, the City and the Trustee will faithfully comply with, keep, observe and perform all valid and lawful obligations or regulations now or later imposed on them by contract, or prescribed by any law of the United States of America or of the State of California, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of each and every franchise, right or privilege now owned or later acquired by them, including their right to exist and carry on their respective businesses, to the end that such franchises, rights and privileges will be maintained and preserved and will not become abandoned, forfeited or in any manner impaired.

Other Liens. The City will keep the Property and all parts thereof free from judgments and materialmen's and mechanics' liens and free from all claims, demands, encumbrances and other liens of whatever nature or character, and free from any claim or liability which materially impairs the City in conducting its business or utilizing the Property, and the Trustee at its option (after first giving the City ten days' written notice to comply therewith and failure of the City to so comply within such ten-day period) may, but is in no event obligated to, defend against any and all actions or proceedings, or may pay or compromise any claim or demand asserted in any such actions or proceedings; provided, however, that, in defending against any such actions or proceedings or in paying or compromising any such claims or demands, the Trustee will not in any event be deemed to have waived or released the City from liability for or on account of any of its agreements and covenants contained in the Indenture, or from its liability thereunder and to perform such agreements and covenants.

So long as any Bonds are Outstanding, none of the Trustee, the Authority or the City will create or suffer to be created any pledge of or lien the amounts on deposit in any of the funds or accounts created under the Indenture, other than the pledge and lien thereof.

The Authority, the City and the Trustee will not encumber the Property other than in accordance with the Ground Lease, the Lease Agreement, the Indenture and the Assignment Agreement.

Prosecution and Defense of Suits. The City will promptly, upon request of the Trustee (which request the Trustee is not required to make), take such action from time to time as may be necessary or proper to remedy or cure any cloud upon or defect in the title to the Property or any part thereof, whether now existing or later developing, will prosecute all actions, suits or other proceedings as may be appropriate for such purpose and will indemnify and save the Trustee harmless from all cost, damage, expense or loss, including attorneys' fees and expenses, which it or the Owners may incur by reason of any such cloud, defect, action, suit or other proceeding.

Accounting Records and Statements. The Trustee will keep proper accounting records in which complete and correct entries are made of all transactions relating to the receipt, deposit and disbursement of the Base Rental Payments, and such accounting records will be available for inspection by the Authority and the City at reasonable hours and under reasonable conditions.

Recordation and Filing. The City will record, or cause to be recorded, with the appropriate county recorder, the Lease Agreement, the Ground Lease and the Assignment Agreement, or memoranda thereof.

Tax Covenants. (a) Neither the Authority nor the City will take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of interest on any tax-exempt Bonds under Section 103 of the Code. Without limiting the generality of the foregoing, the Authority and the City will comply with the requirements of the Tax Certificate, which is incorporated in the Indenture as if fully set forth therein. The foregoing covenant will survive payment in full or defeasance of the Bonds.

(b) In the event that at any time the Authority is of the opinion that for purposes of the Indenture it is necessary or helpful to restrict or limit the yield on the investment of any moneys held by the Trustee in any of the funds or accounts established thereunder, the Authority will so instruct the Trustee in writing, and the Trustee will take such action as may be necessary in accordance with such instructions.

(c) Notwithstanding any provisions of the Indenture, if the Authority provides to the Trustee an Opinion of Counsel to the effect that any specified action required under the Indenture is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of interest on the Bonds, the Trustee may conclusively rely on such opinion in complying with the requirements of the Indenture and of the Tax Certificate, and the covenants thereunder will be deemed to be modified to that extent.

Continuing Disclosure. The City will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of the Indenture, failure of the City to comply with the Continuing Disclosure Certificate does not constitute an event of default under the Indenture; provided, however, that the Trustee may (and, at the written direction of any Participating Underwriter or the holders of at least 25% of the aggregate principal amount of Outstanding Bonds, and upon being indemnified to its reasonable satisfaction therefor, will) or any holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order.

Further Assurances. Whenever and so often as requested to do so by the Trustee, the Authority and the City will promptly execute and deliver or cause to be executed and delivered all such other and further assurances, documents or instruments and promptly do or cause to be done all such other and further things as may be necessary or reasonably required in order to further and more fully vest in the Trustee all advantages, benefits, interests, powers, privileges and rights conferred or intended to be conferred upon it by the Indenture, the Assignment Agreement, the Ground Lease or the Lease Agreement.

## DEFAULT AND LIMITATIONS OF LIABILITY

Action on Default. If an event of default (within the meaning of the Lease Agreement) happens, then such event of default will constitute an event of default under the Indenture. The Trustee will give notice, as assignee of the Authority, of an event of default under the Lease Agreement to the City. In each and every case during the continuance of an event of default, the Trustee may and, at the direction of the Owners of not less than a majority of the aggregate principal amount of Bonds then Outstanding, and upon being indemnified to its reasonable satisfaction therefor, will, upon notice in writing to the City and the Authority, exercise any of the remedies granted to the Authority under the Lease Agreement and, in addition, take whatever action at law or in equity may appear necessary or desirable to enforce its rights as assignee pursuant to the Assignment Agreement or to protect and enforce any of the rights vested in the Trustee or the Owners by the Indenture or by the Bonds, either at law or in equity or in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement or for the enforcement of any other legal or equitable right, including any one or more of the remedies set forth in the Indenture.

Other Remedies of the Trustee. Subject to the provisions of the Indenture, the Trustee has the right: (a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the Authority or the City or any member, director, officer or employee thereof, and to compel the Authority or the City or any such member, director, officer or employee to perform or carry out its or his or her duties under law and the agreements and covenants required to be performed by it or him or her contained in the Indenture; (b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Trustee; or (c) by suit in equity upon the happening of any event of default under the Indenture to require the Authority and the City to account as the trustee of an express trust. Nothing in the Indenture will be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Owner any plan of reorganization, arrangement, adjustment or composition affecting the

Bonds or the rights of any Owner thereof, or to authorize the Trustee to vote in respect of the claim of any Owner in any such proceeding without the approval of the Owners so affected.

Non-Waiver. A waiver of any default or breach of duty or contract by the Trustee will not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Trustee to exercise any right or remedy accruing upon any default or breach of duty or contract will impair any such right or remedy or be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Trustee by law or by the Indenture may be enforced and exercised from time to time and as often the Trustee deems expedient.

If any action, proceeding or suit to enforce any right or to exercise any remedy is abandoned or determined adversely to the Trustee or any Owner, then subject to any adverse determination, the Trustee, such Owner, the Authority and the City will be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Remedies Not Exclusive. Subject to the provisions of the Indenture, no remedy conferred upon or reserved to the Trustee therein is intended to be exclusive of any other remedy, and each such remedy will be cumulative and in addition to every other remedy given thereunder or now or later existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by any law. The assertion or employment of any right or remedy under the Indenture, or otherwise, does not prevent the concurrent assertion or employment of any other appropriate right or remedy.

No Liability by the Authority to the Owners. Except as expressly provided in the Indenture, the Authority has no obligation or liability to the Owners with respect to the payment when due of the Base Rental Payments by the City, or with respect to the performance by the City of the other agreements and covenants required to be performed by it contained in the Lease Agreement or the Indenture, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained therein.

No Liability by the City to the Owners. Except for the payment when due of the Base Rental Payments and the performance of the other agreements and covenants required to be performed by it contained in the Lease Agreement, the Ground Lease or the Indenture, the City has no obligation or liability to the Owners with respect to the Trust Indenture or the preparation, execution, delivery or transfer of the Bonds or the disbursement of the Base Rental Payments by the Trustee to the Owners, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Indenture.

No Liability of the Trustee to the Owners. Except as expressly provided in the Indenture, the Trustee has no obligation or liability to the Owners with respect to the payment when due of the Base Rental Payments by the City, or with respect to the performance by the Authority or the City of the other agreements and covenants required to be performed by them contained in the Lease Agreement, the Ground Lease or the Indenture.

Application of Amounts After Default. All payments received by the Trustee with respect to the rental of the Property after a default by the City pursuant to the Lease Agreement (including, without limitation, any proceeds received in connection with the sale, assignment or sublease of the Authority's right, title and interest in the Ground Lease), and all damages or other payments received by the Trustee for the enforcement of any rights and powers of the Trustee under the Lease Agreement, will be deposited into the Base Rental Payment Fund and as soon as practicable thereafter applied, together with all other funds held under the Indenture (except funds in the Rebate Fund): (a) to the payment of all amounts due the Trustee under the Indenture; (b) to the payment of all amounts then due for interest on the Bonds, in respect of which, or for the benefit of which, money has been collected (other than Bonds which have become payable prior to such event of default and money for the payment of which is held by the Trustee), ratably without preference or priority of any kind, according to the amounts of interest on such Bonds due and payable; and (c) to the payment of all amounts then due for principal of the Bonds, in respect of which, or for the benefit of which, money has been collected (other than Bonds which have become payable prior to such event of default and money for the payment of which is held by the Trustee), ratably without preference or priority of any kind, according to the amounts of principal of such Bonds due and payable.

Trustee May Enforce Claims Without Possession of Bonds. All rights of action and claims under the Indenture or the Bonds may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee will be brought in its own name as trustee of an express trust, and any recovery of judgment will, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Owners in respect of which such judgment has been recovered.

Limitation on Suits. No Owner of any Bond has any right to institute any proceeding, judicial or otherwise, with respect to the Indenture, or for the appointment of a receiver or Trustee, or for any other remedy thereunder, unless: (a) such Owner has previously given written notice to the Trustee of a continuing event of default; (b) the Owners of not less than 25% of the aggregate principal amount of Bonds then Outstanding have made written request to the Trustee to institute proceedings in respect of such event of default in its own name as Trustee under the Indenture; (c) such Owner or Owners have afforded to the Trustee indemnity reasonably satisfactory to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceedings; and (e) no direction inconsistent with such written request has been given to the Trustee during such 60 day period by the Owners of a majority of the aggregate principal amount of Bonds then Outstanding; it being understood and intended that no one or more Owners have any right in any manner whatever by virtue of, or by availing of, any provision of the Indenture to affect, disturb or prejudice the rights of any other Owner, or to obtain or seek to obtain priority or preference over any other Owner or to enforce any right under the Indenture, except in the manner provided in the Indenture and for the equal and ratable benefit of all the Owners.

## THE TRUSTEE

Employment of the Trustee. The Authority has appointed and employed the Trustee to receive, deposit and disburse the Base Rental Payments, to authenticate, deliver and transfer the Bonds and to perform the other functions contained in the Indenture, all in the manner provided therein and subject to the conditions and terms thereof. By executing and delivering the Indenture, the Trustee has accepted the appointment and employment referred to in the Indenture and the rights and obligations of the Trustee provided therein, subject to the conditions and terms thereof. Other than when an event of default has occurred and is continuing, the Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Indenture, and no implied covenants or obligations will be read into the Indenture against the Trustee. In case an event of default has occurred and is continuing, the Trustee will exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs. The Trustee has covenanted and agreed that it will not encumber the Property.

Duties, Removal and Resignation of the Trustee. The Authority may, by an instrument in writing, remove the Trustee initially a party to the Indenture and any successor thereto unless an event of has occurred and is then continuing, and will remove the Trustee initially a party to the Indenture and any successor thereto if at any time: (a) requested to do so by an instrument or concurrent instruments in writing signed by the Owners of a majority of the aggregate principal amount of Bonds at the time Outstanding (or their attorneys duly authorized in writing); or (b) the Trustee ceases to be eligible in accordance with the following sentence, and will appoint a successor Trustee. The Trustee and any successor Trustee must be a banking corporation or association or trust company having (or if such banking corporation or association or trust company is a member of a bank holding company, its bank holding company has) a combined capital (exclusive of borrowed capital) and surplus of at least $50,000,000 and subject to supervision or examination by federal or state authorities. If such banking corporation or association or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of the Indenture the combined capital and surplus of such bank, association or trust company will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

The Trustee may at any time resign by giving written notice of such resignation to the Authority and the City and by giving notice, by first class mail, postage prepaid, of such resignation to the Owners at their addresses appearing on the Registration Books. Upon receiving such notice of resignation, the Authority will promptly appoint a successor Trustee by an instrument in writing; provided, however, that in the event the Authority does not appoint a successor Trustee within 30 days following receipt of such notice of resignation, the resigning Trustee may, at the expense of the Authority, petition the appropriate court having jurisdiction to appoint a successor Trustee. Any resignation or removal of a Trustee and appointment of a successor Trustee will become effective only upon acceptance of appointment by the successor Trustee.

Any corporation, association or agency into which the Trustee may be converted or merged, or with which it may be consolidated, or to which it may sell or transfer its corporate trust business and assets as a whole or substantially as a whole, or any corporation or association resulting from any such conversion, sale, merger, consolidation or transfer to which it is a party, provided that such entity meets the combined capital and surplus requirements of the Indenture, ipso facto, will be and become successor trustee under the Indenture and vested with all the trusts, powers, discretions, immunities, privileges and all other matters as was its predecessor, without the execution or filing of any instrument or any further act, deed or conveyance on the part of any of the parties to the Indenture, anything therein to the contrary notwithstanding.

Compensation of the Trustee. The City will from time to time, subject to any written agreement then in effect with the Trustee, pay the Trustee reasonable compensation for all its services rendered under the Indenture and reimburse the Trustee for all its reasonable advances and expenditures (which will not include "overhead expenses" except as such expenses are included as a component of the Trustee's stated annual fees) thereunder, including but not limited to advances to and reasonable fees and reasonable expenses of accountants, agents, appraisers, consultants or other experts, and counsel not directly employed by the Trustee but an attorney or firm of attorneys retained by the Trustee, employed by it in the exercise and performance of its rights and obligations thereunder. The Trustee may take whatever legal actions are lawfully available to it directly against the Authority or the City.

The City will, to the extent permitted by law, indemnify and save the Trustee harmless against any liabilities, costs, claims or expenses, including those of its attorneys, which it may incur in the exercise and performance of its powers and duties under the Indenture, under the Lease Agreement, or in connection with any document or transaction contemplated thereunder, including the enforcement of any remedies and the defense of any suit, and which are not due to its negligence or its misconduct. The duty of the City to indemnify the Trustee will survive the termination and discharge of the Indenture and the earlier removal or resignation of the Trustee.

No provision of the Indenture requires the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties thereunder or in the exercise of any of its rights or powers thereunder.

Upon an Event of Default, and only upon an Event of Default, the Trustee will have a first lien with right of payment prior to payment on account of principal of and premium, if any, and interest on any Bond, upon the trust estate for the foregoing fees, charges and expenses incurred by it. When the Trustee incurs expenses or renders services after the occurrence of an Event of Default, such expenses and the compensation for such services are intended to constitute expenses of administration under any federal or state bankruptcy, insolvency, arrangement, moratorium, reorganization or other debtor relief law.

Protection of the Trustee. The Trustee will be protected and incur no liability in acting or proceeding in good faith upon any affidavit, bond, certificate, consent, notice, request, requisition, resolution, statement, telegram, voucher, waiver or other paper or document which it in good faith believes to be genuine and to have been adopted, executed or delivered by the proper party or pursuant to any of the provisions of the Indenture, and the Trustee is under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument, but may accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements. The Trustee is under no obligation to exercise any of the rights or powers vested in it by the Indenture at the request or direction of any of the Owners of the Bonds pursuant to the Indenture, unless such Owners have offered to the Trustee security or indemnity, reasonably satisfactory to the Trustee, against the reasonable costs, expenses and liabilities which might be incurred by it in compliance with such request or direction. The Trustee may consult with counsel, who may be counsel to the Authority or the City, with regard to legal questions, and the opinion of such counsel will be full and complete authorization and protection in respect to any action taken or suffered by it under the Indenture in good faith in accordance therewith.

The Trustee is not responsible for the sufficiency of the Bonds or the Lease Agreement, or of the assignment made to it by the Assignment Agreement, or for statements made in any preliminary or final official statement relating to the Bonds, or of the title to the Property.

Whenever in the administration of its rights and obligations under the Indenture the Trustee deems it necessary or desirable that a matter be proved or established prior to taking or suffering any action thereunder, such matter (unless other evidence in respect thereof is specifically prescribed) may be deemed to be conclusively proved and established by a Written Certificate of the City or a Written Certificate of the Authority, and such certificate will be full warrant to the Trustee for any action taken or suffered under the provisions of the Indenture upon the faith thereof, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as it deems reasonable.

The Trustee may buy, sell, own, hold and deal in any of the Bonds and may join in any action which any Owner may be entitled to take with like effect as if the Trustee were not a party to the Indenture. The Trustee, either as principal or agent, may also engage in or be interested in any financial or other transaction with the Authority or the City, and may act as agent, depository or trustee for any committee or body of Owners or of owners of obligations of the Authority or the City as freely as if it were not the Trustee under the Indenture.

The Trustee may, to the extent reasonably necessary, execute any of the trusts or powers of the Indenture and perform any rights and obligations required of it thereunder by or through agents, attorneys or receivers, and is entitled to advice of counsel concerning all matters of trust and its rights and obligations thereunder, and the Trustee will not be answerable for the negligence or misconduct of any such agent, attorney or receiver selected by it with reasonable care; provided, however, that in the event of any negligence or misconduct of any such attorney, agent or receiver, the Trustee will in a commercially reasonable manner pursue all remedies of the Trustee against such agent, attorney or receiver. The Trustee is not liable for any error of judgment made by it in good faith unless it is proved that the Trustee was negligent in ascertaining the pertinent facts.

The Trustee is not answerable for the exercise of any trusts or powers under the Indenture or for anything whatsoever in connection with the funds established thereunder, except only for its own willful misconduct, negligence or breach of an obligation thereunder.

The Trustee will not be deemed to have knowledge of an event of default unless it has actual knowledge thereof.

The Trustee may, on behalf of the Owners, intervene in any judicial proceeding to which the Authority or the City is a party and which, in the opinion of the Trustee and its counsel, affects the Bonds or the security therefor, and will do so if requested in writing by the Owners of at least 5% of the aggregate principal amount of Bonds then Outstanding, provided that the Trustee has no duty to take such action unless it has been indemnified to its reasonable satisfaction against all risk or liability arising from such action.

The Trustee's rights to immunities and protection from liability under the Indenture and its rights to payment of its fees and expenses will survive its resignation or removal and final payment or defeasance of the Bonds.

All indemnifications and releases from liability granted to the Trustee in the Indenture extend to the directors, officers, employees and agents of the Trustee.

The permissive right of the Trustee to do things enumerated in the Indenture will not be construed as a duty, and the Trustee will not be answerable for other than its negligence or willful default. The Trustee has no responsibility or liability with respect to any information, statements or recitals in any offering memorandum or other disclosure material prepared or distributed with respect to the issuance of these Bonds. The Trustee is not accountable for the use or application by the Borrower of any of the Bonds or the proceeds thereof or for the use or application of any money paid over by the Trustee in accordance with the provisions of the Indenture or for the use and application of money received by any paying agent.

The Trustee has agreed to accept and act upon instructions or directions pursuant to the Indenture sent by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods; provided, however, that the Trustee receives an incumbency certificate listing persons designated to give such instructions or directions and containing specimen signatures of such designated persons, which such incumbency certificate will be amended and replaced whenever a person is to be added or deleted from the listing. If the Authority or the City elects to give the Trustee e-mail or facsimile instructions (or instructions by a similar electronic method) and the Trustee in its discretion elects to act upon such instructions, the Trustee's understanding of such instructions will be deemed controlling. The Trustee is not liable for any losses, costs or expenses arising directly or indirectly from the Trustee's reliance upon and compliance with such instructions notwithstanding that such instructions conflict or are inconsistent with a subsequent written instruction. The Authority and the City have agreed to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Trustee, including, without limitation, the risk of the Trustee acting on unauthorized instructions, and the risk of interception and misuse by third parties.

In acting or omitting to act pursuant to the Lease Agreement or Ground Lease, the Trustee is entitled to all of the rights, immunities and indemnities accorded to it under the Indenture and the Lease Agreement.

## MODIFICATION OR AMENDMENTS

Modifications and Amendments Permitted. (a) The Indenture and the rights and obligations of the Authority, the City, the Owners of the Bonds and the Trustee may be modified or amended from time to time and at any time by a Supplemental Indenture, which the Authority, the City and the Trustee may enter into with the written consent of the Owners of a majority in aggregate principal amount of all Bonds then Outstanding, which has been filed with the Trustee. No such modification or amendment may: (i) extend the fixed maturity of any Bonds, or reduce the amount of principal thereof or the rate of interest thereon, or extend the time of payment, without the consent of the Owner of each Bond so affected; or (ii) reduce the aforesaid percentage of Bonds the consent of the Owners of which is required to effect any such modification or amendment; or (iii) permit the creation of any lien on the Base Rental Payments and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture or deprive the Owners of the Bonds of the lien created by the Indenture on such Base Rental Payments and other assets (except as expressly provided in the Indenture), without the consent of the Owners of all of the Bonds then Outstanding. It is not necessary for the consent of the Bond Owners to approve the particular form of any Supplemental Indenture, but it is sufficient if such consent approves the substance thereof.

(b) The Indenture and the rights and obligations of the Authority, the City, the Trustee and the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the Authority, the City and the Trustee may enter into without the consent of any Bond Owners for any one or more of the following purposes: (i) to add to the covenants and agreements of the Authority or the City contained in the Indenture other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power therein reserved to or conferred upon the Authority or the City; (ii) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision contained in the Indenture; (iii) to provide for the issuance of one or more Series of Additional Bonds, and to provide the terms and conditions under which such Series of Additional Bonds may be issued, subject to and in accordance with the provisions of the Indenture; (iv) to modify, amend or supplement the Indenture in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute later in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute; (v) to modify, amend or supplement the Indenture in such manner as to cause interest on the Bonds to be excludable from gross income for purposes of federal income taxation by the United States of America; and (vi) in any other respect whatsoever as the Authority and the City may deem necessary or desirable, provided that such modification or amendment does not materially adversely affect the interests of the Bond Owners under the Indenture, in the opinion of Bond Counsel filed with the Authority, the City and the Trustee.

(c) Promptly after the execution by the Authority, the City and the Trustee of any Supplemental Indenture, the Trustee will mail a notice (the form of which will be furnished to the Trustee by the Authority), by first class mail postage prepaid, setting forth in general terms the substance of such Supplemental Indenture, to the Owners of the Bonds at the respective addresses shown on the Registration Books. Any failure to give such notice, or any defect therein, will not, however, in any way impair or affect the validity of any such Supplemental Indenture.

(d) No Supplemental Indenture may modify any of the rights or obligations of the Trustee without its prior written consent.

Effect of Supplemental Indenture. Upon the execution of any Supplemental Indenture pursuant to the Indenture, the Indenture will be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations thereunder of the Authority, the City, the Trustee and all Owners of Bonds Outstanding will thereafter be determined, exercised and enforced thereunder subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture will be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Endorsement of Bonds; Preparation of New Bonds. Bonds delivered after the execution of any Supplemental Indenture pursuant to the Indenture may, and if the Authority so determines will, bear a notation by endorsement or otherwise in form approved by the Authority and the Trustee as to any modification or amendment provided for in such Supplemental Indenture, and, in that case, upon demand of the Owner of any Bonds Outstanding at the time of such execution and presentation of Bonds for the purpose at the Office of the Trustee a suitable notation will be made on such Bonds. If the Supplemental Indenture so provides, new Bonds so modified as to conform, in the opinion of the Authority and the Trustee, to any modification or amendment contained in such Supplemental Indenture, will be prepared and executed by the Authority and authenticated by the Trustee, and upon demand of the Owners of any Bonds then Outstanding will be exchanged at the Office of the Trustee, without cost to any Bond Owner, for Bonds then Outstanding, upon surrender for cancellation of such Bonds, in equal aggregate principal amount of the same interest rate and maturity.

Amendment of Particular Bonds. The provisions of the Indenture do not prevent any Bond Owner from accepting any amendment as to the particular Bonds held by such Owner.

## DEFEASANCE

Discharge of Indenture. If the Authority pays or cause to be paid or there is otherwise paid to the Owners of all Outstanding Bonds the principal thereof and the interest and premium, if any, thereon at the times and in the manner stipulated in the Indenture and the Bonds, then the Owners of such Bonds will cease to be entitled to the pledge of the Base Rental and the other assets as provided in the Indenture, and all agreements, covenants and other obligations of the Authority and the City to the Owners of such Bonds thereunder will thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee will execute and deliver to the Authority and the City all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee will pay over or deliver to the City all money or securities held by it pursuant to the Indenture which are not required for the payment of the principal of and interest and premium, if any, on such Bonds.

Subject to the provisions of the above paragraph, when any of the Bonds have been paid and if, at the time of such payment, the Authority and the City have kept, performed and observed all of the covenants and promises in such Bonds and in the Indenture required or contemplated to be kept, performed and observed by them on or prior to that time, then the Indenture will be considered to have been discharged in respect of such Bonds and such Bonds will cease to be entitled to the lien of the Indenture and such lien and all covenants, agreements and other obligations of the Authority and the City thereunder will cease, terminate become void and be completely discharged as to such Bonds.

Notwithstanding the satisfaction and discharge of the Indenture or the discharge of the Indenture in respect of any Bonds, those provisions of the Indenture relating to the maturity of the Bonds, interest payments and dates thereof, exchange and transfer of Bonds, replacement of mutilated, destroyed, lost or stolen Bonds, the safekeeping and cancellation of Bonds, non-presentment of Bonds, and the duties of the Trustee in connection with all of the foregoing, will remain in effect and will be binding upon the Trustee and the Owners of the Bonds and the Trustee will continue to be obligated to hold in trust any moneys or investments then held by the Trustee for the payment of the principal of and interest and premium, if any, on the Bonds, to pay to the Owners of Bonds the funds so held by the Trustee as and when such payment becomes due. Notwithstanding the satisfaction and discharge of the Indenture or the discharge of the Indenture in respect of any Bonds, those provisions of the Indenture relating to the compensation and indemnity of the Trustee will remain in effect and be binding upon the Trustee, the City and the Authority.

Bonds Deemed To Have Been Paid. If moneys have been set aside and held by the Trustee for the payment or redemption of any Bonds and the interest thereon at the maturity or redemption date thereof, such Bonds will be deemed to have been paid within the meaning and with the effect provided in the Indenture. Any Outstanding Bonds will prior to the maturity date or redemption date thereof be deemed to have been paid within the meaning of and with the effect expressed in the Indenture if: (a) in case any of such Bonds are to be redeemed on any date prior to their maturity date, the Authority has given to the Trustee in form satisfactory to it irrevocable instructions to mail, on a date in accordance with the provisions of the Indenture, notice of redemption of such Bonds on said redemption date, said notice to be given in accordance with the Indenture; (b) there has been deposited with the Trustee either: (i) money in an amount which is sufficient; or (ii) Federal Securities that are not subject to redemption other than at the option of the holder thereof, the interest on and principal of which when paid will provide money which, together with the money, if any deposited with the Trustee at the same time, will, as verified by an independent certified public accountant, be sufficient to pay when due the interest to become due on such Bonds on and prior to the maturity date or redemption date thereof, as the case may be, and the principal of and premium, if any, on such Bonds; and (c) in the event such Bonds are not by their terms subject to redemption within the next succeeding 60 days, the Authority will have given the Trustee in form satisfactory to it irrevocable instructions to mail as soon as practicable, a notice to the owners of such Bonds that the deposit required by clause (b) above has been made with the Trustee and that such Bonds, are deemed to have been paid in accordance with the Indenture and stating the maturity date or redemption date upon which money is to be available for the payment of the principal of and premium, if any, on such Bonds.

Payment of Bonds After Discharge of Indenture. Notwithstanding any provisions of the Indenture, to the extent permitted by law, any moneys held by the Trustee in trust for the payment of the principal of, or premium or interest on, any Bonds and remaining unclaimed for two years after the date of deposit of such moneys, will be repaid to the Authority (without liability for interest) free from the trusts created by the Indenture, and all liability of the Trustee with respect to such moneys will thereupon cease; provided, however, that before the repayment of such moneys to the Authority as aforesaid, the Trustee may (at the cost of the Authority) first mail, by first class mail postage prepaid, to the Owners of Bonds which have not yet been paid, at the respective addresses shown on the Registration Books, a notice, in such form as may be deemed appropriate by the Trustee with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the Authority of the moneys held for the payment thereof.

## MISCELLANEOUS

Benefits of Indenture Limited to Parties. Nothing contained in the Indenture, expressed or implied, is intended to give to any person other than the Authority, the City, the Trustee and the Owners any claim, remedy or right under or pursuant thereto, and any agreement, condition, covenant or term required therein to be observed or performed by or on behalf of the Authority or the City is for the sole and exclusive benefit of the Trustee and the Owners.

Successor Deemed Included in all References to Predecessor. Whenever the Authority, the City or the Trustee, or any officer thereof, is named or referred to in the Indenture, such reference will be deemed to include the successor to the powers, duties and functions that are presently vested in the Authority, the City or the Trustee, or such officer, and all agreements, conditions, covenants and terms required by the Indenture to be observed or performed by or on behalf of the Authority, the City or the Trustee, or any officer thereof, will bind and inure to the benefit of the respective successors thereof whether so expressed or not.

Execution of Documents by Owners. Any declaration, request or other instrument which is permitted or required in the Indenture to be executed by Owners may be in one or more instruments of similar tenor and may be executed by Owners in person or by their attorneys appointed in writing. The fact and date of the execution by any Owner or his attorney of any declaration, request or other instrument or of any writing appointing such attorney may be proved by the certificate of any notary public or other officer authorized to take acknowledgments of deeds to be recorded in the state or territory in which he purports to act that the person signing such declaration, request or other instrument or writing acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer, or by such other proof as the Trustee may accept which it may deem sufficient. The ownership of any Bonds and the amount, payment date, number and date of owning the same may be proved by the Registration Books. Any declaration, request or other instrument in writing of the Owner of any Bond will bind all future Owners of such Bond with respect to anything done or suffered to be done by the Authority, the City or the Trustee in good faith and in accordance therewith.

Waiver of Personal Liability. Notwithstanding anything contained in the Indenture to the contrary, no member, officer or employee of the Authority or the City will be individually or personally liable for the payment of any moneys, including without limitation, the principal of or interest on the Bonds, but nothing contained in the Indenture relieves any member, officer or employee of the City or the Authority from the performance of any official duty provided by any applicable provisions of law, the Lease Agreement or the Indenture.

Destruction of Bonds. Whenever in the Indenture provision is made for the cancellation by the Trustee and the delivery to the Authority of any Bonds, the Trustee may, in lieu of such cancellation and delivery, destroy such Bonds.

Funds and Accounts. Any fund or account required to be established and maintained in the Indenture by the Trustee may be established and maintained in the accounting records of the Trustee either as an account or a fund, and may, for the purposes of such accounting records, any audits thereof and any reports or statements with respect thereto, be treated either as an account or a fund, but all such records with respect to all such funds and accounts will at an times be maintained in accordance with sound accounting practice and with due regard for the protection of the security of the Bonds and the rights of the Owners. The Trustee may commingle any of the moneys held by it under the Indenture for investment purposes only; provided, however, that the Trustee will account separately for the moneys in each fund or account established pursuant to the Indenture. The Trustee may establish such funds and accounts as it deems necessary or appropriate to perform its obligations thereunder.

Partial Invalidity. If any one or more of the agreements, conditions, covenants or terms required in the Indenture to be observed or performed by or on the part of the Authority, the City or the Trustee is contrary to law, then such agreement or agreements, such condition or conditions, such covenant or covenants or such term or terms will be null and void to the extent contrary to law and will be deemed separable from the remaining agreements, conditions, covenants and terms of the Indenture and will in no way affect the validity of the Indenture or the Bonds, and the Owners will retain all the benefit, protection and security afforded to them under any applicable provisions of law. The Authority, the City and the Trustee have declared that they would have executed the Indenture, and each and every Article, Section, paragraph, subsection, sentence, clause and phrase thereof and would have authorized the execution and delivery of the Bonds pursuant thereto irrespective of the fact that any one or more Articles, Sections, paragraphs, subsections, sentences, clauses or phrases thereof or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

Disqualified Bonds. In determining whether the Owners of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under the Indenture, Bonds which are actually known by the Trustee to be owned or held by or for the account of the Authority or the City, or by any Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Authority or the City, will be disregarded and deemed not to be Outstanding for the purpose of any such determination; except that, in determining whether the Trustee is protected in relying upon any such demand, request, direction, consent or waiver of an Owner, only Bonds which the Trustee actually knows to be owned or held by or for the account of the Authority or the City, or by any Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Authority or the City, will be disregarded unless all Bonds are so owned or held, in which case such Bonds will be considered Outstanding for the purpose of such determination. Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of the Indenture if the pledgee establishes to the satisfaction of the Trustee the pledgee's right to vote such Bonds and that the pledgee is not a Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Authority or the City. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel will be full protection to the Trustee. Upon request of the Trustee, the Authority and the City will specify in a Written Certificate of the City and Authority those Bonds disqualified pursuant to the Indenture and the Trustee may conclusively rely on such Certificate.

Money Held for Particular Bonds. The money held by the Trustee for the payment of the interest, principal or premium due on any date with respect to particular Bonds (or portions of Bonds in the case of Bonds redeemed in part only) will, on and after such date and pending such payment, be set aside on its books and held in trust by it for the Owners of the Bonds entitled thereto, subject, however, to the provisions of the Indenture but without any liability for interest thereon.

Payment on Non-Business Days. In the event any payment is required to be made under the Indenture on a day which is not a Business Day, such payment will be made on the next succeeding Business Day with the same effect as if made on such non-Business Day.

California Law. The Indenture will be construed and governed in accordance with the laws of the State of California.

Notice to Rating Agencies. The Trustee will provide S&P, if the Bonds are then rated by S&P, and Moody's, if the Bonds are then rated by Moody's, with prompt notice of any substitution or release of property pursuant to the Lease Agreement.

## LEASE AGREEMENT

### DEFINITIONS

Definitions. Unless the context otherwise requires, the terms defined in the Lease Agreement, for all purposes of the Lease Agreement, have the meanings therein specified, which meanings are equally applicable to both the singular and plural forms of any of the terms therein defined. Capitalized terms not otherwise defined in the Lease Agreement have the meanings assigned to such terms in the Indenture.

"Additional Bonds" means bonds other than the Series 2013A Bonds issued under the Indenture in accordance with the provisions thereof

"Additional Rental Payments" means all amounts payable by the City as Additional Rental Payments pursuant to the Lease Agreement.

"Authority" means the Escondido Joint Powers Financing Authority, a joint exercise of powers authority organized and existing under the laws of the State of California.

"Base Rental Deposit Date" means the third Business Day next preceding each Interest Payment Date.

"Base Rental Payments" means all amounts payable to the Authority from the City as Base Rental Payments pursuant to the Indenture.

"Base Rental Payment Schedule" means the schedule of Base Rental Payments payable to the Authority from the City pursuant to the Lease Agreement and attached thereto.

"Bonds" means the Escondido Joint Powers Financing Authority Lease Revenue Refunding Bonds Series 2013A issued under the Indenture, and any Additional Bonds.

"City" means the City of Escondido, a municipal corporation and general law city duly organized and existing under and by virtue of the Constitution and laws of the State of California.

"Delivery Date" means March 28, 2013.

"Ground Lease" means the Ground Lease, dated as of February 1, 2013, by and between the City and the Authority, as originally executed and as it may from time to time be amended in accordance with to the provisions thereof and of the Lease Agreement.

"Indenture" means the Indenture, dated as of February 1, 2013, by and among the Authority, the City and the Trustee, as originally executed and as it may from time to time be amended or supplemented in accordance with the provisions thereof.

"Joint Powers Agreement" means the Joint Exercise of Powers Agreement, dated as of November 20, 1991, by and between the City and the Community Development Commission of the City of Escondido, as originally executed and as it may from time to time be amended in accordance with the provisions thereof.

"Lease Agreement" means the Lease Agreement, as originally executed and as it may from time to time be amended in accordance with the provisions thereof.

"Net Insurance Proceeds" means any insurance proceeds or condemnation award in excess of $50,000, paid with respect to any of the Property, remaining after payment therefrom of all reasonable expenses incurred in the collection thereof.

"Permitted Encumbrances" means, with respect to the Property, as of any particular time: (a) liens for general *ad valorem* taxes and assessments, if any, not then delinquent, or which the City may, pursuant to provisions of the Lease Agreement, permit to remain unpaid; (b) the Assignment Agreement; (c) the Lease Agreement; (d) the Ground Lease; (e) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law as normally exist with respect to properties similar to the Property for the purposes for which it was acquired or is held by the City; (f) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record as of the Delivery Date which the City certifies in writing will not affect the intended use of the Property or impair the security granted to the Trustee for the benefit of the Owners of the Bonds by the Indenture and the Assignment Agreement and to which the Authority and the City consent in writing; (g) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions established following the Delivery Date which the City certifies in writing do not affect the intended use of the Property or impair the security granted to the Trustee for the benefit of the Owners of the Bonds by the Indenture and the Assignment Agreement and to which the Authority and the City consent in writing; (h) the Lease and Concession Agreement, dated as of July 1, 2012, by and between the City and JC Resorts LLC, a Delaware limited liability company; and (i) the Golf Course Consulting and Management Agreement, dated as of July 1, 2012, by and between the City and JC Management LLC, a California limited liability company.

"Property" means the real property described in the Lease Agreement and the improvements located thereon.

"Rental Payments" means, collectively, the Base Rental Payments and the Additional Rental Payments.

"Rental Period" means the twelve-month period commencing on October 1 of each year during the term of the Lease Agreement.

"Series 2013A Bonds" means the Escondido Joint Powers Financing Authority Lease Revenue Refunding Bonds issued under the Indenture.

"Termination Date" means October 1, 2030 unless extended or sooner terminated as provided in the Lease Agreement.

"Trustee" means the trustee appointed under the Indenture and referred to therein as the Trustee.

LEASE OF PROPERTY; TERM

Lease of Property. (a) The Authority has leased to the City and the City has leased from the Authority the Property, on the terms and conditions set forth in the Lease Agreement, subject to all Permitted Encumbrances. (b) The leasing of the Property by the City to the Authority pursuant to the Ground Lease does not effect or result in a merger of the City's leasehold estate pursuant to the Lease Agreement and its fee estate as lessor under the Ground Lease, and the Authority will continue to have a leasehold estate in the Property pursuant to the Ground Lease throughout the term thereof and of the Lease Agreement. The leasehold interest granted by the City to the Authority pursuant to the Ground Lease is and will be independent of the Lease Agreement; the Lease Agreement is not an assignment or surrender of the leasehold interest granted to the Authority under the Ground Lease.

Term; Occupancy. The term of the Lease Agreement will commence on the Delivery Date and end on the Termination Date, unless such term is extended or sooner terminated as provided in the Lease Agreement. If on the Termination Date the Bonds are not fully paid, or provision therefor made in accordance with the Indenture, or the Indenture is not discharged by its terms, or if the Rental Payments remain due and payable or have been abated at any time and for any reason, then the term of the Lease Agreement will be extended until the date upon which: (a) all Bonds are fully paid, or provision therefor made in accordance with the Indenture; or (b) the Indenture is discharged by its terms and all Rental Payments have been paid in full. Notwithstanding the foregoing, the term of the Lease Agreement will in no event be extended more than ten years beyond such Termination Date, such extended date being the "Maximum Lease Term." If prior to the Termination Date, all Bonds are fully paid, or provision therefor made in accordance with the Indenture, the Indenture will be discharged by its terms and all Rental Payments will be paid in full, and the term of the Lease Agreement will end simultaneously therewith.

RENTAL PAYMENTS

Base Rental Payments. (a) Subject to the provisions of the Lease Agreement relating to a revision of the Base Rental Payment Schedule pursuant to clause (b) below, the City will pay to the Authority, as Base Rental Payments (subject to the provisions of the Lease Agreement) the amount at the times specified in the Base Rental Payment Schedule, a portion of which Base Rental Payments constitutes principal, and a portion of which constitutes interest. Rental Payments, including Base Rental Payments, will be paid by the City to the Authority for and in consideration of the right to use and occupy the Property and in consideration of the continued right to the quiet use and enjoyment thereof during each Rental Period for which such Rental Payments are to be paid.

(b) If the term of the Lease Agreement has been extended pursuant thereto, the obligation of the City to pay Rental Payments will continue to and including the Base Rental Deposit Date preceding the date of termination of the Lease Agreement (as so extended pursuant to the Lease Agreement). Upon such extension, the Base Rental Payments will be established so that they will be sufficient to pay all extended and unpaid Base Rental Payments; provided, however, that the Rental Payments payable in any Rental Period may not exceed the annual fair rental value of the Property.

Additional Rental Payments. The City will also pay, as Additional Rental Payments, such amounts as are be required for the payment of the following: (a) all taxes and assessments of any type or nature charged to the Authority or the City or affecting the Property or the respective interests or estates of the Authority or the City therein; (b) all reasonable administrative costs of the Authority relating to the Property including, but without limiting the generality of the foregoing, salaries, wages, fees and expenses, compensation and indemnification of the Trustee payable by the Authority under the Indenture, fees of auditors, accountants, attorneys or engineers, and all other necessary and reasonable administrative costs of the Authority or charges required to be paid by it in order to maintain its existence or to comply with the terms of the Indenture or the Lease Agreement or to defend the Authority and its members, officers, agents and employees; (c) insurance premiums for all insurance required pursuant to the Lease Agreement; (d) any amounts with respect to the Lease Agreement or the Bonds required to be rebated to the federal government in accordance with Section 148(f) of the Code; and (e) all other payments required to be paid by the City under the provisions of the Lease Agreement or the Indenture.

Amounts constituting Additional Rental Payments payable under the Indenture will be paid by the City directly to the person or persons to whom such amounts are payable. The City will pay all such amounts when due or at such later time as such amounts may be paid without penalty or, in any other case, within 60 days after notice in writing from the Trustee to the City stating the amount of Additional Rental Payments then due and payable and the purpose thereof.

Fair Rental Value. The parties to the Lease Agreement have agreed and determined that the annual fair rental value of the Property is not less than the maximum annual Rental Payments due in any year. In making such determination of fair rental value, consideration has been given to the uses and purposes that may be served by the Property and the benefits therefrom which will accrue to the City and the general public. Payments of the Rental Payments for the Property during each Rental Period constitute the total rental for said Rental Period.

Payment Provisions. Each installment of Base Rental Payments payable under the Lease Agreement will be paid in lawful money of the United States of America to or upon the order of the Authority at the principal office of the Trustee in Los Angeles, California, or such other place or entity as the Authority or Trustee designates. Each Base Rental Payment will be deposited with the Trustee no later than the Base Rental Deposit Date preceding the Interest Payment Date on which such Base Rental Payment is due. Any Base Rental Payment which is not paid by the City when due and payable under the terms of the Lease Agreement will bear interest from the date when the same is due thereunder until the same is paid at the rate equal to the highest rate of interest on any of the Outstanding Bonds. Notwithstanding any dispute between the Authority and the City, the City will make all Rental Payments when due without deduction or offset of any kind and will not withhold any Rental Payments pending the final resolution of such dispute. In the event of a determination that the City was not liable for said Rental Payments or any portion thereof, said payments or excess of payments, as the case may be, will be credited against subsequent Rental Payments due under the Lease Agreement or refunded at the time of such determination. Amounts required to be deposited by the City with the Trustee pursuant to the Lease Agreement on any date will be reduced to the extent of available amounts on deposit in the Base Rental Payment Fund, the Interest Fund or the Principal Fund.

Appropriations Covenant. The City has covenanted to take such action as may be necessary to include all Rental Payments due under the Lease Agreement as a separate line item in its annual budgets and to make necessary annual appropriations for all such Rental Payments. The City will deliver to the Authority and the Trustee a Certificate of the City stating that its final annual budget includes all Base Rental Payments due in such fiscal year within ten days after the filing or adoption thereof. The covenants on the part of the City contained in the Lease Agreement are deemed to be and will be construed to be duties imposed by law and it is the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform the covenants and agreements in the Lease Agreement agreed to be carried out and performed by the City.

Rental Abatement. Except as otherwise specifically provided in the Lease Agreement, during any period in which, by reason of material damage to, or destruction or condemnation of, the Property, or any defect in title to the Property, there is substantial interference with the City's right to use and occupy any portion of the Property, Rental Payments will be abated proportionately, and the City waives the benefits of Civil Code Sections 1932(1), 1932(2) and 1933(4) and any and all other rights to terminate the Lease Agreement by virtue of any such interference, and the Lease Agreement will continue in full force and effect. The amount of such abatement will be agreed upon by the City and the Authority; provided, however, that the Rental Payments due for any Rental Period may not exceed the annual fair rental value of that portion of the Property available for use and occupancy by the City during such Rental Period. The City and the Authority will calculate such abatement and provide the Trustee with a certificate setting forth such calculation and the basis therefor. Such abatement will continue for the period commencing with the date of interference resulting from such damage, destruction, condemnation or title defect and, with respect to damage to or destruction of the Property, ending with the substantial completion of the work of repair or replacement of the Property, or the portion thereof so damaged or destroyed; and the term of the Lease Agreement will be extended as provided therein, except that the term will in no event be extended beyond the Maximum Lease Term.

Notwithstanding the foregoing, to the extent that moneys are available for the payment of Rental Payments in any of the funds and accounts established under the Indenture, Rental Payments will not be abated as provided above but, rather, will be payable by the City as a special obligation payable solely from said funds and accounts.

## MAINTENANCE, ALTERATIONS AND ADDITIONS

Maintenance and Utilities. Throughout the term of the Lease Agreement, as part of the consideration for rental of the Property, all improvement, repair and maintenance of the Property will be the responsibility of the City, and the City will pay for or otherwise arrange for the payment of all utility services supplied to the Property, which may include, without limitation, janitor service, security, power gas, telephone, light, heating, ventilation, air conditioning, water and all other utility services, and will pay for or otherwise arrange for payment of the cost of the repair and replacement of the Property resulting from ordinary wear and tear or want of care on the part of the City or any assignee or sublessee thereof. In exchange for the Rental Payments, the Authority has agreed to provide only the Property.

Additions to Property. Subject to the Lease Agreement, the City and any sublessee will, at its own expense, have the right to make additions, modifications and improvements to the Property. To the extent that the removal of such additions, modifications or improvements would not cause material damage to the Property, such additions, modifications and improvements will remain the sole property of the City or such sublessee, and neither the Authority nor the Trustee have any interest therein. Such additions, modifications and improvements will not in any way damage the Property or cause it to be used for purposes other than those authorized under the provisions of state and federal law; and the Property, upon completion of any additions, modifications and improvements made pursuant to the Lease Agreement, will be of a value which is at least equal to the value of the Property immediately prior to the making of such additions, modifications and improvements.

Installation of City's Equipment. The City and any sublessee may at any time and from time to time, in its sole discretion and at its own expense, install or permit to be installed items of equipment or other personal property in or upon the Property. All such items will remain the sole property of the City or such sublessee, and neither the Authority nor the Trustee have any interest therein. The City or such sublessee may remove or modify such equipment or other personal property at any time, provided that such party will repair and restore any and all damage to the Property resulting from the installation, modification or removal of any such items. Nothing in the Lease Agreement prevents the City or any sublessee from purchasing items to be installed pursuant to the Lease Agreement under a conditional sale or lease purchase contract, or subject to a vendor's lien or security agreement as security for the unpaid portion of the purchase price thereof, provided that no such lien or security interest will attach to any part of the Property.

## INSURANCE

Commercial General Liability and Property Damage Insurance; Workers' Compensation Insurance.

(a) The City will maintain or cause to be maintained, throughout the term of the Lease Agreement, a standard commercial general liability insurance policy or policies in protection of the City, the Authority and their respective members, officers, agents and employees. Said policy or policies must provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the use or ownership of the Property. Said policy or policies must provide coverage in the minimum liability limits of $1,000,000 for personal injury or death of each person and $3,000,000 for personal injury or deaths of two or more persons in a single accident or event, and in a minimum amount of $500,000 for damage to property (subject to a deductible clause of not to exceed $100,000) resulting from a single accident or event. Such commercial general liability and property damage insurance may, however, be in the form of a single limit policy in the amount of $3,000,000 covering all such risks. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried or required to be carried by the City, and may be maintained in whole or in part in the form of self-insurance by the City provided such self-insurance complies with the provisions of the Lease Agreement. The Net Insurance Proceeds of such liability insurance will be applied toward extinguishment or satisfaction of the liability with respect to which the Net Insurance Proceeds of such insurance have been paid.

(b) The City will maintain or cause to be maintained, throughout the term of the Lease Agreement, workers' compensation insurance issued by a responsible carrier authorized under the laws of the State of California to insure employers against liability for compensation under the California Labor Code, or any act enacted as an amendment or supplement thereto or in lieu thereof, such workers' compensation insurance to cover all persons employed by the City in connection with the Property and to cover full liability for compensation under any such act; provided, however, that the foregoing obligations may be satisfied by self-insurance, provided that such self-insurance complies with the provisions of the Lease Agreement.

(c) The City will maintain or cause to be maintained, fire, lightning and special extended coverage insurance (which includes coverage for vandalism and malicious mischief, but need not include coverage for earthquake damage) on all improvements constituting any part of the Property in an amount equal to the greater of 100% of the replacement cost of such improvements or 100% of the outstanding principal amount of the Bonds. The City has an insurance policy which provides replacement cost coverage. All such insurance may be subject to a deductible in an amount not to exceed $500,000. The foregoing obligations may be satisfied by self-insurance, provided that such self-insurance complies with the provisions of the Lease Agreement.

(d) The City will maintain rental interruption insurance to cover the Authority's loss, total or partial, of Base Rental Payments resulting from the loss, total or partial, of the use of any part of the Property as a result of any of the hazards required to be covered pursuant to clause (c) above in an amount sufficient at all times to pay an amount not less than the product of two times the maximum amount of Base Rental Payments scheduled to be paid during any Rental Period. The City is not permitted to self-insure the foregoing obligation.

(e) The insurance required by the Lease Agreement will be provided by reputable insurance companies with claims paying abilities determined, in the reasonable opinion of a professionally certified risk manager or an independent insurance consultant, to be adequate for the purposes of the Lease Agreement.

Title Insurance. The City will provide, at its own expense, one or more CLTA or ALTA title insurance policies for the Property, in the aggregate amount of not less than the initial aggregate principal amount of the Series 2013A Bonds. Such policy or policies will insure: (a) the fee interest of the City in the Property; (b) the Authority's ground leasehold estate in the Property under the Ground Lease; and (c) the City's leasehold estate thereunder in the Property, subject only to Permitted Encumbrances. All Net Insurance Proceeds received under said policy or policies will be deposited with the Trustee and applied as provided in the Indenture. So long as any of the Bonds remain Outstanding, each policy of title insurance obtained pursuant to the Indenture or the Lease Agreement or required thereby must provide that all proceeds thereunder be payable to the Trustee for the benefit of the Bond Owners.

Additional Insurance Provision; Form of Policies. The City will pay or cause to be paid when due the premiums for all insurance policies required by the Lease Agreement, and will promptly furnish or cause to be furnished evidence of such payments to the Trustee. All such policies must provide that the Trustee be given 30 days' notice of the expiration thereof or any intended cancellation thereof. The Trustee will be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the Trustee.

The City will cause to be delivered to the Trustee on or before August 15 each year, commencing August 15, 2013, a Certificate of the City stating that such policies are in full force and effect and that the City is in full compliance with the insurance requirements of Lease Agreement. The Trustee is entitled to rely upon said Certificate of the City as to the City's compliance therewith. The Trustee is not responsible for the sufficiency of coverage or amounts of such policies.

Self-Insurance. Insurance provided through a California joint powers authority of which the City is a member or with which the City contracts for insurance is deemed to be self-insurance for purposes of the Lease Agreement. Any self-insurance maintained by the City pursuant to the Lease Agreement must comply with the following terms: (a) the self-insurance program must be approved in writing by a professionally certified risk manager or by an independent insurance consultant; (b) the self-insurance program must include an actuarially sound claims reserve fund out of which each self-insured claim is paid, the adequacy of each such fund will be evaluated on an annual basis by a professionally certified risk manager or by an independent insurance consultant and any deficiencies in any self-insured claims reserve fund will be remedied in accordance with the recommendation of a professionally certified risk manager or such independent insurance consultant, as applicable; and (c) in the event that the self-insurance program is discontinued, the actuarial soundness of its claims reserve fund, as determined by a professionally certified risk manager or by an independent insurance consultant, will be maintained.

DEFAULTS AND REMEDIES

Defaults and Remedies. (a) (i) If the City fails: (A) to pay any Rental Payment payable under the Lease Agreement when the same becomes due and payable, time being expressly declared to be of the essence in the Lease Agreement; or (B) to keep, observe or perform any other term, covenant or condition contained therein or in the Indenture to be kept or performed by the City; or (ii) upon the happening of any of the events specified in the Lease Agreement, the City will be deemed to be in default thereunder and it will be lawful for the Authority to exercise any and all remedies available pursuant to law or granted pursuant to the Lease Agreement. The City will in no event be in default in the observance or performance of any covenant, condition or agreement in the Lease Agreement on its part to be observed or performed, other than as referred to in clause (i)(A) or (ii) of the preceding sentence, unless the City has failed, for a period of 30 days or such additional time as is reasonably required to correct any such default after notice by the Authority to the City properly specifying wherein the City has failed to perform any such covenant, condition or agreement. Upon any such default, the Authority, in addition to all other rights and remedies it may have at law, has the option to do any of the following:

(1) To terminate the Lease Agreement in the manner therein provided on account of default by the City, notwithstanding any re-entry or re-letting of the Property as therein provided for in clause (2) below, and to re-enter the Property and remove all persons in possession thereof and all personal property whatsoever situated upon the Property and place such personal property in storage in any warehouse or other suitable place, for the account of and at the expense of the City. In the event of such termination, the City has agreed to surrender immediately possession of the Property, without let or hindrance, and to pay the Authority all damages recoverable at law that the Authority may incur by reason of default by the City, including, without limitation, any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such re-entry upon the Property and removal and storage of such property by the Authority or its duly authorized agents in accordance with the provisions contained in the Lease Agreement. Neither notice to pay Rental Payments or to deliver up possession of the Property given pursuant to law nor any entry or re-entry by the Authority nor any proceeding in unlawful detainer, or otherwise, brought by the Authority for the purpose of effecting such re-entry or obtaining possession of the Property nor the appointment of a receiver upon initiative of the Authority to protect the Authority's interest under the Lease Agreement will of itself operate to terminate the Lease Agreement, and no termination of the Lease Agreement on account of default by the City will be or become effective by operation of law or acts of the parties thereto, or otherwise, unless and until the Authority has given written notice to the City of the election on the part of the Authority to terminate the Lease Agreement. The City has covenanted and agreed that no surrender of the Property or of the remainder of the term of the Lease Agreement or any termination thereof will be valid in any manner or for any purpose whatsoever unless stated by the Authority by such written notice.

(2) Without terminating the Lease Agreement: (x) to collect each installment of Rental Payments as the same become due and enforce any other terms or provisions thereof to be kept or performed by the City, regardless of whether or not the City has abandoned the Property; or (y) to exercise any and all rights of entry and re-entry upon the Property. In the event that the Authority does not elect to terminate the Lease Agreement in the manner provided for in clause (1) above, the City will remain liable and has agreed to keep or perform all covenants and conditions contained in the Lease Agreement to be kept or performed by the City and, if the Property is not re-let, to pay the full amount of the Rental Payments to the end of the term of the Lease Agreement or, in the event that the Property is re-let, to pay any deficiency in Rental Payments that results therefrom; and has further agreed to pay said Rental Payments and/or Rental Payment deficiency punctually at the same time and in the same manner as provided in the Lease Agreement for the payment of Rental Payments thereunder, notwithstanding the fact that the Authority may have received in previous years or may receive thereafter in subsequent years Rental Payments in excess of the Rental Payments therein specified, and notwithstanding any entry or re-entry by the Authority or suit in unlawful detainer, or otherwise, brought by the Authority for the purpose of effecting such re-entry or obtaining possession of the Property. Should the Authority elect to re-enter as provided in the Lease Agreement, the City has irrevocably appointed the Authority as the agent and attorney-in-fact of the City to re-let the Property, or any part thereof, from time to time, either in the Authority's name or otherwise, upon such terms and conditions and for such use and period as the Authority may deem advisable and to remove all persons in possession thereof and all personal property whatsoever situated upon the

Property and to place such personal property in storage in any warehouse or other suitable place, for the account of and at the expense of the City, and the City has indemnified and agreed to save harmless the Authority from any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such re-entry upon and re-letting of the Property and removal and storage of such property by the Authority or its duly authorized agents in accordance with the provisions contained in the Lease Agreement. The City has agreed that the terms of the Lease Agreement constitute full and sufficient notice of the right of the Authority to re-let the Property in the event of such re-entry without effecting a surrender of the Lease Agreement, and has further agreed that no acts of the Authority in effecting such re-letting constitute a surrender or termination of the Lease Agreement irrespective of the use or the term for which such re-letting is made or the terms and conditions of such re-letting, or otherwise, but that, on the contrary, in the event of such default by the City the right to terminate the Lease Agreement will vest in the Authority to be effected in the sole and exclusive manner provided for in clause (1) above. The City has further agreed to pay the Authority the cost of any alterations or additions to the Property necessary to place the Property in condition for re-letting immediately upon notice to the City of the completion and installation of such additions or alterations.

The City has waived any and all claims for damages caused or which may be caused by the Authority in re-entering and taking possession of the Property as provided in the Lease Agreement and all claims for damages that may result from the destruction of or injury to the Property and all claims for damages to or loss of any property belonging to the City, or any other person, that may be in or upon the Property.

(b) If: (i) the City's interest in the Lease Agreement or any part thereof is assigned or transferred, either voluntarily or by operation of law or otherwise, without the written consent of the Authority and, as provided for in the Lease Agreement; or (ii) the City or any assignee files any petition or institute any proceeding under any act or acts, state or federal, dealing with or relating to the subject or subjects of bankruptcy or insolvency, or under any amendment of such act or acts, either as a bankrupt or as an insolvent, or as a debtor, or in any similar capacity, wherein or whereby the City asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of the City's debts or obligations, or offers to the City's creditors to elect a composition or extension of time to pay the City's debts or asks, seeks or prays for reorganization or to effect a plan of reorganization, or for a readjustment of the City's debts, or for any other similar relief, or if any such petition or any such proceedings of the same or similar kind or character be filed or be instituted or taken against the City, or if a receiver of the business or of the property or assets of the City is appointed by any court, except a receiver appointed at the instance or request of the Authority, or if the City makes a general assignment for the benefit of the City's creditors; or (iii) the City abandons or vacates the Property, then the City will be deemed to be in default under Lease Agreement.

(c) In addition to the other remedies set forth in the Lease Agreement, upon the occurrence of an event of default, the Authority and its assignee are entitled to proceed to protect and enforce the rights vested in the Authority and its assignee by the Lease Agreement or by law. The provisions of the Lease Agreement and the duties of the City and of its city council, officers or employees are enforceable by the Authority or its assignee by mandamus or other appropriate suit, action or proceeding in any court of competent jurisdiction. Without limiting the generality of the foregoing, the Authority and its assignee have the right to bring the following actions:

(i) Accounting. By action or suit in equity to require the City and its city council, officers and employees and its assigns to account as the trustee of an express trust.

(ii) Injunction. By action or suit in equity to enjoin any acts or things which may be unlawful or in violation of the rights of the Authority or its assignee.

(iii) Mandamus. By mandamus or other suit, action or proceeding at law or in equity to enforce the Authority's or its assignee's rights against the City (and its city council, officers and employees) and to compel the City to perform and carry out its duties and obligations under the law and its covenants and agreements with the City as provided in the Lease Agreement.

Each and all of the remedies given to the Authority under the Lease Agreement or by any law now or later enacted are cumulative and the single or partial exercise of any right, power or privilege thereunder does not impair the right of the Authority to the further exercise thereof or the exercise of any or all other rights, powers or privileges. The term "re-let" or "re-letting" as used in the Lease Agreement includes, but is not limited to, re-letting by means of the operation by the Authority of the Property. If any statute or rule of law validly limits the remedies given to the Authority under the Lease Agreement, the Authority is nevertheless entitled to whatever remedies are allowable under any statute or rule of law. In the event that the Authority prevails in any action brought to enforce any of the terms and provisions of the Lease Agreement, the City has agreed to pay a reasonable amount as and for attorney's fees incurred by the Authority in attempting to enforce any of the remedies available to the Authority under the Lease Agreement. Notwithstanding anything to the contrary contained in the Lease Agreement, the Authority has no right upon a default under the Lease Agreement by the City to accelerate Rental Payments.

(d) Notwithstanding anything to the contrary contained in the Lease Agreement, the termination thereof by the Authority and its assignees on account of a default by the City thereunder will not effect or result in a termination of the Ground Lease.

Waiver. Failure of the Authority to take advantage of any default on the part of the City will not be, or be construed as, a waiver thereof, nor will any custom or practice which may grow up between the parties in the course of administering the Lease Agreement be construed to waive or to lessen the right of the Authority to insist upon performance by the City of any term, covenant or condition of the Lease Agreement, or to exercise any rights given the Authority on account of such default. A waiver of a particular default will not be deemed to be a waiver of any other default or of the same default subsequently occurring. The acceptance of Rental Payments under the Lease Agreement will not be, or be construed to be, a waiver of any term, covenant or condition thereof.

EMINENT DOMAIN; PREPAYMENT

Eminent Domain. If all of the Property (or portions thereof such that the remainder is not usable for public purposes by the City) is taken under the power of eminent domain, the term thereof will cease as of the day that possession is so taken. If less than all of the Property is taken under the power of eminent domain and the remainder is usable for public purposes by the City at the time of such taking, then the Lease Agreement will continue in full force and effect as to such remainder, and the parties waive the benefits of any law to the contrary, and in such event there will be a partial abatement of the Rental Payments in accordance with the provisions of the Lease Agreement. So long as any Bonds are Outstanding, any award made in eminent domain proceedings for the taking of the Property, or any portion thereof, will be paid to the Trustee and applied to the redemption of Bonds as provided in the Indenture and the corresponding provisions of any Supplemental Indenture pursuant to which Additional Bonds are issued. Any such award made after all of the Bonds, and all other amounts due under the Indenture and the Lease Agreement, have been fully paid, will be paid to the Authority and to the City as their respective interests may appear.

Prepayment. (a) The City may prepay all or a portion of the Base Rental Payments attributable to the Series 2013A Bonds which are payable after October 1, 2024, from any source of available funds, on any date on or after October 1, 2023, by paying: (i) all or a portion, as selected by the City, of the principal components of such Base Rental Payments; and (ii) the accrued but unpaid interest component of such Base Rental Payments to be prepaid to the date of such prepayment.

(b) The City may prepay, from any source of available funds, all or any portion of the Base Rental Payments attributable to the Series 2013A Bonds by depositing with the Trustee moneys or securities as provided, and subject to the terms and conditions set forth, in the Indenture sufficient to make such Base Rental Payments when due or to make such Base Rental Payments through a specified date on which the City has a right to prepay such Base Rental Payments pursuant to clause (a) above, and to prepay such Base Rental Payments on such prepayment date, at a prepayment price determined in accordance with clause (a) above.

(c) If less than all of the Base Rental Payments attributable to the Series 2013A Bonds are prepaid pursuant to the Lease Agreement then, as of the date of such prepayment pursuant to clause (a) above, or the date of a deposit pursuant to clause (b) above, the principal and interest components of such Base Rental Payments will be recalculated by the City and transmitted to the Trustee in order to take such prepayment into account. The City has agreed that if, following a partial prepayment of such Base Rental Payments, the Property is damaged or destroyed or taken by eminent domain, or a defect in title to the Property is discovered, the City is not entitled to, and by such prepayment waives the right of, abatement of such prepaid Base Rental Payments and the City is not entitled to any reimbursement of such Base Rental Payments.

(d) If all of the Base Rental Payments are prepaid in accordance with the provisions of the Lease Agreement then, as of the date of such prepayment pursuant to clause (a) above and, if applicable, the corresponding provisions of the Lease Agreement relating to the prepayment of Base Rental Payments attributable to Additional Bonds, or deposit pursuant to clause (b) above and, if applicable, such corresponding provisions, and payment of all other amounts owed under the Lease Agreement, the term of the Lease Agreement will be terminated.

(e) Prepayments of Base Rental Payments attributable to the Series 2013A Bonds made pursuant to the Indenture will be applied to the redemption of the Series 2013A Bonds as directed by the City and as provided in the Indenture.

(f) Before making any prepayment pursuant to the Lease Agreement, the City will give written notice to the Authority and the Trustee specifying the date on which the prepayment will be made, which date will be not less than 45 nor more than 60 days from the date such notice is given to the Authority.

COVENANTS

Right of Entry. The Authority and its assignees have the right to enter upon and to examine and inspect the Property during reasonable business hours (and in emergencies at all times) for any purpose connected with the Authority's rights or obligations under the Lease Agreement, and for all other lawful purposes.

Liens. In the event that the City will at any time during the term of the Lease Agreement cause any changes, alterations, additions, improvements, or other work to be done or performed or materials to be supplied, in or upon the Property, the City will pay, when due, all sums of money that may become due for, or purporting to be for, any labor, services, materials, supplies or equipment furnished or alleged to have been furnished to or for the City in, upon or about the Property and which may be secured by a mechanics', materialmen's or other lien against the Property or the Authority's interest therein, and will cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due, except that, if the City desires to contest any such lien, it may do so as long as such contestment is in good faith. If any such lien is reduced to final judgment and such judgment or such process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and said stay thereafter expires, the City will forthwith pay and discharge said judgment.

Quiet Enjoyment. The parties to the Lease Agreement have mutually covenanted that the City, by keeping and performing the covenants and agreements therein contained, will at all times during the term of the Lease Agreement peaceably and quietly have, hold and enjoy the Property without suit, trouble or hindrance from the Authority.

Authority Not Liable. The Authority and its directors, officers, agents and employees, are not liable to the City or to any other party whomsoever for any death, injury or damage that may result to any person or property by or from any cause whatsoever in, on or about the Property. To the extent permitted by law, the City will, at its expense, indemnify and hold the Authority and the Trustee and all directors, members, officers and employees thereof harmless against and from any and all claims by or on behalf of any person, firm, corporation or governmental authority arising from the acquisition, construction, occupation, use, operation, maintenance, possession, conduct or management of or from any work done in or about the Property or from the subletting of any part thereof, including any liability for violation of conditions, agreements, restrictions, laws, ordinances, or regulations affecting the Property or the occupancy or use thereof, but excepting the negligence or willful misconduct of the persons or entity seeking indemnity. The City has also covenanted and agreed, at its expense, to pay and indemnify and save the Authority and the Trustee and all directors, officers and employees thereof harmless against and from any and all claims arising from: (a) any condition of the Property and the adjoining sidewalks and passageways; (b) any breach or default on the part of the City in the performance of any covenant or agreement to be performed by the City pursuant to the Lease Agreement; (c) any act or negligence of licensees in connection with their use, occupancy or Operation of the Property; or (d) any accident, injury or damage whatsoever caused to any person, firm or corporation in or about the Property or upon or under the sidewalks and from and against all costs, reasonable counsel fees, expenses and liabilities incurred in any action or proceeding brought by reason of any claim referred to in the Lease Agreement, but excepting the negligence or willful misconduct of the person or entity seeking indemnity. In the event that any action or proceeding is brought against the Authority or the Trustee or any director, member, officer or employee thereof, by reason of any such claim, the City, upon notice from the Authority or the Trustee or such director, member, officer employee thereof, has covenanted to resist or defend such action or proceeding by counsel reasonably satisfactory to the Authority or the Trustee or such director, member, officer or employee thereof.

Assignment and Subleasing. Neither the Lease Agreement nor any interest of the City thereunder may be sold, mortgaged, pledged, assigned, or transferred by the City by voluntary act or by operation by law or otherwise. The Property may not be subleased in whole or in part by the City without the prior written consent of the Authority. Any such sublease will be subject to all of the following conditions: (a) the Lease Agreement and the obligation of the City to make all Rental Payments thereunder will remain the primary obligation of the City; (b) the City will, within 30 days after the delivery thereof, furnish or cause to be furnished to the Authority and the Trustee a true and complete copy of such sublease; (c) no such sublease by the City will cause the Property to be used for a purpose other than a governmental or proprietary function authorized under the provisions of the Constitution and laws of the State of California; (d) any sublease of the Property by the City will explicitly provide that such sublease is subject to all rights of the Authority under the Lease Agreement, including, the right to re-enter and re-let the Property or terminate the Lease Agreement upon a default by the City; and (e) the City will furnish the Authority and the Trustee with an Opinion of Counsel to the effect that such sublease will not, in and of itself, cause the interest on the Bonds to be included in gross income for federal income tax purposes.

Title to Property. Upon the termination or expiration of the Lease Agreement (other than as provided in the Lease Agreement), and the first date upon which the Bonds are no longer Outstanding, all right, title and interest in and to the Property will vest in the City. Upon any such termination or expiration, the Authority will execute such conveyances, deeds and other documents as may be necessary to effect such vesting of record.

Authority's Purpose. The Authority has covenanted that, prior to the discharge of the Lease Agreement and the Bonds, it will not engage in any activities inconsistent with the purposes for which the Authority is organized, as set forth in the Joint Powers Agreement.

Representations of the City. The City has represented and warranted to the Authority that: (a) the City has the full power and authority to enter into, to execute and to deliver the Lease Agreement and the Indenture, and to perform all of its duties and obligations thereunder, and has duly authorized the execution and delivery of the Lease Agreement and the Indenture; and (b) the Property will be used in the performance of essential governmental functions.

Representation of the Authority. The Authority has represented and warranted to the City that the Authority has the full power and authority to enter into, to execute and to deliver the Lease Agreement, the Assignment Agreement and the Indenture, and to perform all of its duties and obligations thereunder, and has duly authorized the execution and delivery of the Lease Agreement, the Assignment Agreement and the Indenture.

## NO CONSEQUENTIAL DAMAGES; USE OF THE PROPERTY; SUBSTITUTION OR RELEASE

No Consequential Damages. In no event will the Authority or the Trustee be liable for any incidental, indirect, special or consequential damage in connection with or arising out of the Lease Agreement or the City's use of the Property.

Use of the Property. The City will not use, operate or maintain the Property improperly, carelessly, in violation of any applicable law or in a manner contrary to that contemplated by the Lease Agreement. In addition, the City has agreed to comply in all respects (including, without limitation, with respect to the use, maintenance and operation of the Property) with all laws of the jurisdictions in which its operations may extend and any legislative, executive, administrative or judicial body exercising any power or jurisdiction over the Property; provided, however, that the City may contest in good faith the validity or application of any such law or rule in any reasonable manner which does not, in the opinion of the Authority, adversely affect the estate of the Authority in and to any of the Property or its interest or rights under the Lease Agreement.

Substitution or Release of the Property. The City has the right to substitute alternate real property for any portion of the Property or to release a portion of the Property from the Lease Agreement. All costs and expenses incurred in connection with such substitution or release will be borne by the City. Notwithstanding any substitution or release of Property pursuant to the Lease Agreement, there will be no reduction in or abatement of the Base Rental Payments due from the City thereunder as a result of such substitution or release. Any such substitution or release of any portion of the Property is subject to the following specific conditions, which have been made conditions precedent to such substitution or release:

(a) an independent certified real estate appraiser selected by the City has found (and has delivered a certificate to the City and the Trustee setting forth its findings) that the Property, as constituted after such substitution or release: (i) has an annual fair rental value at least equal to the maximum Base Rental Payments payable by the City in any Rental Period; and (ii) has a useful life in excess of the final maturity of any Outstanding Bonds;

(b) the City has obtained or caused to be obtained a CLTA or ALTA title insurance policy or policies with respect to any substituted property in the amount at least equal to the aggregate principal amount of any Outstanding Bonds of the type and with the endorsements described in the Lease Agreement;

(c) the City has provided the Trustee with an Opinion of Counsel to the effect that such substitution or release will not, in and of itself, cause the interest on the Bonds to be included in gross income for federal income tax purposes;

(d) the City, the Authority and the Trustee have executed, and the City has caused to be recorded with the San Diego County Recorder, any document necessary to reconvey to the City the portion of the Property being released and to include any substituted real property in the description of the Property contained in the Lease Agreement and the Ground Lease; and

(e) the City has provided notice of such substitution to each rating agency then rating the Bonds.

MISCELLANEOUS

Law Governing. THE LEASE AGREEMENT WILL BE GOVERNED EXCLUSIVELY BY THE PROVISIONS OF THE LEASE AGREEMENT AND BY THE LAWS OF THE STATE OF CALIFORNIA AS THE SAME FROM TIME TO TIME EXIST.

Validity and Severability. If for any reason the Lease Agreement is held by a court of competent jurisdiction to be void, voidable or unenforceable by the Authority or by the City, or if for any reason it is held by such a court that any of the covenants and conditions of the City thereunder, including the covenant to pay Rental Payments, is unenforceable for the full term thereof; then and in such event the Lease Agreement is and will be deemed to be a Lease Agreement under which the Rental Payments are to be paid by the City annually in consideration of the right of the City to possess, occupy and use the Property, and all of the terms, provisions and conditions of the Lease Agreement, except to the extent that such terms, provisions and conditions are contrary to or inconsistent with such holding, will remain in full force and effect.

Net-Net-Net Lease. The Lease Agreement will be deemed and construed to be a “net-net-net lease” and the City has agreed that the Rental Payments will be an absolute net return to the Authority, free and clear of any expenses, charges or set-offs whatsoever and notwithstanding any dispute between the City and the Authority.

Taxes. The City will pay or cause to be paid all taxes and assessments of any type or nature charged to the Authority or affecting the Property or the respective interests or estates therein; provided, however, that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the City is obligated to pay only such installments as are required to be paid during the term of the Lease Agreement as and when the same become due.

The City or any sublessee may, at the City's or such sublessee's expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Authority or the Trustee notifies the City or such sublessee that, in the opinion of independent counsel, by nonpayment of any such items, the interest of the Authority in the Property will be materially endangered or the Property, or any part thereof, will be subject to loss or forfeiture, in which event the City or such sublessee will promptly pay such taxes, assessments or charges or provide the Authority with full security against any loss which may result from nonpayment, in form satisfactory to the Authority and the Trustee.

Amendments. (a) The Lease Agreement and the Ground Lease may be amended and the rights and obligations of the Authority and the City thereunder may be amended at any time by an amendment thereto which becomes binding upon execution and delivery by the Authority and the City, but only with the prior written consent of the Owners of a majority of the principal amount of the Bonds then Outstanding pursuant to the Indenture, provided that no such amendment may: (i) extend the payment date of any Base Rental Payments, reduce the interest component or principal component of any Base Rental Payments or change the prepayment terms and provisions, without the prior written consent of the Owner of each Bond so affected; or (ii) reduce the percentage of the principal amount of the Bonds the consent of the Owners of which is required for the execution of any amendment of the Lease Agreement or the Ground Lease.

(b) The Lease Agreement and the Ground Lease and the rights and obligations of the Authority and the City thereunder may also be amended at any time by an amendment thereto which will become binding upon execution by the Authority and the City, without the written consents of any Owners, but only to the extent permitted by law and only for any one or more of the following purposes:

(i) to add to the agreements, conditions, covenants and terms required by the Authority or the City to be observed or performed therein other agreements, conditions, covenants and terms thereafter to be observed or performed by the Authority or the City, or to surrender any right or power reserved therein to or conferred therein on the Authority or the City, and which in either case do not materially adversely affect the interests of the Owners, as evidenced by an Opinion of Bond Counsel;

(ii) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained therein or in regard to questions arising thereunder which the Authority or the City may deem desirable or necessary and not inconsistent therewith, and which do not materially adversely affect the interests of the Owners, as evidenced by an Opinion of Bond Counsel;

(iii) to make such additions, deletions or modifications as may be necessary or appropriate to assure the exclusion from gross income for federal income tax purposes of the interest on the Bonds;

(iv) to provide for the substitution or release of a portion of the Property in accordance with the provisions of the Lease Agreement;

(v) to provide for the issuance of Additional Bonds in accordance with the Indenture; or

(vi) to make such other changes therein or modifications thereto as the Authority or the City may deem desirable or necessary, and which do not materially adversely affect the interests of the Owners, as evidenced by an Opinion of Bond Counsel.

Assignment. The City and the Authority have acknowledged the assignment of the Lease Agreement (except for the Authority's obligations and its rights to give consents or approvals thereunder), and the Base Rental Payments payable thereunder, to the Trustee pursuant to the Assignment Agreement. To the extent that the Lease Agreement confers upon or gives or grants the Trustee any right, remedy or claim under or by reason of the Lease Agreement, the Trustee has been explicitly recognized as being a third-party beneficiary thereunder and may enforce any such right, remedy or claim conferred, given or granted thereunder.

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## APPENDIX B

## AUDITED FINANCIAL STATEMENTS OF THE CITY FOR THE YEAR ENDED JUNE 30, 2012

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# City of Escondido

CALIFORNIA

Escondido Creek

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2012

CITY OF ESCONDIDO • CALIFORNIA

# Comprehensive Annual Financial Report

| | |
|---|---|
| MAYOR | Sam Abed |
| CITY COUNCIL | Marie Waldron, Deputy Mayor |
| | Olga Diaz |
| | Ed Gallo |
| | Michael Morasco |
| CITY MANAGER | Clay Phillips |
| ASSISTANT CITY MANAGER | Charles Grimm |
| DIRECTOR OF COMMUNITY DEVELOPMENT | Barbara Redlitz |
| DIRECTOR OF COMMUNITY SERVICES | Jerry Van Leeuwen |
| DIRECTOR OF FINANCE | Gilbert Rojas |
| DIRECTOR OF HUMAN RESOURCES | Sheryl Bennett |
| DIRECTOR OF INFORMATION SYSTEMS | Mark Becker |
| DIRECTOR OF ENGINEERING SERVICES | Ed Domingue |
| DIRECTOR OF UTILITIES | Christopher McKinney |
| ACTING CHIEF OF POLICE | Cory Moles |
| FIRE CHIEF | Michael Lowry |
| CITY ATTORNEY | Jeffrey Epp |
| CITY CLERK | Diane Halverson |
| CITY TREASURER | Kenneth Hugins |

## Fiscal Year ended June 30, 2012

Prepared by the Finance Department

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# CITY OF ESCONDIDO
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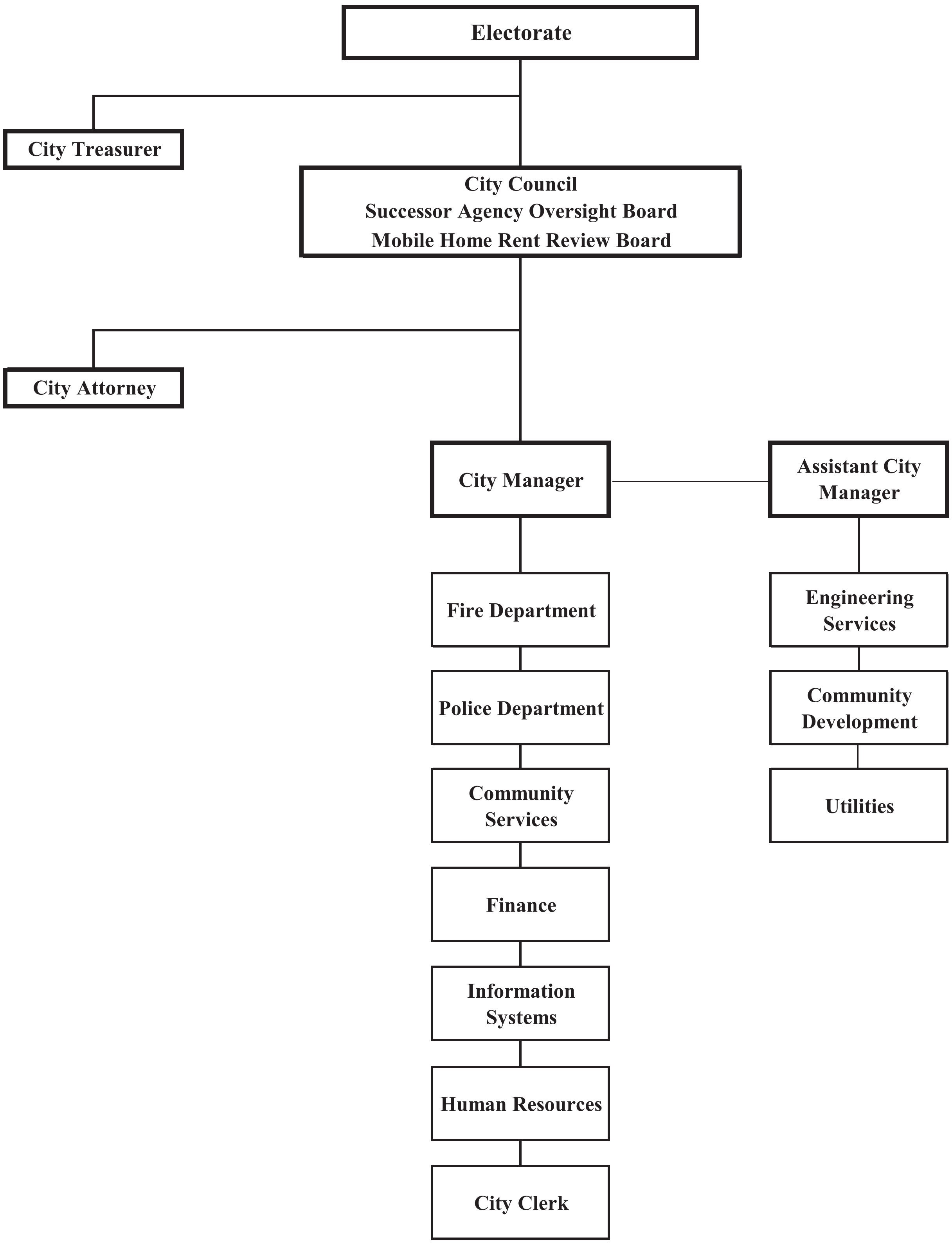

**Gilbert Rojas**
**Director of Finance**
**201 North Broadway, Escondido, CA 92025**
**Phone: 760-839-4322 Fax: 760-746-0612**

February 5, 2013

Honorable Mayor, City Council, and Citizens of the City of Escondido:

It is our pleasure to present the Comprehensive Annual Financial Report (CAFR) of the City of Escondido for the fiscal year ended June 30, 2012.

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

The City of Escondido's financial statements have been audited by Lance, Soll & Lunghard, LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Escondido for the fiscal year ended June 30, 2012, are free of material misstatement. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Escondido's financial statements for the fiscal year ended June 30, 2012, are fairly presented in conformity with GAAP. The Independent Auditors' Report is presented as the first component of the financial section of this report.

Management has provided a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This Letter of Transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Escondido's MD&A can be found immediately following the Independent Auditors' Report.

**Profile of the Government**

The City of Escondido is located in north San Diego County, approximately 30 miles north of the City of San Diego, California. Escondido is an established community incorporated on October 8, 1888 under the general laws of the State of California. The City's current population is 146,064. Within the 36 square miles that comprise the City, there are many residential communities; the largest enclosed regional mall in San Diego County; a regional hospital; 17 hotels; an auto center; many office, industrial, and commercial centers; and civic, cultural, and recreational facilities.

The City operates under a Council-Manager structure. The City Council is comprised of five Council members, elected at large on a staggered basis for a term of four years. The Mayor is directly elected for a four-year term. The City Treasurer is also elected to a four-year term. The City Council appoints the City Manager and the City Attorney. The operating departments include Finance, Human Resources, Planning and Building, Community Development, Community Services, Police, Fire, Information Systems, City Clerk, and Public Works. The City provides the following services to its residents: police and fire protection, water and wastewater services, building safety regulation and inspection, circulation and public facility capital improvement construction, street and park maintenance, refuse collection, planning and zoning, a full range of recreational programs for citizen participation, a senior center, and a library.

The City of Escondido also is accountable for the Community Development Commission (CDC), which is the Redevelopment Agency of the city. This Agency is reported separately as a Blended Component Unit within the City of Escondido financial statements for the first seven months of the fiscal year. As of February 1, 2012 the Commission no longer exists pursuant to State law under AB 1X 26. The five months from February 1, 2012 to June 30, 2012 show the Successor Agency to the Commission as a Private-Purpose Trust Fund reported in the Fiduciary Fund Section.

Discretely presented component units are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the City and to differentiate their financial position, results of operations and cash flows from those of the City. The California Center for the Arts, Escondido Foundation is a discretely presented component unit.

The City Manager is required to prepare and submit to the City Council an annual proposed budget. Budget hearings are held and a final budget is adopted before July 1, which is the start of the new fiscal year. The legal level of budgetary control is at the fund level. The City Manager is authorized to transfer budgeted amounts between departments within a fund.

Financial administration of the City is the responsibility of the Director of Finance. The Finance Department management staff includes a Finance Manager, which supervises the City's day-to-day accounting and budget operations. The City Treasurer is responsible for investing the City's portfolio and bond administration.

**Factors Affecting Financial Condition**

**Local Economy** As of June 2012, the unemployment rate in Escondido was 9.6%. The San Diego countywide unemployment rate was 9.3% with the State of California recording an 10.7% rate.

**Long-term Financial Planning** The City adopted a balanced budget for fiscal year 2011-12 using a combination of cost reductions and revenue increases. The City’s general fund currently has $23.3 million in General Fund Reserves and $8.7 million that is committed for economic development. For the second year in a row, the City Council has adopted a budget that does not rely on reserves for fiscal year 2012-13.

**Relevant Financial Policies** Cash and Investment Management - The elected City Treasurer has responsibility for the investment and management of excess available cash. The City utilizes a pooled investments approach in investing excess funds in accordance with the investment strategies and standards set forth in the Escondido Investment Policy. This policy is reviewed and approved by the City Council on an annual basis, and defines the prioritized objectives of investment selection as safety of principal and sufficiency of liquidity. Maximization of investment yield is sought in a manner consistent with the primary objectives of safety and liquidity. The City’s investment strategy is to hold investments to maturity.

The City’s investments include United States Treasury Notes, obligations issued by various United States Government Agencies, money market funds and investments in the Local Agency Investment fund ( LAIF) established by the State Treasurer. The average yield on the general investment portfolio for the Fiscal Year 2011-12 was 1.72 percent, as compared to 2.17 percent for the Fiscal Year 2010-11.

The yield on the portfolio will most likely continue to decline as older, higher yielding investments mature and are replaced with investments yielding the lower current market rates of return.

The Treasurer prepares quarterly investment reports that provide summary information on the status of the portfolio, including the par, book and market values of each security by investment type, detail of major portfolio transactions occurring during the period and investment yield information. The Quarterly investment reports are submitted to the City Manager and City Council.

Fund Balance Policy - The City has implemented a Fund Balance Policy, per Governmental Accounting Standards Board (GASB) Statement No. 54. This policy provides that the City Council may commit General Fund Balance for specific purposes by taking formal action and these committed amounts cannot be used for any other purpose unless the City Council removes or changes the specific use through the same formal action to establish the commitment.

The City commits remaining fund balance in the General Fund at year end in order to mitigate future risks, provide for cash flow requirements and contingencies for unseen operating or capital needs. This committed General Fund balance is available to fund one-time unanticipated expenditure requirements, local disasters or when actual revenue received is less than the amount budgeted resulting in an operating deficit in the General Fund.

When restricted and unrestricted fund balance are available, the City spends restricted fund balance first. Also, the City reduces committed amounts first, followed by assigned amounts and then unassigned amounts when an expenditure is incurred for purposes in which amounts in any of these unrestricted classifications of fund balance could be used.

**Awards and Acknowledgments** The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Escondido for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2011. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Finance Department. We would like to express our appreciation to all members of the department who assisted and contributed to the preparation of this report.

We would like to extend our appreciation to the Mayor, City Council, City Manager, and each City department for their cooperation and support in conducting the fiscal operations of the City.

Respectfully submitted,

Gilbert Rojas
Director of Finance

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## City of Escondido California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

Christopher P Morrill

President

Jeffrey R. Esser

Executive Director

# Financial Section

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- David E. Hale, CPA, CFP
- Donald G. Slater, CPA
- Richard K. Kikuchi, CPA
- Susan F. Matz, CPA
- Shelly K. Jackley, CPA
- Bryan S. Gruber, CPA
- Deborah A. Harper, CPA

*Brandon W. Burrows, CPA, Retired*

# INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of City Council
City of Escondido, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Escondido, California, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Escondido, California's management. Our responsibility is to express opinions on these financial statements based on our audit. The information for the discretely presented component unit has been derived from the California Center for the Arts, Escondido Foundation financial statements for the year ended June 30, 2011, and, in our report dated January 29, 2013, we expressed an unqualified opinion.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Escondido, California, as of June 30, 2012, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We would like to draw the reader's attention to Note 17 – "Successor Agency Trust for Assets of the Former Redevelopment Agency". The note provides information on the dissolution of the Redevelopment Agency and the new formed Successor Agency.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2013, on our consideration of the City of Escondido, California'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 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.

**Lance, Soll & Lunghard, LLP** 203 North Brea Boulevard • Suite 203 • Brea, CA 92821 • TEL 714.672.0022 • Fax 714.672.0331 **www.lslcpas.com**
**Orange County** **Temecula Valley** **Silicon Valley**

LSL
CERTIFIED PUBLIC ACCOUNTANTS

To the Honorable Mayor and Members of City Council
City of Escondido, California

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Escondido, California's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section, are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Lance, Soll & Lunghard, LLP

Brea, California
February 5, 2013

As management of the City of Escondido (City), we offer readers of the financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information furnished in our Letter of Transmittal, which can be found on pages 8-10 of this report.

## Financial Highlights

Government-wide Basis:

- At the close of the most recent fiscal year, the assets of the City exceeded its liabilities by $573,069,060 (*net assets*).
- The government's total net assets increased by $33,047,246. Governmental activities increased by 8.2 percent using beginning of year net assets, while business-type activities increased by 2.3 percent. The increase in net assets is largely attributable to an extraordinary gain of $29.7 million due to the dissolution of the Escondido Redevelopment Agency. Additional information on dissolution of the redevelopment agency can be found on pages 96-101 of this report.
- The City's total long-term liabilities, including such items as bonds, loans payable, accrued self-insured claims, and retiree benefits decreased by $6,510,902, or 2.4 percent, during the fiscal year. The change reflects a $46,383,368 decrease for governmental activities and a $39,872,466 increase for business-type activities. The decrease in long-term liabilities for governmental activities is mainly due to the transfer of $46.4 million in bonds payable to the Successor Agency with the dissolution of the Escondido Redevelopment Agency. The increase in long-term liabilities for business-type activities is largely due to the issuance of water and wastewater bonds during the current year.

Fund Basis:

- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of $132,036,124, an increase of $19,529,515 in comparison with the prior year as restated.
- The governmental funds had an extraordinary gain of $21.2 million due to the dissolution of the Escondido Redevelopment Agency. The assets and liabilities of the former redevelopment agency were transferred to a fiduciary fund. The assets and liabilities of the Housing Redevelopment Agency were transferred to the Successor Agency Housing Special Revenue Fund and the Successor Agency Housing Debt Service Fund. Additional information on the dissolution of the redevelopment agency can be found on pages 96-101 of this report.
- At the end of the current fiscal year, fund balance committed to Emergency Reserves in the General Fund was $23,284,660 or 31.7 percent of General Fund expenditures.

## Overview of the Financial Statements

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

**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 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 how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows.* Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements distinguish governmental functions of the City, which are mainly supported by taxes and intergovernmental revenues, from the business-type functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of the City include general government, public safety, community services, public works, and community development. The business-type activities of the City include Water and Wastewater services.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also the legally separate Community Development Commission (the redevelopment authority) and a legally separate California Center for the Arts, Escondido Foundation. The Community Development Commission functions as an integral part of the City and has been included in the primary government financial statements. The Commission was dissolved as of January 31, 2012 through the Supreme Court decision on Assembly Bill 1X26. Financial information for the California Center for the Arts, Escondido Foundation for the fiscal year ending June 30, 2011 is being reported separately from the primary government, as it is known as a discretely presented component unit. The government-wide financial statements can be found on pages 34-37 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 of the funds of the City of Escondido 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 on *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 23 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, the Successor Agency Housing Special Revenue Fund, and the Community Development Commission Debt Service Fund which are considered to be major funds. Data from the other 20 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds are 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 schedule has been provided for the General Fund to demonstrate compliance with this budget.

The governmental fund financial statements can be found on pages 38-48 of this report.

***Proprietary funds.*** The City maintains two different types of proprietary funds, the Enterprise and the Internal Service Funds. The *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The enterprise funds are used to account for its Water and Wastewater Funds. The *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its Vehicle and Equipment Maintenance, General Liability, Workers' Compensation, Central Services, Insurance, Building Maintenance, and Office Automation Funds. Since these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide detailed information for the Water and Wastewater Funds, both of which are considered to be major funds. Conversely, all internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds are provided in the form of *combining statements* elsewhere in this report.

The proprietary fund financial statements can be found on pages 49-54 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 statements because the resources of those funds are *not* available to support the City's own programs.

The fiduciary fund financial statements can be found on pages 55-56 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 57-101 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 on pages 104-110 of this report. The combining statements referred to earlier, in connection with nonmajor governmental funds and internal service funds can be found on pages 118-125 of this report.

## Government-wide Financial Analysis

As noted earlier, net assets serve as a useful indicator of a government's financial position. At the close of the most recent fiscal year, the City's assets exceeded liabilities by $573,069,060. Below are the three components of net assets and their respective fiscal year-end balances:

- **Invested in capital assets net of related debt:** At June 30, 2012 invested in capital assets net of related debt represents 63.5 percent, or $363.9 million, of the City's total net assets. This component consists of capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investments in capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources. Capital assets themselves cannot be used to liquidate these liabilities.
- **Restricted net assets:** At June 30, 2012 restricted net assets account for 17.3 percent, or $98.9 million, of the City's total net assets and represent resources that are subject to external restrictions on how they may be used.
- **Unrestricted net assets:** The remaining balance of unrestricted net assets account for 19.2 percent, or $110.2 million, of the City's total net assets and may be used to meet the government's ongoing obligations to citizens and creditors for each respective governmental or business-type activity.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

**City of Escondido's Statement of Net Assets**
(Amounts expressed in thousands)

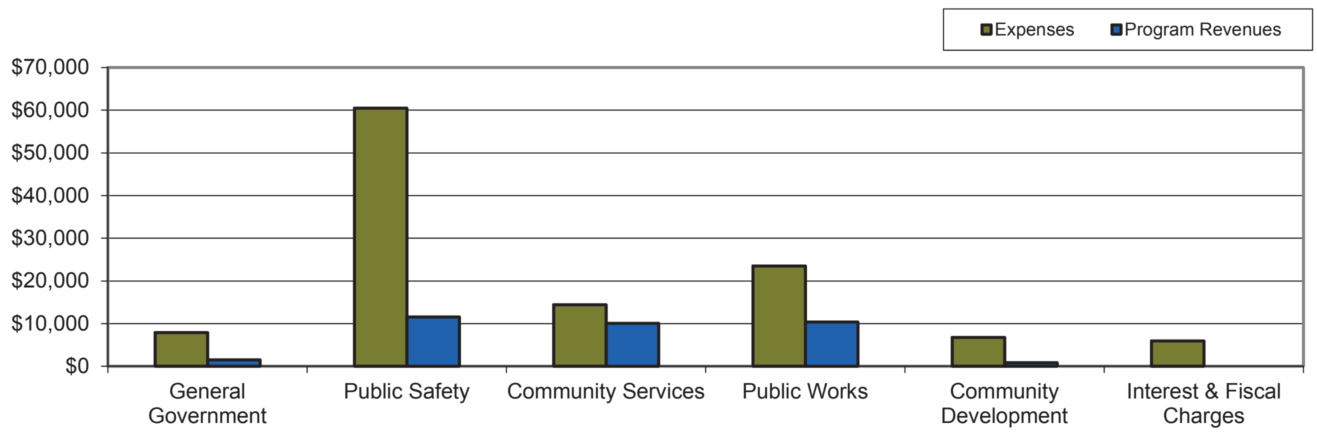
| | Governmental activities | | Business-type activities | | Total | |
|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Current and other assets | $ 193,919 | $ 177,976 | $ 127,041 | $ 80,221 | $ 320,960 | $ 258,197 |
| Capital assets | 308,003 | 356,444 | 232,384 | 234,279 | 540,387 | 590,723 |
| Total assets | 501,922 | 534,420 | 359,425 | 314,500 | 861,347 | 848,920 |
| Long-term liabilities outstanding | 107,395 | 153,778 | 153,826 | 113,954 | 261,221 | 267,732 |
| Other liabilities | 16,397 | 31,246 | 10,660 | 9,920 | 27,057 | 41,166 |
| Total liabilities | 123,792 | 185,024 | 164,486 | 123,874 | 288,278 | 308,898 |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 225,297 | 222,662 | 138,581 | 137,189 | 363,878 | 359,851 |
| Restricted | 98,970 | 86,393 | | | 98,970 | 86,393 |
| Unrestricted | 53,863 | 40,341 | 56,358 | 53,437 | 110,221 | 93,778 |
| Total net assets | $ 378,130 | $ 349,396 | $ 194,939 | $ 190,626 | $ 573,069 | $ 540,022 |

## City of Escondido's Changes in Net Assets

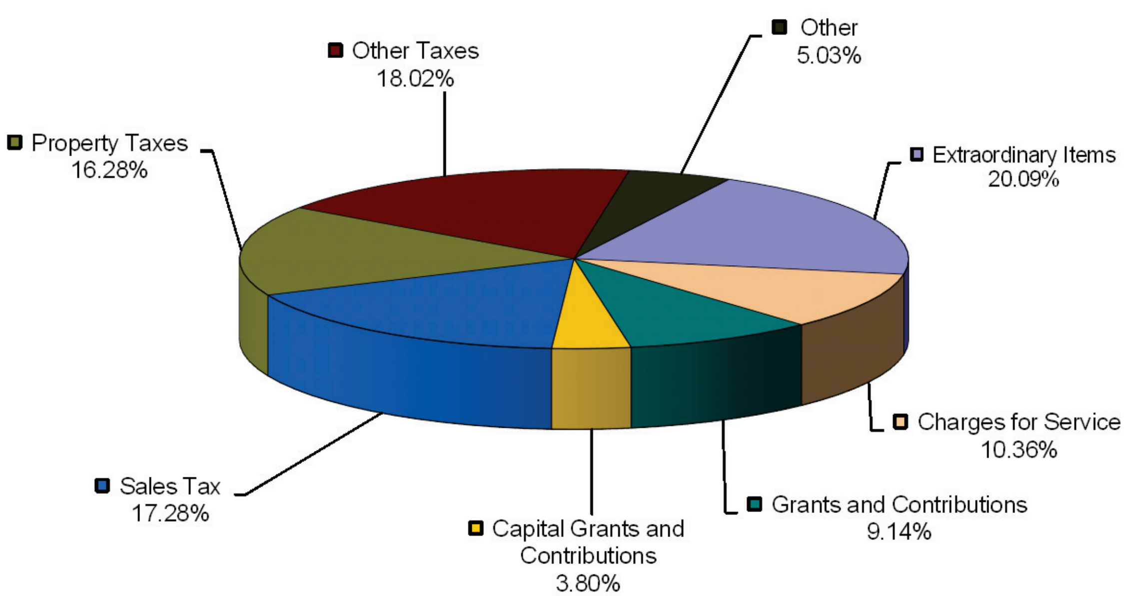
(Amounts expressed in thousands)

| | Governmental activities | | Business-type activities | | Total | |
|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | $ 15,304 | $ 14,645 | $ 68,829 | $ 65,470 | $ 84,133 | $ 80,115 |
| Operating grants and contributions | 13,503 | 12,989 | | | 13,503 | 12,989 |
| Capital grants and contributions | 5,608 | 10,550 | 2,156 | 8,922 | 7,764 | 19,472 |
| General revenues: | | | | | | |
| Sales tax | 25,532 | 20,820 | | | 25,532 | 20,820 |
| Property taxes | 24,060 | 28,168 | | | 24,060 | 28,168 |
| Other taxes | 26,635 | 25,684 | | | 26,635 | 25,684 |
| Other | 7,412 | 5,936 | 2,001 | 1,906 | 9,413 | 7,842 |
| Total revenues | 118,054 | 118,792 | 72,986 | 76,298 | 191,040 | 195,090 |
| Expenses: | | | | | | |
| General government | 7,924 | 8,163 | | | 7,924 | 8,163 |
| Public safety | 60,467 | 56,171 | | | 60,467 | 56,171 |
| Community services | 14,428 | 13,936 | | | 14,428 | 13,936 |
| Public works | 23,509 | 30,251 | | | 23,509 | 30,251 |
| Community development | 6,765 | 9,909 | | | 6,765 | 9,909 |
| Interest and fiscal charges | 5,946 | 7,459 | | | 5,946 | 7,459 |
| Water | | | 43,538 | 37,364 | 43,538 | 37,364 |
| Wastewater | | | 23,996 | 23,834 | 23,996 | 23,834 |
| Total expenses | 119,039 | 125,889 | 67,534 | 61,198 | 186,573 | 187,087 |
| Extraordinary gain on dissolution of Community Development Commission | 29,694 | | | | 29,694 | |
| Extraordinary loss on spill | | | (1,114) | | (1,114) | |
| Increase in net assets before transfers | 28,709 | (7,097) | 4,338 | 15,100 | 33,047 | 8,003 |
| Transfers | 25 | 1,249 | (25) | (1,249) | | |
| Increase in net assets | 28,734 | (5,848) | 4,313 | 13,851 | 33,047 | 8,003 |
| Net assets – July 1 | 349,396 | 355,244 | 190,626 | 176,775 | 540,022 | 532,019 |
| Net assets – June 30 | $ 378,130 | $ 349,396 | $ 194,939 | $ 190,626 | $ 573,069 | $ 540,022 |

### Expenses and Program Revenues – Governmental Activities (expressed in thousands of dollars)




### Revenues by Source – Governmental Activities



**Governmental activities.** Governmental activities increased the City's net assets by $28,734,140.

Total governmental revenues decreased by $.7 million or .6 percent during the current fiscal year to reach total revenues of $118 million. Key elements of this change are as follows:

- Sales tax revenue increased by $4.7 million, or 22.6 percent compared to the prior year. Of this amount $2.6 million was the result of improvement in business sales activity in the City with gains in every economic segment with the largest gains in new auto sales and service stations. In addition, Transnet allocations that are funded by a one half-cent sales tax and can only be used for transportation projects were up $2.1 million compared to the prior year.
- Property tax revenue, including redevelopment property tax increment net of Agency tax sharing agreement payments, decreased by $4.1 million in the current fiscal year or by about 14.5 percent. This was mainly due to a decrease in property tax increment of $5.6 million that occurred as a result of the dissolution of the Escondido Redevelopment Agency. Only seven months of the property tax increment, instead of the usual twelve months, are accounted for in the governmental activities. This decrease was offset by an increase of $1.5 from a residual tax payment made to local affected taxing entities by the County of San Diego from the Redevelopment Property Tax Trust Fund.
- Other tax revenue increased by $1 million, or 3.7 percent, and is composed of increases in property tax in lieu of sales tax, property tax in lieu of vehicle license fees (VLF), franchise fees, transient occupancy tax, and business licenses. These increases are offset by decreases in the property transfer tax and the in-lieu franchise tax. The in-lieu franchise tax is down about $261,000 mostly due to a decrease in taxes collected from SDG&E based on lower natural gas prices on gas transported to the Palomar Energy Plant. On the positive side, property tax in lieu of sales tax increased by about $868,000 due to increased sales tax collected on new auto sales. In addition, transient occupancy tax was up $178,000 reflecting higher occupancy rates.
- Other revenue increased by $1.5 million, or 24.8 percent, compared to last year primarily due to new lease agreements with tenants on City owned property and sales proceeds from the sale of City property.
- Overall charges for services increased by $.7 million, or 4.5 percent, reflecting the following:
    - General government charges for services increased by $.4 million due to a new mandated cost claim filed with the state for identity theft.
    - Public safety charges for services increased by $.1 million primarily due to an increase in the amount collected for fire services in the Rincon Fire District which is up about $.3 million. This increase was offset by a decrease of about $.2 million from red light camera fines, impound fees and parking ticket fines.
    - Community services charges for services increased by $.3 million mainly due to increased revenue collected on recreation programs as a result of increases in user fees and increased attendance.
    - Public works charges for services increased by $.2 million due to an increase in special assessments collected from landscape maintenance districts and increases in the utility underground waiver fees collected from developers.

  - Community development charges for services decreased by $0.3 million due to a decline in the number of building permits issued during the year compared to the prior year.

- Operating grants and contributions increased by $.5 million, or 4 percent, reflecting the following:
  - Public safety operating grants and contributions increased by $.4 million. This was partially due to increased federal grant funding from the Urban Area Security Initiative Grant Program to purchase an armored vehicle that will enhance regional homeland security efforts. The City also received additional federal grant funding from the California Emergency Management Agency that will enhance law enforcement preparedness and operational readiness in support of the U.S. Department of Homeland Security to improve border security.
  - Community services operating grants and contributions decreased only slightly compared to the prior year however, grant revenue by program had some large variances. CDBG block grant revenue was down about $.5 million largely due to the federal government's efforts to decrease the deficit. Federal grant funding was $.6 million less than the prior year due to less grant funding of the Homeless Prevention and Rapid Re-Housing Program and the Energy Efficiency Block Grant Program. These decreases were offset by an increase in HOME grant funds of $1.1 million which was primarily used to loan funds to Community Housing Works for redevelopment of properties for affordable housing purposes for the El Norte project.
  - Public works operating grants and contributions increased by $.4 million due to the State swap of sales tax on gasoline for a gasoline excise tax. This increase was due to a problem with the State Controller's allocations in fiscal year 2011/12 in which they allocated more money to cities and counties and did not fully backfill state transportation programs.

- Capital grants and contributions decreased by $4.9 million, or 46.8 percent, compared to the prior year. This was mainly the result of large developer contributions in the prior year totaling $6.4 million for streets, signalized lights and storm drains with the completion of the Eureka Springs housing development and CarMax Superstores. In the current year, developer contributions were only $1.4 million for streets, signalized lights and storm drains from the completion of the Lexus car dealership and the Crossings housing project. State grants for capital purchases were up by $.5 million mainly due to increased funding from a Transportation Development Act grant that was used to design and plan a bike path crossing on Ash Street. Federal grants for capital purchases were down about $.4 million due to less funding from the Department of Transportation for the Highway 78 bridge widening at Nordahl Road.

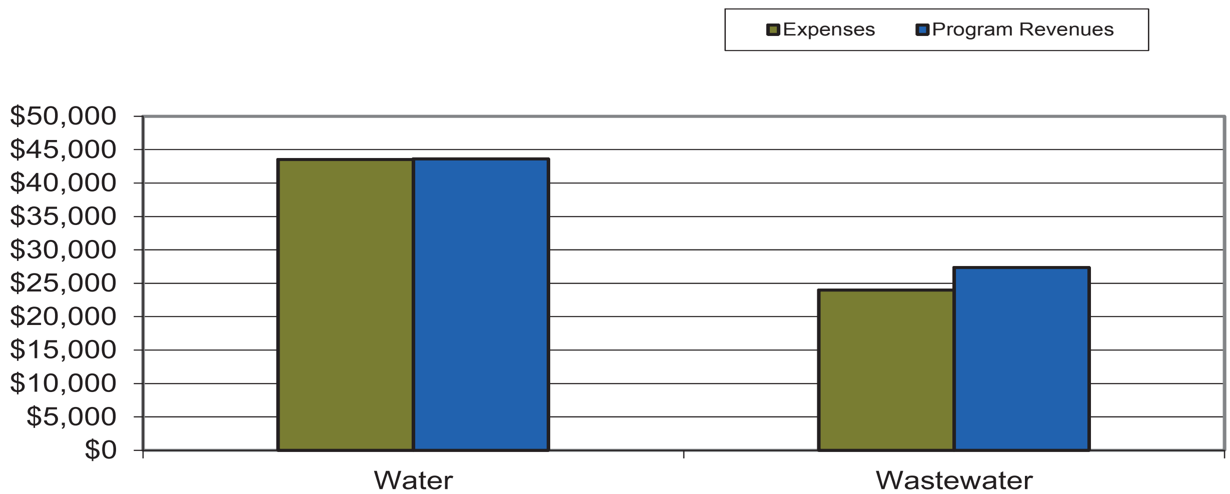
Governmental activities expenses decreased by $6.8 million, or 5.4 percent, in fiscal year 2012. Details of these expenses include:

- Public safety expenses increased by $4.3 million, or 7.6 percent, compared to the prior year. This was mainly due to an increase in the allocation of internal service fund expenses of $2.9 million that resulted from increased estimated losses for general self-insurance and workers' compensation liabilities. Public Safety expenses also increased by $1 million due to increased overtime paid to firefighters and increased public safety employee overhead expenses.

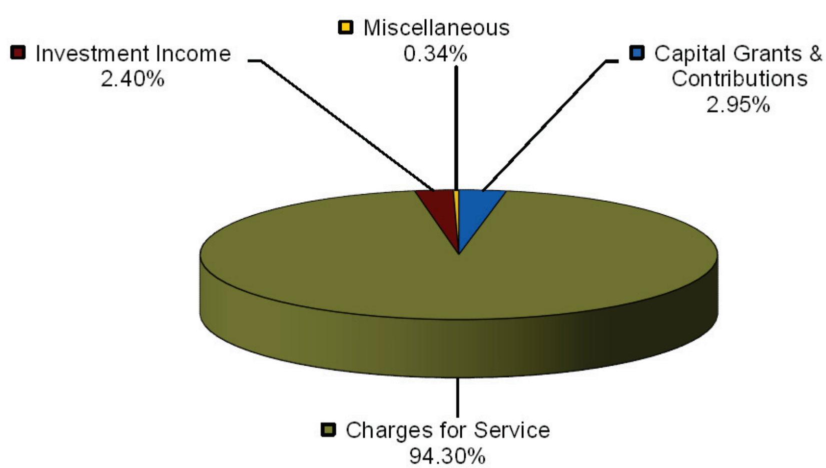
- Community service expenses increased by $.5 million, or 3.5 percent, compared to the prior year. This change was mainly due to an increase in the allocation of internal service fund expenses that resulted from increased estimated losses for general self-insurance and workers' compensation liabilities.
- Public works expenses decreased by $6.7 million, or 22.3 percent, primarily due to less spending on street maintenance projects of $6 million that were funded and paid for in the prior year by gas taxes, the California Department of Transportation Traffic Congestion Relief grant, the American Recovery and Reinvestment Act (ARRA) federal grant, and Transnet funds.
- Community development expenses decreased by $3.1 million, or 31.7 percent, compared to the prior year. This was largely due to decreased development costs of $1.3 million for utility undergrounding and landscaping costs paid in the prior year for the Eureka Ranch Community Facility District. In addition, redevelopment administrative expenses were reduced by $.6 million due to the dissolution of the Escondido Redevelopment Agency. Spending on Community Development Block grants programs also decreased by $.3 million
- Interest and fiscal charges decreased by $1.5 million primarily due to the dissolution of the Escondido Redevelopment Agency with interest and fiscal charges of $1.3 million now reported by the Successor Agency.

Governmental activities reported an extraordinary gain of $29.7 million due to the dissolution of the Escondido Redevelopment Agency. The movement of assets and liabilities from the Escondido Redevelopment Agency to the Escondido Successor Agency resulted in the extraordinary gain in the governmental funds and the extraordinary loss in the fiduciary funds.

## Expenses and Program Revenues – Business-type Activities (expressed in thousands of dollars)




## Revenues by Source – Business-type Activities



**Business-type activities.** Business-type activities increased the City's net assets by $4,313,106. Key elements of this increase are as follows:

- Charges for services increased by $3.3 million or 5.1 percent largely due to rate increases that went into effect in the current year and resulted in increased charges for services to the water fund of $5.1 million. This amount was offset by a decrease of $1.7 million in wastewater service charges. This occurred when residential customers went from a flat fee to a flow based calculation. This change was made so the rates better reflect the cost of services to customers but resulted in a decline in revenue.
- Total expenses increased by $6.3 million or 10.3 percent mainly due to an increase in purchased water costs of $5.3 million which occurred because the cost to purchase water from San Diego County Water Authority went up about 7.5% during the year. In addition, interest and fiscal charges on debt service increase by $.5 million.
- Capital contributions decreased by $6.8 million which was mainly the result of large developer contributions in the prior year totaling $8.9 million for water and sewer lines contributed to the City with the completion of the Eureka Springs housing development and CarMax Superstores. In the current year developer contributions were only $2.2 million for water and sewer lines contributed after the completion of the Lexus car dealership and the Crossings housing project.

## 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 $132,036,124, an increase of $19,529,515 in comparison with the prior year. Of this amount, 47 percent or $63,163,138 represents advances, loans receivable, land held for resale and other non-spendable assets that are not expected to be converted to cash until future periods. Approximately 23percent of this total amount or $30,695,122 is not available for new spending because it is legally restricted by external third parties. In addition, $38,446,458 or 29 percent of ending fund balance has either been committed by the City Council to be spent for specific purposes or has been assigned by the Finance Director to meet specific expenditures in subsequent years. The remaining unassigned fund balance of $(268,594) is negative as a result of non-major special revenue funds reporting a deficit fund balance and is expected to be eliminated with future revenues from reimbursements and transfers.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, committed fund balance of the General Fund includes $23,284,660 in Emergency Reserves available to fund one-time unanticipated expenditures and another $8,653,584 for Economic Development to fund capital projects that spur economic growth, while total fund balance is $38,724,193**.** As a measure of the General Fund's liquidity, it may be useful to compare both Emergency Reserve fund balance and total fund balance to total fund expenditures. The Emergency Reserve fund balance represents 31.7 percent of total General Fund expenditures, while total fund balance represents 52.8 percent of that same amount.

During the current fiscal year, the fund balance of the City's General Fund increased by $3,800,077 resulting in a 10.8 percent increase in fund balance for the fiscal year. The increase in fund balance is mainly due to one-time revenue of $1.5 million received from a residual tax payment made to local affected taxing entities by the County of San Diego from the Redevelopment Property Tax Trust Fund. The General Fund also received additional one-time funding from transfers in of $2.1 million from the Recycling Fund and the Daley Ranch Fund. In addition, General Fund expenditures were $.7 million under budget.

With the dissolution of the former Community Development Commission (CDC), the Successor Agency Housing Special Revenue Fund was established to account for the housing activities as of January 31, 2012 through the end of the year. The increase in fund balance of $45 million was mainly due to the extraordinary gain on the transfer of all assets and liabilities of the Low and Moderate Income Housing Fund to the Successor Agency Housing Fund with the dissolution of the CDC.

The Community Development Commission (CDC) Debt Service Fund accounted for the final seven months of activity of the Escondido Redevelopment Agency. After the date of dissolution, the assets and liabilities of the dissolved redevelopment agency were reported in a fiduciary fund (private-purpose trust fund). Additional information on dissolution of the redevelopment agency can be found on pages 96-101 of this report.

***Proprietary funds***. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. At the end of the current fiscal year, the unrestricted net assets of the Water and Wastewater Fund amounted to $15,030,410, and $40,504,681 respectively**.** The total growth in net assets was the result of an increase of $560,246 in the Water Fund and $4,429,871 in the Wastewater Fund. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City's business-type activities.

## General Fund Budgetary Highlights

The original general fund operating budget approved by Council was balanced with no use of reserves or significant one time transfers in from other funds. This was achieved with estimated revenues and transfers in of $74.3 million and estimated expenditures and transfers out of $74.1 million.

A comparison of the original general fund budgeted revenue of $72.1 million to the final general fund budgeted revenue of $73.3 results in a net increase in budgeted revenue of $1.2 million. This increase was due to a mid-year budget adjustment that increased revenue estimates by $.9 million mainly as a result of improved sales tax receipts.

Differences between the original and the final budgeted revenues can be briefly summarized as follows:

| | |
|---|---|
| $ 1,482,005 | in increases in sales taxes |
| 353,000 | in decreases in other taxes |
| 362,000 | in decreases to fines and forfeits |
| 174,450 | in decreases to intergovernmental revenue |
| 51,000 | in increases in charges for services |
| 583,550 | in increases in other miscellaneous revenue |

Comparison of the fiscal year original general fund budgeted expenditures of $73.7 million to the final general fund budgeted expenditures of $74.1 million results in a net increase in budgeted expenditures of $380,194.

Differences between the original and the final budgeted expenditures can be briefly summarized as follows:

| | |
|---|---|
| $ 216,124 | in increases in general government activities |
| 287,005 | in increases allocated to the police department |
| 179,390 | in increases allocated to the fire department |
| 266,740 | in decreases allocated for public works |
| 6,435 | in decreases in community services |
| 29,150 | in decreases in community development activities |

Actual General Fund revenues were $1,030,721 more than final budgeted amounts and expenditures were $751,355 less than final budgeted amounts. The General Fund also received additional one-time funding from transfers in of $2,136,703 from the Recycling Fund and the Daley Ranch Fund that had not been budgeted. The General Fund ended the fiscal year with $4 million in savings that was added to the Reserve balance to bring it to $23.3 million.

## Capital Asset and Debt Administration

**Capital assets**. As of June 30, 2012, the City's investments in capital assets for its governmental and business-type activities are $540,386,887, (net of accumulated depreciation). This investment in capital assets includes land, buildings, land improvements, machinery and equipment, motorized vehicles, park facilities, roads, bridges, water and wastewater systems, and a golf course. The total decrease in the City's investment in capital assets for the current fiscal year is 8.5 percent; this represents a 13.6 percent decrease for governmental activities and a .8 percent decrease for business-type activities.

**Governmental Activities.** Major capital asset events for governmental activities during the current fiscal year included the following:

In February 2011, the former Escondido Redevelopment Agency transferred capital assets of $39.3 million to the Successor Agency due to the dissolution of the agency. Land of $2.7 million and buildings net of accumulated depreciation of $36.6 were transferred along with land improvements and equipment that was fully depreciated.

Construction in progress decreased by $6.6 million due to the completion of the following major capital projects: Escondido Creek Pedestrian Undercrossing at Ash Street; widening of Citracado Parkway from Don Lee Place to Vineyard Avenue, widening Felicita Avenue from Escondido Boulevard to Juniper Street, and the completion of the Sports Center Office Expansion project. Total deletions to construction in progress were offset by additions of $8.4 million during the current year. The largest projects that contributed to this increase were the Maple Street Pedestrian Plaza, Fire Station #4 Reconstruction, Tulip Street Improvements, and Daley Ranch House improvements.

Infrastructure and land improvements increased by $1.4 million. These increases came from developer contributions of streets, signalized lights and storm drains from the completion of the Lexus car dealership, the Crossings housing project and the Juniper Senior Village.

**Business-type Activities.** Major capital asset events for business-type activities during the current fiscal year included the following.

Construction in progress decreased by $10.2 million due to the completion of the following major capital projects: replacement of Reed Reservoir, construction of a new lift station on El Norte Parkway, and rehabilitation of two secondary clarifiers at the wastewater treatment plant. Total deletions to construction in progress were offset by additions of $4.7 million during the current year. The largest projects that contributed to this increase were the water treatment plant Onsite Chlorine Generation, replacement of Reed Reservoir, water line replacements, and rehabilitation of wastewater treatment plant secondary clarifiers.

Developers contributed water and sewer lines of $1.4 million with the completion of the Lexus car dealership, the Crossing housing project and the Juniper Senior Village.

**City of Escondido's Capital Assets**
(net of depreciation / in thousands)

| | Governmental activities | | Business-type activities | | Total | |
|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Land | $ 51,969 | $ 54,810 | $ 1,806 | $ 1,806 | $ 53,775 | $ 56,616 |
| Buildings and systems | 102,261 | 143,221 | 7,675 | 8,263 | 109,936 | 151,484 |
| Improvements other than buildings | 19,129 | 19,813 | 793 | 507 | 19,922 | 20,320 |
| Machinery and equipment | 6,516 | 6,490 | 2,582 | 399 | 9,098 | 6,889 |
| Infrastructure | 112,376 | 118,028 | 215,560 | 213,818 | 327,936 | 331,846 |
| Construction in progress | 15,752 | 14,082 | 3,968 | 9,486 | 19,720 | 23,568 |
| Total | $ 308,003 | $ 356,444 | $ 232,384 | $ 234,279 | $ 540,387 | $ 590,723 |

Additional information on the City's capital assets can be found in the notes on pages 73-75 of this report.

**Long-term debt**. At the end of the current fiscal year, the City has total bonded debt outstanding of $202,825,000. The City debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds or lease obligations).

**City of Escondido's Outstanding Debt**
Certificates, Lease Revenue and Revenue Bonds

| | Governmental activities | | Business-type activities | | Total | |
|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Certificates of participation | $ 1,790 | $ 2,295 | $ 59,370 | $ 80,095 | $ 61,160 | $ 82,390 |
| Revenue bonds | | | 59,050 | | 59,050 | |
| Lease revenue bonds | 5,320 | 56,000 | | | 5,320 | 56,000 |
| Tax allocation bonds | | 4,034 | | | | 4,034 |
| GO bonds | 77,295 | 78,860 | | | 77,295 | 78,860 |
| Total | $ 84,405 | $ 141,189 | $ 118,420 | $ 84,450 | $ 202,825 | $ 221,284 |

Significant changes to the City's outstanding debt during the current fiscal year include the following:

A significant change in outstanding debt for governmental activities occurred in February 2012 when the former Escondido Redevelopment Agency transferred tax allocation bonds and lease revenue bonds of $46.4 million to the Successor Agency due to the dissolution of the agency.

Outstanding debt for business-type activities changed significantly with the issuance of $59 million in revenue bonds that were used to partially refund $18.4 million of certificates of participation and also fund future capital projects.

Additional information on the City's long-term debt can be found in the notes on pages 78-87 of this report.

## Economic Factors and Next Year's Budgets and Rates

The unemployment rate for the City as of June 2012 was 9.6 percent, which is a decrease from a rate of 10.6 percent a year ago, and it continues to show a downward trend. Taxable sales increased from the previous year by about $2.6 million or 10.4% so the economy is on the mend. Overall, the City's General Fund revenue was up 4.7% over the prior year if you exclude one-time revenue of $1.5 million received from the Redevelopment Property Tax Trust Fund.

The fiscal year 2012-13 General Fund operating budget has been balanced without relying on the use of reserves for the second year in a row. This is the result of an improving economy and the City Council's prudent fiscal policies. General Fund revenues were estimated to go up by 4% and expenditures were increased by 4.2% compared to the previous year. Although the City still faces challenges due to a fluctuating economy, there are certainly signs that it is proceeding in the right direction.

## 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 City of Escondido, Finance Department, 201 North Broadway, Escondido, CA 92025.


Escondido Creek

# Basic Financial Statements

# CITY OF ESCONDIDO
## Statement of Net Assets
## June 30, 2012

| | Primary Government | | | Component Unit |
|---|---|---|---|---|
| | Governmental Activities | Business-type Activities | Total June 30, 2012 | California Center for the Arts, Escondido Foundation June 30, 2011 |
| Assets | | | | |
| Cash and investments | $ 92,403,463 | $ 45,823,899 | $ 138,227,362 | $ 1,267,002 |
| Cash and investments with fiscal agent | 1,949,838 | 62,137,022 | 64,086,860 | |
| Receivables, net of allowances | 77,342,177 | 12,433,901 | 89,776,078 | 330,899 |
| Internal balances | (5,144,768) | 5,144,768 | | |
| Due from other governments | 22,265,828 | | 22,265,828 | |
| Inventory, at cost | 361,999 | | 361,999 | 24,684 |
| Prepaid expenses | 322,813 | | 322,813 | 57,815 |
| Deposits | 65,910 | | 65,910 | |
| Deferred bond issuance costs | 748,913 | 1,397,790 | 2,146,703 | |
| Land held for resale | 3,602,619 | 104,573 | 3,707,192 | |
| Assets held in charitable remainder | | | | 87,503 |
| Capital assets: | | | | |
| Not being depreciated | 76,894,635 | 5,773,536 | 82,668,171 | |
| Being depreciated, net | 231,108,529 | 226,610,187 | 457,718,716 | 28,329 |
| Total Assets | 501,921,956 | 359,425,676 | 861,347,632 | 1,796,232 |
| Liabilities | | | | |
| Payables: | | | | |
| Accounts | 4,157,850 | 3,757,323 | 7,915,173 | 193,294 |
| Retentions | 829,216 | 28,571 | 857,787 | |
| Interest | 1,336,998 | 1,561,727 | 2,898,725 | |
| Deposits | 2,013,941 | 428,202 | 2,442,143 | |
| Accrued expenses | 1,365,980 | 191,369 | 1,557,349 | 74,160 |
| Due to other governments | 469,988 | | 469,988 | |
| Unearned revenue | 47,446 | | 47,446 | 275,503 |
| Noncurrent liabilities: | | | | |
| Payables due within one year: | | | | |
| Employee leave benefits | 730,540 | 118,139 | 848,679 | |
| Claims | 3,047,211 | | 3,047,211 | |
| Loans | 103,647 | 2,129,731 | 2,233,378 | |
| Bonds | 1,745,000 | 415,000 | 2,160,000 | |
| Certificates of participation | 550,000 | 2,030,000 | 2,580,000 | |
| Payables due in more than one year: | | | | |
| Connection rights | | 13,657,015 | 13,657,015 | |
| Employee leave benefits | 6,088,714 | 1,063,251 | 7,151,965 | 55,183 |
| Claims | 12,188,846 | | 12,188,846 | |
| Loans | 6,294,926 | 22,585,446 | 28,880,372 | |
| Bonds, net | 81,581,855 | 60,976,079 | 142,557,934 | |
| Certificates of participation | 1,240,000 | 55,544,561 | 56,784,561 | |
| Total Liabilities | 123,792,158 | 164,486,414 | 288,278,572 | 598,140 |

See Accompanying Notes to Basic Financial Statements.

# CITY OF ESCONDIDO
## Statement of Net Assets (Continued)
## June 30, 2012

| | Primary Government | | | Component Unit |
|---|---|---|---|---|
| | Governmental Activities | Business-type Activities | Total June 30, 2012 | California Center for the Arts, Escondido Foundation June 30, 2011 |
| Net Assets | | | | |
| Invested in capital assets, net of related debt | 225,296,741 | 138,580,703 | 363,877,444 | 28,329 |
| Restricted for: | | | | |
| Community services | | | | |
| Expendable | 1,290,885 | | 1,290,885 | |
| Nonexpendable | 212,918 | | 212,918 | 35,276 |
| Debt service | 7,809,169 | | 7,809,169 | |
| Capital projects | 4,998,062 | | 4,998,062 | |
| General government | 1,091,032 | | 1,091,032 | |
| Low and moderate income housing | 66,931,107 | | 66,931,107 | |
| Public safety | 3,158,098 | | 3,158,098 | |
| Public works | 13,479,214 | | 13,479,214 | |
| Unrestricted | 53,862,572 | 56,358,559 | 110,221,131 | 1,134,487 |
| Total Net Assets | $ 378,129,798 | $ 194,939,262 | $ 573,069,060 | $ 1,198,092 |

# CITY OF ESCONDIDO
## Statement of Activities
## For the Year Ended June 30, 2012

| Functions/Programs | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions | Program Revenues: Capital Grants and Contributions |
|---|---|---|---|---|
| Primary Government | | | | |
| Governmental activities: | | | | |
| General government | $ 7,923,896 | $ 735,395 | $ 687,382 | $ 115,147 |
| Public safety | 60,467,057 | 8,429,675 | 2,842,582 | 309,222 |
| Community services | 14,428,323 | 4,158,173 | 5,764,246 | 154,449 |
| Public works | 23,508,515 | 1,160,643 | 4,209,447 | 5,029,246 |
| Community development | 6,765,185 | 820,337 | | |
| Interest and fiscal charges | 5,946,168 | | | |
| Total Governmental Activities | 119,039,144 | 15,304,223 | 13,503,657 | 5,608,064 |
| Business-type activities: | | | | |
| Water | 43,537,887 | 42,398,099 | | 1,217,843 |
| Wastewater | 23,995,887 | 26,430,851 | | 937,816 |
| Total Business-type Activities | 67,533,774 | 68,828,950 | | 2,155,659 |
| Total Primary Government | $ 186,572,918 | $ 84,133,173 | $ 13,503,657 | $ 7,763,723 |
| Component Unit: | | | | |
| California Center for the Arts, Escondido Foundation | $ 7,902,817 | $ 2,126,160 | $ 5,724,875 | $ |

General Revenues
- Taxes:
  - Sales tax
  - Property tax
  - Property tax in lieu of sales tax
  - Property tax in lieu of VLF tax
  - Property transfer tax
  - Franchise tax
  - Franchise tax in lieu
  - Transient occupancy tax
  - Business license tax
  - Transfer station tax
  - Refuse collection tax
- Intergovernmental, unrestricted
- Investment and rental income
- Sale of capital assets
- Miscellaneous

Transfers

Extraordinary loss on chemical tank spill

Extraordinary gain/(loss) on dissolution of redevelopment agency (Note 17)

Total General Revenues, Transfers, and Extraordinary Items

Change in Net Assets

Net Assets - Beginning of Year

Restatements

Net Assets - Beginning of Year, as restated

Net Assets - End of Year

See Accompanying Notes to Basic Financial Statements.

| Net (Expense) Revenue and Changes in Net Assets | | | |
|---|---|---|---|
| Primary Government | | | Component Unit |
| Governmental Activities | Business-type Activities | Total June 30, 2012 | California Center for the Arts, Escondido Foundation June 30, 2011 |
| $ (6,385,972) | $ | $ (6,385,972) | $ |
| (48,885,578) | | (48,885,578) | |
| (4,351,455) | | (4,351,455) | |
| (13,109,179) | | (13,109,179) | |
| (5,944,848) | | (5,944,848) | |
| (5,946,168) | | (5,946,168) | |
| (84,623,200) | | (84,623,200) | |
| | 78,055 | 78,055 | |
| | 3,372,780 | 3,372,780 | |
| | 3,450,835 | 3,450,835 | |
| (84,623,200) | 3,450,835 | (81,172,365) | |
| $ | $ | $ | $ (51,782) |
| 25,532,055 | | 25,532,055 | |
| 24,060,363 | | 24,060,363 | |
| 7,082,436 | | 7,082,436 | |
| 10,396,854 | | 10,396,854 | |
| 318,924 | | 318,924 | |
| 4,563,576 | | 4,563,576 | |
| 866,507 | | 866,507 | |
| 1,203,157 | | 1,203,157 | |
| 1,475,163 | | 1,475,163 | |
| 662,075 | | 662,075 | |
| 66,206 | | 66,206 | |
| 377,421 | | 377,421 | |
| 5,885,611 | 1,750,475 | 7,636,086 | |
| 399,819 | | 399,819 | 193,778 |
| 748,181 | 250,862 | 999,043 | 202,863 |
| 25,000 | (25,000) | | |
| | (1,114,066) | (1,114,066) | |
| 29,693,992 | | 29,693,992 | |
| 113,357,340 | 862,271 | 114,219,611 | 396,641 |
| 28,734,140 | 4,313,106 | 33,047,246 | 344,859 |
| 349,395,658 | 190,626,156 | 540,021,814 | 772,045 |
| | | | 81,188 |
| 349,395,658 | 190,626,156 | 540,021,814 | 853,233 |
| $ 378,129,798 | $ 194,939,262 | $ 573,069,060 | $ 1,198,092 |

**CITY OF ESCONDIDO**
**Balance Sheet**
**Governmental Funds**
**June 30, 2012**

| | | General | | Special Revenue<br>Successor Agency Housing |
|---|---|---|---|---|
| Assets | | | | |
| Cash and investments | $ | 31,790,494 | $ | |
| Cash and investments with fiscal agent | | | | |
| Receivables (net): | | | | |
| Accounts | | 5,224,649 | | |
| Interest | | 199,926 | | 4,718,674 |
| Taxes | | 8,140,945 | | |
| Loans | | 74,041 | | 39,325,168 |
| Loans to Successor Agency | | 14,730,801 | | 3,399,292 |
| Due from: | | | | |
| Other funds | | 1,584,835 | | |
| Other governments | | 52,896 | | |
| Inventory, at cost | | | | |
| Prepaid expenditures | | | | |
| Deposits | | 26,250 | | |
| Land held for resale, at cost | | | | 2,600,477 |
| Advances to other funds | | 159,250 | | |
| Total Assets | $ | 61,984,087 | $ | 50,043,611 |

See Accompanying Notes to Basic Financial Statements.

| Debt Service<br>Community Development Commission | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---|---|
| $ | $ 34,173,163 | $ 65,963,657 |
| | 1,949,838 | 1,949,838 |
| | | |
| | 542,699 | 5,767,348 |
| | 3,047,952 | 7,966,552 |
| | 30,660 | 8,171,605 |
| | 15,827,036 | 55,226,245 |
| | | 18,130,093 |
| | | |
| | | 1,584,835 |
| | 4,082,839 | 4,135,735 |
| | 12,058 | 12,058 |
| | 10,213 | 10,213 |
| | 39,660 | 65,910 |
| | 1,002,142 | 3,602,619 |
| | 750,000 | 909,250 |
| $ | $ 61,468,260 | $ 173,495,958 |

# CITY OF ESCONDIDO
## Balance Sheet
## Governmental Funds (Continued)
## June 30, 2012

| | | | | |
|---|---|---|---|---|
| | | | Special Revenue | |
| | General | | Successor Agency Housing | |
| Liabilities and Fund Balances | | | | |
| Liabilities: | | | | |
| Payables: | | | | |
| Accounts | $ | 1,824,760 | $ | 10,354 |
| Deposits | | 314,480 | | |
| Retentions | | | | |
| Accrued expenditures | | 1,179,956 | | 4,372 |
| Due to other funds | | | | 314,499 |
| Due to other governments | | | | |
| Deferred revenue | | 15,400,698 | | 4,710,402 |
| Advances from other funds | | 4,540,000 | | |
| Total Liabilities | | 23,259,894 | | 5,039,627 |
| Fund Balances: | | | | |
| Nonspendable | | 5,180,347 | | 40,614,535 |
| Restricted for | | | | 4,389,449 |
| Committed to | | 31,938,244 | | |
| Assigned to | | 852,481 | | |
| Unassigned | | 753,121 | | |
| Total Fund Balances | | 38,724,193 | | 45,003,984 |
| Total Liabilities and Fund Balances | $ | 61,984,087 | $ | 50,043,611 |

See Accompanying Notes to Basic Financial Statements.

| Debt Service Community Development Commission | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---|---|
| $ | $ 1,848,676 | $ 3,683,790 |
| | 1,699,461 | 2,013,941 |
| | 829,216 | 829,216 |
| | 93,713 | 1,278,041 |
| | 1,270,336 | 1,584,835 |
| | 469,988 | 469,988 |
| | 6,258,373 | 26,369,473 |
| | 690,550 | 5,230,550 |
| | 13,160,313 | 41,459,834 |
| | 17,368,256 | 63,163,138 |
| | 26,305,673 | 30,695,122 |
| | 5,208,585 | 37,146,829 |
| | 447,148 | 1,299,629 |
| | (1,021,715) | (268,594) |
| | 48,307,947 | 132,036,124 |
| $ | $ 61,468,260 | $ 173,495,958 |

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

| | | |
|---|---|---|
| Fund balances for governmental funds | | $ 132,036,124 |
| 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. Capital assets allocated from internal service funds are included in the internal service fund adjustment below. | | |
| Capital assets | $ 560,147,297 | |
| Ending accumulated depreciation | (256,426,131) | |
| | | 303,721,166 |
| Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. | | 26,322,030 |
| Internal service funds are used by management to charge the costs of activities involved in rendering services to departments within the City. The assets and liabilities of the internal service funds are included in the statement of net assets. | | 13,911,280 |
| Noncurrent liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. Noncurrent liabilities allocated from internal service funds are included in the internal service fund adjustment above. | | |
| Employee leave benefits | (6,654,403) | |
| Loans | (5,501,459) | |
| Bonds | (84,405,000) | |
| Bond premium | (734,430) | |
| Bond discount | 22,575 | |
| Deferred bond costs | 748,913 | |
| | | (96,523,804) |
| Interest on noncurrent liabilities is not accrued in governmental funds, but rather is recognized as an expenditure when due. | | |
| Interest payable | | (1,336,998) |
| Net assets of governmental activities | | $ 378,129,798 |

See Accompanying Notes to Basic Financial Statements.

Escondido Creek

# CITY OF ESCONDIDO
## Statement of Revenues, Expenditures, and Changes in Fund Balances
## Governmental Funds
## For the Year Ended June 30, 2012

| | General | Special Revenue<br>Successor Agency Housing |
|---|---|---|
| Revenues: | | |
| Sales tax | $ 27,753,928 | $ |
| Other taxes | 20,881,587 | |
| Licenses and permits | 821,380 | |
| Fines and forfeits | 1,640,528 | |
| Intergovernmental | 13,410,122 | |
| Charges for services | 5,518,276 | |
| Special assessments | | |
| Lease income | | 29,280 |
| Investment income | 479,015 | 242,038 |
| Miscellaneous | 3,834,415 | 9,681 |
| Total Revenues | 74,339,251 | 280,999 |
| Expenditures: | | |
| Current: | | |
| General government | 5,542,551 | |
| Public safety | 50,489,310 | |
| Public works | 9,145,268 | |
| Community services | 5,434,919 | |
| Community development | 2,720,161 | 764,978 |
| Capital outlay | 52,928 | |
| Debt service: | | |
| Principal retirements | 18,299 | |
| Interest and fiscal charges | | |
| Agency tax sharing agreement | | |
| Total Expenditures | 73,403,436 | 764,978 |
| Excess (Deficiency) of Revenues Over Expenditures | 935,815 | (483,979) |

See Accompanying Notes to Basic Financial Statements.

| Debt Service Community Development Commission | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---|---|
| $ | $ | $ 27,753,928 |
| 13,091,756 | 3,829,508 | 37,802,851 |
| | | 821,380 |
| | | 1,640,528 |
| | 14,103,206 | 27,513,328 |
| | 4,763,319 | 10,281,595 |
| | 5,892,241 | 5,892,241 |
| | 30,744 | 60,024 |
| 167 | 748,629 | 1,469,849 |
| | 588,641 | 4,432,737 |
| 13,091,923 | 29,956,288 | 117,668,461 |
| | | |
| | 864,992 | 6,407,543 |
| | 2,593,816 | 53,083,126 |
| | 3,396,907 | 12,542,175 |
| | 6,581,540 | 12,016,459 |
| 58,818 | 1,230,149 | 4,774,106 |
| | 9,100,795 | 9,153,723 |
| | | |
| 8,320,000 | 2,174,321 | 10,512,620 |
| 1,721,391 | 4,071,530 | 5,792,921 |
| 5,921,213 | | 5,921,213 |
| 16,021,422 | 30,014,050 | 120,203,886 |
| | | |
| (2,929,499) | (57,762) | (2,535,425) |

(Continued)

# CITY OF ESCONDIDO
## Statement of Revenues, Expenditures, and Changes in Fund Balances
## Governmental Funds (Continued)
## For the Year Ended June 30, 2012

| | General | Special Revenue<br>Successor Agency Housing |
|---|---|---|
| Other Financing Sources (Uses): | | |
| Loan proceeds | 172,232 | |
| Sale of capital assets | | |
| Transfers in | 4,422,708 | |
| Transfers out | (1,730,678) | |
| Total Other Financing Sources (Uses) | 2,864,262 | |
| Extraordinary gain/(loss) on dissolution of redevelopment agency (Note 17) | | 45,487,963 |
| Net Change in Fund Balance | 3,800,077 | 45,003,984 |
| Fund Balances: | | |
| Beginning of fiscal year, as originally reported | 34,924,116 | |
| Net Change in Fund Balance | 3,800,077 | 45,003,984 |
| Fund Balances at End of Year | $ 38,724,193 | $ 45,003,984 |

See Accompanying Notes to Basic Financial Statements.

| Debt Service Community Development Commission | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---|---|
| | 51,846 | 224,078 |
| | 474,819 | 474,819 |
| 285 | 3,814,205 | 8,237,198 |
| | (6,331,520) | (8,062,198) |
| 285 | (1,990,650) | 873,897 |
| 17,457,040 | (41,753,960) | 21,191,043 |
| 14,527,826 | (43,802,372) | 19,529,515 |
| (14,527,826) | 92,110,319 | 112,506,609 |
| 14,527,826 | (43,802,372) | 19,529,515 |
| $ | $ 48,307,947 | $ 132,036,124 |

## CITY OF ESCONDIDO
## Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
## For the Year Ended June 30, 2012

| | | |
|---|---|---|
| Net change in fund balances - total governmental funds: | | $ 19,529,517 |
| Amounts reported for governmental activities in the statement of activities are different because: | | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays, contributed capital assets, retirements, and capital related expenditures exceeded depreciation in the current period. Capital asset activity from internal service funds are reported in the internal service activity below. | | |
| Capital outlay | $ 9,153,723 | |
| Contributed capital assets | 1,247,838 | |
| Depreciation | (19,122,864) | |
| Disposal of capital assets | (75,000) | |
| Capital assets contributed to business-type activities | (293,189) | (9,089,492) |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | | 3,488,107 |
| Internal service funds are used by management to charge the costs of activities involved in rendering services to departments within the City. The assets and liabilities of the internal service funds are included in the statement of net assets. | | (3,669,273) |
| The issuance of long-term debt 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. | | |
| Change in employee leave benefits | (199,754) | |
| Principal retirements | 10,512,620 | |
| Proceeds from long term debt | (224,078) | |
| Capital appreciation on bonds | (129,567) | |
| Amortization of bond issuance costs, premiums/discounts | 40,495 | |
| Accrued interest | (27,384) | 9,972,332 |
| Extraordinary gains and losses relating to capital assets and long term liabilities reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds. | | |
| Capital Assets | (39,346,722) | |
| Accrued Interest | 904,036 | |
| Long-term liabilities | 46,423,303 | |
| Unamortized deferred bond issuance costs | (608,805) | |
| Unamortized bond premiums/discounts | 1,131,137 | 8,502,949 |
| Change in net assets of governmental activities | | $ 28,734,140 |

See Accompanying Notes to Basic Financial Statements.

**CITY OF ESCONDIDO**
**Statement of Net Assets**
**Proprietary Funds**
**June 30, 2012**

| | Water | Wastewater | Total | Internal Service Funds |
|---|---|---|---|---|
| Assets | | | | |
| Current Assets: | | | | |
| Cash and investments | $ 9,655,586 | $ 36,168,313 | $ 45,823,899 | $ 26,439,806 |
| Receivables (Net): | | | | |
| Accounts | 9,937,133 | 1,418,052 | 11,355,185 | 58,558 |
| Interest | 67,515 | 209,791 | 277,306 | 151,869 |
| Loans | 2,501 | 46,294 | 48,795 | |
| Inventory | | | | 349,941 |
| Deposits | | | | 312,600 |
| Total Current Assets | 19,662,735 | 37,842,450 | 57,505,185 | 27,312,774 |
| Noncurrent assets: | | | | |
| Receivables (Net): | | | | |
| Loans | | 752,615 | 752,615 | |
| Total Noncurrent Receivables | | 752,615 | 752,615 | |
| Advances to other funds | | 4,321,300 | 4,321,300 | |
| Land held for resale | 104,573 | | 104,573 | |
| Deferred bond issuance costs | 688,600 | 709,190 | 1,397,790 | |
| Restricted: | | | | |
| Cash and investments with fiscal agent | 31,521,512 | 30,615,510 | 62,137,022 | |
| Capital assets: | | | | |
| Land | 1,485,449 | 319,756 | 1,805,205 | |
| Land improvements | 609,350 | 337,125 | 946,475 | |
| Buildings | 14,849,333 | 9,631,885 | 24,481,218 | 1,137,801 |
| Water system | 118,225,742 | | 118,225,742 | |
| Electric system | 3,609,179 | | 3,609,179 | |
| Recycled water system | | 24,163,391 | 24,163,391 | |
| Sewer system | | 157,320,355 | 157,320,355 | |
| Machinery and equipment | 2,212,588 | 3,899,298 | 6,111,886 | 24,040,714 |
| Construction in progress | 1,957,386 | 2,010,945 | 3,968,331 | |
| Total Capital Assets | 142,949,027 | 197,682,755 | 340,631,782 | 25,178,515 |
| Less accumulated depreciation | (48,639,461) | (59,608,598) | (108,248,059) | (20,896,517) |
| Total Capital Assets (Net of Accumulated Depreciation) | 94,309,566 | 138,074,157 | 232,383,723 | 4,281,998 |
| Total Noncurrent Assets | 126,624,251 | 174,472,772 | 301,097,023 | 4,281,998 |
| Total Assets | 146,286,986 | 212,315,222 | 358,602,208 | 31,594,772 |

See Accompanying Notes to Basic Financial Statements.

# CITY OF ESCONDIDO
## Statement of Net Assets
## Proprietary Funds (Continued)
## June 30, 2012

| | Water | Wastewater | Total | Internal Service Funds |
|---|---|---|---|---|
| Liabilities | | | | |
| Current Liabilities: | | | | |
| Payables: | | | | |
| Accounts | 3,043,273 | 714,050 | 3,757,323 | 474,063 |
| Revenue bonds | 285,000 | 130,000 | 415,000 | |
| Certificates of participation | 505,000 | 1,525,000 | 2,030,000 | |
| Loans | 208,938 | 1,920,793 | 2,129,731 | 75,287 |
| Retentions | 28,571 | | 28,571 | |
| Accrued interest | 781,574 | 780,153 | 1,561,727 | |
| Employee leave benefits | 50,148 | 67,991 | 118,139 | 16,485 |
| Estimated claims | | | | 3,047,211 |
| Accrued expenses | 97,872 | 93,497 | 191,369 | 87,939 |
| Total Current Liabilities | 5,000,376 | 5,231,484 | 10,231,860 | 3,700,985 |
| Noncurrent Liabilities: | | | | |
| Payables: | | | | |
| Revenue bonds | 31,835,877 | 29,140,202 | 60,976,079 | |
| Certificates of participation | 28,323,382 | 27,221,179 | 55,544,561 | |
| Connection rights payable | 9,392,194 | 4,264,821 | 13,657,015 | |
| Deposits | 284,131 | 144,071 | 428,202 | |
| Employee leave benefits | 451,329 | 611,922 | 1,063,251 | 148,366 |
| Estimated claims | | | | 12,188,846 |
| Loans | 3,898,672 | 18,686,774 | 22,585,446 | 821,827 |
| Total Noncurrent Liabilities | 74,185,585 | 80,068,969 | 154,254,554 | 13,159,039 |
| Total Liabilities | 79,185,961 | 85,300,453 | 164,486,414 | 16,860,024 |
| Net Assets | | | | |
| Invested in capital assets, net of related debt | 52,070,615 | 86,510,088 | 138,580,703 | 4,289,461 |
| Unrestricted | 15,030,410 | 40,504,681 | 55,535,091 | 10,445,287 |
| Total Net Assets | $ 67,101,025 | $ 127,014,769 | $ 194,115,794 | $ 14,734,748 |
| Adjustment to reflect the consolidation of internal service fund activities to related enterprise funds | | | 823,468 | |
| Net assets of business-type activities | | | $ 194,939,262 | |

See Accompanying Notes to Basic Financial Statements.

# CITY OF ESCONDIDO
## Statement of Revenues, Expenses, and Changes in Fund Net Assets
## Proprietary Funds
## For the Year Ended June 30, 2012

| | Water | Wastewater | Total | Internal Service Funds |
|---|---|---|---|---|
| Operating Revenues: | | | | |
| Charges for services | $ 42,241,197 | $ 26,430,851 | $ 68,672,048 | $ 24,081,934 |
| Operating Expenses: | | | | |
| Personnel services | 7,309,482 | 6,713,914 | 14,023,396 | 3,763,319 |
| Purchased water | 17,405,036 | | 17,405,036 | |
| Administrative expenses | 4,314,051 | 2,289,262 | 6,603,313 | 1,703,600 |
| Benefit claims | | | | 5,289,318 |
| Supplies | 3,210,731 | 1,532,798 | 4,743,529 | 255,775 |
| Repairs and maintenance | 909,007 | 1,206,429 | 2,115,436 | 979,681 |
| Depreciation | 3,126,997 | 5,000,481 | 8,127,478 | 1,789,385 |
| Utilities | 1,800,558 | 1,972,296 | 3,772,854 | 1,138,912 |
| Fuel | | | | 1,213,071 |
| Professional services | 1,017,637 | 1,750,592 | 2,768,229 | 3,446,612 |
| Insurance premiums | 488,124 | 361,596 | 849,720 | 9,198,309 |
| Rent | 285,627 | 302,873 | 588,500 | 953 |
| Other | 468,601 | 336,209 | 804,810 | 510,780 |
| Total Operating Expenses | 40,335,851 | 21,466,450 | 61,802,301 | 29,289,715 |
| Operating Income | 1,905,346 | 4,964,401 | 6,869,747 | (5,207,781) |
| Nonoperating Revenues (Expenses): | | | | |
| Investment income | 172,473 | 704,469 | 876,942 | 364,339 |
| Rents and concessions | 873,531 | | 873,531 | |
| Interest and fiscal charges | (2,760,178) | (2,294,284) | (5,054,462) | (36,792) |
| Chemical tank spill repair cost | (1,114,066) | | (1,114,066) | |
| Intergovernmental | 3,832 | 35,571 | 39,403 | |
| Miscellaneous | 204,572 | 142,469 | 347,041 | 573,974 |
| Total Nonoperating Revenues (Expenses) | (2,619,836) | (1,411,775) | (4,031,611) | 901,521 |
| Income Before Transfers and Capital Contributions | (714,490) | 3,552,626 | 2,838,136 | (4,306,260) |

See Accompanying Notes to Basic Financial Statements.

# CITY OF ESCONDIDO
## Statement of Revenues, Expenses, and Changes in Fund Net Assets
## Proprietary Funds (Continued)
## For the Year Ended June 30, 2012

| | Water | Wastewater | Total | Internal Service Funds |
|---|---|---|---|---|
| Transfers out | | (25,000) | (25,000) | (150,000) |
| Total Transfers | | (25,000) | (25,000) | (150,000) |
| Income Before Capital Contributions | (714,490) | 3,527,626 | 2,813,136 | (4,456,260) |
| Capital Contributions: | | | | |
| Connection fees | 156,810 | 665,874 | 822,684 | |
| Developer contributions | 1,117,926 | 236,371 | 1,354,297 | 109,975 |
| Total Capital Contributions | 1,274,736 | 902,245 | 2,176,981 | 109,975 |
| Changes in Net Assets | 560,246 | 4,429,871 | 4,990,117 | (4,346,285) |
| Net Assets at Beginning of Year | 66,540,779 | 122,584,898 | 189,125,677 | 19,081,033 |
| Net Assets at End of Year | $ 67,101,025 | $ 127,014,769 | $ 194,115,794 | $ 14,734,748 |
| Change in Net Assets | | | $ 4,990,117 | |
| Adjustment to reflect the consolidation of internal service fund activities to related enterprise funds | | | (677,011) | |
| Change in net assets of business-type activities | | | $ 4,313,106 | |

See Accompanying Notes to Basic Financial Statements.

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

| | Water | Wastewater | Totals | Internal Service Funds |
|---|---|---|---|---|
| Cash Flows from Operating Activities: | | | | |
| Cash received from customers | $ 40,770,463 | $ 26,015,656 | $ 66,786,119 | $ 24,080,732 |
| Cash paid to employees for services | (7,400,706) | (6,775,703) | (14,176,409) | (5,515,932) |
| Cash paid to other suppliers of goods or services | (29,627,230) | (9,597,074) | (39,224,304) | (18,096,065) |
| Cash from rents and concessions | 873,531 | | 873,531 | |
| Cash from other sources | 207,891 | 210,739 | 418,630 | 454,941 |
| Net Cash Provided by Operating Activities | 4,823,949 | 9,853,618 | 14,677,567 | 923,676 |
| Cash Flows from Noncapital Financing Activities: | | | | |
| Operating grants received | 273,856 | | 273,856 | |
| Cash received from other funds | 4,700,903 | | 4,700,903 | |
| Nonoperating cash outflow | (2,364,066) | | (2,364,066) | |
| Cash paid to other funds | | (4,725,903) | (4,725,903) | (150,000) |
| Net Cash Provided by Noncapital Financing Activities | 2,610,693 | (4,725,903) | (2,115,210) | (150,000) |
| Cash Flows from Capital and Related Financing Activities: | | | | |
| Purchase and construction of capital assets | (2,777,782) | (2,099,700) | (4,877,482) | (1,674,833) |
| Sale of capital assets | | | | 119,033 |
| Payments on connection rights | (25,840) | (21,871) | (47,711) | |
| Cash received for connection fees | 156,810 | 665,874 | 822,684 | |
| Interest payments on certificates of participation | (2,588,989) | (1,446,366) | (4,035,355) | |
| Proceeds from bond issuance | 31,660,000 | 27,390,000 | 59,050,000 | |
| Proceeds from bond premium net of issuance costs | 1,330,796 | 1,600,196 | 2,930,992 | |
| Principal payments on certificates of participation | (19,255,000) | (1,470,000) | (20,725,000) | |
| Proceeds from loans | 277,688 | | 277,688 | 22,620 |
| Principal payments on loans | (150,998) | (1,919,092) | (2,070,090) | (71,826) |
| Interest payments on loans | (107,841) | (397,567) | (505,408) | (36,792) |
| Net Cash (Used for) Capital and Related Financing Activities | 8,518,844 | 22,301,474 | 30,820,318 | (1,641,798) |
| Cash Flows from Investing Activities: | | | | |
| Advance to other fund | | 260,000 | 260,000 | |
| Investment income received | 212,854 | 771,197 | 984,051 | 428,159 |
| Net Cash Provided by (Used for) Investing Activities | 212,854 | 1,031,197 | 1,244,051 | 428,159 |
| Net Increase in Cash and Cash Equivalents | 16,166,340 | 28,460,386 | 44,626,726 | (439,963) |
| Cash and Cash Equivalents at Beginning of Year | 25,010,758 | 38,323,437 | 63,334,195 | 26,879,769 |
| Cash and Cash Equivalents at End of Year | $ 41,177,098 | $ 66,783,823 | $ 107,960,921 | $ 26,439,806 |

See Accompanying Notes to Basic Financial Statements.

**CITY OF ESCONDIDO**
**Statement of Cash Flows**
**Proprietary Funds (Continued)**
**For the Year Ended June 30, 2012**

| | Water | Wastewater | Totals | Internal Service Funds |
|---|---|---|---|---|
| Reconciliation of Cash Equivalents to the statement of net assets: | | | | |
| Cash and investments | $ 9,655,586 | $ 36,168,313 | $ 45,823,899 | $ 26,439,806 |
| Restricted assets | 31,521,512 | 30,615,510 | 62,137,022 | |
| Cash and Cash Equivalents at the End of Year | $ 41,177,098 | $ 66,783,823 | $ 107,960,921 | $ 26,439,806 |
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities: | $ 1,905,346 | $ 4,964,401 | $ 6,869,747 | $ (5,207,781) |
| Adjustments to Reconcile Operating Income to Net Cash Provided by (Used for) Operating Activities: | | | | |
| Depreciation expense | 3,126,997 | 5,000,482 | 8,127,479 | 1,789,385 |
| Cash from rents and concessions | 873,531 | | 873,531 | |
| Cash from other sources | 208,404 | 178,040 | 386,444 | 454,942 |
| Change in Assets and Liabilities: | | | | |
| Decrease in accounts receivable | (1,515,999) | (415,195) | (1,931,194) | (1,198) |
| Decrease in inventories | | | | (6,489) |
| (Increase) decrease in loans receivable | (513) | 32,699 | 32,186 | |
| Increase (decrease) in accounts payable | 272,141 | 154,981 | 427,122 | (56,057) |
| Increase (decrease) in accrued expenses | (167,348) | (119,915) | (287,263) | (67,931) |
| (Decrease) in employee leave benefits payable | 76,125 | 58,125 | 134,250 | 257 |
| Increase in customer deposits | 45,265 | | 45,265 | |
| (Decrease) in estimated claims payable | | | | 4,018,548 |
| Total Adjustments | 2,918,603 | 4,889,217 | 7,807,820 | 6,131,457 |
| Net Cash Provided by Operating Activities | $ 4,823,949 | $ 9,853,618 | $ 14,677,567 | $ 923,676 |
| Noncash Investing, Capital and Financing Activities: | | | | |
| Contributed property, plant and equipment | $ 1,117,926 | 236,371 | $ 1,354,297 | $ 109,976 |
| Bond amortization | 62,286 | 158,924 | 221,210 | |

See Accompanying Notes to Basic Financial Statements.

# CITY OF ESCONDIDO
## Statement of Fiduciary Net Assets
## Fiduciary Funds
## June 30, 2012

| | Agency Funds | Private Purpose Trust Fund<br>Successor Agency of the Former CDC |
|---|---|---|
| Assets | | |
| Cash and investments | $ 6,888,718 | $ 5,351,295 |
| Restricted: | | |
| Cash and investments with fiscal agent | 2,123,510 | 347,641 |
| Receivables: | | |
| Interest | 10,643 | 10,711 |
| Taxes | 14,087 | |
| Deferred bond issuance costs | | 572,130 |
| Due from other governments | | 469,988 |
| Capital assets: | | |
| Not being depreciated | | 2,766,714 |
| Being depreciated, net | | 35,440,002 |
| Total Assets | $ 9,036,958 | 44,958,481 |
| Liabilities | | |
| Accounts payable | $ 95,675 | 10,720,287 |
| Deposits payable | 5,235,518 | |
| Due to bondholders | 3,705,765 | |
| Interest payable | | 723,230 |
| Long-term liabilities: | | |
| Due in one year | | 8,931,826 |
| Due in more than one year | | 57,842,344 |
| Total Liabilities | $ 9,036,958 | 78,217,687 |
| Net Assets | | |
| Held in trust for other purposes | | (33,259,206) |
| Total Net Assets | | $ (33,259,206) |

See Accompanying Notes to Basic Financial Statements.

# CITY OF ESCONDIDO
## Statement of Changes in Fiduciary Net Assets
## Fiduciary Funds
## For the Fiscal Year Ended June 30, 2012

| | Private Purpose Trust Fund<br>Successor Agency of the Former CDC |
|---|---|
| Additions | |
| Taxes | $ 5,018,229 |
| Interest and change in fair value of investments | 140,448 |
| Other contributions | 123,300 |
| Total Additions | 5,281,977 |
| Deductions | |
| Administrative expenses | 6,015 |
| Interest expense | 7,701,170 |
| Depreciation expense | 1,140,006 |
| Total Deductions | 8,847,191 |
| Extraordinary gain/(loss) on dissolution of redevelopment agency (Note 17) | (29,693,992) |
| Changes in Net Assets | (33,259,206) |
| Net Assets - Beginning of the Year | |
| Net Assets - End of the Year | $ (33,259,206) |

See Accompanying Notes to Basic Financial Statements.

## 1: Summary of Significant Accounting Policies

### A. Reporting Entity

The City of Escondido (City) was incorporated in 1888 and operates under a Council/Manager form of government. The Council is composed of five members. As required by generally accepted accounting principles, the financial statements present the government and its component units for which the government is considered financially accountable. The component units discussed below are included in the reporting entity because of their operational or financial relationships with the City.

Blended Component Units

The following blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Each blended component unit as described below has a June 30 year end with the exception of the Community Development Commission which was dissolved on January 31, 2012. See Note 17 for more information on the dissolution.

*Escondido Community Development Commission*

The Escondido Community Development Commission (Commission) was established in 1984 for the purpose of preparing and carrying out plans for improvement, rehabilitation and redevelopment of blighted areas within the territorial limits of the City. The City Council acts as the Commission's governing board and exerts significant influence over its operations. The funds of the Commission have been included in the governmental activities of the financial statements. The Commission was dissolved as of January 31, 2012 through the Supreme Court decision on Assembly Bill 1X26. See Note 17 for more information on the dissolution.

*Escondido Vehicle Parking District*

The Escondido Vehicle Parking District (District) was established in 1962 for the purpose of acquiring and improving parking lots in Escondido. The City Council acts as the District's governing board and exerts significant influence over its operations. The funds of the District have been included in the governmental activities of the financial statements. Separate financial statements are not prepared for this blended component unit.

*Escondido Joint Powers Financing Authority*

The City and Commission formed the Escondido Joint Powers Financing Authority (Authority). The Authority was established in 1991 for the purpose of providing for the financing of public capital improvements for the Members through the issuance of bonds by the Authority and the leasing of the public capital improvements to the members and/or the acquisition of obligations pursuant to which public capital improvements are financed by or for the benefit of the members.

The City Council acts as the Authority's governing board and exerts significant influence over its operations. The funds of the Authority have been included in the governmental activities of the financial statements. Separate financial statements are not prepared for this blended component unit.

## 1: Summary of Significant Accounting Policies (Continued)

Discretely Presented Component Units

*California Center for the Arts, Escondido Foundation*

The California Center for the Arts, Escondido Foundation (Foundation) was established in 1988 as a nonprofit public benefit corporation to provide a variety of visual and performing arts events, to encourage other cultural activities, and to provide a venue for local events and presentations. The Foundation has a separate governing board. It is included as a discretely presented component unit because the Foundation is financially dependent on the City for its management fee, facility and additional funding as needed based on annual operations. The Foundation is presented as of June 30, 2011, which is the most recent available information. Separate financial statements of the Foundation can be obtained at:

California Center for the Arts, Escondido Foundation
340 North Escondido Boulevard
Escondido, California 92025

### 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 nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements and eliminations have been made to minimize the double counting of internal activities. 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. 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, even though the latter 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

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the

## 1: Summary of Significant Accounting Policies (Continued)

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 imposed by the provider have been met. Fiduciary funds have no measurement focus.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when 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. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are not recognized until paid.

Property taxes, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures not paid through other funds are paid from this fund.

The Successor Agency Housing Special Revenue Fund was established to account for the housing activities of the dissolved Community Development Commission as of January 31, 2012.

The Community Development Commission Debt Service Fund was established to account for the receipt of tax increment funds received through the creation of a redevelopment project area. The funds will be used to service debts related to the project area which include advances from other funds and 1989 Tax Allocation Bonds that have been refunded by Lease Revenue Bonds. The debt was issued to provide financing for the construction of a new City Hall and Civic Center complex. The Community Development Commission was dissolved as of January 31, 2012 through Supreme Court decision on Assembly Bill 1X 26. See Note 17 for more information on the dissolution.

The City reports the following major proprietary funds:

The Water Enterprise Fund is used to account for the financial activity of the City's water utility. The costs of providing these services to the general public are financed or recovered primarily through user charges.

## 1: Summary of Significant Accounting Policies (Continued)

The Wastewater Enterprise Fund is used to account for the financial activity of the City's sewer utility. The costs of providing these services to the general public are financed or recovered primarily through user charges.

Additionally, the City reports the following non-major fund types:

Governmental Funds

The Special Revenue Funds are used to account for proceeds of specific revenue sources that are legally restricted or otherwise designated for specific purposes.

The Debt Service Funds are used to account for the accumulation of resources for and the payment of principal and interest on general long-term debt.

The Capital Projects Funds are used to account for financial resources used for the acquisition or construction of major capital facilities.

The Permanent Funds are used to account for 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.

Proprietary Funds

The Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. Costs are financed or recovered primarily through user charges. Currently both enterprise funds of the City are reported as major funds.

The Internal Service Funds are utilized to finance and account for activities involved in rendering services to departments within the City. Costs of services are accumulated in these funds and charged to user departments as such costs are incurred. Services provided by these funds include insurance, building maintenance, equipment maintenance and central services.

Fiduciary Funds

Fiduciary Fund financial statements include a statement of net assets and statement of changes in fiduciary net assets. The City’s fiduciary funds include agency and private-purpose trust funds.

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations, and therefore, do not have a measurement focus. Private-purpose trust funds are reported using the economic resources measurement focus and the accrual basis of accounting.

## 1: Summary of Significant Accounting Policies (Continued)

The City reports the following fiduciary funds which are excluded from the government-wide financial statements:

The Agency Funds are used to account for money and property held by the City as trustee or custodian. These funds include refundable deposits and also account for the collection of special assessments levied on various assessment districts for the payment of debt service on no commitment debt.

The Private-Purpose Trust Fund accounts for the assets and liabilities of the former Commission and is allocated revenue to pay estimated installment payments of enforceable obligations until obligations of the former Commission are paid in full and assets have been liquidated.

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water Enterprise Fund, the Wastewater Enterprise Fund, and of the government's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service 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 nonoperating revenues and expenses.

### D. Assets, Liabilities, and Net Assets or Equities

Cash and Investments

Investments are reported in the accompanying financial statements at fair value, except for certain certificates of deposit and investment contracts that are reported at cost because they are not transferable and they have terms that are not affected by changes in market interest rates.

## 1: Summary of Significant Accounting Policies (Continued)

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation, maturity, or sale of investments.

The City pools cash and investments of all funds, except for assets held by fiscal agents. Each fund's share in this pool is displayed in the accompanying financial statements as cash and investments. Investment income, earned by the pooled investments, is allocated to the various funds based on each fund's average cash and investment balance.

For purposes of the statement of cash flows, the City considers all highly liquid investments (including restricted assets) with maturity of three months or less when purchased to be cash equivalents. Cash invested in the City's cash management pool is also considered to be cash equivalents.

### Receivables and Payables

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

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

The amounts recorded as a receivable due from other governments include amounts collected or provided by Federal, State and County governments and not remitted to the City as of June 30, 2012.

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

The County is permitted by State Law (Proposition 13) to levy taxes at 1% of full market value (at time of purchase) and can increase the property tax value base no more than 2% per year. The City receives a share of this basic levy proportionate to what it received in the 1976 to 1978 period.

### Inventories

Inventories within the various fund types consist of fuel, supplies and equipment valued at cost, which approximates market, on the first-in, first-out basis. The costs of governmental fund type inventories are recorded as expenditures when consumed rather than when purchased.

## 1: Summary of Significant Accounting Policies (Continued)

Land Held for Resale

Land held for resale is valued at lower of cost or market. The reported amount is equally offset by nonspendable fund balance, which indicates that it does not constitute available spendable resources. The land held for resale primarily consists of lots in two mobile home parks that the City owns and is holding until sold. It is anticipated that these lots could take several years to sell.

Cash and Investments with Fiscal Agents

The City has monies held by trustees or fiscal agents pledged to the payment or security of certain bonds. The California Government Code provides that these monies, in the absence of specific statutory provisions governing the issuance of bonds, may be invested in accordance with the ordinance, resolutions or indentures specifying the types of investments its trustees or fiscal agents may make. These ordinances, resolutions and indentures are generally more restrictive than the City's investment policy.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are valued at the fair value of the assets on the date on which they were contributed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. The City utilizes a capitalization threshold of $5,000 - $10,000 depending on asset type.

Depreciation is charged to operations using the straight-line method over the estimated useful lives of the assets as follows:

| | |
|---|---|
| Land improvements | 5-40 years |
| Buildings | 30-40 years |
| Machinery and equipment | 5-30 years |
| Motorized vehicles | 5-15 years |
| Infrastructure | 30-50 years |
| Golf course | 30 years |
| Water system | 40 years |
| Electrical system | 40 years |
| Sewer system | 40 years |
| Recycled water system | 40 years |

Employee Leave Benefits

Depending upon length of employment, City employees earn 12 to 27 vacation days a year. Sick leave is accrued at the rate of 12 days per year except for Fire Safety which earns six twenty-four hour shifts. Employees can carry forward to subsequent years two to three years worth of earned but unused vacation leave benefits depending on employee group. Upon termination, the City is obligated to compensate employees for all earned but unused vacation days. The earned but

## 1: Summary of Significant Accounting Policies (Continued)

unused sick leave benefits are not payable in the event of employee termination. These benefits are considered to be contingent liabilities subject to the continuation of the employee relationship. Such sick leave benefits are therefore not recorded as liabilities in the accompanying financial statements.

In the government-wide financial statements, a liability is accrued for all earned but unused vacation leave benefits relating to the operations of the funds. This liability will be liquidated as either additional cash payments in the event of employee termination or as part of budgeted salary expenditures if used by employees as compensated leave time while still employed by the City. In the fund financial statements, governmental funds accrue current liabilities for material vacation leave benefits due on demand to governmental fund employees that have terminated prior to year-end. Non-current amounts will be recorded as fund expenditures in the year in which they are paid or become due on demand to terminated employees.

Long-Term Obligations

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

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

Claims and Judgments

The City records a liability for litigation, judgments and claims when it is probable that an asset has been impaired or a liability has been incurred prior to year-end and the probable amount of loss (net of any insurance coverage) can be reasonably estimated. This liability is recorded in the internal service funds, which account for the City's self-insurance activities.

Fund Equity

In the fund financial statements, governmental funds report nonspendable fund balance for amounts that are not available for appropriation and restricted fund balance for amounts that are legally restricted by outside parties for use for a specific purpose. The City Council adopts and amends committed fund balance amounts through a resolution. The Finance Director authorizes assigned amounts for specific purposes pursuant to the policy-making powers granted to him through a resolution adopted by City Council.

### 1: Summary of Significant Accounting Policies (Continued)

Included in the General Fund's committed fund balance, the City Council has approved an emergency reserve stabilization arrangement to be used for one-time unanticipated expenditure requirements and local disasters. At June 30, 2012, the balance totaled $23,284,660.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted amounts to be used first, then unrestricted. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, they are considered to be spent in the order as follows: committed, assigned and then unassigned.

Use of Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the reporting date and revenue and expenses during the reporting period. Actual results could differ from those estimates.

### 2: Stewardship, Compliance and Accountability

Budgetary Data

The City adopts an annual operating budget prepared on the modified accrual basis for its general, certain special revenue and certain debt service funds. Under Section 2-59 of the Escondido City Code, the City Manager is required to prepare and submit to the City Council the annual budget of the City and administer it after adoption. Each year, the City Manager submits a proposed budget to the City Council in May. The City Council holds budget hearings in June and the final budget is adopted by the City Council before June 30. The legal level of budgetary control is at the fund level. The City Manager is authorized to transfer budgeted amounts between the accounts of any fund; however, any revisions that alter the total appropriations of any fund must be approved by City Council.

No budgetary comparisons are presented for certain special revenue, certain debt service, capital projects, permanent or proprietary funds as the City is not legally required to adopt an annual budget for those funds. The funds with legally adopted budgets include the: General Fund, Successor Agency Housing Fund, Street Special Revenue Fund, Parks and Recreation Special Revenue Fund, Community Development Block Grant Special Revenue Fund, Landscape and Assessment District Special Revenue Fund, HOME Special Revenue Fund, Miscellaneous Special Revenue Fund, Golf Course Debt Service Fund, General Obligation Debt Service Fund and Community Development Commission Debt Service Fund.

The City holds a midyear budget review meeting at which time revenue and expenditure projections are reviewed. Any necessary changes are approved by the City Council. Prior period appropriations lapse unless they are re-appropriated through the formal budget process or through the carryover process. The City controls its expenditures using encumbrance accounting.

## 2: Stewardship, Compliance and Accountability (Continued)

In addition to the annual operating budget, the City adopts a Five-Year Capital Improvement Program. Funds are appropriated for the first year of the plan with years two through five included for planning purposes. Funds are appropriated on a project basis and are carried over until expended or the project is closed. The legal level of budgetary control is at the project level. The City Manager is authorized to transfer budgeted amounts between projects when transfers are less than $50,000 or 10% of the project. Transfers in excess of the budget policy amount must be approved by the City Council.

Excess of Expenditures Over Appropriations

The following individual fund exceeded its expenditures budget:

| Fund | Type of Fund | Amount Over Budget |
|---|---|---|
| Parks and Recreation | Special Revenue | $ 67,828 |
| HOME | Special Revenue | 68,971 |
| Miscellaneous | Special Revenue | 32,689 |
| General Obligation | Debt Service | 500 |

These expenditures were funded with a combination of excess revenues over expenditures during the current fiscal year and by the available fund balance.

Deficit Fund Equity

The following funds reported a deficit fund balance as of June 30, 2012:

| Fund | Deficit |
|---|---|
| Law Enforcement Special Revenue Fund | $ 855,887 |

These deficits are expected to be eliminated with future revenues from reimbursements and transfers.

## 3: Cash and Investments

Cash and investments as of June 30, 2012, are classified in the accompanying financial statements as follows:

| | | |
|---|---|---|
| Statement of Net Assets: | | |
| Governmental Activities | | |
| Cash and investments | $ | 92,403,463 |
| Cash and investments held by fiscal agent | | 1,949,838 |
| Business-type Activities | | |
| Cash and investments | | 45,823,899 |
| Cash and investments held by fiscal agent | | 62,137,022 |
| Component Unit | | |
| Cash and investments | | 1,267,002 |
| Fiduciary Funds: | | |
| Cash and investments | | 12,240,013 |
| Cash and investments held by fiscal agent | | 2,471,151 |
| Total cash and investments | $ | 218,292,388 |

Cash and investments as of June 30, 2012, consist of the following:

| | | |
|---|---|---|
| Cash on hand | $ | 8,611 |
| Deposits with financial institutions | | 6,031,710 |
| Investments | | 212,252,067 |
| Total cash and investments | $ | 218,292,388 |

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

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

## 3: Cash and Investments (Continued)

| Investment types Authorized by State Law | Authorized by Investment Policy | *Maximum Maturity | *Maximum Percentage of Portfolio | *Maximum Investment in One Issuer |
|---|---|---|---|---|
| Local Agency Bonds | No | 5 years | None | None |
| U.S. Treasury Obligations | Yes | 5 years | None | None |
| U.S. Agency Securities | Yes | 5 years | None | None |
| Banker's Acceptance | Yes | 180 days | 20% | 10% |
| Commercial Paper | Yes | 180 days | 15% | 10% |
| Negotiable Certificates of Deposit | Yes | 5 years | 30% | None |
| Repurchase Agreements | Yes | 1 year | 30% | None |
| Reverse Repurchase Agreements | No | 92 days | 20% of base value | None |
| Medium-Term Notes | No | 5 years | 30% | None |
| Mutual Funds | No | N/A | 20% | 10% |
| Money Market Mutual Funds | Yes | N/A | 20% | 10% |
| Mortgage Pass-Through Securities | No | 5 years | 20% | None |
| County pooled Investment Funds | Yes | N/A | 30% | None |
| Local Agency Investment Fund (LAIF) | Yes | N/A | 20% | None |
| JPA Pools (other investment pools) | Yes | N/A | 30% | None |

*Based on state law requirements or investment policy requirements, whichever is more restrictive.

Investments Authorized by Debt Agreements

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

| Authorized Investment Type | Maximum Maturity | Maximum Percentage Allowed | *Maximum Investment in One Issuer |
|---|---|---|---|
| U.S. Treasury Obligations | None | None | None |
| U.S. Agency Securities | 365 days | None | None |
| Banker's Acceptance | 360 days | None | None |
| Commercial Paper | 270 days | None | None |
| Money Market Mutual Funds | N/A | None | None |
| Repurchase Agreements | None | None | None |
| Investment Contracts | 30 years | None | None |
| State or Municipal Obligations | None | None | None |
| State Pooled Investment Fund | None | None | None |

## 3: Cash and Investments (Continued)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

| | | Remaining Maturity (in Months) | | |
|---|---|---|---|---|
| Investment Type | Total | 18 Months or Less | 18 to 42 Months | 42 to 60 Months |
| U.S. Treasury Notes | $ 1,628,087 | $ 579,024 | $ 1,049,063 | $ |
| Federal Agency Securities | 114,099,079 | 39,672,855 | 27,201,440 | 47,224,784 |
| Money Market Funds | 1,679,634 | 1,679,634 | | |
| Negotiable Certificates of Deposit | 1,203,280 | 1,203,280 | | |
| State Investment Pool (LAIF) | 27,140,202 | 27,140,202 | | |
| Subtotal | 145,750,282 | 70,274,995 | 28,250,503 | 47,224,784 |
| Held by fiscal agent: | | | | |
| Federal Agency Securities | 6,316,095 | 6,316,095 | | |
| Money Market Funds | 59,955,690 | 59,955,690 | | |
| Certificates of Deposit | 230,000 | 230,000 | | |
| Subtotal | 66,501,785 | 66,501,785 | | |
| Total | $ 212,252,067 | $ 136,776,780 | $ 28,250,503 | $ 47,224,784 |

Disclosures Relating to Credit Risk

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

## 3: Cash and Investments (Continued)

| Investment Type | Total | Minimum Legal Rating | Exempt From Disclosure | Rating as of Year End AA+ | Not Rated |
|---|---|---|---|---|---|
| U.S. Treasury Notes | $ 1,628,087 | N/A | $ 1,628,087 | $ | $ |
| Federal Agency Securities | 114,099,079 | N/A | | 114,099,079 | |
| Money Market Funds | 1,679,634 | N/A | 1,679,634 | | |
| Equities | 1,203,280 | N/A | 1,203,280 | | |
| State Investment Pool (LAIF) | 27,140,202 | N/A | | | 27,140,202 |
| Held by fiscal agent: | | | | | |
| Federal Agency Securities | 6,316,095 | N/A | | 6,316,095 | |
| Money Market Funds | 59,955,690 | N/A | | | 59,955,690 |
| Certificates of Deposit | 230,000 | N/A | | | 230,000 |
| Total | $ 212,252,067 | | $ 4,511,001 | $ 120,415,174 | $ 87,325,892 |

Concentration of Credit Risk

Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total City investments are as follows:

| Issuer | Investment Type | Reported Amount |
|---|---|---|
| Federal National Mortgage Association | Federal agency securities | $ 30,693,610 |
| Federal Home Loan Bank | Federal agency securities | 43,081,550 |
| Federal Home Loan Mortgage Corp. | Federal agency securities | 32,626,925 |
| Federal Farm Credit Bank | Federal agency securities | 7,696,994 |

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits.

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2012, all of the City's deposits in excess of the federal depository insurance limit were held

## 3: Cash and Investments (Continued)

in collateralized accounts. For investments identified herein as held by bond trustee, the bond trustee selects the investment under the terms of the applicable trust agreement, acquires the investment, and holds the investment on behalf of the reporting government.

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. LAIF is not rated.

## 4: Receivables and Allowances for Uncollectible Receivables

All receivables are shown net of an allowance for uncollectibles which, at June 30, is as follows:

| Fund | Allowance Amount |
|---|---|
| General Fund | $ 1,518,773 |
| Water Enterprise Fund | 1,554,445 |

The General Fund allowance is mainly for paramedic and DUI cost recovery activities.

## 5: Loans Receivable

The City and Commission engage in programs designed to encourage construction and improvement in low-to-moderate income housing and other projects. Under these programs, loans are provided under favorable terms to homeowners or developers who agree to spend these funds in accordance with the City's or Commission's terms.

At June 30, 2012, the loans receivable was reported in the governmental and proprietary fund types as follows:

| | |
|---|---|
| Governmental Funds | $ 55,226,245 |
| Proprietary Funds | 801,410 |
| Total loans receivable | $ 56,027,655 |

## 5: Loans Receivable (Continued)

The loans at June 30, 2012 consisted of the following:

| | |
|---|---|
| City of Escondido | |
| HOME grant fund loans | $ 14,020,726 |
| National Golf Operations | 1,532,657 |
| Goal Line LP sewer connection fee note | 801,410 |
| Various loans | 347,694 |
| Successor Agency Housing Special Revenue Fund | |
| Loans given to developers and non-profits | 29,133,540 |
| Mobile home loan program | 3,744,757 |
| First-time homebuyer program | 6,071,871 |
| HOME loans | 375,000 |
| Total loans receivable | $ 56,027,655 |

## 6: Capital Assets

A summary of changes in capital asset activity for the City's governmental and business type activities for the year ended June 30, 2012, is as follows:

Governmental-Activities:

| | Balance at July 1, 2011 | Transfer to Successor Agency * | Transfers of CIP | Contributions Between Funds | Additions | Deletions | Balance at June 30, 2012 |
|---|---|---|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | | | | |
| Art and historical treasures | $ 8,861,037 | $ | $ 312,792 | $ | $ | $ | $ 9,173,829 |
| Land | 54,810,413 | (2,766,714) | | | | 75,000 | 51,968,699 |
| Construction in progress | 14,081,593 | | (6,615,100) | (171,142) | 8,456,756 | | 15,752,107 |
| Total capital assets, not being depreciated | 77,753,043 | (2,766,714) | (6,302,308) | (171,142) | 8,456,756 | 75,000 | 76,894,635 |
| Capital assets, being depreciated: | | | | | | | |
| Land improvements | 30,564,575 | (139,295) | 2,825,712 | | 150,000 | | 33,400,992 |
| Buildings | 220,011,025 | (82,080,470) | 882,418 | | | | 138,812,973 |
| Machinery and equipment | 28,549,144 | (276,473) | 591,073 | (207,346) | 962,838 | 704,565 | 28,914,671 |
| Motorized vehicles | 14,605,338 | | | 85,299 | 1,395,947 | 305,230 | 15,781,354 |
| Infrastructure | 283,970,418 | | 2,003,105 | | 1,220,829 | | 287,194,352 |
| Golf course | 4,326,835 | | | | | | 4,326,835 |
| Total capital assets, being depreciated | 582,027,335 | (82,496,238) | 6,302,308 | (122,047) | 3,729,614 | 1,009,795 | 508,431,177 |
| Less accumulated depreciation for: | | | | | | | |
| Land improvements | 19,612,702 | (139,295) | | | 3,972,286 | | 23,445,693 |
| Buildings | 76,790,208 | (45,500,462) | | | 5,262,042 | | 36,551,788 |
| Machinery and equipment | 25,548,168 | (276,473) | | | 1,154,237 | 704,565 | 25,721,367 |
| Motorized vehicles | 11,115,537 | | | | 1,648,376 | 305,230 | 12,458,683 |
| Infrastructure | 169,020,782 | | | | 8,731,036 | | 177,751,818 |
| Golf course | 1,249,027 | | | | 144,272 | | 1,393,299 |
| Total accumulated depreciation | 303,336,424 | (45,916,230) | | | 20,912,249 | 1,009,795 | 277,322,648 |
| Total capital assets being depreciated, net | 278,690,911 | (36,580,008) | 6,302,308 | (122,047) | (17,182,635) | | 231,108,529 |
| Governmental activities capital assets, net | $ 356,443,954 | $ (39,346,722) | $ | $ (293,189) | $ (8,725,879) | $ 75,000 | $ 308,003,164 |

*As a result of the dissolution of the redevelopment agency, assets of the former redevelopment agency were transferred to the Successor Agency. See Note 17 for additional information.

Construction in progress in the governmental activities consists primarily of additions to infrastructure, parks, and the construction of a new public safety facility.

## 6: Capital Assets (Continued)

Business-type Activities:

| | Balance at July 1, 2011 | Transfers of CIP | Contributions Between Funds | Additions | Deletions | Balance at June 30, 2012 |
|---|---|---|---|---|---|---|
| Capital assets not being depreciated: | | | | | | |
| Land | $ 1,805,205 | $ | $ | $ | $ | $ 1,805,205 |
| Construction in progress | 9,485,813 | (10,237,457) | | 4,719,975 | | 3,968,331 |
| Total Capital Assets Not being Depreciated | 11,291,018 | (10,237,457) | | 4,719,975 | | 5,773,536 |
| Capital assets being depreciated: | | | | | | |
| Land improvements | 631,004 | 289,416 | | 26,055 | | 946,475 |
| Buildings | 24,481,218 | | | | | 24,481,218 |
| Machinery and equipment | 3,685,381 | 2,197,948 | 122,047 | 144,469 | 37,959 | 6,111,886 |
| Water system | 109,664,715 | 7,578,165 | 141,952 | 840,910 | | 118,225,742 |
| Electrical system | 3,609,179 | | | | | 3,609,179 |
| Sewer system | 156,912,056 | 171,928 | 29,190 | 207,181 | | 157,320,355 |
| Recycled water system | 24,163,391 | | | | | 24,163,391 |
| Total capital assets being depreciated | 323,146,944 | 10,237,457 | 293,189 | 1,218,615 | 37,959 | 334,858,246 |
| Less accumulated depreciation for: | | | | | | |
| Land improvements | 123,733 | | | 29,630 | | 153,363 |
| Buildings | 16,218,274 | | | 587,894 | | 16,806,168 |
| Machinery and equipment | 3,286,285 | | | 281,078 | 37,959 | 3,529,404 |
| Water system | 29,096,662 | | | 2,663,611 | | 31,760,273 |
| Electrical system | 2,940,293 | | | 49,270 | | 2,989,563 |
| Sewer system | 44,128,635 | | | 3,909,112 | | 48,037,747 |
| Recycled water system | 4,364,658 | | | 606,883 | | 4,971,541 |
| Total accumulated depreciation | 100,158,540 | | | 8,127,478 | 37,959 | 108,248,059 |
| Total capital assets, being depreciated, net | 222,988,404 | 10,237,457 | 293,189 | (6,908,863) | | 226,610,187 |
| Business-type activities capital assets, net | $ 234,279,422 | $ | $ 293,189 | $ (2,188,888) | $ | $ 232,383,723 |

Business-type construction in progress consists primarily of expansion of the wastewater treatment plant, construction of a reclamation distribution system and water and sewer line installation projects.

## 6: Capital Assets (Continued)

Component Unit:

| | Balance at July 1, 2010 | Adjustments* | Balance at July 1, 2010 | Additions | Deletions | Balance at June 30, 2011 |
|---|---|---|---|---|---|---|
| Capital assets being depreciated: | | | | | | |
| Leasehold improvements | $ 85,546 | $ | $ 85,546 | $ | $ | $ 85,546 |
| Machinery and equipment | 1,252,406 | 71,882 | 1,324,288 | | | 1,324,288 |
| Total capital assets being depreciated | 1,337,952 | 71,882 | 1,409,834 | | | 1,409,834 |
| Less accumulated depreciation for: | | | | | | |
| Leasehold improvements | 85,546 | | 85,546 | | | 85,546 |
| Machinery and equipment | 1,187,614 | 72,262 | 1,259,876 | 36,083 | | 1,295,959 |
| Total accumulated depreciation | 1,273,160 | 72,262 | 1,345,422 | 36,083 | | 1,381,505 |
| Total capital assets, being depreciated, net | 64,792 | (380) | 64,412 | (36,083) | | 28,329 |
| Component unit capital assets, net | $ 64,792 | $ (380) | $ 64,412 | $ (36,083) | $ | $ 28,329 |

*Adjustments were made to capital assets to included furniture and equipment that was not previously recorded.

Depreciation Expense:

Depreciation expense was charged to the following functions:

| | Governmental Activities | Business-type Activities | Component Unit |
|---|---|---|---|
| General government | $ 1,063,303 | $ | $ |
| Public safety | 4,176,362 | | |
| Public works | 10,330,111 | | |
| Community services | 1,829,610 | | |
| Community development | 1,723,478 | | |
| Water | | 3,126,997 | |
| Wastewater | | 5,000,481 | |
| Capital assets held by government's internal service funds are charged to the various functions based on their usage of the assets | 1,789,385 | | |
| California Center for the Arts, Escondido Foundation | | | 36,083 |
| Total | $ 20,912,249 | $ 8,127,478 | $ 36,083 |

## 7: Interfund Receivable, Payable and Transfers

Due to/from other funds

| | Due To Other Funds | | |
|---|---|---|---|
| | Successor Agency Housing | Nonmajor Governmental Funds | Totals |
| Due from other Funds | | | |
| General Fund | $ 314,499 | $ 1,270,336 | $ 1,584,835 |
| Total | $ 314,499 | $ 1,270,336 | $ 1,584,835 |

The $1,584,835 due from Nonmajor Governmental Funds and the Successor Agency Housing Fund to the General Fund are short term borrowings due to negative cash balances at the end of this fiscal year.

Advances to/from other funds

| | Advances From: | | |
|---|---|---|---|
| | General Fund | Nonmajor Governmental Fund | Total |
| Advance To: | | | |
| General Fund | $ | $ 159,250 | $ 159,250 |
| Wastewater Fund | 3,990,000 | 331,300 | 4,321,300 |
| Nonmajor Governmental Funds | 550,000 | 200,000 | 750,000 |
| Total | $ 4,540,000 | $ 690,550 | $ 5,230,550 |

The advances were primarily used for the following:

The Escondido Vehicle Parking District entered into agreements with the General Fund for the purchase of the downtown parking lots. The outstanding balance was $159,250 at June 30, 2012.

In November 2011, the Wastewater fund advanced the General Fund $4,200,000 for the purposes of purchasing and improving the real property addressed at 2120 Harmony Grove, to be used for the purpose of developing a new City public works year. The loan will be amortized over a period of 20 years and repayment will occur on June 30 of each calendar year with annual principal payment of $210,000. The loan will bear interest at a rate equivalent to the City's calculated investment portfolio monthly yield. At June 30, 2012, the amount of $3,990,000 remained outstanding.

The Public Facilities Capital Projects fund entered into an agreement with the Wastewater Enterprise fund for an advance to purchase land for the public works yard. At June 30, 2012, the amount of $331,300 remained outstanding.

## 7: Interfund Receivable, Payable and Transfers (Continued)

The Public Facilities Capital Project fund entered into an agreement with the General Fund for an advance to reconstruct Fire Station #4. At June 30, 2012, the amount of $550,000 remained outstanding.

The Parks and Recreation Special Revenue fund entered into an agreement with the Street Improvement Capital Projects fund in the amount of $200,000.

Interfund Transfers

| | Transfers In: | | | |
|---|---|---|---|---|
| Transfer Out: | General Fund | Community Development Commission Debt Service | Nonmajor Governmental | Total |
| General Fund | $ | $ | $ 1,730,678 | $ 1,730,678 |
| Nonmajor Governmental | 4,397,708 | 285 | 1,933,527 | 6,331,520 |
| Internal Service Funds | | | 150,000 | 150,000 |
| Enterprise: | | | | |
| Wastewater | 25,000 | | | 25,000 |
| Total | $ 4,422,708 | $ 285 | $ 3,814,205 | $ 8,237,198 |

Transfers are used to: (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

## 8: Long-Term Liabilities

Changes in long-term liabilities for Governmental Activities as of June 30, 2012, are as follows:

| | Balance at July 1, 2011 | Additions | Reductions | Transfers to Successor Agency of the former CDC * | Balance at June 30, 2012 | Due Within One Year | Due Beyond One Year |
|---|---|---|---|---|---|---|---|
| Employee Leave Benefits Payable | $ 6,557,605 | $ 4,943,052 | $ 4,681,403 | $ | $ 6,819,254 | $ 730,540 | $ 6,088,714 |
| Employee Retirement Benefits Payable | 61,638 | | 61,638 | | | | |
| Claims Payable | 11,217,509 | 6,104,192 | 2,085,644 | | 15,236,057 | 3,047,211 | 12,188,846 |
| Loans Payable | 6,246,320 | 246,698 | 94,445 | | 6,398,573 | 103,647 | 6,294,926 |
| 1993 Taxable Certificates of Participation | 2,295,000 | | 505,000 | | 1,790,000 | 550,000 | 1,240,000 |
| 2006 Public Safety Facilities GO Bonds | 78,860,000 | | 1,565,000 | | 77,295,000 | 1,630,000 | 75,665,000 |
| 1992 Tax Allocation Revenue Bonds | 4,033,736 | 129,567 | | (4,163,303) | | | |
| 2001 Reidy Creek Lease Revenue Bonds | 5,420,000 | | 100,000 | | 5,320,000 | 115,000 | 5,205,000 |
| 2007 A & B Lease Revenue Bonds | 48,000,000 | | 5,740,000 | (42,260,000) | | | |
| 2001 Lease Revenue Bonds | 2,580,000 | | 2,580,000 | | | | |
| Total | $ 165,271,808 | $ 11,423,509 | $ 17,413,130 | $ (46,423,303) | 112,858,884 | $ 6,176,398 | $ 106,682,486 |
| Unamortized Bond Premium | | | | | 734,430 | | |
| Unamortized Bond Discount | | | | | (22,575) | | |
| Total | | | | | $ 113,570,739 | | |

* As a result of the dissolution of the redevelopment agency, indebtedness of the former redevelopment agency was transferred to the Successor Agency. See Note 17 for disclosures for indebtedness.

### Employee Leave Benefits Payable

The City's policies relating to employee leave benefits are described in Note 1. The balance at June 30, 2012, is $6,819,254. This liability will be paid in future years from future resources primarily from the General Fund.

### Employee Retirement Benefits Payable

On June 4, 2003, the City of Escondido adopted a separation incentive program. This program offered to certain eligible employees monetary incentives to encourage early separation of service in order to produce long-term financial and budgetary benefits to the City. Substantive requirements to be eligible for the program included requirements that an employee must have been actively employed and in good standing as of June 6, 2003, be at least fifty years of age, have at least five years of

## 8: Long-Term Liabilities (Continued)

regular City service, and must have committed to retire or resign on or before September 5, 2003. The plan is administered through the Public Agency Retirement System (PARS). There is no outstanding balance at June 30, 2012.

The plan provided a variety of payment options that are agreed to by the City and each individual employee, including lump sum payment options and annualized payment options.

Claims Payable

The balance of claims payable at June 30, 2012, is $15,236,057. For more information, see Note 10.

Loans Payable

In 2004, the City was granted an energy conservation loan from the California Energy Commission to fund various energy conservation projects. The term of the loan is 15 years with an annual interest rate of 3.95%. The outstanding balance at June 30, 2012, is $876,191.

In 2002, 2004, 2006, 2007 and 2008, the Escondido Community Development Commission (Commission) received loans from the California Housing Finance Agency. The proceeds of the loan are to be used to finance the acquisition of Washington Plaza Apartments, Trinity Apartments, Brotherton, Las Ventanas, and SoCal Housing. The terms of the loans are ten years with an annual interest rate of 3%. Payment is deferred for the term of the loan. The repayment of the loans will be made from the available resources of the Successor Agency Housing Fund. The outstanding balance at June 30, 2012, is $5,300,000.

In 2011, the City was granted a loan from the San Diego Gas and Electric Company to fund various energy conservation projects. The term of the loan is 8 years of monthly installment payments which accrue no interest. The outstanding balance at June 30, 2012, is $222,382.

Certificates of Participation

In December 1993, the City of Escondido issued $6,775,000 taxable Certificates of Participation to provide financing for the construction of an 18-hole golf course. The principal is due annually in amounts ranging from $160,000 to $645,000 on September 1 of each year commencing with 1995 through the year 2014. Interest is payable semiannually on March 1 and September 1 of each year commencing September 1, 1994, at rates ranging from 5.5% to 8.4%. The reserves are fully funded. The outstanding balance at June 30, 2012, is $1,790,000.

General Obligation Bonds

On August 1, 2006, the City issued General Obligation Bonds, election of 2004, Series A amounting to $84,350,000 to construct, upgrade, and acquire land for City fire stations, an emergency response training center, and a combined police and fire headquarters facility. The bonds mature serially on September 1, beginning 2007 through 2036 in amounts ranging from $1,170,000 to $5,225,000 and pay interest at rates varying from 3.55% to 4.75%. Interest is payable semiannually on March 1 and September 1 of each year, commencing on March 1, 2007. The reserves are fully funded. The outstanding balance at June 30, 2012, is $77,295,000. Unamortized bond premium and deferred bond issuance costs were $734,430 and $627,745 respectively, at June 30, 2012.

## 8: Long-Term Liabilities (Continued)

Lease Revenue Bonds

In April 2001, the City of Escondido issued $6,300,000 in Lease Revenue Bonds to provide financing for the acquisition and construction of an 18-hole golf course. The principal is due annually on September 1 in amounts ranging from $70,000 to $240,000, commencing 2003 and ending 2020. In addition, $3,770,000 of Term Bonds are due September 1, 2030. Interest is payable semiannually on March 1 and September 1 of each year commencing September 1, 2001, at rates ranging from 3.5% to 5.12%. The reserves are fully funded. The outstanding balance at June 30, 2012, is $5,320,000 Unamortized bond discount and deferred bond issuance costs were $22,575 and $121,168, respectively, at June 30, 2012.

In December 2001, the Escondido Community Development Commission issued $22,420,000 of Lease Revenue Bonds to refund $22,005,000 of the 1992 Certificates of Participation which were issued to refund certain certificates of participation originally issued by the City of Escondido in 1986 to finance a portion of the construction of the City Hall. The bonds are due in annual installments from 2002 through 2011, with interest rates ranging from 3.00% to 4.25% and annual installments of $1,970,000 to $2,580,000. The debt was fully paid off during the current fiscal year.

Debt Service Requirements to Maturity - Governmental Activities

The annual requirements to amortize outstanding long-term debt of the City's Governmental Activities through maturity, excluding amounts for employee leave benefits payable, claims payable and certain loans payable are as follows (expressed in thousands of dollars):

| Year Ending | Certificates of Participation | | Lease Revenue Bonds | | General Obligation Bonds | | Loans Payable | |
|---|---|---|---|---|---|---|---|---|
| June 30 | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 2013 | $ 550 | $ 127 | $ 115 | $ 263 | $ 1,630 | $ 3,563 | $ 104 | $ 34 |
| 2014 | 595 | 79 | 125 | 257 | 1,700 | 3,497 | 1,957 | 31 |
| 2015 | 645 | 27 | 140 | 252 | 1,785 | 3,418 | 110 | 28 |
| 2016 | | | 155 | 245 | 1,875 | 3,326 | 1,513 | 25 |
| 2017 | | | 170 | 238 | 1,970 | 3,230 | 116 | 22 |
| 2018-2022 | | | 1,105 | 1,046 | 11,420 | 14,695 | 2,598 | 54 |
| 2023-2027 | | | 1,655 | 701 | 14,580 | 11,627 | | |
| 2028-2032 | | | 1,855 | 199 | 18,595 | 7,892 | | |
| 2033-2037 | | | | | 23,740 | 2,930 | | |
| Total Debt Service Payments | $ 1,790 | $ 233 | $ 5,320 | $ 3,201 | $ 77,295 | $ 54,178 | $ 6,398 | $ 194 |

## 8: Long-Term Liabilities (Continued)

Changes in long-term liabilities for Business-type Activities as of June 30, 2012, are as follows:

| | Balance at July 1, 2011 | Additions | Reductions | Balance at June 30, 2012 | Due Within One Year | Due Beyond One Year |
|---|---|---|---|---|---|---|
| Connection rights payable | $ 13,704,727 | $ | $ 47,712 | $ 13,657,015 | $ | $ 13,657,015 |
| Employee leave benefits payable | 1,047,140 | 896,339 | 762,089 | 1,181,390 | 118,139 | 1,063,251 |
| 2000 Water Revenue COP | 10,105,000 | | 10,105,000 | | | |
| 2002 Water Revenue COP | 8,665,000 | | 8,665,000 | | | |
| 2007 Water Revenue COP | 29,105,000 | | 485,000 | 28,620,000 | 505,000 | 28,115,000 |
| 2012 Water Revenue Revenue Bond | | 31,660,000 | | 31,660,000 | 285,000 | 31,375,000 |
| 2004A Wastewater COP | 23,225,000 | | 1,065,000 | 22,160,000 | 1,100,000 | 21,060,000 |
| 2004B Wastewater COP | 8,995,000 | | 405,000 | 8,590,000 | 425,000 | 8,165,000 |
| 2012 Wastewater Revenue Bond | | 27,390,000 | | 27,390,000 | 130,000 | 27,260,000 |
| Loans payable | 26,507,579 | 277,688 | 2,070,090 | 24,715,177 | 2,129,731 | 22,585,446 |
| Total | $ 121,354,446 | $ 60,224,027 | $ 23,604,891 | 157,973,582 | $ 4,692,870 | $ 153,280,712 |
| Less: | | | | | | |
| Unamortized bond premium | | | | 3,735,765 | | |
| Unamortized bond discount | | | | (93,447) | | |
| Unamortized loss on refunding | | | | (3,096,678) | | |
| Total | | | | $ 158,519,222 | | |

Connection Rights Payable

In 1982, the City raised funds for water and sewer improvements by selling in advance rights to connect to the utility system. The holders of those rights could sell or transfer those rights to others. The value of the rights resulted from the ability of the holder to redeem the rights to the City in order to connect to the system. The amounts collected represent connection fees collected in advance of the connection. The amounts collected are recorded as a liability until earned at the time of connection.

The purchase price for sewer connection rights sold was $1,500 per right. Per the contract, the rights increased in value at 10% per year until May 31, 2007. As of that date, a sewer right was valued at $21,872.The purchase price for water connection rights sold was $900 per right. Per the contract, the rights increased in value at 10% per year until July 1, 1993. At that time, each right was valued at $3,230.

There was no limit to the number of rights purchased under a contract or the number of contracts an individual might purchase. Both contracts allowed several options to the purchaser. These options were: 1) The rights could be used by the purchaser at the time of pulling building permits, thus waiving the current fee being charged by the Building Department; 2) if the owner of the rights sold the property for which the rights were originally purchased, the rights could be transferred to the new owner; 3) the last option was to turn in the right to the City of Escondido for the purpose of resale on a "first come, first served" basis. Resales are determined monthly and paid based on receipts from current connection fees on building permits.

Interest on connection rights represents the increase in the obligation of the City to the holders of the rights as a result of rates of increase stipulated in the City's agreement with the holders of the rights. The balance at June 30, 2012, is $13,657,015.

## 8: Long-Term Liabilities (Continued)

Employee Leave Benefits Payable

The City's policies relating to employee leave benefits are described in Note 1 of the Notes to Financial Statements. This liability will be paid in future years from future resources. The balance at June 30, 2012, is $1,181,390.

Revenue Certificates of Participation

In March 2001, the City issued $25,730,000 in Revenue Certificates of Participation with an average interest rate of 5.4% to: (i) finance certain improvements to the City's Hale Avenue Resource Recovery Facility (the "HARRF Project") (ii) finance various capital improvements to the Water System (the "Water Project") and (iii) advance refund $6,860,000 of outstanding 1996 Water Revenue Bonds with an average interest rate of 5%, which were originally executed and delivered to provide funds for the refunding of certain water revenue bonds of the City issued in 1974 and 1989 which in turn financed the acquisition, construction and improvement of certain elements of the Water System.

In the fiscal year ended June 30, 2008 these bonds were partially defeased by the Issuance of the Revenue Certificates of Participation, series 2007. In the fiscal year ended June 30, 2012, these bonds were fully defeased by the Issuance of the 2012 Revenue Water System Financing Bonds and the Issuance of the 2012 Revenue Wastewater System Financing Bonds.

In August 2002, the City issued $9,170,000 in Revenue Certificates of Participation, Series 2002A, to finance the cost of construction of certain replacements to water lines and other capital improvements to the water system. In the fiscal year ended June 30, 2012, these bonds were current refunded by the issuance of the 2012 Revenue Water System Financing Bonds. The outstanding balance at June 30, 2012, is zero.

In September 2007, the City issued $30,440,000 in Revenue Certificates of Participation to finance certain capital projects and to advance refund $12,450,000 of outstanding Revenue Certificates of Participation, series 2000A, which were originally issued to finance the cost of construction of certain replacements to water lines and other capital improvements to the water system. The principal is due annually on September 1 in amounts ranging from $430,000 to $990,000, commencing 2008 and ending 2025 with interest at rates varying from 3.5% to 4.375%. In addition, $5,775,000 and $13,325,000 term certificates are due September 1, 2030 and September 2037, respectively. The $5,775,000 term certificates pay interest at 5.0% and the $13,325,000 term certificates pay interest at 4.75%. Interest is payable semi-annually on March 1 and September 1 of each year, commencing on March 1, 2008.The certificates maturing on or after September 1, 2018, are subject to optional prepayment prior to their respective maturities, as a whole or in part on any date in the order of maturity as directed by the City in a Written Request provided to the Trustee at least 45 days prior to the prepayment date and by lot within each maturity in integral multiples of $5,000, on or after September 1, 2007, from amounts prepaid by the City pursuant to the Installment Purchase Agreement at a Prepayment Price equal to 100% of the principal amount of such Certificates to be prepaid. Additionally, the term certificates maturing on September 1, 2030 and 2037 are subject to mandatory prepayment in part (by lot) on each September 1 on and after September 1, 2026 and 2031, respectively, in integral multiple of $5,000 at a prepayment price as described in the Certificate covenants. The outstanding balance at June 30, 2012, is $28,620,000. Unamortized bond premium and deferred bond issuance costs are $208,382 and $365,315, respectively, at June 30, 2012.

## 8: Long-Term Liabilities (Continued)

Certificates of Participation

In December 2004, the City of Escondido issued $28,805,000 Certificates of Participation to provide funds for a refunding of City of Escondido 1996 Wastewater Refunding Project COP. The 1996 Certificates of Participation were used to refund the City's 1972 Sewer Revenue Bonds, Series A, which were used for the acquisition of Daley Ranch and related water and sewer connection rights. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements.

The 2004A refunding COP bears interest rates between 2.50% and 4.75% and are issued under a trust agreement dated December 1, 2004 with the Bank of New York Trust Company as trustee. The refunding COP mature between September 1, 2005 through September 1, 2026, in the amounts ranging from $725,000 to $1,975,000. At June 30, 2012, the reserve was fully funded. The outstanding balance at June 30, 2012, is $22,160,000. Unamortized bond discount and loss on refunding are $93,447 and $1,910,374 respectively, at June 30, 2012. Unamortized deferred bond issuance costs are $301,792 at June 30, 2012.

In December 2004, the City of Escondido issued $10,775,000 Certificates of Participation to provide funds for certain capital improvements to the City's Wastewater System. The COP were executed and delivered concurrently with the City's 2004A Certificates of Participation.

The 2004B COP bears interest at rates between 3.31% and 4.18%. MBIA Insurance Corporation was the issuer of the COP and has simultaneously issued a financial guaranty insurance policy with the COP. The rate covenant requirement for the COP is net revenues equal to one hundred fifteen percent (115%) of the debt service for each fiscal year. At June 30, 2012, the reserve was fully funded. The outstanding balance at June 30, 2012, is $8,590,000. Unamortized deferred bond issuance costs are $119,095 at June 30, 2012.

Revenue Bonds

In March 2012, the City issued $27,390,000 in Revenue Wastewater System Financing Bonds to finance certain capital projects and to current refund a portion of $9,830,000 of outstanding Water Revenue Certificates of Participation, series 2000. The principal for the $4,070,000 serial bonds is due annually on September 1 in amounts ranging from $130,000 to $1,410,000 commencing 2012 and ending 2031 with interest at rates varying from 1.0% to 4.0%. In addition, Term bonds are due in the amounts of $2,375,000, $2,615,000, $3,000,000, $5,075,000 and $10,225,000 on September 1, 2028, 2030, 2033, 2036, and 2041 respectively. The term certificates pay interest at rates of 4.25% and 5.0%, and require principal installment payments due annually on September 1 in amounts ranging from $525,000 to $2,255,000, commencing 2027 and ending 2041. Interest is payable semi-annually on March 1 and September 1 of each year, commencing on September 1, 2012. Bonds with stated maturities on or after September 1, 2022 will be subject to optional redemption prior to their respective stated maturities, as a whole or in part, on any date as directed by the City provided at least a 30 day notice is mailed by the Trustee to bondholders, and by lot within each maturity in integral multiples of $5,000, on or after March 1, 2022 at a price without premium, equal to the principal amount plus accrued interest to the redemption date. Additionally, the term certificates, maturing on September 1, 2028, 2030, 2033, 2036 and 2041 are subject to

**8: Long-Term Liabilities (Continued)**

mandatory sinking fund redemption in part on each September 1, on and after September 1, 2027 2029, 2032, 2034, and 2034 respectively, in integral multiples of $5,000, at a redemption price without premium, equal to the principal amount plus accrued interest to the redemption date, in accordance with the schedules contained in the covenants. The rate covenant requires net revenues during each Fiscal Year to be sufficient to equal 115% of the Debt Service payable in such Fiscal Year. The outstanding balance at June 30, 2012, is $27,390,000. Unamortized bond premium and deferred bond issuance costs are $1,880,202 and $288,303 respectively, at June 30, 2012.

In March 2012, the City issued $31,660,000 in Revenue Water System Financing Bonds to finance certain capital projects and to current refund a portion of $9,830,000 of outstanding Revenue Certificates of Participation, series 2000, and $8,585,000 of outstanding Revenue Certificates of Participation, series 2002. The principal for the $10,845,000 serial bonds is due annually on September 1 in amounts ranging from $285,000 to $815,000 commencing 2012 and ending 2029 with interest at rates varying from 1.0% to 4.0%. In addition, Term bonds are due in the amounts of $2,485,000, $4,025,000, and $14,305,000 September 1, 2031, 2033 and 2041 respectively. Term certificates pay interest at 5.0%, and require principal installment payments due annually on September 1 in amounts ranging from $840,000 to $3,840,000, commencing 2030 and ending 2041. Interest is payable semi-annually on March 1 and September 1 of each year, commencing on September 1, 2012. Bonds with stated maturities on or after September 1, 2022 will be subject to optional redemption prior to their respective stated maturities, as a whole or in part, on any date as directed by the City provided at least a 30 day notice is mailed by the Trustee to bondholders, and by lot within each maturity in integral multiples of $5,000, on or after March 1, 2022 at a price without premium, equal to the principal amount plus accrued interest to the redemption date. Additionally, the term certificates, maturing on September 1, 2031, 2033, and 2041 are subject to mandatory sinking fund redemption in part on each September 1, on and after September 1, 2030, 2032, and 2038 respectively, in integral multiples of $5,000, at a redemption price without premium, equal to the principal amount plus accrued interest to the redemption date, in accordance with the schedules contained in the covenants. The rate covenant requires net revenues during each Fiscal Year to be sufficient to equal 120% of the Debt Service payable in such Fiscal Year. The outstanding balance at June 30, 2012, is $31,660,000. Unamortized bond premium and loss on refunding are $1,647,181 and $1,186,304, respectively, at June 30, 2012. Unamortized deferred bond issuance costs are $323,285 at June 30, 2012.

<u>Loans Payable</u>

In 1999, the City of Escondido entered into an agreement with the State Water Resources Control Board (State Board) for a revolving fund loan program. The fund was established with a combination of Federal Clean Water Act funds and State matching funds. The proceeds were used to construct a Tertiary Treatment Facility for local wastewater and a delivery system for recycled water to a specified number of local users.

There are two phases in the Tertiary Treatment Facility project, and the loan was set up with sub-loan amounts for each phase. The City is obligated to repay the State Board on the Federal Disbursement Amount as principal and the Local Match Amount as interest on the loan. The Federal Disbursement portion is 83.33% and the Local Match portion is 16.67% of the total loan balance.

**8: Long-Term Liabilities (Continued)**

The first phase of the Tertiary Treatment Facility project was completed on May 25, 2001. During fiscal year 2002-03 the City increased the outstanding loan balance on the second phase of the projects by $4,912,366. The project was completed on April 1, 2003.

The principal and interest on the first phase loan is due annually on May 25 in the amount of $488,990 commencing 2002 and ending 2021. The principal and interest on the second phase loan is due annually on April 1 in the amount of $1,728,852 commencing 2004 and ending 2023. The outstanding balance at June 30, 2012, is $19,515,166.

In 2002, the City of Escondido entered into an agreement with the Department of Water Resources for a loan program. The funds were provided in part from the Federal Capitalization Grant for Drinking Water State Revolving Funds program. The proceeds were used to construct the Gravity Float Line Capital Project.

Repayment began on January 1, 2005, with semi-annual payments of $65,459 with varying interest rates from 1.94% to 3.16%. The repayment ends on July 1, 2024. The outstanding balance at June 30, 2012, is $1,349,003.

In 2005, the City entered into an agreement with the Department of Water Resources for a loan program. The funds were provided in part from the Federal Capitalization Grants for Clean Water State Revolving Funds program. The proceeds of $1,572,306 were used for the HARRF Aeration Blower Replacement Project.

Principal and interest is due annually on December 30 in the amount of $98,817 commencing 2005 and ending 2024. The project was completed as of June 30, 2006. The outstanding balance at June 30, 2012, is $1,092,401.

In October 2009, the City of Escondido entered into an agreement with the State Department of Public Health for funding of constriction of the Alexander Area Phase II Water Line. The agreement provides for the loan funding, up to a maximum loan amount of $6,500,000, under the provisions of the California Safe Drinking Water State Revolving Fund Loan Program and the American Recovery and Reinvestment Act of 2009. Loan proceeds were disbursed to the City as eligible project construction costs are incurred and submitted to the State for reimbursement. As per the terms of the agreement, fifty percent of each disbursement will be forgiven by the State and not added to the principal amount of the loan. Interest at a rate of 2.5017% accrues on the outstanding amount of the loan disbursements, beginning on the date of each disbursement, and is payable semiannually during the construction period. A total of $5,626,469.10 in project costs were claimed and per the terms of the agreement, fifty percent of each disbursement was forgiven by the State and not added to the principal amount of the loan. Upon project completion in October, 2012, final loan principal to be repaid amounted to $2.81 and $264.53. Repayment began March 1, 2012, with semi-annual payments of Principal and Interest of $89,816.64, including interest at the rate of 2.5017%. The repayment period ends on September 1, 2031. The outstanding balance at June 30, 2012, is $2,758,607.

## 8: Long-Term Liabilities (Continued)

Debt Service Requirements to Maturity - Business-type Activities

The annual requirements to amortize outstanding long-term debt of the City's Business-type Activities as of June 30, 2012, excluding amounts for connection rights payable, employee leave benefits payable, deposits payable, loans payable, and discounts on Certificates of Participation are as follows (expressed in thousands of dollars):

| Year Ending | Water Revenue COP | | Water Revenue Bond | | Wastewater COP | | Wastewater Revenue Bond | | Loans Payable | |
|---|---|---|---|---|---|---|---|---|---|---|
| June 30 | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 2013 | $ 505 | $ 1,302 | $ 285 | $ 1,307 | $ 1,525 | $ 1,380 | $ 130 | $ 1,180 | $ 2,130 | $ 497 |
| 2014 | 530 | 1,282 | 645 | 1,431 | 1,585 | 1,321 | 140 | 1,297 | 2,137 | 490 |
| 2015 | 550 | 1,260 | 475 | 1,420 | 1,650 | 1,258 | 145 | 1,294 | 2,144 | 483 |
| 2016 | 565 | 1,238 | 495 | 1,408 | 1,720 | 1,188 | 150 | 1,290 | 2,151 | 476 |
| 2017 | 595 | 1,214 | 500 | 1,391 | 1,795 | 1,112 | 155 | 1,286 | 2,159 | 468 |
| 2018-2022 | 3,350 | 5,688 | 2,825 | 6,629 | 10,290 | 4,243 | 870 | 6,333 | 10,506 | 2,140 |
| 2023-2027 | 4,465 | 4,895 | 3,270 | 6,014 | 12,185 | 1,466 | 1,070 | 6,149 | 2,728 | 457 |
| 2028-2032 | 5,310 | 3,639 | 4,835 | 5,243 | | | 6,400 | 5,294 | 760 | 48 |
| 2033-2037 | 9,535 | 2,273 | 4,025 | 3,780 | | | 8,075 | 3,572 | | |
| 2038-2042 | 3,215 | 77 | 14,305 | 2,189 | | | 10,255 | 1,332 | | |
| Total Debt Service | $ 28,620 | $ 22,868 | $ 31,660 | $ 30,812 | $ 30,750 | $ 11,968 | $ 27,390 | $ 29,027 | $ 24,715 | $ 5,059 |

Pledged Revenue

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

| Description of Pledged Revenue | Annual Amount of Pledged Revenue (net of expenses, where required) | Annual Debt Service Payments (of all debt secured by this revenue) | Debt Service as a Percentage of Pledged Revenue |
|---|---|---|---|
| Tax increment revenue | $ 7,170,543 | $ | 0.00% |
| Charges for services | 17,917,423 | 8,608,085 | 48.04% |
| Loan repayment revenue | 10,625,077 | 10,623,927 | 99.99% |

## 8: Long-Term Liabilities (Continued)

Rate Covenants

Under various debt issues, the City has agreed to set charges for water and wastewater services each year at rates sufficient to produce net revenues (after paying operating and maintenance expenses, excluding depreciation and interest) of at least 1.20 and 1.15 times the debt service on the bonds for that year for the Water and Wastewater Fund, respectively. For the year ended June 30, 2012, the City met this requirement, as follows:

| | Water | Wastewater |
|---|---|---|
| Gross revenues, excluding intergovernmental revenue and developer contributions | $ 43,648,583 | $ 27,943,663 |
| Operating and maintenance expenses, excluding depreciation, interest and transfers | 37,208,854 | 16,465,969 |
| Net revenues | 6,439,729 | 11,477,694 |
| Amount required: | | |
| Debt service payments | 3,383,810 | 5,224,275 |
| Coverage required | 1.20 | 1.15 |
| Amount required | 4,060,572 | 6,007,916 |
| Excess of net revenues | $ 2,379,157 | $ 5,469,778 |

## 9: Fund Balance and Net Assets

### A. Fund Balance Classifications

| | General | Special Revenue<br>Successor Agency Housing | Debt Service<br>Community Development Commission | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|
| Nonspendable: | | | | | |
| Advances to other funds | $ 159,250 | $ | $ | $ 750,000 | $ 909,250 |
| Noncurrent loans receivable | 4,994,847 | 34,614,766 | | 15,588,355 | 55,197,968 |
| Inventory | | | | 12,058 | 12,058 |
| Prepaid expenditures | | | | 10,213 | 10,213 |
| Deposits | 26,250 | | | 39,660 | 65,910 |
| Land held for resale | | 2,600,477 | | 967,970 | 3,568,447 |
| Restricted for: | | | | | |
| Housing & community development | | 7,788,741 | | 448,683 | 8,237,424 |
| Debt service | | | | 10,253,176 | 10,253,176 |
| Capital projects | | | | 6,109,032 | 6,109,032 |
| Street maintenance | | | | 7,725,511 | 7,725,511 |
| Landscape and assessment districts | | | | 782,168 | 782,168 |
| Other grants | | | | 18,236 | 18,236 |
| Daley Ranch | | | | 712,918 | 712,918 |
| Park development | | | | 255,949 | 255,949 |
| Committed to: | | | | | |
| Emergency reserve | 23,284,660 | | | | 23,284,660 |
| Economic development | 8,653,584 | | | | 8,653,584 |
| Capital projects | | | | 5,080,508 | 5,080,508 |
| Parks & recreation | | | | 55,790 | 55,790 |
| Daley Ranch restoration | | | | 8,845 | 8,845 |
| Reidy Creek Golf Course | | | | 63,442 | 63,442 |
| Assigned to: | | | | | |
| Underground waivers | 262,336 | | | | 262,336 |
| Carryovers | 308,515 | | | | 308,515 |
| Library Trust | 281,630 | | | | 281,630 |
| Capital projects | | | | 447,148 | 447,148 |
| Unassigned | 753,121 | | | (1,021,715) | (268,594) |
| Total Fund Balances (Deficits) | $ 38,724,193 | $ 45,003,984 | $ | $ 48,307,947 | $ 132,036,124 |

## 9: Fund Balance and Net Asset (Continued)

### B. Restatements

Fund balance restatements were made for the following:

| | |
|---|---|
| Nonmajor Governmental Fund: | |
| Miscellaneous: | |
| To reclassify land held for resale previously purchased with grant funds | 1,012,352 |
| Low and Moderate Income Housing: | |
| To reclassify land held for resale previously purchased with grant funds | (1,012,352) |
| Total Fund Balance Restatements | $ |

## 10: Self-Insurance and Contingent Liabilities

The City is a member of the San Diego Pooled Insurance Program Authority (SANDPIPA) which provides liability coverage to its members. As a member, the City carries a self-insured retention of $500,000 and is insured through SANDPIPA from $500,000 to $2,500,000. In addition, SANDPIPA has purchased excess insurance coverage above $2,500,000 to $45,000,000 for all of its members, including the City.

The Board of Directors elects three members (including a President and Vice President) to the Executive Committee, which has the responsibility for overseeing all operations of SANDPIPA, including preparation and submission of the annual operating budget to the Board of Directors for its approval and modification, if deemed necessary.

Annual premiums are approved by the Board of Directors and are adjusted each year based on the following criteria:

- SANDPIPA's overall funding requirement
- Exposure base = general liability exposure – DE 6 payroll total for each member; plus automobile liability – the number of vehicles by major type for each member
- Loss experience = Each members' share of total incurred SANDPIPA layer losses for 5 years – 100% of paid losses and 20% of reserves; all losses capped at $750,000
- Historical contributions = each members' historical contribution less dividends paid (percentage of total contributions of all members)

Assessments are recommended by the Underwriting Committee and approved by the Board of Directors and are determined by:

- Identifying the claims leading to the shortfall
- Amounts apportioned by the insurance year
- Each members' percentage applied to the overall assessment
- Assessment amount determined for program year
- Administrative fees and excess insurance are not included

## 10: Self-Insurance and Contingent Liabilities (Continued)

If and when SANDPIPA is dissolved, the remaining assets, after all premiums and assessments have been paid and final disposition of all claims has been determined, will be distributed to members proportionate to each city's cash contributions made during the life of SANDPIPA. Until dissolution, however, no city has identifiable equity in SANDPIPA.

As of June 30, 2012, the City has recorded general self-insurance and workers' compensation liabilities of $5,047,342 and $10,188,715, respectively, for a total of $15,236,057. The City is self-insured for workers' compensation up to $500,000, but has purchased outside insurance coverage for individual claims in excess of $500,000 up to a maximum of $5,000,000 per claim through the CSAC Excess Insurance Authority, a risk management joint powers authority, with additional reinsurance of $300,000,000 per occurrence. Only the probable amounts of loss as estimated by legal counsel and the City, including an estimate for incurred but not reported losses, have been recorded as liabilities in the accompanying financial statements.

Increases and decreases in claim liabilities for changes in estimates are charged to expense in the period in which the estimates are adjusted. For the past three years, no settlements or claims payments have exceeded the amount of the applicable insurance coverage. For the past two fiscal years, the changes in the City's liability for claims payable are summarized as follows:

| | Beginning Balance | Claims Incurred and Charges in Estimates | Less Claim Payments | Ending Balance |
|---|---|---|---|---|
| 2009-10 | $ 10,472,701 | $ 2,488,187 | $ (1,561,278) | $ 11,399,610 |
| 2010-11 | 11,399,610 | 1,533,593 | (1,715,694) | 11,217,509 |
| 2011-12 | 11,217,509 | 6,104,192 | (2,085,644) | 15,236,057 |

## 11: Debt without Government Commitment

Mortgage Revenue Bonds

The City has issued mortgage revenue bonds for low-income multifamily dwellings. These bonds are not included in the accompanying financial statements, as these bonds are payable solely from the related mortgage loans in which the bond proceeds were invested. They are as follows:

| | Original Issue Amount | Balances at June 30, 2012 | Due Date |
|---|---|---|---|
| Via Robles | $ 9,500,000 | $ 6,900,000 | November 15, 2036 |
| Heritage Park | 7,450,000 | 4,250,000 | July 15, 2033 |
| Total Mortgage Revenue Bonds | $ 16,950,000 | $ 11,150,000 | |

Special Assessment Debt Without Government Commitment

In January 1998 the City issued $4,435,000 in Limited Obligation Improvement Refunding Bonds for the Auto Parkway project. Interest payments commenced March 2, 1999 and are paid semiannually thereafter on September 2 and March 2 of each year. Principal payments commenced September 2, 1999 and are paid annually in amounts ranging from $10,000 to $190,000, commencing 1999 and ending 2008. In addition, $2,505,000 of Term Bonds are due September 2, 2018. These bonds were issued to refund the Limited Obligation Bonds issued in July 1988 for Assessment District No. 86-1-R. On June 30, 2012, the 86-1-R Limited Obligation Improvement Refunding Bonds outstanding were $1,890,000.

In August 1998, the City issued $5,105,000 in Limited Obligation Refunding Bonds for Assessment District No. 98-1 (Rancho San Pasqual). Interest payments commenced March 2, 1999 and are paid semiannually thereafter on March 2 and September 2 and annual principal payments are made on September 2 in amounts ranging from $80,000 to $165,000 commencing in 1999 and ending in 2013. In addition, $3,040,000 of Term Bonds are due September 2, 2026. These bonds were issued to refund the Limited Obligation Improvements Bonds issued in September 1995 for Rancho San Pasqual Assessment District No. 95-1. On June 30, 2012, the 98-1 Limited Obligation Refunding Bonds outstanding were $3,340,000.

In October 2001, the City issued $3,085,000 in Special Tax Bonds for Community Facility District No. 2000-01 (Hidden Trails). Interest payments commenced September 1, 2002, and are paid semiannually thereafter on September 1 and March 1 of each year. Principal payments commence September 1, 2003 and are paid annually in amounts ranging from $45,000 to $110,000, commencing 2003 and ending 2020. In addition, $1,785,000 of Term Bonds are due September 1, 2031. The bonds were issued to finance various public improvements needed to develop property located within Community Facilities District No. 2000-01 (Hidden Trails). The principal outstanding balance as of June 30, 2012, was $2,575,000.

## 11: Debt without Government Commitment (Continued)

In October 2006, the City issued $18,080,000 in Special Tax Bonds for Community Facility District No. 2006-01 (Eureka Ranch). Interest payments commenced March 1, 2007 and are paid semiannually thereafter on September 1 and March 1 of each year. Principal is paid annually in amounts ranging from $330,000 to $530,000, commencing September 1, 2009 and ending September 1, 2020. In addition, $3,730,000 and $9,300,000 of Term Bonds are due September 1, 2026 and 2036 respectively. The bonds were issued to finance various public improvements needed to develop property located within Community Facilities District No. 2006-01 (Eureka Ranch). The principal outstanding balance as of June 30, 2012, was $16,935,000.

The bonds are secured by and payable from the proceeds of annual special assessment taxes levied and collected on the property within the Districts. The bonds are not general or special obligations of the City of Escondido. The City is not obligated in any manner for the payment of debt service in the event of default by the property owners but is only acting as an agent for the property owners in collecting the assessments, forwarding the collections to bondholders, and initiating foreclosure proceedings, if appropriate. Neither the faith and credit nor taxing power of the City is pledged to the payment of these bonds. Accordingly, no liability for these bond issuances has been recorded and all debt service transactions have been recorded as an agency fund.

## 12: Defeasance of Debt from Previous Years

In prior years the City defeased certain general obligations and other bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly the trust account assets and liability for the defeased bonds were not included in the City's financial statements. On June 30, 2012, there were no defeased bonds outstanding.

## 13: City Employees Retirement Plans

Defined Benefit Pension Plan (PERS)

Plan Description

The City of Escondido contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement, disability benefits, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Copies of PERS' annual financial reports may be obtained from its executive office at Lincoln Plaza North, 400 "Q" Street, Sacramento, California 95811.

Funding Policy

Participants under the miscellaneous plan are required to contribute 8% of their annual covered salary. The City previously made 7% of the 8% contributions required of City employees on their behalf and for their account, but effective between June 30, 2011 and August 7, 2011, the City no longer pays the employee portion for the Miscellaneous Plan. Participants under the safety plan are required to contribute 9% of their annual covered salary of which, the City pays all of the Police employees required contribution. The Fire employees pay their own required contribution. Benefit provisions and all other requirements are established by state statute and City contract

## 13: City Employees Retirement Plans (Continued)

with employee bargaining groups and the employer contribution rate is established and may be amended by PERS.

Annual Pension Cost

Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2011 to June 30, 2012, has been determined by an actuarial valuation of the plan as of June 30, 2011. The contribution rate indicated for the period is 22.728% of payroll for the miscellaneous plan and 33.966% of payroll for the safety plan. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2012, the contribution rate is multiplied by the payroll of covered employees that were paid during the period from July 1, 2011 to June 30, 2012.

Three-Year Trend Information
Annual Pension Cost (Employer Contribution)

| Fiscal Year | Safety | Miscellaneous | Percentage of APC Contributed | Net Pension Obligation |
|---|---|---|---|---|
| 6/30/2010 | $ 6,448,527 | $ 6,181,753 | 100% | $ |
| 6/30/2011 | 6,299,964 | 6,265,276 | 100% | |
| 6/30/2012 | 6,850,763 | 6,821,337 | 100% | |

Funded Status and Funding Progress

As of June 30, 2011, the most recent actuarial valuation date, the miscellaneous and safety plans were 77.5% and 82.8% funded, respectively. The actuarial accrued liability for benefits was $289,371,286 and $264,683,120 for miscellaneous and safety, respectively, and the actuarial value of assets was $224,366,487 and $219,102,277 for miscellaneous and safety, respectively, resulting in an unfunded actuarial accrued liability (UAAL) of $65,004,799 and $45,580,843 for miscellaneous and safety, respectively. The covered payroll (annual payroll of active employees covered by the plans) were $32,582,511 and $20,389,124 for miscellaneous and safety, respectively, and the ratios of the UAAL to the covered payroll were 199.5% and 223.6% for miscellaneous and safety, respectively.

The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

## 13: City Employees Retirement Plans (Continued)

A summary of principle assumptions and methods used for the most recent actuarial valuation are as follows:

| | Miscellaneous Plan | Safety Plan |
|---|---|---|
| Valuation Date | June 30, 2011 | June 30, 2011 |
| Actuarial Cost Method | Entry Age Actuarial Cost Method | Entry Age Actuarial Cost Method |
| Amortization Method | Level Percent of Payroll | Level Percent of Payroll |
| Average Remaining Period | 20 Years as of the Valuation Date | 27 Years as of the Valuation Date |
| Asset Valuation Method | 15 Year Smoothed Market | 15 Year Smoothed Market |
| Actuarial Assumptions: | | |
| Investment Rate of Return | 7.50% (net of administrative expenses) | 7.50% (net of administrative expenses) |
| Projected Salary Increases | 3.30% to 14.20% depending on Age, Service, and type of employment | 3.30% to 14.20% depending on Age, Service, and type of employment |
| Inflation | 2.75% | 2.75% |
| Payroll Growth | 3.00% | 3.00% |
| Individual Salary Growth | A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25% | A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25% |

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into Ca1PERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling 30-year period, which results in an amortization of 6% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30-year amortization period.

Defined Contribution Plan

In accordance with the Federal Omnibus Budget Reconciliation Act of 1990, the City established pension benefits for all of its part-time employees through Public Agency Retirement Services (PARS) which is a private administrator of pension plans that administers for the City a defined contribution plan, qualifying under sections 401 and 501 of the Internal Revenue Code. PARS acts as a common investment and administrative agent for participating public entities within the State of California. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The City by Council action and agreements with labor bargaining units has the authority to establish or amend the plan provisions and contribution requirements, subject to the constraints and limitations imposed by PARS as a part of the plan design options it offers to participating employers.

For the year ended June 30, 2012, the City's total covered payroll was $2,235,289. The City made employer contributions of $9,739 (0.44 percent of covered payroll), and employees contributed $157,468 (7.05 percent of covered payroll). All eligible employees are covered by the plan and

## 13: City Employees Retirement Plans (Continued)

are fully vested. Employer liabilities are limited to the amount of current contributions. The plan covers part-time, seasonal, or temporary employees, and all employees not covered by another retirement system, subject to the requirements of Section 3121 of the Internal Revenue Code.

## 14: Other Disclosures

On February 8, 2006, the City entered into a developer agreement with Palomar Pomerado Health (Hospital). The Hospital made a onetime payment to the City in the amount of $13 million (deposit) for the City to construct certain Citracado Parkway improvements (project). The deposit is to be jointly controlled by the City and the Hospital. The City is entitled to draw from the deposit so long as the funds are used exclusively on the project. At June 30, 2012, the balance is $13,920,994.

## 15: Contingencies

Litigation

Various claims and suits have been filed against the City in the normal course of business. Although the outcome of these matters is not presently determinable in the opinion of legal counsel, the city believes that the resolutions of these matters will not have a material adverse effect on the financial condition of the City.

Advances to Successor Agency

In accordance with AB X1 26 which dissolves redevelopment agencies, Section 34171(d)(2) states, in relation to borrowings between the City and the Agency, that “for purposes of this part, enforceable obligation does not include any agreements, contracts, or arrangements between the city, county, or city and county that created the redevelopment agency. However, written agreements entered into (A) at the time of issuance, but in no event later than December 31, 2010, of indebtedness obligations, and (B) solely for the purpose of securing or repaying those indebtedness obligations may be deemed enforceable obligations for the purposes of this part. Notwithstanding this paragraph, loan agreements entered into between the redevelopment agency and the city, county, or city and county that created it, within two years of the date of creation of the redevelopment agency, may be deemed to be enforceable obligations”. The City believes these are to be upheld as viable enforceable obligations and have been included on the Recognized Obligation Payment Schedule (ROPS) from the Successor Agency. Certain amounts have been denied by the Department of Finance and these borrowings are currently in litigation and the possible outcome is unknown at this time.

## 16: Construction Commitments

The following material construction commitments existed at June 30, 2012:

| Project Name | Contract Amount | Expenditures to date as of June 30, 2012 | Remaining Commitments |
|---|---|---|---|
| Reconstruction of Fire Station #4 | $ 2,565,000 | $ 862,972 | $ 1,702,028 |
| Annual Street Maintenance Project | 5,020,004 | 145,169 | 4,874,835 |
| Water Pipeline Replacement | 1,782,000 | 542,857 | 1,239,143 |
| Maple Street Pedestrian Plaza | 2,339,412 | 1,497,860 | 841,552 |

## 17: Successor Agency Trust For Assets of the Former Redevelopment Agency

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 ("the Bill") that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City of Escondido that previously had reported a redevelopment agency within the reporting entity of the City as a blended component unit.

The Bill provides that upon dissolution of a redevelopment agency, either the city or another unit of local government will agree to serve as the "successor agency" to hold the assets until they are distributed to other units of state and local government. On January 25, 2012, the City Council elected to become the Successor Agency for the former redevelopment agency in accordance with the Bill as part of City resolution number 2012-16.

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

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

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

Management believes, in consultation with legal counsel, that the obligations of the former redevelopment agency due to the City are valid enforceable obligations payable by the successor agency trust under the requirements of the Bill. The City's position on this issue is not a position of settled law and there is considerable legal uncertainty regarding this issue. It is reasonably possible that a legal determination may be made at a later date by an appropriate judicial authority that would resolve this issue unfavorably to the City.

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

Prior to that date, the final seven months of the activity of the redevelopment agency continued to be reported in the governmental funds of the City. After the date of dissolution, the assets and activities of the dissolved redevelopment agency are reported in a fiduciary fund (private-purpose trust fund) in the financial statements of the City.

## 17: Successor Agency Trust For Assets of the Former Redevelopment Agency (Continued)

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

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

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

| | |
|---|---|
| Total extraordinary loss reported in the governmental funds - increase to net assets of the Succesory Agency Trust Fund | $ (21,191,043) |
| Capital assets recorded in the government-wide financial statements - increase to net assets of the Successor Agency Trust Fund | 39,346,722 |
| Accrued bond interest reported in the government-wide financial statements - decrease in net assets of the Successor Agency Bond Trust Fund | (904,036) |
| Unamortized deferred bond issuance costs reported in the government-wide financial statements - increase to net assets of the Successor Agency Trust Fund | 608,805 |
| Unamortized bond premiums/discounts reported in the government-wide financial statements - decrease to net assets of the Successor Agency Trust Fund | (1,131,137) |
| Long-term debt reported in the government-wide financial statements - decrease to net assets of the Successor Agency Trust Fund | (46,423,303) |
| Net decrease to net assets of the Successor Agency Trust Fund as a result of initial transfers (equal to amount of extraordinary gain reported in the government-wide financial statements of the City) | $ (29,693,992) |

## 17: Successor Agency Trust For Assets of the Former Redevelopment Agency (Continued)

### A. Cash and investments

Cash and investments reported in the accompanying financial statements consisted of the following:

| | |
|---|---|
| Cash and investments | $ 5,351,295 |
| Cash and investments with fiscal agent | 347,641 |
| | $ 5,698,936 |

### B. Capital Assets

The following capital assets were transferred from the former CDC to the Successor Agency as of February 1, 2012, as a result of the dissolution.

An analysis of capital assets as of June 30, 2012, is as follows:

| | Balance at July 1, 2011 | Transfer from former CDC | Additions | Deletions | Balance at June 30, 2012 |
|---|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | | |
| Land | $ | $ 2,766,714 | $ | $ | $ 2,766,714 |
| Total capital assets, not being depreciated | | 2,766,714 | | | 2,766,714 |
| Capital assets, being depreciated: | | | | | |
| Land improvements | | 139,295 | | | 139,295 |
| Buildings | | 82,080,470 | | | 82,080,470 |
| Machinery and equipment | | 276,473 | | | 276,473 |
| Total capital assets, being depreciated | | 82,496,238 | | | 82,496,238 |
| Less accumulated depreciation for: | | | | | |
| Land improvements | | 139,295 | | | 139,295 |
| Buildings | | 45,500,462 | 1,140,006 | | 46,640,468 |
| Machinery and equipment | | 276,473 | | | 276,473 |
| Total accumulated depreciation | | 45,916,230 | 1,140,006 | | 47,056,236 |
| Total capital assets being depreciated, net | | 36,580,008 | (1,140,006) | | 35,440,002 |
| Total capital assets, net | $ | $ 39,346,722 | $ (1,140,006) | $ | $ 38,206,716 |

## 17: Successor Agency Trust For Assets of the Former Redevelopment Agency (Continued)

### C. Long-Term Debt

The following debt was transferred from the former CDC to the Successor Agency as of February 1, 2012, as a result of the dissolution.

A description of long-term debt outstanding (excluding defeased debt) of the Successor Agency as of June 30, 2012, follows:

| | Balance at July 1, 2011 | Transfers from former CDC | Additions | Reductions | Balance at June 30, 2012 | Due Within One Year | Due Beyond One Year |
|---|---|---|---|---|---|---|---|
| Advances from the City of Escondido | $ | $ 18,855,339 | $ 298,759 | $ | $ 19,154,098 | $ | $ 19,154,098 |
| 1992 Tax Allocation Revenue Bonds | | 4,163,303 | 133,773 | | 4,297,076 | 2,216,826 | 2,080,250 |
| 2007 A & B Lease Revenue Bonds | | 42,260,000 | | | 42,260,000 | 6,715,000 | 35,545,000 |
| Total | $ | $ 65,278,642 | $ 432,532 | $ | 65,711,174 | $ 8,931,826 | $ 56,779,348 |
| Unamortized Bond Premium | | | | | 1,327,710 | | |
| Unamortized Gain on Refunding | | | | | (264,714) | | |
| Total | | | | | $ 66,774,170 | | |

Advances from the City of Escondido

The Community Development Commission Debt Service Fund had received monies from the General Fund, Street Special Revenue Fund and Community Development Commission Low and Moderate Income Housing Fund for use in its operations, capital improvement projects, and Educational Revenue Augmentation Fund payments made for fiscal years 1992-93 through 1994-95 and 2003-04 through 2005-06. For certain of these advances, interest is accrued at the average annual 20-year municipal bond rate plus one percent, which equated to 5.79% for the year ended June 30, 2012. Accrued interest on the advances amounting to $10,634,000 has been accrued as matured unpaid interest and has been added to the principal in the accompanying financial statements. At June 30, 2012, the outstanding balance of the advances from other funds totaled $19,154,098 consisting of $8,520,098 of principal and $10,634,000 of matured unpaid interest.

Tax Allocation Bonds

On June 14, 2012, Moody’s Investors Service (“Moody’s”) downgraded all California tax allocation bonds rated ‘Baa3’ and above. As such, the Bonds’ insured rating was downgraded from ‘A3’ to ‘Ba1’ and underlying rating was downgraded from ‘A3’ to ‘Ba1’. According to Moody’s, all California tax allocation bond ratings remain on review for possible withdrawal.

## 17: Successor Agency Trust For Assets of the Former Redevelopment Agency (Continued)

In January 1992, the Escondido Joint Powers Financing Authority issued $35,986,152 Revenue Bonds Series 1992 for the purpose of making a loan to the Escondido Community Development Commission. In December 2001, the Commission issued $22,420,000 Revenue Bonds to advance refund $23,585,000 of the bonds. The remaining bonds consist of capital appreciation bonds in the initial amounts of $612,259 and $568,893 due on September 1, 2012 and September 1, 2013, respectively, in the accreted amounts of $2,240,000 each. The outstanding balance at June 30, 2012, includes $3,115,923 of accreted value of the capital appreciation bonds. The outstanding balance at June 30, 2012, is $4,297,076.

Lease Revenue Bonds

In January 2007, the Escondido Joint Powers Financing Authority issued $40,025,000 2007A Lease Revenue Refunding Bonds and $16,525,000 2007B Taxable Lease Revenue Refunding Bonds to refund the 1995 Certificates of Participation (COP) Lease Revenue Bonds, originally issued in the principal amount of $51,385,757 to provide financing for the Civic Center Construction project. As a result, the 1995 COP is considered to be defeased and the respective liability has been removed from the statement of net assets.

The 2007A Lease Revenue Refunding Bonds bear interest rates between 3.6% to 4.02% payable semiannually on March 1 and September 1 of each year. The 2007A Lease Revenue Refunding Bonds mature between September 1, 2009 and September 1, 2018 in amounts ranging from $850,000 to $5,025,000. The 2007B Taxable Lease Revenue Refunding Bonds mature on September 1, 2018 at 5.53% rate. The 2007B bonds are subject to mandatory redemption from a sinking fund account in amounts ranging from $930,000 to $2,045,000 commencing September 1, 2009. Both 2007A and 2007B bonds are subject to mandatory redemption as a whole or in part on any date without premium, from unused insurance or condemnation proceed as described in the bond covenants. The reserve for 2007A and 2007B bonds was in form of surety bond and fully funded. The outstanding balance at June 30, 2012, is $42,260,000. Unamortized bond premium and gain on refunding was $1,327,710 and $264,714 respectively, at June 30, 2012. Unamortized deferred bond issuance costs were $572,130 at June 30, 2012.

Debt Service Requirements to Maturity - Governmental Activities

The annual requirements to amortize outstanding long-term debt including accreted values through maturity, excluding amounts for employee leave benefits payable, claims payable and loans payable are as follows (expressed in thousands of dollars):

| Year Ending June 30 | Tax Allocation Bonds* | | Lease Revenue Bonds | |
|---|---|---|---|---|
| | Principal | Interest | Principal | Interest |
| 2013 | $ 2,240 | $ | $ 6,715 | $ 2,001 |
| 2014 | 2,240 | | 3,475 | 1,742 |
| 2015 | | | 5,785 | 1,504 |
| 2016 | | | 6,085 | 1,198 |
| 2017 | | | 6,400 | 876 |
| 2018-2022 | | | 13,800 | 719 |
| Total Debt Service Payments | $ 4,480 | $ | $ 42,260 | $ 8,040 |

*These totals include capital appreciation of $182,924 that will be accrued in future years.

## 17: Successor Agency Trust For Assets of the Former Redevelopment Agency (Continued)

<u>Pledged Revenue</u>

The former CDC pledged, as security for bonds issued, either directly or through the Financing Authority, a portion of tax increment revenue (including Low and Moderate Income Housing set-aside and pass through allocations) that it receives. The bonds issued were to provide financing for various capital projects, accomplish Low and Moderate Income Housing projects and to defease previously issued bonds. Assembly Bill 1X 26 provided that upon dissolution of the Redevelopment Agency, property taxes allocated to redevelopment agencies no longer are deemed tax increment but rather property tax revenues and will be allocated first to successor agencies to make payments on the indebtedness incurred by the dissolved redevelopment agency. Total principal and interest remaining on the debt is $4,480,000 with annual debt service requirements as indicated above. For the current year, the total property tax revenue recognized by the CDC and Successor Agency for the payment of indebtedness incurred by the dissolved CDC was $12,188,772 and the debt service obligation on the bonds was $0.

### D. Insurance

The Successor Agency is covered under the City of Escondido's insurance policies. Therefore, the limitation and self-insured retentions applicable to the City also apply to the Successor Agency. Additional information as to coverage and self-insured retentions can be found in Note 10.

### E. Commitments and Contingencies

At June 30, 2012, the Successor Agency was involved as a defendant in several lawsuits arising out of the ordinary conduct of its affairs. It is the opinion of management that settlements of these lawsuits, including losses for claims that are incurred but not reported, if any, will not have a material effect on the financial position of the Successor Agency.

### F. Subsequent Events

Assembly Bill 1484 established a requirement for the successor agency to remit to the County auditor-controller three payments as determined by the auditor-controller which consist of a payment to be made in July 2012 for taxing entities' share of December 2011 property tax distribution to redevelopment agency/successor agency, a payment to be made in November 2012 related to Low-Moderate Income Housing Fund Due Diligence Review for unencumbered cash, and a payment to be made in April 2013 related to the other Redevelopment Funds Due Diligence Review for unencumbered cash. As of the date of the report the payment in July 2012 was made in the amount of $10,145,052. In addition, the Low-Moderate Income Housing Due Diligence Review resulted in an amount due of $3,702,248 which was confirmed by the Department of Finance and paid in December 2012. The other Redevelopment Funds Due Diligence Review resulted in no amounts due; however, this has not been confirmed by the Department of Finance.

*Escondido Creek*

# Required Supplementary Information

# CITY OF ESCONDIDO
## Public Employees Retirement System
## Schedule of Funding Progress
## June 30, 2012

The Schedule of Funding Progress below show the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded actuarial accrued liability to payroll. The schedule of funding progress, presented below presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Safety Employees

| Actuarial Valuation Date | Accrued Liability (AAL) Entry Age | Actuarial Value of Assets | Unfunded Actuarial Accrued Liability (UAAL) | Funded Ratio | Covered Payroll | UAAL as a Percent of Covered Payroll |
|---|---|---|---|---|---|---|
| 6/30/2009 | $ 242,874,783 | $ 196,476,776 | $ 46,398,007 | 80.9% | $ 21,466,012 | 216.1% |
| 6/30/2010 | 252,291,718 | 207,089,859 | 45,201,859 | 82.1% | 21,499,550 | 210.2% |
| 6/30/2011 | 264,683,120 | 219,102,277 | 45,580,843 | 82.8% | 20,389,124 | 223.6% |

Miscellaneous Employees

| Actuarial Valuation Date | Accrued Liability (AAL) Entry Age | Actuarial Value of Assets | Unfunded Actuarial Accrued Liability (UAAL) | Funded Ratio | Covered Payroll | UAAL as a Percent of Covered Payroll |
|---|---|---|---|---|---|---|
| 6/30/2009 | $ 263,284,777 | $ 199,668,046 | $ 63,616,731 | 75.8% | $ 36,734,986 | 173.2% |
| 6/30/2010 | 273,248,044 | 211,856,211 | 61,391,833 | 77.5% | 33,837,511 | 181.4% |
| 6/30/2011 | 289,371,286 | 224,366,487 | 65,004,799 | 77.5% | 32,582,511 | 199.5% |

# CITY OF ESCONDIDO
## General Fund
## Budgetary Comparison Schedule
## For the Year Ended June 30, 2012

| | Original Budget Amounts | Final Budget Amounts | Actual | Variance Over (Under) |
|---|---|---|---|---|
| Revenues: | | | | |
| Sales Tax: | | | | |
| Sales tax | $ 19,845,995 | $ 21,198,000 | $ 21,452,896 | $ 254,896 |
| In-lieu sales tax | 6,171,000 | 6,301,000 | 6,301,032 | 32 |
| Total Sales Tax | 26,016,995 | 27,499,000 | 27,753,928 | 254,928 |
| Other Taxes: | | | | |
| Property taxes | 10,079,000 | 10,086,000 | 9,939,516 | (146,484) |
| Property transfer tax | 400,000 | 370,000 | 318,924 | (51,076) |
| Franchise tax | 6,641,000 | 6,220,000 | 6,092,159 | (127,841) |
| Transient occupancy tax | 986,000 | 1,169,000 | 1,203,157 | 34,157 |
| Business license tax | 1,567,000 | 1,482,000 | 1,475,163 | (6,837) |
| Miscellaneous other taxes | 370,000 | 363,000 | 1,852,668 | 1,489,668 |
| Total Other Taxes | 20,043,000 | 19,690,000 | 20,881,587 | 1,191,587 |
| Licenses and Permits: | | | | |
| Tow licenses | 400,000 | 400,000 | 450,000 | 50,000 |
| Building permits | 593,000 | 593,000 | 215,946 | (377,054) |
| Other licenses and permits | 188,000 | 188,000 | 155,434 | (32,566) |
| Total Licenses and Permits | 1,181,000 | 1,181,000 | 821,380 | (359,620) |
| Fines and Forfeits: | | | | |
| Vehicle code fines | 484,000 | 484,000 | 500,840 | 16,840 |
| Parking ticket fines | 210,000 | 210,000 | 196,219 | (13,781) |
| Library fines | 70,000 | 70,000 | 87,058 | 17,058 |
| Booking fees | 70,000 | 70,000 | 85,472 | 15,472 |
| Red light photo citations | 516,000 | 312,000 | 429,226 | 117,226 |
| Other fines | 505,000 | 347,000 | 341,713 | (5,287) |
| Total Fines and Forfeits | 1,855,000 | 1,493,000 | 1,640,528 | 147,528 |

(Continued)

See Note to Required Supplementary Information.

# CITY OF ESCONDIDO
## General Fund
## Budgetary Comparison Schedule (Continued)
## For the Year Ended June 30, 2012

| | Original Budget Amounts | Final Budget Amounts | Actual | Variance Over (Under) |
|---|---|---|---|---|
| Intergovernmental: | | | | |
| State motor vehicle in lieu | 469,000 | 469,000 | 377,421 | (91,579) |
| Property tax in-lieu | 10,620,000 | 10,397,000 | 10,396,854 | (146) |
| Grants | 735,000 | 470,550 | 621,650 | 151,100 |
| Rincon fire operation fees | 1,752,000 | 1,900,000 | 1,899,336 | (664) |
| Miscellaneous agencies | | 165,000 | 114,861 | (50,139) |
| Total Intergovernmental | 13,576,000 | 13,401,550 | 13,410,122 | 8,572 |
| Charges for Services: | | | | |
| Zoning and subdivision fees | 68,000 | 68,000 | 39,376 | (28,624) |
| Annexation fees | 5,000 | 5,000 | | (5,000) |
| Sale of maps and publications | 1,000 | 1,000 | 114 | (886) |
| Plan check fees | 168,000 | 168,000 | 159,514 | (8,486) |
| Environmental impact report | 5,000 | 5,000 | 2,955 | (2,045) |
| Engineering and inspection fees | 447,000 | 447,000 | 472,632 | 25,632 |
| Special police services | 628,000 | 661,000 | 629,609 | (31,391) |
| Fire and paramedic services | 3,996,430 | 4,036,430 | 3,864,376 | (172,054) |
| Processing fees | 73,000 | 73,000 | 39,375 | (33,625) |
| Senior services | 40,000 | 18,000 | 12,078 | (5,922) |
| Audio visual rentals | 45,000 | 45,000 | 61,519 | 16,519 |
| Other | 54,000 | 54,000 | 236,728 | 182,728 |
| Total Charges for Services | 5,530,430 | 5,581,430 | 5,518,276 | (63,154) |
| Investment income | 532,000 | 532,000 | 479,015 | (52,985) |
| Miscellaneous: | | | | |
| Rent | 2,941,000 | 3,472,000 | 3,435,089 | (36,911) |
| Contributions | 39,000 | 74,230 | 38,799 | (35,431) |
| Mobile home fees | 55,000 | 55,000 | 44,529 | (10,471) |
| Library trust donations | | | 63,598 | 63,598 |
| Other | 312,000 | 329,320 | 252,400 | (76,920) |
| Total Miscellaneous | 3,347,000 | 3,930,550 | 3,834,415 | (96,135) |
| Total Revenues | 72,081,425 | 73,308,530 | 74,339,251 | 1,030,721 |

(Continued)

See Note to Required Supplementary Information.

# CITY OF ESCONDIDO
## General Fund
## Budgetary Comparison Schedule (Continued)
## For the Year Ended June 30, 2012

| | Original Budget Amounts | Final Budget Amounts | Actual | Variance Over (Under) |
|---|---|---|---|---|
| Expenditures: | | | | |
| General Government: | | | | |
| City council | 273,305 | 289,200 | 274,930 | (14,270) |
| City manager | 816,245 | 1,074,980 | 1,062,155 | (12,825) |
| City attorney | 196,130 | 245,985 | 255,156 | 9,171 |
| City clerk | 469,945 | 529,075 | 521,973 | (7,102) |
| City treasurer | 295,860 | 289,905 | 277,574 | (12,331) |
| Finance | 1,114,710 | 1,228,430 | 1,120,561 | (107,869) |
| Human resources | 462,750 | 471,739 | 438,343 | (33,396) |
| Information systems | 944,920 | 941,280 | 918,836 | (22,444) |
| Other | 1,216,270 | 935,665 | 673,023 | (262,642) |
| Total General Government | 5,790,135 | 6,006,259 | 5,542,551 | (463,708) |
| Public Safety: | | | | |
| Police | 32,911,110 | 33,198,115 | 33,156,636 | (41,479) |
| Fire | 17,273,215 | 17,452,605 | 17,332,674 | (119,931) |
| Total Public Safety | 50,184,325 | 50,650,720 | 50,489,310 | (161,410) |
| Public Works: | | | | |
| Highways and streets | 9,398,730 | 9,131,990 | 9,145,268 | 13,278 |
| Community Services: | | | | |
| Library | 3,269,005 | 3,227,310 | 3,254,572 | 27,262 |
| Community services | 2,017,945 | 2,053,205 | 2,096,347 | 43,142 |
| Community relations | 144,050 | 144,050 | 84,000 | (60,050) |
| Total Community Services | 5,431,000 | 5,424,565 | 5,434,919 | 10,354 |

(Continued)

See Note to Required Supplementary Information.

# CITY OF ESCONDIDO
## General Fund
## Budgetary Comparison Schedule (Continued)
## For the Year Ended June 30, 2012

| | Original Budget Amounts | Final Budget Amounts | Actual | Variance Over (Under) |
|---|---|---|---|---|
| Community Development: | | | | |
| Planning | 1,288,335 | 1,259,490 | 1,207,513 | (51,977) |
| Building | 709,930 | 700,870 | 654,362 | (46,508) |
| Code enforcement | 900,915 | 909,670 | 858,286 | (51,384) |
| Total Community Development | 2,899,180 | 2,870,030 | 2,720,161 | (149,869) |
| Capital outlay | | | 52,928 | 52,928 |
| Debt Service: | | | | |
| Principal retirements | | | 18,299 | 18,299 |
| Total Expenditures | 73,703,370 | 74,083,564 | 73,403,436 | (751,355) |
| Excess (Deficiency) of Revenues Over Expenditures | (1,621,945) | (775,034) | 935,815 | 1,782,076 |
| Other Financing Sources (Uses): | | | | |
| Other financing sources | | | 172,232 | 172,232 |
| Transfers in | 2,260,760 | 2,286,005 | 4,422,708 | 2,136,703 |
| Transfers out | (426,815) | (1,730,680) | (1,730,678) | 2 |
| Total Other Financing Sources (Uses) | 1,833,945 | 555,325 | 2,864,262 | 2,308,937 |
| Net Change in Fund Balance | 212,000 | (219,709) | 3,800,077 | 4,091,013 |
| Fund Balance at Beginning of Year | 34,924,116 | 34,924,116 | 34,924,116 | |
| Fund Balance at End of Year | $ 35,136,116 | $ 34,704,407 | $ 38,724,193 | $ 4,091,013 |

See Note to Required Supplementary Information.

**CITY OF ESCONDIDO**
**Successor Agency Housing Fund**
**Budgetary Comparison Schedule**
**For the Year Ended June 30, 2012**

| | Original Budget Amounts | Final Budget Amounts | Actual | Variance Over (Under) |
|---|---|---|---|---|
| Revenues: | | | | |
| Other taxes | $ 4,750,000 | $ 4,750,000 | | $ (4,750,000) |
| Lease income | 33,000 | 33,000 | 29,280 | (3,720) |
| Investment income | 75,000 | 75,000 | 242,038 | 167,038 |
| Miscellaneous | | | 9,681 | 9,681 |
| Total Revenues | 4,858,000 | 4,858,000 | 280,999 | (4,577,001) |
| Expenditures: | | | | |
| Community development | 1,517,200 | 1,503,505 | 764,978 | (738,527) |
| Excess of Revenues Over Expenditures | 3,340,800 | 3,354,495 | (483,979) | (3,838,474) |
| Extraordinary gain/(loss) on dissolution of redevelopment agency (Note 17) | | | 45,487,963 | 45,487,963 |
| Net Change in Fund Balance | 3,340,800 | 3,354,495 | 45,003,984 | 41,649,489 |
| Fund Balance at Beginning of Year | | | | |
| Fund Balance at End of Year | $ 3,340,800 | $ 3,354,495 | $ 45,003,984 | $ 41,649,489 |

See Note to Required Supplementary Information.

Budgetary Data

The City adopts an annual operating budget prepared on the modified accrual basis for its general, certain special revenue and certain debt service funds. Under Section 2-59 of the Escondido City Code, the City Manager is required to prepare and submit to the City Council the annual budget of the City and administer it after adoption. Each year, the City Manager submits a proposed budget to the City Council in May. The City Council holds budget hearings in June and the final budget is adopted by the City Council before June 30. The legal level of budgetary control is at the fund level. The City Manager is authorized to transfer budgeted amounts between the accounts of any fund; however, any revisions that alter the total appropriations of any fund must be approved by City Council.

No budgetary comparisons are presented for certain special revenue, certain debt service capital projects or proprietary funds as the City is not legally required to adopt an annual budget for those funds. The special revenue funds with legally adopted budgets include the: Successor Agency Housing, Street, Parks and Recreation, Community Development Block Grant, Landscape and Assessment District, HOME and Miscellaneous Funds.

The City holds a midyear budget review meeting at which time revenue and expenditure projections are reviewed. Any necessary changes are approved by the City Council. Prior period appropriations lapse unless they are reappropriated through the formal budget process or through the carryover process. The City controls its expenditures using encumbrance accounting.

In addition to the annual operating budget, the City adopts a Five-Year Capital improvement Program. Funds are appropriated for the first year of the plan with years two through five included for planning purposes. Funds are appropriated on a project basis and are carried over until expended or the project is closed. The legal level of budgetary control is at the project level. The City Manager is authorized to transfer budgeted amounts between projects when transfers are less than $50,000 or 10% of the project. Transfers in excess of the budget policy amount must be approved by the City Council.

# Supplementary Information

# SPECIAL REVENUE FUNDS

## STREET FUND

This fund was established to account for transactions related to:

- Gasoline taxes received under Sections 2103, 2105, 2106, 2107, and 2107.5 of the Streets and Highways Code. These funds are utilized solely for street-related purposes such as new construction, rehabilitation or maintenance.

- Traffic impact fees which are collected from developers. These fees are used exclusively for street improvements that are required as the result of growth and development.

- Traffic Congestion Relief grants received from the California Department of Transportation. These funds provide monies to cities based on population levels for the rehabilitation and improvement of streets and other transportation purposes.

## PARKS AND RECREATION FUND

This fund was established to account for transactions related to:

- The purchase and development of parks with funding received from park development fees collected from developers.

- All Park and Recreation transactions. This includes operation of the East Valley Community Center, Kit Carson Park Sports Center, and the Reidy Creek Municipal Golf Course.

- The revenue received from the sale of mitigation credits. The funds will be used to provide fund restoration projects at Daley Ranch.

## COMMUNITY DEVELOPMENT BLOCK GRANT FUND

This fund was created to account for transactions related to the Community Development Block Grant provided by the Federal Government. The resources are expended for community development and housing assistance.

## LANDSCAPE AND ASSESSMENT DISTRICT FUND

This fund was created to account for transactions related to the maintenance of land-scaping in various subdivision areas throughout the City. There are currently 36 active assessment districts.

# SPECIAL REVENUE FUNDS

(Continued)

## LAW ENFORCEMENT FUND

This fund was established to account for transactions related to:

- Revenue received by the Police Department through the asset forfeiture program. The funds must be used to supplement and enhance existing law enforcement budgets.

- Transactions related to the law enforcement grants received from the Federal and State Government. These funds are used to provide front line law enforcement services and must supplement existing services.

## CABLE TECHNOLOGY FUND

This fund was created to account for a Technology Grant from Cox Communications for the purchase and installation of telecommunications equipment and services.

## LOW AND MODERATE INCOME HOUSING

This fund was created to account for the 20 percent tax increment housing set-aside required by the State when a redevelopment project area is created. The funds were used to assist low and moderate income families within the City, and include administrative costs.

## HOME FUND

This fund was created to account for transactions related to the HOME grant provided by the Department of Housing and Urban Development (HUD). The resources are expended for affordable housing programs.

# SPECIAL REVENUE FUNDS

(Continued)

### MISCELLANEOUS FUND

This fund was established to account for transactions related to:

- The maintenance and operation of the City-owned public parking lots. Funding is provided by parking permit revenues.
- Revenue received from the sale of recycled materials. The funds are used to further the effort of recycling within the city.
- The Hegyi Family Trust. Funds are used to recognize library volunteers.
- Public art fees, which are assessed when development occurs. The funds will be used to provide public art throughout the city.
- Monies received from the Frances B. Ryan Trust. The Trust was established to create the Pioneer Room, a historical perspective of Escondido, and to provide financing for its ongoing operation.

# DEBT SERVICE FUNDS

### GOLF COURSE DEBT SERVICE FUND

This fund was created to account for transactions related to debt issued for the development of two Municipal Golf Courses. Funding is provided by repayment of a loan to American Golf Corporation and a General Fund transfer.

### GENERAL OBLIGATION DEBT SERVICE FUND

This fund was created to account for transactions related to debt issued for the construction of the new public safety facilities. On November 2, 2004, Escondido voters approved Proposition P, which authorized the sale of up to $84,350,000 in municipal bonds. Funding is provided through special assessments on the property tax rolls.

### SUCCESSOR AGENCY HOUSING DEBT SERVICE FUND

This fund was created to account for transactions related to various loans due to CalHFA, including the accumulation of resources for and the payment of principal and interest on the loans. These loans were used for various Housing Set Aside development projects.

# CAPITAL PROJECT FUNDS

## STREET IMPROVEMENT FUND

This fund was created to account for projects related to street improvements. Funding is provided from a variety of sources, which include transfers from Gas Tax and Traffic Impact Funds.

## STORM DRAIN FUND

This fund was created to account for funds collected from developers when projects create a need for improvements to the City's storm drain basin system. Funds are held until collections for a specific basin make an improvement.

## PUBLIC SAFETY FACILITIES

This fund was created to account for projects related to the fire, police and paramedic 911 emergency response measure (Proposition P). These projects are intended to improve fire and police response times, better coordinate emergency/disaster response and public communication and improve paramedic response time. On November 2, 2004, Escondido voters approved Proposition P, which authorized the sale of up to $84,350,000 in municipal bonds to finance the new public safety facilities. Funding is provided through special assessments on the property tax rolls.

## GENERAL CAPITAL PROJECT FUND

This fund was created to account for transactions related to general capital projects. These projects are typically funded through transfers from General, Public Facilities, and Water and Sewer funds.

## COUNTY TRANSPORTATION STREET AND BICYCLE PROJECTS FUND

This fund was established to account for funds received:

- Through the adoption of the 1987 San Diego County Special Proposition A, this provides a transportation sales tax override to fund local street improvements.

- From SANDAG relative to the Transportation Development Act. Expenditures in this fund pertain to the development of bike paths.

## PUBLIC FACILITIES FUND

This fund was created to account for developer fees collected for public facility needs that are created as the result of growth and development in the city.

# CAPITAL PROJECT FUNDS

(Continued)

### COMMUNITY DEVELOPMENT COMMISSION FUND

This fund was established to account for transactions related to projects in the Community Development Commission. Projects were primarily related to the Civic Center project and improvements in the downtown area. Funding was primarily provided through bond issues and advances from the City’s General Fund. The repayment of the loans will be made from the available resources of the Successor Agency.

# PERMANENT FUNDS

### DALEY RANCH FUND

This fund was created to fund the City's long-term management and maintenance efforts, of Daley Ranch, as stated in the agreement with the Wildlife Agencies.

Escondido Creek

# CITY OF ESCONDIDO
## Combining Balance Sheet
## Nonmajor Governmental Funds
## June 30, 2012

| | Special Revenue Funds | | | |
|---|---|---|---|---|
| | Street | Parks and Recreation | Community Development Block Grant | Landscape and Assessment District |
| Assets: | | | | |
| Cash and investments | $ 6,239,508 | $ 1,895,966 | $ 60,357 | $ 780,669 |
| Cash and investments with fiscal agent | | | | |
| Receivables: | | | | |
| Accounts | | 102,896 | | |
| Interest | 32,507 | 15,033 | | 4,407 |
| Taxes | | | | 1,672 |
| Loans | | 1,533,457 | 272,853 | |
| Due from other governments | 1,433,750 | 85,446 | 191,383 | |
| Inventory, at cost | | 12,058 | | |
| Prepaid expenditures | | 10,213 | | |
| Deposits | | 39,660 | | |
| Land held for resale | | | | |
| Advances to other funds | | | | |
| Total Assets | $ 7,705,765 | $ 3,694,729 | $ 524,593 | $ 786,748 |
| Liabilities and Fund Balances: | | | | |
| Liabilities: | | | | |
| Payables: | | | | |
| Accounts | $ 64,978 | $ 102,027 | $ 45,812 | $ 4,580 |
| Deposits | | 140,902 | | |
| Retentions | | | | |
| Accrued expenditures | | 61,760 | 4,897 | |
| Due to other funds | | | | |
| Due to other governments | | | | |
| Deferred revenue | 824,005 | 85,446 | 371,470 | |
| Advances from other funds | | 200,000 | | |
| Total Liabilities | 888,983 | 590,135 | 422,179 | 4,580 |
| Fund Balances (Deficits): | | | | |
| Nonspendable | | 1,595,388 | | |
| Restricted | 6,816,782 | 1,381,129 | 102,414 | 782,168 |
| Committed | | 128,077 | | |
| Assigned | | | | |
| Unassigned | | | | |
| Total Fund Balances (Deficits) | 6,816,782 | 3,104,594 | 102,414 | 782,168 |
| Total Liabilities and Fund Balances | $ 7,705,765 | $ 3,694,729 | $ 524,593 | $ 786,748 |

| Special Revenue Funds | | | | | Debt Service Funds |
|---|---|---|---|---|---|
| Law Enforcement | Cable Technology | Low and Moderate Income Housing | HOME | Miscellaneous | Golf Course |
| $ | $ 18,140 | $ | $ 120,240 | $ 576,998 | $ |
| | | | | | 1,245,425 |
| 2,394 | 96 | | 2,849,726 | 5,569 | 1,986 |
| | | | 14,020,726 | | |
| 1,349,528 | | | 226,029 | 104,502 | |
| | | | | 200,000 | |
| $ 1,351,922 | $ 18,236 | $ | $ 17,216,721 | $ 887,069 | $ 1,247,411 |
| $ 90,184 | $ | $ | $ | $ 138,451 | $ |
| 19,951 | | | | 633 | |
| 990,620 | | | | | 279,716 |
| | | | | 469,988 | |
| 1,107,054 | | | 2,849,726 | 84,575 | |
| | | | | 159,250 | |
| 2,207,809 | | | 2,849,726 | 852,897 | 279,716 |
| | | | 14,020,726 | 200,000 | |
| | 18,236 | | 346,269 | | 967,695 |
| (855,887) | | | | (165,828) | |
| (855,887) | 18,236 | | 14,366,995 | 34,172 | 967,695 |
| $ 1,351,922 | $ 18,236 | $ | $ 17,216,721 | $ 887,069 | $ 1,247,411 |

(Continued)

# CITY OF ESCONDIDO
## Combining Balance Sheet
## Nonmajor Governmental Funds (Continued)
## June 30, 2012

| | Debt Service Funds | | Capital Projects Funds | |
|---|---|---|---|---|
| | General Obligation | Successor Agency Housing | Street Improvement | Storm Drain |
| Assets: | | | | |
| Cash and investments | $ 4,358,864 | $ 4,232,110 | $ 2,769,104 | $ 457,921 |
| Cash and investments with fiscal agent | | | | |
| Receivables: | | | | |
| Accounts | | | 439,803 | |
| Interest | 17,594 | 24,495 | 18,189 | 2,592 |
| Taxes | 28,988 | | | |
| Loans | | | | |
| Due from other governments | | | 627,638 | |
| Inventory, at cost | | | | |
| Prepaid expenditures | | | | |
| Deposits | | | | |
| Land held for resale | | | | |
| Advances to other funds | | | 200,000 | |
| Total Assets | $ 4,405,446 | $ 4,256,605 | $ 4,054,734 | $ 460,513 |
| Liabilities and Fund Balances: | | | | |
| Liabilities: | | | | |
| Payables: | | | | |
| Accounts | $ 1,750 | $ | $ 410,960 | $ |
| Deposits | | | 1,531,246 | 9,573 |
| Retentions | | | 137,549 | |
| Accrued expenditures | | | | |
| Due to other funds | | | | |
| Due to other governments | | | | |
| Deferred revenue | | | 866,250 | |
| Advances from other funds | | | | |
| Total Liabilities | 1,750 | | 2,946,005 | 9,573 |
| Fund Balances: | | | | |
| Nonspendable | | | 200,000 | |
| Restricted | 4,403,696 | 4,256,605 | 908,729 | 450,940 |
| Committed | | | | |
| Assigned | | | | |
| Unassigned | | | | |
| Total Fund Balances | 4,403,696 | 4,256,605 | 1,108,729 | 450,940 |
| Total Liabilities and Fund Balances | $ 4,405,446 | $ 4,256,605 | $ 4,054,734 | $ 460,513 |

| | | Capital Projects Funds | | | Permanent Fund | |
|---|---|---|---|---|---|---|
| Public Safety Facilities | General Capital Project | County Transportation Street and Bicycle Projects | Public Facilities | Community Development Commission | Daley Ranch | Total Nonmajor Governmental Funds |
| $ 74,467 | $ 6,090,920 | $ 2,263,973 | $ 4,022,212 | $ | $ 211,714 | $ 34,173,163 |
| | 704,413 | | | | | 1,949,838 |
| | | | | | | 542,699 |
| 431 | 36,102 | 12,962 | 22,665 | | 1,204 | 3,047,952 |
| | | | | | | 30,660 |
| | | | | | | 15,827,036 |
| | 64,563 | | | | | 4,082,839 |
| | | | | | | 12,058 |
| | | | | | | 10,213 |
| | | | | | | 39,660 |
| | | 802,142 | | | | 1,002,142 |
| | | | 550,000 | | | 750,000 |
| $ 74,898 | 6,895,998 | $ 3,079,077 | $ 4,594,877 | $ | $ 212,918 | $ 61,468,260 |
| | | | | | | |
| $ | $ 590,079 | $ 385,536 | $ 14,319 | $ | $ | $ 1,848,676 |
| | 17,740 | | | | | 1,699,461 |
| | 691,667 | | | | | 829,216 |
| | 4,293 | | 2,179 | | | 93,713 |
| | | | | | | 1,270,336 |
| | | | | | | 469,988 |
| | 64,563 | 5,284 | | | | 6,258,373 |
| | | | 331,300 | | | 690,550 |
| | 1,368,342 | 390,820 | 347,798 | | | 13,160,313 |
| | | | | | | |
| | | 802,142 | 550,000 | | | 17,368,256 |
| 74,898 | | 1,886,115 | 3,697,079 | | 212,918 | 26,305,673 |
| | 5,080,508 | | | | | 5,208,585 |
| | 447,148 | | | | | 447,148 |
| | | | | | | (1,021,715) |
| 74,898 | 5,527,656 | 2,688,257 | 4,247,079 | | 212,918 | 48,307,947 |
| $ 74,898 | $ 6,895,998 | $ 3,079,077 | $ 4,594,877 | $ | $ 212,918 | $ 61,468,260 |

# CITY OF ESCONDIDO
## Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
## Nonmajor Governmental Funds
## For the Year Ended June 30, 2012

| | Special Revenue Funds | | | |
|---|---|---|---|---|
| | Street | Parks and Recreation | Community Development Block Grant | Landscape Assessment District |
| Revenues: | | | | |
| Other taxes | $ | $ | $ | $ |
| Intergovernmental | 4,122,893 | 854,461 | 1,568,460 | |
| Charges for services | 164,673 | 2,857,537 | | |
| Special assessments | | | | 728,401 |
| Lease income | | | | |
| Investment income | 103,713 | 223,138 | | 9,692 |
| Miscellaneous | | 513,605 | | 5,760 |
| Total Revenues | 4,391,279 | 4,448,741 | 1,568,460 | 743,853 |
| Expenditures: | | | | |
| Current: | | | | |
| General government | | | 16,622 | |
| Public safety | 58,102 | | | |
| Public works | 737,858 | | | 671,460 |
| Community services | | 4,547,723 | 673,023 | |
| Community development | | | 189,433 | |
| Capital outlay | 598,347 | 204,554 | 1,028,453 | |
| Debt Service: | | | | |
| Principal retirements | | 4,321 | | |
| Interest and fiscal charges | | | | |
| Total Expenditures | 1,394,307 | 4,756,598 | 1,907,531 | 671,460 |
| Excess (Deficiency) of Revenues Over Expenditures | 2,996,972 | (307,857) | (339,071) | 72,393 |
| Other Financing Sources (Uses): | | | | |
| Loan proceeds | | 51,846 | | |
| Sale of capital assets | | | 216,069 | |
| Transfers in | | 53,863 | | |
| Transfers out | (2,000,000) | (1,957,620) | | |
| Total Other Financing Sources (Uses) | (2,000,000) | (1,851,911) | 216,069 | |
| Extraordinary gain/(loss) on dissolution of redevelopment agency | | | | |
| Net Change in Fund Balances | 996,972 | (2,159,768) | (123,002) | 72,393 |
| Fund Balances: | | | | |
| Beginning of fiscal year, as originally reported | 5,819,810 | 5,264,362 | 225,416 | 709,775 |
| Restatements | | | | |
| Beginning of Year, as restated | 5,819,810 | 5,264,362 | 225,416 | 709,775 |
| Net Change in Fund Balances | 996,972 | (2,159,768) | (123,002) | 72,393 |
| Fund Balances at End of Year | $ 6,816,782 | $ 3,104,594 | $ 102,414 | $ 782,168 |

| | Special Revenue Funds | | | | | Debt Service Funds |
|---|---|---|---|---|---|---|
| | Law Enforcement | Cable Technology | Low and Moderate Income Housing | HOME | Miscellaneous | Golf Course |
| | $ 2,260,778 | $ | $ | $ 1,626,964 | $ 569,743 | $ |
| | | | | | 770,641 | |
| | | | 30,744 | | | |
| | 6,820 | 268 | 55,678 | 39,385 | 34,233 | 1,766 |
| | | | 6,961 | | 13,045 | |
| | 2,267,598 | 268 | 93,383 | 1,666,349 | 1,387,662 | 1,766 |
| | 2,535,388 | | | | | |
| | | | | | 780,321 | |
| | | | | | 1,157,314 | |
| | | | 762,779 | 171,756 | 103,743 | |
| | 568,637 | | | | 498,945 | |
| | | | | | | 605,000 |
| | | | | | | 442,335 |
| | 3,104,025 | | 762,779 | 171,756 | 2,540,323 | 1,047,335 |
| | (836,427) | 268 | (669,396) | 1,494,593 | (1,152,661) | (1,045,569) |
| | | 58 | | | 78,800 | 1,025,085 |
| | | (11,000) | | | (1,951,462) | |
| | | (10,942) | | | (1,872,662) | 1,025,085 |
| | | | (45,487,963) | | | |
| | (836,427) | (10,674) | (46,157,359) | 1,494,593 | (3,025,323) | (20,484) |
| | (19,460) | 28,910 | 47,169,711 | 12,872,402 | 2,047,143 | 988,179 |
| | | | (1,012,352) | | 1,012,352 | |
| | (19,460) | 28,910 | 46,157,359 | 12,872,402 | 3,059,495 | 988,179 |
| | (836,427) | (10,674) | (46,157,359) | 1,494,593 | (3,025,323) | (20,484) |
| | $ (855,887) | $ 18,236 | $ | $ $14,366,995 | $ 34,172 | $ 967,695 |

(Continued)

## CITY OF ESCONDIDO
## Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
## Nonmajor Governmental Funds (Continued)
## For the Year Ended June 30, 2012

| | Debt Service Funds | | Capital Project Funds | |
|---|---|---|---|---|
| | General Obligation | Successor Agency Housing | Street Improvement | Storm Drain |
| Revenues: | | | | |
| Other taxes | $ | $ | $ | $ |
| Intergovernmental | | | 1,578,810 | |
| Charges for services | | | 273,432 | 145,700 |
| Special assessments | 5,163,840 | | | |
| Lease income | | | | |
| Investment income | 35,871 | 3,833 | 53,378 | 6,171 |
| Miscellaneous | | | | |
| Total Revenues | 5,199,711 | 3,833 | 1,905,620 | 151,871 |
| Expenditures: | | | | |
| Current: | | | | |
| General government | | | | |
| Public safety | | | | |
| Public works | | | 551,364 | 16,509 |
| Community services | | | | |
| Community development | | | | |
| Capital outlay | | | 1,184,480 | 87,252 |
| Debt Service: | | | | |
| Principal retirements | 1,565,000 | | | |
| Interest and fiscal charges | 3,629,195 | | | |
| Total Expenditures | 5,194,195 | | 1,735,844 | 103,761 |
| Excess (Deficiency) of Revenues Over Expenditures | 5,516 | 3,833 | 169,776 | 48,110 |
| Other Financing Sources (Uses): | | | | |
| Loan proceeds | | | | |
| Sale of capital assets | | | | |
| Transfers in | 366,094 | | | |
| Transfers out | | | (44,755) | |
| Total Other Financing Sources (Uses) | 366,094 | | (44,755) | |
| Extraordinary gain/(loss) on dissolution of redevelopment agency | | 4,252,772 | | |
| Net Change in Fund Balances | 371,610 | 4,256,605 | 125,021 | 48,110 |
| Fund Balances: | | | | |
| Beginning of fiscal year, as originally reported | 4,032,086 | | 983,708 | 402,830 |
| Restatements | | | | |
| Beginning of Year, as restated | 4,032,086 | | 983,708 | 402,830 |
| Net Change in Fund Balances | 371,610 | 4,256,605 | 125,021 | 48,110 |
| Fund Balances at End of Year | $ 4,403,696 | $ 4,256,605 | $ 1,108,729 | $ 450,940 |

| Capital Projects Funds | | | | | Permanent Fund | |
|---|---|---|---|---|---|---|
| Public Safety Facilities | General Capital Project | County Transportation Street Projects | Public Facilities | Community Development Commission | Daley Ranch | Total Nonmajor Governmental Funds |
| $ | $ | $ 3,829,508 | $ | $ | $ | $ 3,829,508 |
| | | 1,521,097 | | | | 14,103,206 |
| | | | 551,336 | | | 4,763,319 |
| | | | | | | 5,892,241 |
| | | | | | | 30,744 |
| 1,223 | 88,006 | 23,860 | 58,355 | 364 | 2,875 | 748,629 |
| | 43,880 | | | | 5,390 | 588,641 |
| 1,223 | 131,886 | 5,374,465 | 609,691 | 364 | 8,265 | 29,956,288 |
| | 845,554 | | 2,816 | | | 864,992 |
| | | | 326 | | | 2,593,816 |
| | 128,915 | 510,480 | | | | 3,396,907 |
| | 37,425 | | 166,055 | | | 6,581,540 |
| | | | | 2,438 | | 1,230,149 |
| | 1,842,127 | 2,580,168 | 507,832 | | | 9,100,795 |
| | | | | | | 2,174,321 |
| | | | | | | 4,071,530 |
| | 2,854,021 | 3,090,648 | 677,029 | 2,438 | | 30,014,050 |
| 1,223 | (2,722,135) | 2,283,817 | (67,338) | (2,074) | 8,265 | (57,762) |
| | | | | | | 51,846 |
| | 258,750 | | | | | 474,819 |
| | 2,245,550 | 44,755 | | | | 3,814,205 |
| (366,094) | (304) | | | (285) | | (6,331,520) |
| (366,094) | 2,503,996 | 44,755 | | (285) | | (1,990,650) |
| | | | | (518,769) | | (41,753,960) |
| (364,871) | (218,139) | 2,328,572 | (67,338) | (521,128) | 8,265 | (43,802,372) |
| 439,769 | 5,745,795 | 359,685 | 4,314,417 | 521,128 | 204,653 | 92,110,319 |
| 439,769 | 5,745,795 | 359,685 | 4,314,417 | 521,128 | 204,653 | 92,110,319 |
| (364,871) | (218,139) | 2,328,572 | (67,338) | (521,128) | 8,265 | (43,802,372) |
| $ 74,898 | $ 5,527,656 | $ 2,688,257 | $ 4,247,079 | $ | $ 212,918 | $ 48,307,947 |

# CITY OF ESCONDIDO
## Street Special Revenue Fund
## Budgetary Comparison Schedule
## For the Year Ended June 30, 2012

| | Final Budget Amounts | Actual | Variance Over (Under) |
|---|---|---|---|
| Revenues: | | | |
| Intergovernmental | $ 3,980,000 | 4,122,893 | $ 142,893 |
| Charges for services | 139,390 | 164,673 | 25,283 |
| Investment income | 49,600 | 103,713 | 54,113 |
| Total Revenues | 4,168,990 | 4,391,279 | 222,289 |
| Expenditures: | | | |
| Public safety | 129,180 | 58,102 | (71,078) |
| Public works | 4,903,287 | 737,858 | (4,165,429) |
| Capital outlay | 1,806,130 | 598,347 | (1,207,783) |
| Total Expenditures | 6,838,597 | 1,394,307 | (5,444,290) |
| (Deficiency) of Revenues Over Expenditures | (2,669,607) | 2,996,972 | 5,666,579 |
| Other Financing (Uses): | | | |
| Transfers out | (2,000,000) | (2,000,000) | |
| Net Change in Fund Balance | (4,669,607) | 996,972 | 5,666,579 |
| Fund Balance at Beginning of Year | 5,819,810 | 5,819,810 | |
| Fund Balance at End of Year | $ 1,150,203 | $ 6,816,782 | $ 5,666,579 |

# CITY OF ESCONDIDO
## Parks and Recreation Special Revenue Fund
## Budgetary Comparison Schedule
## For the Year Ended June 30, 2012

| | Final Budget Amounts | Actual | Variance Over (Under) |
|---|---|---|---|
| Revenues: | | | |
| Intergovernmental | $ 904,490 | $ 854,461 | $ (50,029) |
| Charges for services | 3,196,525 | 2,857,537 | (338,988) |
| Investment income | 181,800 | 223,138 | 41,338 |
| Miscellaneous | 376,605 | 513,605 | 137,000 |
| Total Revenues | 4,659,420 | 4,448,741 | (210,679) |
| Expenditures: | | | |
| Community services | 4,387,355 | 4,547,723 | 160,368 |
| Capital outlay | 301,415 | 204,554 | (96,861) |
| Debt Service: | | | |
| Principal retirements | | 4,321 | 4,321 |
| Total Expenditures | 4,688,770 | 4,756,598 | 67,828 |
| Excess of Revenues Over Expenditures | (29,350) | (307,857) | (278,507) |
| Other Financing Sources (Uses): | | | |
| Loan proceeds | | 51,846 | 51,846 |
| Transfers in | 53,865 | 53,863 | (2) |
| Transfers out | (1,407,620) | (1,957,620) | (550,000) |
| Total Other Financing Sources | (1,353,755) | (1,851,911) | (550,002) |
| Net Change in Fund Balance | (1,383,105) | (2,159,768) | (828,509) |
| Fund Balance at Beginning of Year | 5,264,362 | 5,264,362 | |
| Fund Balance at End of Year | $ 3,881,257 | $ 3,104,594 | $ (828,509) |

# CITY OF ESCONDIDO
## Community Development Block Grant Special Revenue Fund
## Budgetary Comparison Schedule
## For the Year Ended June 30, 2012

| | Final Budget Amounts | Actual | Variance Over (Under) |
|---|---|---|---|
| Revenues: | | | |
| Intergovernmental | $ 1,567,895 | $ 1,568,460 | $ 565 |
| Expenditures: | | | |
| General government | 16,621 | 16,622 | 1 |
| Community services | 941,579 | 673,023 | (268,556) |
| Community development | 736,587 | 189,433 | (547,154) |
| Capital outlay | 1,431,693 | 1,028,453 | (403,240) |
| Total Expenditures | 3,126,480 | 1,907,531 | (1,218,949) |
| Excess (Deficiency) of Revenues Over Expenditures | (1,558,585) | (339,071) | 1,219,514 |
| Other Financing Sources: | | | |
| Sale of capital assets | | 216,069 | 216,069 |
| Net Change in Fund Balance | (1,558,585) | (123,002) | 1,435,583 |
| Fund Balance at Beginning of Year | 225,416 | 225,416 | |
| Fund Balance at End of Year | $ (1,333,169) | $ 102,414 | $ 1,435,583 |

# CITY OF ESCONDIDO
## Landscape and Assessment District Special Revenue Fund
## Budgetary Comparison Schedule
## For the Year Ended June 30, 2012

| | Final Budget Amounts | Actual | Variance Over (Under) |
|---|---|---|---|
| Revenues: | | | |
| Special assessments | $ 725,095 | $ 728,401 | $ 3,306 |
| Investment income | | 9,692 | 9,692 |
| Miscellaneous | 5,760 | 5,760 | |
| Total Revenues | 730,855 | 743,853 | 12,998 |
| Expenditures: | | | |
| Public works | 845,115 | 671,460 | (173,655) |
| Net Change in Fund Balance | (114,260) | 72,393 | 186,653 |
| Fund Balance at Beginning of Year | 709,775 | 709,775 | |
| Fund Balance at End of Year | $ 595,515 | $ 782,168 | $ 186,653 |

# CITY OF ESCONDIDO
## HOME Special Revenue Fund
## Budgetary Comparison Schedule
## For the Year Ended June 30, 2012

| | Final Budget Amounts | Actual | Variance Over (Under) |
|---|---|---|---|
| Revenues: | | | |
| Intergovernmental | $ 798,000 | $ 1,626,964 | $ 828,964 |
| Investment income | 5,000 | 39,385 | 34,385 |
| Total Revenues | 803,000 | 1,666,349 | 863,349 |
| Expenditures: | | | |
| Community development | 102,785 | 171,756 | 68,971 |
| Net Change in Fund Balance | 700,215 | 1,494,593 | 794,378 |
| Fund Balance at Beginning of Year | 12,872,402 | 12,872,402 | |
| Fund Balance at End of Year | $ 13,572,617 | $ 14,366,995 | $ 794,378 |

# CITY OF ESCONDIDO
## Miscellaneous Special Revenue Fund
## Budgetary Comparison Schedule
## For the Year Ended June 30, 2012

| | Final Budget Amounts | Actual | Variance Over (Under) |
|---|---|---|---|
| Revenues: | | | |
| Intergovernmental | $ 132,238 | $ 569,743 | $ 437,505 |
| Charges for services | 763,310 | 770,641 | 7,331 |
| Investment income | 43,670 | 34,233 | (9,437) |
| Miscellaneous | | 13,045 | 13,045 |
| Total Revenues | 939,218 | 1,387,662 | 448,444 |
| Expenditures: | | | |
| Public works | 975,339 | 780,321 | (195,018) |
| Community services | 190,223 | 1,157,314 | 967,091 |
| Community development | 359,316 | 103,743 | (255,573) |
| Capital outlay | 982,756 | 498,945 | (483,811) |
| Total Expenditures | 2,507,634 | 2,540,323 | 32,689 |
| Excess (Deficiency) of Revenues Over Expenditures | (1,568,416) | (1,152,661) | 415,755 |
| Other Financing Sources (Uses): | | | |
| Transfers in | 78,800 | 78,800 | |
| Transfers out | (334,760) | (1,951,462) | (1,616,702) |
| Total Other Financing Sources | (255,960) | (1,872,662) | (1,616,702) |
| Net Change in Fund Balance | (1,824,376) | (3,025,323) | (1,200,947) |
| Fund Balances: | | | |
| Beginning of fiscal year, as originally reported | 2,047,143 | 2,047,143 | |
| Restatements | 1,012,352 | 1,012,352 | |
| Beginning of Year, as restated | 3,059,495 | 3,059,495 | |
| Net Change in Fund Balances | (1,824,376) | (3,025,323) | (1,200,947) |
| Fund Balances at End of Year | $ 1,235,119 | $ 34,172 | $ (1,200,947) |

# CITY OF ESCONDIDO
## Community Development Commission Debt Service Fund
## Budgetary Comparison Schedule
## For the Year Ended June 30, 2012

| | Final Budget Amounts | Actual | Variance Over (Under) |
|---|---|---|---|
| Revenues: | | | |
| Taxes | $ 19,515,000 | $ 13,091,756 | $ (6,423,244) |
| Intergovernmental | 638,770 | | |
| Investment income | 8,000 | 167 | (7,833) |
| Total Revenues | 20,161,770 | 13,091,923 | (6,431,077) |
| Expenditures: | | | |
| Community development | 156,545 | 58,818 | (97,727) |
| Principal retirements | 8,320,000 | 8,320,000 | |
| Interest and fiscal charges | 2,615,775 | 1,721,391 | (894,384) |
| Agency tax sharing agreement | 8,934,415 | 5,921,213 | (3,013,202) |
| Total Expenditures | 20,026,735 | 16,021,422 | (4,005,313) |
| (Deficiency) of Revenues Over Expenditures | 135,035 | (2,929,499) | (2,425,764) |
| Other Financing Sources: | | | |
| Transfers in | 285 | 285 | |
| Total Other Financing Sources (Uses) | 285 | 285 | |
| Extraordinary gain/(loss) on dissolution of redevelopment agency | | 17,457,040 | 17,457,040 |
| Net Change in Fund Balance | 135,320 | 14,527,826 | 15,031,276 |
| Fund Balance at Beginning of Year | (14,527,826) | (14,527,826) | |
| Fund Balance (Deficit) at End of Year | $ (14,392,506) | $ | $ 15,031,276 |

# CITY OF ESCONDIDO
## Golf Course Debt Service Fund
## Budgetary Comparison Schedule
## For the Year Ended June 30, 2012

| | Final Budget Amounts | Actual | Variance Over (Under) |
|---|---|---|---|
| Revenues: | | | |
| Investment income | $ 3,000 | $ 1,766 | $ (1,234) |
| Expenditures: | | | |
| Principal retirements | 605,000 | 605,000 | |
| Interest and fiscal charges | 443,085 | 442,335 | (750) |
| Total Expenditures | 1,048,085 | 1,047,335 | (750) |
| (Deficiency) of Revenues Over Expenditures | (1,045,085) | (1,045,569) | (484) |
| Other Financing Sources: | | | |
| Transfers in | 1,025,085 | 1,025,085 | |
| Net Change in Fund Balance | (20,000) | (20,484) | (484) |
| Fund Balance at Beginning of Year | 988,176 | 988,179 | |
| Fund Balance at End of Year | $ 968,176 | $ 967,695 | $ (484) |

# CITY OF ESCONDIDO
## General Obligation Debt Service Fund
## Budgetary Comparison Schedule
## For the Year Ended June 30, 2012

| | Final Budget Amounts | Actual | Variance Over (Under) |
|---|---|---|---|
| Revenues: | | | |
| Special assessments | $ 5,147,830 | $ 5,163,840 | $ 16,010 |
| Investment income | 45,865 | 35,871 | (9,994) |
| Total Revenues | 5,193,695 | 5,199,711 | 6,016 |
| Expenditures: | | | |
| Principal retirements | 1,565,000 | 1,565,000 | |
| Interest and fiscal charges | 3,628,695 | 3,629,195 | 500 |
| Total Expenditures | 5,193,695 | 5,194,195 | 500 |
| (Deficiency) of Revenues Over Expenditures | | 5,516 | 5,516 |
| Other Financing Sources: | | | |
| Transfers in | | 366,094 | 366,094 |
| Net Change in Fund Balance | | 371,610 | 371,610 |
| Fund Balance at Beginning of Year | 4,032,086 | 4,032,086 | |
| Fund Balance at End of Year | $ 4,032,086 | $ 4,403,696 | $ 371,610 |

*Escondido Creek*

# INTERNAL SERVICE FUNDS

## BUILDING MAINTENANCE FUND

This fund was created to account for financial activity related to the maintenance and repair of all City-owned buildings. Funding is provided through charges to other departments, based on square footage, common area allocation, and specific maintenance projects. A reserve for replacement will be accumulated to replace carpeting, air conditioning, roofing and other maintenance items.

## VEHICLE AND EQUIPMENT MAINTENANCE FUND

This fund was created to account for transactions related to the maintenance, operation, and replacement of the City's vehicles, whereby the City can more accurately determine the full cost of services. Such costs to other departments are billed through charges to departments in the form of a rental payment for each piece of equipment.

## CENTRAL SERVICES FUND

This fund was created to account for transactions related to:

- The provision of postage, telephone, and copying services. Funding is provided through charges to other departments based on actual usage.

- The provision of a central stores warehouse. Funding is provided through charges to user departments.

## OFFICE AUTOMATION FUND

This fund was created to account for financial activity related to Office Automation services, licensing and hardware. Funding is provided through charges to other departments based on workstation inventory.

## WORKERS' COMPENSATION FUND

This fund was created to account for transactions related to the City's self-insurance provision of Workers' Compensation insurance. Funding is provided through charges to other departments based on payroll expense.

## GENERAL LIABILITY SELF-INSURANCE FUND

This fund was created to account for transactions related to the City's self-insurance provision of general liability insurance. Funding is provided through charges to other departments based on future risk evaluation, prior claims experience, and other factors.

# INTERNAL SERVICE FUNDS

(Continued)

## INSURANCE FUND

This fund was created to account for transactions related to:

- The provision of health and life insurance for City employees. Funding is provided through charges to other departments and employee contributions based on employee participation.

- The provision of vision insurance to City employees. Funding is provided by employees through payroll deductions.

- Property insurance obtained for the City. Funding is provided through charges to other departments based on replacement cost of the property and square footage allocations.

- The provision of dental insurance to City employees. Funding is provided through charges to other departments and employee contributions based on employee participation.

- The provision of unemployment insurance. Funding is provided through charges to other departments based on payroll expense.

# CITY OF ESCONDIDO
## Combining Statement of Net Assets
## Internal Service Funds
## June 30, 2012

| | Building Maintenance | Vehicle and Equipment Maintenance | Central Services |
|---|---|---|---|
| Assets | | | |
| Current Assets: | | | |
| Cash and investments | $ 1,805,022 | $ 6,904,591 | $ 1,158,659 |
| Receivables: | | | |
| Accounts | | 2,463 | |
| Interest | 11,809 | 39,878 | 6,388 |
| Inventory | | 96,586 | 253,355 |
| Deposits | | | |
| Total Current Assets | 1,816,831 | 7,043,518 | 1,418,402 |
| Non-current assets: | | | |
| Capital Assets: | | | |
| Buildings | 734,731 | 342,000 | 61,070 |
| Equipment | 699,030 | 23,244,858 | 30,446 |
| Total Capital Assets | 1,433,761 | 23,586,858 | 91,516 |
| Less accumulated depreciation | (793,007) | (20,010,506) | (85,541) |
| Total Capital Assets (Net of Accumulated Depreciation) | 640,754 | 3,576,352 | 5,975 |
| Total Assets | 2,457,585 | 10,619,870 | 1,424,377 |
| Liabilities | | | |
| Current Liabilities: | | | |
| Payables: | | | |
| Accounts | 120,153 | 87,651 | 109,930 |
| Employee leave benefits | 7,840 | 3,927 | 1,555 |
| Estimated claims | | | |
| Loans | 75,287 | | |
| Accrued expenses | 19,016 | 14,229 | 2,215 |
| Total Current Liabilities | 222,296 | 105,807 | 113,700 |
| Noncurrent Liabilities: | | | |
| Payables: | | | |
| Employee leave benefits | 70,560 | 35,343 | 13,992 |
| Estimated claims | | | |
| Loans | 821,827 | | |
| Total Noncurrent Liabilities | 892,387 | 35,343 | 13,992 |
| Total Liabilities | 1,114,683 | 141,150 | 127,692 |
| Net Assets | | | |
| Invested in capital assets, net of related debt | 640,754 | 3,576,352 | 5,975 |
| Unrestricted | 702,148 | 6,902,368 | 1,290,710 |
| Total Net Assets | $ 1,342,902 | $ 10,478,720 | $ 1,296,685 |

| Office Automation | Workers' Compensation | General Liability Self-Insurance | Insurance | Total |
|---|---|---|---|---|
| $ 52,780 | $ 9,963,756 | $ 5,278,513 | $ 1,276,485 | $ 26,439,806 |
| | | | 56,095 | 58,558 |
| 228 | 57,225 | 30,374 | 5,967 | 151,869 |
| | | | | 349,941 |
| | 250,000 | | 62,600 | 312,600 |
| 53,008 | 10,270,981 | 5,308,887 | 1,401,147 | 27,312,774 |
| | | | | 1,137,801 |
| 66,380 | | | | 24,040,714 |
| 66,380 | | | | 25,178,515 |
| (7,463) | | | | (20,896,517) |
| 58,917 | | | | 4,281,998 |
| 111,925 | 10,270,981 | 5,308,887 | 1,401,147 | 31,594,772 |
| 28,769 | 1,236 | 53,551 | 72,773 | 474,063 |
| | 222 | | 2,941 | 16,485 |
| | 2,037,743 | 1,009,468 | | 3,047,211 |
| | | | | 75,287 |
| 11,971 | 1,254 | | 39,254 | 87,939 |
| 40,740 | 2,040,455 | 1,063,019 | 114,968 | 3,700,985 |
| | 1,998 | | 26,473 | 148,366 |
| | 8,150,972 | 4,037,874 | | 12,188,846 |
| | | | | 821,827 |
| | 8,152,970 | 4,037,874 | 26,473 | 13,159,039 |
| 40,740 | 10,193,425 | 5,100,893 | 141,441 | 16,860,024 |
| 66,380 | | | | 4,289,461 |
| 4,805 | 77,556 | 207,994 | 1,259,706 | 10,445,287 |
| $ 71,185 | $ 77,556 | $ 207,994 | $ 1,259,706 | $ 14,734,748 |

# CITY OF ESCONDIDO
## Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
## Internal Service Funds
## For the Year Ended June 30, 2012

| | Building Maintenance | Vehicle and Equipment Maintenance | Central Services |
|---|---|---|---|
| Operating Revenues: | | | |
| Charges for services | $ 2,856,624 | $ 4,907,724 | $ 1,266,639 |
| Operating Expenses: | | | |
| Personnel services | 1,426,768 | 866,103 | 169,585 |
| Administrative expenses | 84,312 | 67,980 | |
| Benefit claims | | | |
| Supplies | 91,828 | 45,711 | 97,329 |
| Repairs and maintenance | 173,818 | 697,672 | 80,488 |
| Depreciation | 86,044 | 1,691,750 | 4,128 |
| Utilities | 697,425 | 4,587 | 416,173 |
| Fuel | | 1,213,071 | |
| Professional services | 1,004,639 | 37,652 | 288,327 |
| Insurance premiums | 64,116 | 39,000 | 12,876 |
| Rent | 953 | | |
| Other | 61,306 | 57,895 | 38,030 |
| Total Operating Expenses | 3,691,209 | 4,721,421 | 1,106,936 |
| Operating Income (Loss) | (834,585) | 186,303 | 159,703 |
| Non-Operating Revenues (Expenses): | | | |
| Investment income | (11,418) | 113,152 | 15,686 |
| Interest and fiscal charges | (36,792) | | |
| Miscellaneous | 746 | 133,227 | 83 |
| Total Non-Operating Revenues | (47,464) | 246,379 | 15,769 |
| Income (Loss) Before Transfers and Capital Contributions | (882,049) | 432,682 | 175,472 |
| Transfers out | | | (150,000) |
| Capital contributions | | 101,086 | |
| Change in Net Assets | (882,049) | 533,768 | 25,472 |
| Net Assets at Beginning of Year | 2,224,951 | 9,944,952 | 1,271,213 |
| Net Assets at End of Year | $ 1,342,902 | $ 10,478,720 | $ 1,296,685 |

| Office Automation | Workers' Compensation | General Liability Self-Insurance | Insurance | Total |
|---|---|---|---|---|
| $ 1,354,164 | $ 2,264,356 | $ 2,345,900 | $ 9,086,527 | $ 24,081,934 |
| 934,483 | 101,778 | | 264,602 | 3,763,319 |
| | 346,692 | 1,157,840 | 46,776 | 1,703,600 |
| | 2,042,451 | 2,599,575 | 647,292 | 5,289,318 |
| 18,079 | 1,367 | | 1,461 | 255,775 |
| 20,465 | | | 7,238 | 979,681 |
| 7,463 | | | | 1,789,385 |
| 13,814 | 2,317 | | 4,596 | 1,138,912 |
| | | | | 1,213,071 |
| | 1,277,854 | 697,220 | 140,920 | 3,446,612 |
| 9,504 | 261,341 | 488,217 | 8,323,255 | 9,198,309 |
| | | | | 953 |
| 289,062 | 4,913 | 29,262 | 30,312 | 510,780 |
| 1,292,870 | 4,038,713 | 4,972,114 | 9,466,452 | 29,289,715 |
| 61,294 | (1,774,357) | (2,626,214) | (379,925) | (5,207,781) |
| 1,002 | 151,151 | 83,153 | 11,613 | 364,339 |
| | | | | (36,792) |
| | 1,000 | 344,335 | 94,583 | 573,974 |
| 1,002 | 152,151 | 427,488 | 106,196 | 901,521 |
| 62,296 | (1,622,206) | (2,198,726) | (273,729) | (4,306,260) |
| | | | | (150,000) |
| 8,889 | | | | 109,975 |
| 71,185 | (1,622,206) | (2,198,726) | (273,729) | (4,346,285) |
| | 1,699,762 | 2,406,720 | 1,533,435 | 19,081,033 |
| $ 71,185 | $ 77,556 | $ 207,994 | $ 1,259,706 | $ 14,734,748 |

# CITY OF ESCONDIDO
## Combining Statement of Cash Flows
## Internal Service Funds
## For the Year Ended June 30, 2012

| | Building Maintenance | Vehicle and Equipment Maintenance | Central Services |
|---|---|---|---|
| Cash flows from Operating Activities: | | | |
| Cash received from customers | $ 2,856,622 | $ 4,908,396 | $ 1,266,639 |
| Cash paid to employees for services | (1,530,360) | (959,898) | (186,987) |
| Cash paid to other suppliers of goods or services | (2,084,596) | (2,170,913) | (910,385) |
| Cash from other sources | 746 | 14,194 | 83 |
| Net Cash Provided by (Used for) Operating Activities | (757,588) | 1,791,779 | 169,350 |
| Cash Flows from Noncapital Financing Activities: | | | |
| Cash paid to other funds | | | (150,000) |
| Net Cash Provided by Noncapital Financing Activities | | | (150,000) |
| Cash Flows from Capital and Related Financing Activities: | | | |
| Purchase of capital assets | (27,122) | (1,590,222) | |
| Sale of capital assets | | 119,033 | |
| Proceeds from loans | 22,620 | | |
| Interest payments on loans | (36,792) | | |
| Principal payments on loans | (71,826) | | |
| Net Cash (Used for) Capital and Related Financing Activities | (113,120) | (1,471,189) | |
| Cash Flows from Investing Activities: | | | |
| Investment income received | 349 | 125,160 | 18,279 |
| Net Increase (Decrease) in Cash and Cash Equivalents | (870,359) | 445,750 | 37,629 |
| Cash and Cash Equivalents at Beginning of Year | 2,675,381 | 6,458,841 | 1,121,030 |
| Cash and Cash Equivalents at End of Year | $ 1,805,022 | $ 6,904,591 | $ 1,158,659 |

| Office Automation | Workers' Compensation | General Liability Self-Insurance | Insurance | Total |
|---|---|---|---|---|
| $ 1,354,163 | $ 2,264,355 | $ 2,345,900 | $ 9,084,657 | $ 24,080,732 |
| (922,512) | (448,585) | (1,157,840) | (309,750) | (5,515,932) |
| (322,153) | (2,009,491) | (1,409,797) | (9,188,730) | (18,096,065) |
| | 1,000 | 344,335 | 94,583 | 454,941 |
| 109,498 | (192,721) | 122,598 | (319,240) | 923,676 |
| | | | | (150,000) |
| | | | | (150,000) |
| (57,489) | | | | (1,674,833) |
| | | | | 119,033 |
| | | | | 22,620 |
| | | | | (36,792) |
| | | | | (71,826) |
| (57,489) | | | | (1,641,798) |
| 771 | 177,387 | 92,256 | 13,957 | 428,159 |
| 52,780 | (15,334) | 214,854 | (305,283) | (439,963) |
| | 9,979,090 | 5,063,659 | 1,581,768 | 26,879,769 |
| $ 52,780 | $ 9,963,756 | $ 5,278,513 | $ 1,276,485 | $ 26,439,806 |

(Continued)

# CITY OF ESCONDIDO
## Combining Statement of Cash Flows
## Internal Service Funds (Continued)
## For the Year Ended June 30, 2012

| | Building Maintenance | Vehicle and Equipment Maintenance | Central Services |
|---|---|---|---|
| Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities: | | | |
| Operating Income (Loss) | $ (834,585) | $ 186,303 | $ 159,703 |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities: | | | |
| Depreciation expense | 86,044 | 1,691,750 | 4,128 |
| Cash from other sources | 746 | 14,195 | 83 |
| Change in assets and liabilities: | | | |
| (Increase) decrease in accounts receivable | | 672 | |
| (Increase) decrease in inventories | | (12,729) | 6,240 |
| Increase (decrease) in accounts payable | 9,487 | (62,597) | 16,598 |
| Increase in accrued expenses | (26,491) | (17,263) | (6,430) |
| Increase (decrease) in employee leave benefits payable | 7,211 | (8,552) | (10,972) |
| (Decrease) in estimated claims payable | | | |
| Total Adjustments | 76,997 | 1,605,476 | 9,647 |
| Net Cash Provided by (Used for) Operating Activities | $ (757,588) | $ 1,791,779 | $ 169,350 |
| Noncash Investing, Capital and Financing Activities: | | | |
| Contributed property, plant and equipment | | $ 101,086 | |

| Office Automation | Workers' Compensation | General Liability Self-Insurance | Insurance | Total |
|---|---|---|---|---|
| $ 61,294 | $ (1,774,357) | $ (2,626,214) | $ (379,925) | $ (5,207,781) |
| 7,463 | | | | 1,789,385 |
| | 1,000 | 344,335 | 94,583 | 454,942 |
| | | | (1,870) | (1,198) |
| | | | | (6,489) |
| 28,770 | 1,036 | (34,356) | (14,995) | (56,057) |
| 11,971 | (1,869) | | (27,849) | (67,931) |
| | 1,754 | | 10,816 | 257 |
| | 1,579,715 | 2,438,833 | | 4,018,548 |
| 48,204 | 1,581,636 | 2,748,812 | 60,685 | 6,131,457 |
| $ 109,498 | $ (192,721) | $ 122,598 | $ (319,240) | $ 923,676 |
| $ 8,889 | | | | $ 109,975 |

# AGENCY FUNDS

## HIDDEN TRAILS COMMUNITY FACILITIES DISTRICT

This fund was created to account for debt service payments on 1982 Mello-Roos Community Facility Act special tax bonds paid from special taxes collected and remitted to a fiscal agent. The bonds were issued to finance the acquisition of certain backbone public facilities including street, water and sewer facilities in the Hidden Trails Community Facilities District.

## EUREKA RANCH COMMUNITY FACILITIES DISTRICT

This fund was created to account for debt service payments on 1982 Mello-Roos Community Facility Act special tax bonds paid from special taxes collected and remitted to a fiscal agent. The bonds were issued to finance various public improvements including street, storm drain and sewer improvements as well as utility undergrounding within the Eureka Ranch Community Facilities District.

## AUTO PARKWAY ASSESSMENT DISTRICT FUND

This fund was created to account for debt service payments on 1915 Act Assessment bonds paid from special assessments collected and remitted to a fiscal agent-trustee. The bonds were issued to finance capital improvements in the Auto Parkway District, including drainage and road improvements, sewer, lighting, and other improvements.

## RANCHO SAN PASQUAL FUND

This fund was created to account for the debt service payments collected directly from property owners and remitted to bondholders for payment on Rancho San Pasqual bonds, issued to finance certain public improvements within the City's Assessment District No. 95-1.

## DEPOSIT TRUST FUND

This fund was created to account for deposits received and held by the City as an agent for individuals, developers, private organizations, and other governmental agencies.

# CITY OF ESCONDIDO
## Combining Statement of Assets and Liabilities
## Agency Funds
## June 30, 2012

| | Hidden Trails Community Facilities District | Eureka Ranch Community Facilities District | Auto Parkway Assessment District | Rancho San Pasqual | Deposit Trust | Total |
|---|---|---|---|---|---|---|
| Assets | | | | | | |
| Cash and investments | $ 176,176 | $ 850,176 | $ 287,362 | $ 248,043 | $ 5,326,961 | $ 6,888,718 |
| Cash and investments with fiscal agent | 230,634 | 1,219,468 | 331,430 | 341,978 | | 2,123,510 |
| Receivables: | | | | | | |
| Interest | 1,768 | 5,052 | 1,579 | 1,469 | 775 | 10,643 |
| Taxes | 1,061 | 9,281 | | 288 | 3,457 | 14,087 |
| Total Assets | $ 409,639 | $ 2,083,977 | $ 620,371 | $ 591,778 | $ 5,331,193 | $ 9,036,958 |
| Liabilities | | | | | | |
| Accounts payable | $ | $ | $ | $ | $ 95,675 | $ 95,675 |
| Deposits payable | | | | | 5,235,518 | 5,235,518 |
| Due to bondholders | 409,639 | 2,083,977 | 620,371 | 591,778 | | 3,705,765 |
| Total Liabilities | $ 409,639 | $ 2,083,977 | $ 620,371 | $ 591,778 | $ 5,331,193 | $ 9,036,958 |

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

| | Balance at June 30, 2011 | Additions | Deductions | Balance at June 30, 2012 |
|---|---|---|---|---|
| Hidden Trails Community Facilities District | | | | |
| Assets | | | | |
| Cash and investments | $ 181,889 | $ 204,920 | $ (210,633) | $ 176,176 |
| Restricted assets: | | | | |
| Cash and investments with fiscal agent | 258,388 | 1,683 | (29,437) | 230,634 |
| Receivables: | | | | |
| Interest | 1,928 | 1,768 | (1,928) | 1,768 |
| Taxes | 269 | 1,061 | (269) | 1,061 |
| Total Assets | $ 442,474 | $ 209,432 | $ (242,267) | $ 409,639 |
| Liabilities | | | | |
| Accounts payable | $ | $ 206,856 | $ (206,856) | $ |
| Due to bondholders | 442,474 | 277,828 | (310,663) | 409,639 |
| Total Liabilities | $ 442,474 | $ 484,684 | $ (517,519) | $ 409,639 |
| Eureka Ranch Community Facilities District | | | | |
| Assets | | | | |
| Cash and investments | $ 856,623 | $ 1,211,555 | $ (1,218,002) | $ 850,176 |
| Restricted assets: | | | | |
| Cash and investments with fiscal agent | 1,229,512 | | (10,044) | 1,219,468 |
| Receivables: | | | | |
| Interest | 9,236 | 5,052 | (9,236) | 5,052 |
| Taxes | 8,007 | 9,281 | (8,007) | 9,281 |
| Total Assets | $ 2,103,378 | $ 1,225,888 | $ (1,245,289) | $ 2,083,977 |
| Liabilities | | | | |
| Accounts payable | $ | $ 1,209,859 | $ (1,209,859) | $ |
| Due to bondholders | 2,103,378 | 1,587,153 | (1,606,554) | 2,083,977 |
| Total Liabilities | $ 2,103,378 | $ 2,797,012 | $ (2,816,413) | $ 2,083,977 |

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

| | Balance at June 30, 2011 | Additions | Deductions | Balance at June 30, 2012 |
|---|---|---|---|---|
| Auto Parkway Assessment District | | | | |
| Assets | | | | |
| Cash and investments | $ 276,504 | $ 344,634 | $ (333,776) | $ 287,362 |
| Restricted assets: | | | | |
| Cash and investments with fiscal agent | 330,456 | 974 | | 331,430 |
| Receivables: | | | | |
| Interest | 2,525 | 1,579 | (2,525) | 1,579 |
| Total Assets | $ 609,485 | $ 347,187 | $ (336,301) | $ 620,371 |
| Liabilities | | | | |
| Accounts payable | $ | $ 331,436 | $ (331,436) | $ |
| Due to bondholders | 609,485 | 572,187 | (561,301) | 620,371 |
| Total Liabilities | $ 609,485 | $ 903,623 | $ (892,737) | $ 620,371 |
| Rancho San Pasqual | | | | |
| Assets | | | | |
| Cash and investments | $ 249,511 | $ 349,679 | $ (351,147) | $ 248,043 |
| Restricted assets: | | | | |
| Cash and investments with fiscal agent | 335,804 | 6,174 | | 341,978 |
| Receivables: | | | | |
| Interest | 2,550 | 1,469 | (2,550) | 1,469 |
| Taxes | 853 | 288 | (853) | 288 |
| Total Assets | $ 588,718 | $ 357,610 | $ (354,550) | $ 591,778 |
| Liabilities | | | | |
| Accounts payable | $ | $ 348,802 | $ (348,802) | $ |
| Due to bondholders | 588,718 | 503,714 | (500,654) | 591,778 |
| Total Liabilities | $ 588,718 | $ 852,516 | $ (849,456) | $ 591,778 |

(Continued)

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

| | Balance at June 30, 2011 | Additions | Deductions | Balance at June 30, 2012 |
|---|---|---|---|---|
| Deposit Trust | | | | |
| Assets | | | | |
| Cash and investments | $ 5,541,312 | $ 772,989 | $ (987,340) | $ 5,326,961 |
| Receivables: | | | | |
| Interest | 1,095 | 775 | (1,095) | 775 |
| Taxes | | 3,457 | | 3,457 |
| Total Assets | $ 5,542,407 | $ 777,221 | $ (988,435) | $ 5,331,193 |
| Liabilities | | | | |
| Accounts payable | $ 238,792 | $ 776,638 | $ (919,755) | $ 95,675 |
| Deposits payable | 5,303,615 | 840,916 | (909,013) | 5,235,518 |
| Total Liabilities | $ 5,542,407 | $ 1,617,554 | $ (1,828,768) | $ 5,331,193 |
| Total Agency Funds | | | | |
| Assets | | | | |
| Cash and investments | $ 7,105,839 | $ 2,883,777 | $ (3,100,898) | $ 6,888,718 |
| Restricted assets: | | | | |
| Cash and investments with fiscal agent | 2,154,160 | 8,831 | (39,481) | 2,123,510 |
| Receivables: | | | | |
| Interest | 17,334 | 10,643 | (17,334) | 10,643 |
| Taxes | 9,129 | 14,087 | (9,129) | 14,087 |
| Total Assets | $ 9,286,462 | $ 2,917,338 | $ (3,166,842) | $ 9,036,958 |
| Liabilities | | | | |
| Accounts payable | $ 238,792 | $ 2,873,591 | $ (3,016,708) | $ 95,675 |
| Deposits payable | 5,303,615 | 840,916 | (909,013) | 5,235,518 |
| Due to bondholders | 3,744,055 | 2,940,882 | (2,979,172) | 3,705,765 |
| Total Liabilities | $ 9,286,462 | $ 6,655,389 | $ (6,904,893) | $ 9,036,958 |

# Statistical Section

*Escondido Creek*

# STATISTICAL SECTION

This section of the City of Escondido's comprehensive annual financial report provides detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information says about the government's overall financial health.

## FINANCIAL TRENDS INFORMATION

These Schedules are intended to assist users in understanding and assessing how a government's financial position has changed over time.

## REVENUE CAPACITY INFORMATION

These schedules are intended to assist users in understanding and assessing factors affecting a government's ability to generate its own revenue.

## DEBT CAPACITY INFORMATION

These schedules are intended to assist users in understanding and assessing a government's debt burden and its ability to issue additional debt.

## DEMOGRAPHIC AND ECONOMIC INFORMATION

These schedules are intended to assist users in understanding the socioeconomic environment within which a government operates and provide information that facilitates comparison of financial statement information over time and among governments.

## OPERATING INFORMATION

These schedules are intended to provide information about operations and resources to assist readers in using financial statement information to understand and assess a government's economic condition.

# CITY OF ESCONDIDO
## Net Assets by Component
## Last Ten Fiscal Years
## (accrual basis of accounting)

| | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|
| Governmental Activities: | | | | |
| Invested in capital assets, net of related debt | $ 93,467,500 | $ 104,172,967 | $ 125,179,668 | $ 147,033,475 |
| Restricted | 68,667,707 | 63,164,427 | 66,200,766 | 69,207,183 |
| Unrestricted | 57,977,016 | 59,761,969 | 63,198,878 | 67,952,345 |
| Total Governmental Activities Net Assets | $ 220,112,223 | $ 227,099,363 | $ 254,579,312 | $ 284,193,003 |
| Business-type Activities: | | | | |
| Invested in capital assets, net of related debt | $ 91,395,716 | $ 96,141,070 | $ 85,789,505 | $ 94,483,383 |
| Restricted | | | | |
| Unrestricted | 21,264,549 | 23,728,424 | 32,141,690 | 37,421,108 |
| Total Business-type Activities Net Assets | $ 112,660,265 | $ 119,869,494 | $ 117,931,195 | $ 131,904,491 |
| Primary Government: | | | | |
| Invested in capital assets, net of related debt | $ 184,863,216 | $ 200,314,037 | $ 210,969,173 | $ 241,516,858 |
| Restricted | 68,667,707 | 63,164,427 | 66,200,766 | 69,207,183 |
| Unrestricted | 79,241,565 | 83,490,393 | 95,340,568 | 105,373,453 |
| Total Primary Government Activities Net Assets | $ 332,772,488 | $ 346,968,857 | $ 372,510,507 | $ 416,097,494 |

Source:
City of Escondido Finance Department.

| 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| $ 175,696,600 | $ 197,917,746 | $ 198,895,947 | $ 205,646,459 | $ 222,661,354 | $ 225,296,741 |
| 77,955,931 | 83,690,162 | 89,093,908 | 114,214,410 | 86,393,247 | 98,970,485 |
| 80,216,675 | 65,128,364 | 65,461,162 | 36,921,478 | 40,341,057 | 53,862,572 |
| $ 333,869,206 | $ 346,736,272 | $ 353,451,017 | $ 356,782,347 | $ 349,395,658 | $ 378,129,798 |
| $ 118,573,025 | $ 123,532,924 | $ 126,868,016 | $ 130,301,709 | $ 137,189,496 | $ 138,580,703 |
| 26,761,762 | 30,304,352 | 37,096,093 | 46,473,299 | 53,436,660 | 56,358,559 |
| $ 145,334,787 | $ 153,837,276 | $ 163,964,109 | $ 176,775,008 | $ 190,626,156 | $ 194,939,262 |
| $ 294,269,625 | $ 321,450,670 | $ 325,763,963 | $ 335,948,168 | $ 359,850,850 | $ 363,877,444 |
| 77,955,931 | 83,690,162 | 89,093,908 | 114,214,410 | 86,393,247 | 98,970,485 |
| 106,978,437 | 95,432,716 | 102,557,255 | 83,394,777 | 93,777,717 | 110,221,131 |
| $ 479,203,993 | $ 500,573,548 | $ 517,415,126 | $ 533,557,355 | $ 540,021,814 | $ 573,069,060 |

## CITY OF ESCONDIDO
## Changes in Net Assets
## Last Ten Fiscal Years
## (accrual basis of accounting)

| | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|
| Expenses | | | | |
| Governmental Activities: | | | | |
| General government | $ 7,278,160 | $ 7,546,703 | $ 7,846,655 | $ 7,899,175 |
| Public safety | 46,934,431 | 49,131,586 | 49,039,038 | 52,318,975 |
| Community services | 12,670,230 | 13,185,703 | 15,620,848 | 11,298,631 |
| Public works | 18,711,369 | 12,579,425 | 17,609,107 | 24,150,012 |
| Community development | 10,646,006 | 11,028,920 | 8,383,779 | 10,067,992 |
| Interest and fiscal charges | 7,149,247 | 8,075,513 | 7,692,898 | 7,313,735 |
| Total Governmental Activities Expenses | 103,389,443 | 101,547,850 | 106,192,325 | 113,048,520 |
| Business-type Activities: | | | | |
| Water | 29,884,159 | 32,297,470 | 32,110,409 | 33,612,785 |
| Wastewater | 15,598,418 | 16,359,318 | 23,596,832 | 22,619,254 |
| Golf | 1,135,468 | 1,204,061 | 102,235 | |
| Total Business-type Activities Expenses | 46,618,045 | 49,860,849 | 55,809,476 | 56,232,039 |
| Total Primary Government Expenses | $ 150,007,488 | $ 151,408,699 | $ 162,001,801 | $ 169,280,559 |
| Program Revenues | | | | |
| Governmental activities: | | | | |
| Charges for services: | | | | |
| General government | $ 203,360 | $ 154,900 | $ 262,617 | $ 207,933 |
| Public safety | 7,605,245 | 7,772,419 | 8,130,038 | 9,053,779 |
| Community services | 1,796,813 | 1,997,154 | 3,409,784 | 3,922,815 |
| Public works | 2,278,004 | 2,833,676 | 2,665,396 | 3,300,443 |
| Community development | 1,903,199 | 1,991,669 | 2,200,680 | 3,026,817 |
| Operating grants and contributions | 14,698,267 | 13,617,538 | 9,537,429 | 15,336,026 |
| Capital grants and contributions | 5,278,558 | 6,946,504 | 19,127,256 | 16,511,533 |
| Total Governmental Activities Program Revenues | 33,763,446 | 35,313,860 | 45,333,200 | 51,359,346 |
| Business-type Activities: | | | | |
| Charges for services: | | | | |
| Water | 28,482,317 | 32,502,340 | 29,932,089 | 34,092,368 |
| Wastewater | 15,565,385 | 17,663,139 | 16,230,386 | 20,368,422 |
| Golf | 653,337 | 573,165 | | |
| Operating grants and contributions | | | | |
| Capital grants and contributions | 5,144,960 | 4,414,530 | 5,838,768 | 13,978,586 |
| Total Business-type Activities Program Revenues | 49,845,999 | 55,153,174 | 52,001,243 | 68,439,376 |
| Total Primary Government Program Revenues | $ 83,609,445 | $ 90,467,034 | $ 97,334,443 | $ 119,798,722 |

| 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| $ 8,373,054 | $ 9,646,524 | $ 8,183,784 | $ 8,058,408 | $ 8,162,775 | $ 7,923,896 |
| 53,981,546 | 57,284,755 | 53,639,237 | 58,486,106 | 56,170,547 | 60,467,057 |
| 15,004,608 | 29,728,378 | 20,460,103 | 20,321,281 | 13,935,737 | 14,428,323 |
| 24,159,197 | 18,340,037 | 23,475,660 | 25,927,953 | 30,251,264 | 23,508,515 |
| 12,635,417 | 13,974,447 | 12,777,932 | 7,814,707 | 9,908,625 | 6,765,185 |
| 10,447,184 | 14,338,384 | 8,050,461 | 7,649,971 | 7,459,498 | 5,946,168 |
| 124,601,006 | 143,312,525 | 126,587,177 | 128,258,426 | 125,888,446 | 119,039,144 |
| 37,583,686 | 37,989,541 | 38,810,712 | 40,277,313 | 37,364,315 | 43,537,887 |
| 24,660,271 | 26,995,420 | 24,743,922 | 24,154,671 | 23,833,875 | 23,995,887 |
| 62,243,957 | 64,984,961 | 63,554,634 | 64,431,984 | 61,198,190 | 67,533,774 |
| $ 186,844,963 | $ 208,297,486 | $ 190,141,811 | $ 192,690,410 | $ 187,086,636 | $ 186,572,918 |
| $ 277,178 | $ 290,007 | $ 455,029 | $ 159,353 | $ 351,155 | $ 735,395 |
| 9,702,964 | 9,241,808 | 9,980,199 | 9,207,628 | 8,273,579 | 8,429,675 |
| 4,222,222 | 6,864,643 | 6,798,670 | 5,625,758 | 3,871,455 | 4,158,173 |
| 1,556,038 | 1,411,020 | 1,253,367 | 1,076,721 | 994,907 | 1,160,643 |
| 2,148,321 | 1,507,452 | 1,128,602 | 1,372,001 | 1,154,371 | 820,337 |
| 29,978,774 | 15,513,780 | 9,728,353 | 14,568,341 | 12,988,723 | 13,503,657 |
| 19,574,286 | 9,042,570 | 11,779,461 | 14,818,607 | 10,550,030 | 5,608,064 |
| 67,459,783 | 43,871,280 | 41,123,681 | 46,828,409 | 38,184,220 | 34,415,944 |
| 39,087,592 | 38,944,163 | 39,161,082 | 40,155,208 | 37,293,900 | 42,398,099 |
| 22,643,416 | 23,699,984 | 25,741,913 | 29,208,703 | 28,176,381 | 26,430,851 |
| | 2,657,685 | 301,875 | | | |
| 11,036,390 | 3,554,975 | 4,725,698 | 5,851,309 | 8,922,144 | 2,155,659 |
| 72,767,398 | 68,856,807 | 69,930,568 | 75,215,220 | 74,392,425 | 70,984,609 |
| $ 140,227,181 | $ 112,728,087 | $ 111,054,249 | $ 122,043,629 | $ 112,576,645 | $ 105,400,553 |

(Continued)

# CITY OF ESCONDIDO
## Changes in Net Assets (Continued)
## Last Ten Fiscal Years
## (accrual basis of accounting)

| | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|
| Net (Expense)/Revenue | | | | |
| Governmental activities | $ (69,625,997) | $ (66,233,990) | $ (60,859,125) | $ (61,689,174) |
| Business-type activities | 3,227,954 | 5,292,325 | (3,808,233) | 12,207,337 |
| Total Primary Government Net Expense | $ (66,398,043) | $ (60,941,665) | $ (64,667,358) | $ (49,481,837) |
| General Revenues and Other Changes in Net Assets | | | | |
| Governmental activities: | | | | |
| Taxes: | | | | |
| Sales taxes | $ 31,217,876 | $ 32,619,181 | $ 30,336,573 | $ 30,002,918 |
| Property taxes | 21,513,677 | 23,193,418 | 26,392,928 | 30,556,891 |
| Franchise tax | | | 3,930,492 | 4,241,212 |
| Payments in lieu of taxes | | | 18,130,405 | 15,974,459 |
| Other taxes | 15,169,418 | 13,835,116 | 4,506,357 | 4,900,694 |
| Use of money and property | 5,814,185 | 2,750,045 | 4,019,491 | 4,025,320 |
| Sale of capital assets | | | | |
| Miscellaneous | 280,478 | 800,333 | 675,801 | 1,400,371 |
| Transfers | 2,762,650 | 23,037 | (29,253) | 201,000 |
| Special item: | | | | |
| Economic development incentive | (2,036,512) | | | |
| Extraordinary item: | | | | |
| Gain/(loss) on dissolution of Community Development Commission | | | | |
| Total Governmental Activities | 74,721,772 | 73,221,130 | 87,962,794 | 91,302,865 |
| Business-type activities: | | | | |
| Use of money and property | 2,212,617 | 933,992 | 1,483,411 | 1,675,819 |
| Miscellaneous | 543,880 | 1,005,949 | 357,270 | 291,140 |
| Transfers | (2,762,650) | (23,037) | 29,253 | (201,000) |
| Extraordinary item: | | | | |
| Loss on chemical tank spill | | | | |
| Total Business-type Activities | (6,153) | 1,916,904 | 1,869,934 | 1,765,959 |
| Total Primary Government | $ 74,715,619 | $ 75,138,034 | $ 89,832,728 | $ 93,068,824 |
| Change in Net Assets | | | | |
| Governmental activities | $ 5,095,775 | $ 6,987,140 | $ 27,103,669 | $ 29,613,691 |
| Business-type activities | 3,221,801 | 7,209,229 | (1,938,299) | 13,973,296 |
| Total primary government | $ 8,317,576 | $ 14,196,369 | $ 25,165,370 | $ 43,586,987 |

Source:

City of Escondido Finance Department.

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|
| | $ (57,141,223) | $ (99,441,245) | $ (85,463,496) | $ (81,430,017) | $ (87,704,226) | $ (84,623,200) |
| | 10,523,441 | 3,871,846 | 6,375,934 | 10,783,236 | 13,194,235 | 3,450,835 |
| | $ (46,617,782) | $ (95,569,399) | $ (79,087,562) | $ (70,646,781) | $ (74,509,991) | $ (81,172,365) |
| | $ 28,419,440 | $ 24,471,382 | $ 18,841,244 | $ 17,826,617 | $ 20,819,517 | $ 25,532,055 |
| | 39,320,532 | 43,123,943 | 37,745,185 | 27,884,137 | 28,168,365 | 24,060,363 |
| | 4,625,383 | 4,088,986 | 4,540,227 | 4,344,355 | 4,461,129 | 4,563,576 |
| | 21,162,788 | 20,550,985 | 18,907,389 | 17,989,533 | 17,652,114 | 19,548,954 |
| | 5,419,437 | 4,801,752 | 4,264,906 | 4,014,349 | 4,048,337 | 2,899,789 |
| | 7,341,621 | 14,217,786 | 6,977,368 | 4,654,030 | 4,810,578 | 5,885,611 |
| | | | | | 171,386 | 399,819 |
| | 526,770 | 971,977 | 872,722 | 2,130,400 | 476,135 | 748,181 |
| | 1,455 | 81,500 | 29,200 | 41,330 | 1,248,845 | 25,000 |
| | | | | | | 29,693,992 |
| | 106,817,426 | 112,308,311 | 92,178,241 | 78,884,751 | 81,856,406 | 113,357,340 |
| | 2,708,150 | 3,497,943 | 2,791,475 | 1,794,117 | 1,608,420 | 1,750,475 |
| | 200,160 | 1,214,200 | 988,624 | 274,876 | 297,338 | 250,862 |
| | (1,455) | (81,500) | (29,200) | (41,330) | (1,248,845) | (25,000) |
| | | | | | | (1,114,066) |
| | 2,906,855 | 4,630,643 | 3,750,899 | 2,027,663 | 656,913 | 862,271 |
| | $ 109,724,281 | $ 116,938,954 | $ 95,929,140 | $ 80,912,414 | $ 82,513,319 | $ 114,219,611 |
| | $ 49,676,203 | $ 12,867,066 | $ 6,714,745 | $ (2,545,266) | $ (5,847,820) | $ 28,734,140 |
| | 13,430,296 | 8,502,489 | 10,126,833 | 12,810,899 | 13,851,148 | 4,313,106 |
| | $ 63,106,499 | $ 21,369,555 | $ 16,841,578 | $ 10,265,633 | $ 8,003,328 | $ 33,047,246 |

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

| | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|
| General Fund | | | | |
| Reserved | $ 13,669,565 | $ 12,519,799 | $ 12,000,715 | $ 11,979,933 |
| Unreserved, designated | 27,149,536 | 28,386,584 | 34,886,626 | 33,314,688 |
| Unreserved, undesignated | 2,769,138 | 4,296,377 | 2,213,347 | 5,618,069 |
| Nonspendable | | | | |
| Committed to | | | | |
| Assigned to | | | | |
| Unassigned | | | | |
| Total General Fund | $ 43,588,239 | $ 45,202,760 | $ 49,100,688 | $ 50,912,690 |
| All Other Governmental Funds | | | | |
| Reserved | $ 47,065,171 | $ 47,044,861 | $ 51,100,638 | $ 59,867,398 |
| Reserved for current projects, reported in: | | | | |
| Special revenue funds | 8,626,639 | 6,583,371 | 8,357,924 | 8,779,174 |
| Capital projects funds | 30,491,491 | 28,321,501 | 24,682,928 | 23,071,427 |
| Unreserved, reported in: | | | | |
| Special revenue funds | 1,116,914 | 1,669,915 | 1,469,997 | 753,179 |
| Capital projects funds | 1,051,673 | 989,460 | 648,746 | 232,743 |
| Undesignated, reported in: | | | | |
| Special revenue funds | | | | 580,649 |
| Capital projects funds | | | (149,480) | (2,050,830) |
| Nonspendable | | | | |
| Restricted for | | | | |
| Committed to | | | | |
| Assigned to | | | | |
| Unassigned | | | | |
| Total All Other Governmental Funds | $ 88,351,888 | $ 84,609,108 | $ 86,110,753 | $ 91,233,740 |

Note:
The City of Escondido implemented GASB 54 for the fiscal year ended June 30, 2011 and has elected not to restate fund balance amounts in previous years.

Source:
City of Escondido Finance Department.

| 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| $ 11,981,270 | $ 10,149,296 | $ 10,763,636 | $ 10,331,307 | $ | $ |
| 39,074,546 | 36,201,191 | 30,001,183 | 21,694,390 | | |
| 18,267 | 31,478 | 360,555 | | | |
| | | | | 5,456,377 | 5,180,347 |
| | | | | 28,354,588 | 31,938,244 |
| | | | | 713,361 | 852,481 |
| | | | | 399,790 | 753,121 |
| $ 51,074,083 | $ 46,381,965 | $ 41,125,374 | $ 32,025,697 | $ 34,924,116 | $ 38,724,193 |
| $ 70,384,963 | $ 79,272,342 | $ 90,244,472 | $ 91,342,926 | $ | $ |
| 3,343,847 | 4,409,890 | 4,506,647 | 3,005,679 | | |
| 111,342,705 | 83,750,017 | 38,533,362 | 9,407,468 | | |
| 3,886,179 | 903,378 | 1,656,500 | 4,762,099 | | |
| 4,519,393 | 4,822,008 | 6,609,031 | 8,691,702 | | |
| 638,880 | 17,198 | 612,564 | 1,097,044 | | |
| (653,000) | | | | | |
| | | | | 61,204,587 | 57,982,791 |
| | | | | 21,732,085 | 30,695,122 |
| | | | | 8,418,117 | 5,208,585 |
| | | | | 774,990 | 447,148 |
| | | | | (14,547,286) | (1,021,715) |
| $ 193,462,967 | $ 173,174,833 | $ 142,162,576 | $ 118,306,918 | $ 77,582,493 | $ 93,311,931 |

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

| | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|
| Revenues | | | | |
| Taxes | $ 59,866,528 | $ 63,439,940 | $ 71,655,717 | $ 77,734,043 |
| Licenses and permits | 1,317,849 | 1,178,717 | 948,731 | 1,466,492 |
| Fines and forfeits | 1,928,933 | 2,009,866 | 2,345,309 | 2,591,254 |
| Intergovernmental | 19,888,610 | 16,578,889 | 20,636,158 | 25,479,372 |
| Charges for services | 11,585,916 | 12,634,030 | 13,808,460 | 17,159,737 |
| Special assessments | 361,982 | 509,713 | 486,509 | 534,503 |
| Lease income | 141,108 | 90,253 | 41,674 | 74,598 |
| Investment income | 6,037,634 | 1,202,632 | 2,925,655 | 2,945,448 |
| Miscellaneous | 2,932,307 | 4,337,574 | 6,377,728 | 4,870,084 |
| Total Revenues | 104,060,867 | 101,981,614 | 119,225,941 | 132,855,531 |
| Expenditures | | | | |
| General government | 5,844,918 | 6,296,011 | 6,099,209 | 6,794,411 |
| Public safety | 40,062,738 | 42,059,732 | 48,378,236 | 51,915,935 |
| Public works | 14,748,096 | 10,740,417 | 9,819,464 | 10,950,990 |
| Community services | 11,568,694 | 10,727,405 | 11,485,472 | 12,161,879 |
| Community development | 7,762,600 | 7,700,946 | 5,429,443 | 6,857,595 |
| Capital outlay | 16,430,287 | 14,095,598 | 15,289,826 | 19,826,969 |
| Debt service: | | | | |
| Principal retirements | 5,391,385 | 7,600,360 | 9,439,275 | 10,011,703 |
| Interest and fiscal charges | 4,028,259 | 4,642,924 | 3,564,360 | 3,314,576 |
| SERAF payment | | 694,978 | 1,371,088 | 1,333,226 |
| Cost of issuance | | | | |
| Payment to refunding bond escrow agent | | | | |
| Agency tax sharing agreement | 2,097,708 | 2,227,303 | 2,502,874 | 2,867,983 |
| Total Expenditures | 107,934,685 | 106,785,674 | 113,379,247 | 126,035,267 |
| Excess (Deficiency) of Revenues Over Expenditures | (3,873,818) | (4,804,060) | 5,846,694 | 6,820,264 |
| Other Financing Sources (Uses) | | | | |
| Issuance of debt | | | | |
| Payment to refunding escrow agent | | | | |
| Premium of debt | | | | |
| Sale of capital assets | 1,282,729 | 1,256,656 | 91,102 | 851,185 |
| Transfers in | 19,019,050 | 11,343,641 | 7,748,864 | 10,491,946 |
| Transfers out | (16,216,651) | (11,774,496) | (8,287,087) | (12,628,406) |
| Total Other Financing Sources (Uses) | 4,085,128 | 825,801 | (447,121) | (1,285,275) |
| Special item: | | | | |
| Economic development incentive | | (2,043,559) | | |
| Extraordinary item: | | | | |
| Gain/(loss) on dissolution of Community Development Commission | | | | |
| Net Change in Fund Balance | $ 211,310 | $ (6,021,818) | $ 5,399,573 | $ 5,534,989 |
| Debt service as a percentage of noncapital expenditures | 12.6% | 16.4% | 17.2% | 16.5% |

| 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| $ 81,151,830 | $ 80,426,993 | $ 74,152,418 | $ 66,166,696 | $ 69,907,949 | $ 65,556,779 |
| 1,192,210 | 1,083,012 | 984,790 | 1,350,224 | 1,193,338 | 821,380 |
| 3,438,103 | 2,775,808 | 2,552,099 | 2,186,227 | 1,895,447 | 1,640,528 |
| 24,847,891 | 24,981,294 | 24,161,739 | 26,889,870 | 26,688,728 | 27,513,328 |
| 28,652,127 | 14,534,487 | 14,518,395 | 12,759,043 | 9,976,316 | 10,281,595 |
| 5,977,365 | 6,114,007 | 5,560,064 | 5,742,487 | 5,759,888 | 5,892,241 |
| 67,842 | 65,380 | 48,743 | 47,609 | 75,321 | 60,024 |
| 10,853,706 | 17,189,718 | 5,993,386 | 2,301,810 | 16,367,414 | 1,469,849 |
| 4,460,671 | 6,037,085 | 6,211,906 | 8,177,104 | 4,253,232 | 4,432,737 |
| 160,641,745 | 153,207,784 | 134,183,540 | 125,621,070 | 136,117,633 | 117,668,461 |
| 7,255,759 | 9,127,482 | 6,908,388 | 6,761,408 | 7,096,148 | 6,407,543 |
| 55,236,173 | 57,495,217 | 54,009,216 | 55,863,025 | 52,038,011 | 53,083,126 |
| 15,876,014 | 16,530,427 | 15,116,819 | 15,364,185 | 18,146,072 | 12,542,175 |
| 13,644,105 | 19,136,835 | 17,849,432 | 18,114,581 | 12,072,344 | 12,016,459 |
| 6,266,748 | 7,484,775 | 10,003,869 | 5,132,958 | 7,165,632 | 4,774,106 |
| 21,588,318 | 46,039,380 | 47,671,550 | 28,777,524 | 26,536,515 | 9,153,723 |
| 9,014,873 | 5,893,863 | 6,233,746 | 9,653,787 | 10,760,000 | 10,512,620 |
| 6,000,362 | 14,271,646 | 7,922,238 | 7,585,243 | 23,952,729 | 5,792,921 |
| | | | 8,556,226 | 1,761,576 | |
| 1,838,207 | | | | | |
| 9,331,468 | | | | | |
| 3,280,870 | 3,697,911 | 5,448,326 | 3,817,295 | 9,101,406 | 5,921,213 |
| 149,332,897 | 179,677,536 | 171,163,584 | 159,626,232 | 168,630,433 | 120,203,886 |
| 11,308,848 | (26,469,752) | (36,980,044) | (34,005,162) | (32,512,800) | (2,535,425) |
| 140,900,000 | 2,050,000 | | | | 224,078 |
| (52,543,700) | | | | | |
| 3,366,017 | | | | | |
| | | 681,996 | | 463,018 | 474,819 |
| 17,333,710 | 12,095,699 | 9,445,273 | 9,195,181 | 28,486,232 | 8,237,198 |
| (17,974,255) | (12,656,199) | (9,416,073) | (8,873,851) | (25,059,387) | (8,062,198) |
| 91,081,772 | 1,489,500 | 711,196 | 321,330 | 3,889,863 | 873,897 |
| | | | | | 21,191,043 |
| $ 102,390,620 | $ (24,980,252) | $ (36,268,848) | $ (33,683,832) | $ (28,622,937) | $ 19,529,515 |
| 23.1% | 17.9% | 15.9% | 22.6% | 32.1% | 20.0% |

# CITY OF ESCONDIDO
## Assessed Value and Estimated Actual Value of Taxable Property
## Last Ten Fiscal Years

| Fiscal Year Ended June 30 | Secured (1) Residential | Commercial | Industrial | Other | Total |
|---|---|---|---|---|---|
| 2003 (2) | $ | $ | $ | $ | $ 7,656,792,012 |
| 2004 | | | | | 8,330,767,634 |
| 2005 | | | | | 9,175,561,577 |
| 2006 | | | | | 10,557,048,856 |
| 2007 | 8,504,862,463 | 696,109,094 | 630,995,760 | 1,605,438,683 | 11,437,406,000 |
| 2008 | 9,296,316,740 | 810,686,675 | 689,162,975 | 1,753,357,367 | 12,549,523,757 |
| 2009 | 9,294,002,418 | 887,735,198 | 727,933,450 | 1,837,063,300 | 12,746,734,366 |
| 2010 | 8,231,590,550 | 939,687,068 | 734,423,838 | 1,918,881,771 | 11,824,583,227 |
| 2011 | 8,055,721,483 | 927,680,780 | 735,847,485 | 1,940,187,481 | 11,659,437,229 |
| 2012 | 8,250,098,328 | 915,511,275 | 704,991,571 | 1,890,820,616 | 11,761,421,790 |

| Fiscal Year Ended June 30 | Unsecured | Less: Exemptions | Taxable Assessed Value | Total Direct Tax Rate |
|---|---|---|---|---|
| 2003 (2) | $ 242,746,635 | $ (311,919,621) | $ 7,656,792,012 | 0.103 |
| 2004 | 253,041,202 | (371,853,469) | 8,330,767,634 | 0.103 |
| 2005 | 258,794,691 | (383,405,102) | 9,175,561,577 | 0.103 |
| 2006 | 291,432,112 | (405,785,782) | 10,557,048,856 | 0.103 |
| 2007 | 420,118,000 | (408,095,000) | 11,449,429,000 | 0.103 |
| 2008 | 465,923,040 | (425,349,881) | 12,590,096,916 | 0.103 |
| 2009 | 457,803,566 | (507,352,437) | 12,746,734,366 | 0.103 |
| 2010 | 486,166,246 | (587,494,693) | 11,824,583,227 | 0.103 |
| 2011 | 462,394,959 | (587,861,385) | 11,659,437,229 | 0.103 |
| 2012 | 455,849,872 | (597,181,491) | 11,761,421,790 | 0.103 |

Notes:

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

(1) Includes City of Escondido and Community Development Commission assessed values.

(2) Assessed value by major component is not available for fiscal years 2002/03 to FY 2005/06

# CITY OF ESCONDIDO
## Direct and Overlapping Property Tax Rates
## (Rate per $100 of assessed value)
## Last Ten Fiscal Years

| Fiscal Year Ended June 30 | City Direct Rate | County Direct Rate | Overlapping Rates School District | Overlapping Rates San Diego County | Overlapping Rates All Other | Total | Voter Approved Debt | Total Tax Rate |
|---|---|---|---|---|---|---|---|---|
| 2003 | 0.103 % | 0.897 % | 0.710 % | 0.157 % | 0.030 % | 1.897 % | 0.073 % | 1.970 % |
| 2004 | 0.103 | 0.897 | 0.710 | 0.157 | 0.030 | 1.897 | 0.068 | 1.965 |
| 2005 | 0.103 | 0.897 | 0.710 | 0.157 | 0.030 | 1.897 | 0.066 | 1.963 |
| 2006 | 0.103 | 0.897 | 0.710 | 0.157 | 0.030 | 1.897 | 0.072 | 1.969 |
| 2007 | 0.103 | 0.897 | 0.710 | 0.157 | 0.030 | 1.897 | 0.115 | 2.012 |
| 2008 | 0.103 | 0.897 | 0.710 | 0.157 | 0.030 | 1.897 | 0.112 | 2.009 |
| 2009 | 0.103 | 0.897 | 0.710 | 0.157 | 0.030 | 1.897 | 0.117 | 2.014 |
| 2010 | 0.103 | 0.897 | 0.710 | 0.157 | 0.030 | 1.897 | 0.125 | 2.022 |
| 2011 | 0.103 | 0.897 | 0.710 | 0.157 | 0.030 | 1.897 | 0.139 | 2.036 |
| 2012 | 0.103 | 0.897 | 0.710 | 0.157 | 0.030 | 1.897 | 0.140 | 2.037 |

Note:
In 1978, California voters passed Proposition 13 which sets the property tax rate at a 1.00% fixed amount. This 1.00% is shared by all taxing agencies for which the subject property resides within.

Source:
County of San Diego Auditor and Controller's Office.

# CITY OF ESCONDIDO
## Principal Property Taxpayers
## Current Year and Nine Years Ago

| | 2012 | | 2003 | |
|---|---|---|---|---|
| Taxpayer | Taxable Assessed Value | Percentage of Total Taxable Assessed Value (1) | Taxable Assessed Value | Percentage of Total Taxable Assessed Value (2) |
| North County Fair LLC | $172,453,589 | 1.47 % | $175,790,612 | 2.50 % |
| Prebys Conrad Trust | 73,418,818 | 0.63 | 52,832,006 | 0.75 |
| Luna Properties LLC | 54,517,207 | 0.46 | | |
| Cox Communications San Diego | 43,522,196 | 0.37 | 37,454,226 | 0.53 |
| Frit Escondido Promenade, LLC | 40,676,564 | 0.35 | 24,519,357 | 0.35 |
| Garrick Motors Inc | 38,180,562 | 0.33 | | |
| O C/S D Holdings LLC | 34,698,775 | 0.30 | | |
| Goal Line | 34,343,540 | 0.29 | 54,387,521 | 0.77 |
| Vons | 32,639,698 | 0.28 | 12,689,880 | 0.18 |
| Lowes HIW Inc | 29,391,045 | 0.25 | | |
| Del Norte Plaza LLC | | | 21,128,400 | 0.30 |
| Security Capital Pacific Trust | | | 15,791,941 | 0.22 |
| Morning View Terrace | | | 15,661,201 | 0.22 |
| Plaza Las Palmas LLC | | | 15,220,000 | 0.22 |
| TOTAL | $553,841,994 | 4.73 % | $425,475,144 | 6.04 % |

Notes:

(1) Net assessed valuation for 2011-12 is $11,891,160,086

(2) Net assessed valuation for 2002-03 is $7,587,619,026

Source:

City of Escondido Finance Department & County Assessor

# CITY OF ESCONDIDO
## Property Tax Levies and Collections
## Last Ten Fiscal Years

| Fiscal Year Ended June 30 | Taxes Levied for the Fiscal Year | Collected within the Fiscal Year of Levy | | Collections in Subsequent Years | Total Collections to Date | |
|---|---|---|---|---|---|---|
| | | Amount | Percent of Levy | | Amount | Percent of Levy |
| 2003 | $ 6,364,173 | $ 6,205,238 | 97.50 % | $ 117,200 | $ 6,322,438 | 99.34 % |
| 2004 | 7,015,758 | 6,814,320 | 97.13 | 123,792 | 6,938,111 | 98.89 |
| 2005 | 8,592,735 | 8,074,890 | 93.97 | 122,320 | 8,197,210 | 95.40 |
| 2006 | 10,090,319 | 9,520,693 | 94.35 | 200,970 | 9,721,663 | 96.35 |
| 2007 | 10,867,792 | 10,233,625 | 94.16 | 230,682 | 10,464,307 | 96.29 |
| 2008 | 11,218,291 | 10,495,467 | 93.56 | 299,605 | 10,795,072 | 96.23 |
| 2009 | 10,560,667 | 10,048,236 | 95.15 | 419,191 | 10,467,427 | 99.12 |
| 2010 | 9,477,871 | 9,086,734 | 95.87 | 372,031 | 9,458,765 | 99.80 |
| 2011 | 9,382,618 | 9,097,417 | 96.96 | 247,404 | 9,344,821 | 99.60 |
| 2012 | 9,536,098 | 9,288,990 | 97.41 | 168,496 | 9,457,486 | 99.18 |

Notes:

The amounts presented do not include property taxes collected for the Community Development Commission in the following amounts: 2001/02 - $10,509,436, 2002/03 - $11,860,699, 2003/04 - $12,704,173, 2004/05 - $14,287,104, 2005/06 - $16,364,873, 2006/07 - $18,343,838, 2007/08 - $21,069,222, 2008/09 - $21,374,963, 2009/10 - $19,863,033, and 2010/11 - $19,092,408

The amounts collected in subsequent years do not include penalties and interest from fiscal year 2007 forward.

Source:

County of San Diego Auditor and Controller's Office.

# CITY OF ESCONDIDO
## Ratios of Outstanding Debt by Type
## Last Ten Fiscal Years

| | Governmental Activities | | | | | | |
|---|---|---|---|---|---|---|---|
| | (1) | (2,3,4,5,6, 17) | (3) | (4, 18) | (2,7,8,16) | | |
| Fiscal Year Ended June 30 | General Obligation Bonds | Lease Revenue Bonds | Certificates of Participation | Tax Allocation Bonds | Loans Payable | Capital Leases Payable | Total Governmental Activities |
| 2003 | $ | $ 91,997,154 | $ 5,165,000 | $ 14,897,309 | $ 1,439,769 | $ 791,888 | $ 114,291,120 |
| 2004 | | 88,921,299 | 4,895,000 | 13,521,074 | 3,222,246 | 578,220 | 111,137,839 |
| 2005 | | 88,980,733 | 4,605,000 | 12,085,203 | 4,131,369 | 476,207 | 110,278,512 |
| 2006 | | 83,571,167 | 4,290,000 | 10,580,371 | 5,463,369 | 281,243 | 104,186,150 |
| 2007 | 84,350,000 | 74,400,000 | 3,950,000 | 9,002,298 | 5,484,285 | 93,895 | 177,280,478 |
| 2008 | 83,180,000 | 72,000,000 | 3,585,000 | 7,346,752 | 7,435,425 | | 173,547,177 |
| 2009 | 81,800,000 | 69,605,000 | 3,190,000 | 5,609,556 | 7,297,585 | | 167,502,141 |
| 2010 | 80,360,000 | 63,995,000 | 2,760,000 | 3,786,572 | 7,113,854 | | 158,015,426 |
| 2011 | 78,860,000 | 56,000,000 | 2,295,000 | 4,033,736 | 6,246,320 | | 147,435,056 |
| 2012 | 77,295,000 | 5,320,000 | 1,790,000 | | 6,398,573 | | 90,803,573 |

Notes:

(1) In FY 2007, the City issued $84,350,000 of new GO bonds for the construction of the new Public Safety Facilities.

(2) Beginning net assets were restated in the June 30, 2003 financial statements for accretion of capital appreciation on lease revenue bonds and on loans payable. The above figures reflect the lease revenue and loans payable balances as they should have been reported in the financial statements prior to restatement in Fiscal Year 2003.

(3) The 1991 certificates of participation were refunded with the 1999 lease revenue bonds in FY 1999.

(4) The 1992 tax allocation bonds were refunded with 2001 lease revenue bonds in FY 2002. All 2001 lease revenue bonds have matured as of FY 2012.

(5) Lease revenue bonds of $6,195,000 were transferred from an enterprise fund to a debt service fund in FY 2005.

(6) The 1995 lease revenue bonds were refunded with the 2007 lease revenue bonds in FY 2007.

(7) The City received loans from the California Housing Finance Agency of $800,000 in FY 2002, $1,850,000 in FY 2004, $1,400,000 in FY 2006, and $2,050,000 in FY 2008.

(8) The City received a loan from the California Energy Commission in FY 2005.

(9) In FY 2000, the City issued the 2000 water revenue certificates of participation which refunded the 1996 water revenue bonds and funded new capital improvement projects.

(10) The City issued $6,300,000 of new lease revenue bonds in FY 2001.

(11) The City issued $9,170,000 of new water revenue certificates of participation in FY 2003.

(12) The 1996 wastewater certificates of participation were refunded with the 2004A wastewater certificates of participation in FY 2005.

(13) The City issued $10,775,000 of new wastewater certificates of participation in FY 2005.

(14) The City received loan advances from the State Water Resources Control Board revolving loan fund from FY 2000 to FY 2012. Repayment of the loans began in FY 2002.

(15) The 2000A water revenue certificates of participation were partially refunded ( $12,410,000) in FY 2008 with the $30,440,000 issue of the 2007 series water revenue certificates of participation. The remaining $9,825,000 outstanding 2000A certificates ( as of April 2012) were refunded with the issue of $31,660,000 of 2012 JPFA Water and $27,390,00 of JPFA Wastewater Revenue bonds.

(16) The City received installment loans from San Diego Gas and Electric in FY 2012.

(17) 2007A & B lease revenue bond obligations were transferred from the City of Escondido Redevelopment Agency to the Successor Agency, as part of the required dissolution of the Redevelopment Agency effective on February 1, 2012

(18)1992 tax allocation bond obligations were transferred from the City of Escondido Redevelopment Agency to the Successor Agency, as part of the required dissolution of the Redevelopment Agency effective on February 1, 2012

(19) The 2002A water revenue certificates of participation, in the remaining outstanding amount of $8,585,000, were refunded with the April 2012 issue of $31,660,000 of 2012 JPFA Water Revenue bonds.

| Business-type Activities | | | | | | | |
|---|---|---|---|---|---|---|---|
| (5,9,10,11,12,13,15,19) Revenue COP & Lease Revenue Bonds | Special Tax/ Assessment Bonds | (14) Loans Payable | Capital Leases Payable | Total Business Activities | Total Primary Government | Percentage of Personal Income | Debt Per Capita |
| $ 68,615,000 | $ 105,000 | $ 35,892,949 | $ 165,612 | $ 104,778,561 | $ 219,069,681 | 4.96 % | 1,598 |
| 67,875,000 | 90,000 | 36,256,556 | 119,591 | 104,341,147 | 215,478,986 | 4.93 | 1,555 |
| 73,340,000 | 75,000 | 34,420,708 | | 107,835,708 | 218,114,220 | 4.84 | 1,554 |
| 72,120,000 | 60,000 | 33,986,247 | | 106,166,247 | 210,352,397 | 4.62 | 1,494 |
| 70,350,000 | 40,000 | 31,988,970 | | 102,378,970 | 279,659,448 | 8.74 | 1,972 |
| 86,515,000 | 20,000 | 29,990,130 | | 116,525,130 | 290,072,307 | 9.11 | 2,023 |
| 84,450,000 | | 27,987,565 | | 112,437,565 | 279,939,706 | 8.14 | 1,954 |
| 82,315,000 | | 25,981,179 | | 108,296,179 | 266,311,605 | 7.66 | 1,832 |
| 80,095,000 | | 26,507,579 | | 106,602,579 | 254,037,635 | 8.97 | 1,750 |
| 118,420,000 | | 24,715,177 | | 143,135,177 | 233,938,750 | 7.80 | 1,602 |

# CITY OF ESCONDIDO
## Ratio of General Bonded Debt Outstanding
## Last Ten Fiscal Years

| Fiscal Year Ended June 30 | Outstanding General Obligation Bonded Debt: General Obligation Bonds | Certificates of Participation | Tax Allocation Bonds[2] | Total | Percent of Assessed Value[1] | Per Capita |
|---|---|---|---|---|---|---|
| 2003 | $ | $ 5,165,000 | $ 14,897,309 | $ 20,062,309 | 1.48 % | 145 |
| 2004 | | 4,895,000 | 13,521,074 | 18,416,074 | 1.31 | 131 |
| 2005 | | 4,605,000 | 12,085,203 | 16,690,203 | 1.17 | 119 |
| 2006 | | 4,290,000 | 10,580,371 | 14,870,371 | 0.94 | 105 |
| 2007 | 84,350,000 | 3,950,000 | 9,002,298 | 97,302,298 | 1.10 | 686 |
| 2008 | 83,180,000 | 3,585,000 | 7,346,752 | 94,111,752 | 1.32 | 656 |
| 2009 | 81,800,000 | 3,190,000 | 5,609,556 | 90,599,556 | 0.77 | 632 |
| 2010 | 80,360,000 | 2,760,000 | 3,786,572 | 86,906,572 | 0.74 | 598 |
| 2011 | 78,860,000 | 2,295,000 | 4,033,736 | 85,188,736 | 0.73 | 587 |
| 2012 | 77,295,000 | 1,790,000 | | 79,085,000 | 0.68 | 541 |

Notes:

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

(2) 1992 Tax Allocation Bond obligations were transferred from the City of Escondido Redevelopment Agency to the Successor Agency, as part of the required dissolution of the Redevelopment Agency effective on February 1, 2012

Source:
City of Escondido Finance Department.

# CITY OF ESCONDIDO
## Direct and Overlapping Debt
## For the Year Ended June 30, 2012

| | | | |
|---|---|---|---|
| 2011-12 Assessed Valuation: | | $ 11,993,339,223 | |
| Redevelopment Agency Incremental Valuation: | | 2,329,985,359 | |
| Adjusted Assessed Valuation: | | $ 9,663,353,864 | |

| | Percentage Applicable(1) | Outstanding Debt 6/30/12 | Estimated Share of Overlapping Debt |
|---|---|---|---|
| OVERLAPPING TAX AND ASSESSMENT DEBT: | | | |
| Metropolitan Water District | 0.532 % | $ 196,545,000 | $ 1,045,619 |
| Palomar Community College District | 12.440 | 318,573,901 | 39,630,593 |
| San Marcos Unified School District School | 6.107 | 207,041,998 | 12,644,055 |
| San Marcos Unified School District School Facilities Improvement District No. 1 | 3.842 | 10,333,019 | 396,995 |
| San Marcos Unified School District Community Facilities District No. 1 | 100.000 | 1,255,000 | 1,255,000 |
| Escondido Union High School District | 74.042 | 101,449,212 | 75,115,026 |
| Escondido Union School District | 74.780 | 46,524,622 | 34,791,112 |
| San Pasqual Union School District | 56.741 | 656,351 | 372,420 |
| Valley Center-Pauma Unified School District | 0.001 | 1,759,147 | 18 |
| Total Overlapping Tax and Assessment Debt | | 884,138,250 | 165,250,838 |
| OVERLAPPING GENERAL OBLIGATION DEBT: | | | |
| San Diego County General Fund Obligations | 2.804 | 395,115,000 | 11,079,025 |
| San Diego County Pension Obligations | 2.804 | 787,112,618 | 22,070,638 |
| San Diego County Superintendent of School Obligations | 2.804 | 18,750,000 | 525,750 |
| Palomar Community College District Certificates of Participation | 12.440 | 5,820,000 | 724,008 |
| San Marcos Unified School General Fund Obligations | 6.107 | 55,863,327 | 3,411,573 |
| Escondido Union High School District Certificates of Participation | 74.042 | 60,645,000 | 44,902,771 |
| Escondido Union School District Certificates of Participation | 74.780 | 21,985,000 | 16,440,383 |
| Palomar Pomerado Hospital District | 18.813 | 479,863,205 | 90,276,665 |
| Total Overlapping General Fund Obligation Debt | | 1,825,154,150 | 189,430,813 |
| TOTAL OVERLAPPING DEBT | | 2,709,292,400 | 354,681,651 |
| CITY DIRECT DEBT: | | | |
| City of Escondido General Fund Obligations | 100.000 % | 77,295,000 | 77,295,000 |
| City of Escondido General Obligations | 100.000 | 50,402,090 | 50,402,090 |
| City of Escondido Hidden Trails Community Facilities District | 100.000 | 2,575,000 | 2,575,000 |
| City of Escondido Community Facilities District 2006-01 | 100.000 | 16,935,000 | 16,935,000 |
| City of Escondido 1915 Act Bonds | 100.000 | 5,230,000 | 5,230,000 |
| TOTAL CITY DIRECT DEBT | | 152,437,090 | 152,437,090 |
| TOTAL DIRECT AND OVERLAPPING DEBT | | | $ 507,118,741 (2) |

Notes:

(1) For debt repaid with property taxes, the percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of another governmental unit's taxable assessed value that is within the City's boundaries and dividing it by each unit's total taxable assessed value.

Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Source: MuniServices, LLC.

# CITY OF ESCONDIDO
## Legal Debt Margin Information
## Last Ten Fiscal Years

| | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|
| Assessed valuation | $ 6,325,018,363 | $ 6,854,440,987 | $ 7,557,521,777 | $ 8,716,447,815 |
| Conversion percentage | 25% | 25% | 25% | 25% |
| Adjusted assessed valuation | $ 1,581,254,591 | $ 1,713,610,247 | $ 1,889,380,444 | $ 2,179,111,954 |
| Debt limit percentage | 15% | 15% | 15% | 15% |
| Debt limit | 237,188,189 | 257,041,537 | 283,407,067 | 326,866,793 |
| Total Net Debt Applicable to Limit: | | | | |
| Legal Debt Margin | $ 237,188,189 | $ 257,041,537 | $ 283,407,067 | $ 326,866,793 |
| Total Debt Applicable to the Limit as a Percentage of Debt Limit | 0% | 0% | 0% | 0% |

Note:

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

Source:
City of Escondido Finance Department.

| 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| $ 9,842,664,350 | $ 10,437,917,513 | $ 10,419,201,152 | $ 9,608,214,935 | $ 9,501,563,129 | $ 9,663,353,864 |
| 25% | 25% | 25% | 25% | 25% | 25% |
| $ 2,460,666,088 | $ 2,609,479,378 | $ 2,604,800,288 | $ 2,402,053,734 | $ 2,375,390,782 | $ 2,415,838,466 |
| 15% | 15% | 15% | 15% | 15% | 15% |
| 369,099,913 | 391,421,907 | 390,720,043 | 360,308,060 | 356,308,617 | 362,375,770 |
| $ 369,099,913 | $ 391,421,907 | $ 390,720,043 | $ 360,308,060 | $ 356,308,617 | $ 362,375,770 |
| 0% | 0% | 0% | 0% | 0% | 0% |

# CITY OF ESCONDIDO
## Pledged-Revenue Coverage
## Last Ten Fiscal Years

### 1999 Lease Revenue Bonds

| Fiscal Year Ended June 30 | Low/Mod Tax Increment & Other Revenue | Less: Housing Fund Expenditures | Net Available Revenue | Debt Service | | Coverage |
|---|---|---|---|---|---|---|
| | | | | Principal | Interest | |
| 2003 | $ 3,575,053 | $ 834,539 | $ 2,740,514 | $ 1,500,000 | $ 269,835 | 1.55 |
| 2004 | 5,475,314 | 1,212,594 | 4,262,720 | 1,520,000 | 170,045 | 2.52 |
| 2005 | 4,243,671 | 942,754 | 3,300,917 | 1,025,000 | 90,900 | 2.96 |
| 2006 | 6,083,947 | 1,303,187 | 4,780,760 | 1,310,000 | 42,983 | 3.53 |
| 2007 (3) | | | | | | |
| 2008 (3) | | | | | | |
| 2009 (3) | | | | | | |
| 2010 (3) | | | | | | |
| 2011 (3) | | | | | | |
| 2012 (3) | | | | | | |

### 2001 Lease Revenue Bonds

| Fiscal Year Ended June 30 | Loan Payment Revenue | Less: Operating Expenses | Net Available Revenue | Debt Service | | Coverage |
|---|---|---|---|---|---|---|
| | | | | Principal | Interest | |
| 2003 | $ 151,185 | $ | $ 151,185 | $ | $ 151,185 | 1.00 |
| 2004 | 405,533 | | 405,533 | 105,000 | 300,533 | 1.00 |
| 2005 | 411,683 | | 411,683 | 115,000 | 296,683 | 1.00 |
| 2006 | 422,395 | | 422,395 | 130,000 | 292,395 | 1.00 |
| 2007 | 427,320 | | 427,320 | 140,000 | 287,320 | 1.00 |
| 2008 | 431,520 | | 431,520 | 150,000 | 281,520 | 1.00 |
| 2009 | 347,190 | | 347,190 | 70,000 | 277,190 | 1.00 |
| 2010 | 354,300 | | 354,300 | 80,000 | 274,300 | 1.00 |
| 2011 | 360,940 | | 360,940 | 90,000 | 270,940 | 1.00 |
| 2012 | 367,015 | | 367,015 | 100,000 | 267,015 | 1.00 |

### 1993 Certificates of Participation

| Fiscal Year Ended June 30 | Loan Payment Revenue | Less: Expenditures | Net Available Revenue | Debt Service | | Coverage |
|---|---|---|---|---|---|---|
| | | | | Principal | Interest | |
| 2003 | $ 686,750 | $ | $ 686,750 | $ 250,000 | $ 436,750 | 1.00 |
| 2004 | 686,788 | | 686,788 | 270,000 | 416,788 | 1.00 |
| 2005 | 684,870 | | 684,870 | 290,000 | 394,870 | 1.00 |
| 2006 | 685,815 | | 685,815 | 315,000 | 370,815 | 1.00 |
| 2007 | 684,445 | | 684,445 | 340,000 | 344,445 | 1.00 |
| 2008 | 680,710 | | 680,710 | 365,000 | 315,710 | 1.00 |
| 2009 | 679,352 | | 679,352 | 395,000 | 284,352 | 1.00 |
| 2010 | 679,900 | | 679,900 | 430,000 | 249,900 | 1.00 |
| 2011 | 677,310 | | 677,310 | 465,000 | 212,310 | 1.00 |
| 2012 | 676,570 | | 676,570 | 505,000 | 171,570 | 1.00 |

## 1993 Tax Allocation Bonds

| Fiscal Year Ended June 30 | Tax Increment Revenue | Less: Agency Tax Sharing Payments | Net Available Revenue | Debt Service Principal | Debt Service Interest | Coverage |
|---|---|---|---|---|---|---|
| 2003 | $ 10,299,114 | $ 2,097,708 | $ 8,201,406 | $ 1,535,000 | $ 313,494 | 4.44 |
| 2004 | 12,704,173 | 2,227,303 | 10,476,870 | 1,535,000 | 590,148 | 4.93 |
| 2005 | 14,287,104 | 2,502,874 | 11,784,230 | 1,605,000 | 513,986 | 5.56 |
| 2006 | 16,364,873 | 2,867,983 | 13,496,890 | 1,685,000 | 432,539 | 6.37 |
| 2007 | 18,343,838 | 3,215,812 | 15,128,026 | 1,770,000 | 346,164 | 7.15 |
| 2008 | 21,069,222 | 3,697,911 | 17,371,311 | 1,860,000 | 254,484 | 8.22 |
| 2009 | 21,374,963 | 4,768,880 | 16,606,083 | 1,955,000 | 156,957 | 7.86 |
| 2010 | 19,863,033 | 3,817,295 | 16,045,738 | 2,055,000 | 53,430 | 7.61 |
| 2011 (6) | | | | | | |
| 2012 (6) | | | | | | |

## 2001 Lease Revenue Refunding Bonds

| Fiscal Year Ended June 30 | Loan Payment Revenue | Less: Expenditures | Net Available Revenue | Debt Service Principal | Debt Service Interest | Coverage |
|---|---|---|---|---|---|---|
| 2003 | $ 2,855,577 | $ | $ 2,855,577 | $ 2,115,000 | $ 740,577 | 1.00 |
| 2004 | 2,649,302 | | 2,649,302 | 1,970,000 | 679,302 | 1.00 |
| 2005 | 2,644,377 | | 2,644,377 | 2,025,000 | 619,377 | 1.00 |
| 2006 | 2,634,589 | | 2,634,589 | 2,090,000 | 544,589 | 1.00 |
| 2007 | 2,642,026 | | 2,642,026 | 2,180,000 | 462,026 | 1.00 |
| 2008 | 2,638,998 | | 2,638,998 | 2,250,000 | 388,998 | 1.00 |
| 2009 | 2,640,764 | | 2,640,764 | 2,325,000 | 315,764 | 1.00 |
| 2010 | 2,627,496 | | 2,627,496 | 2,395,000 | 232,496 | 1.00 |
| 2011 | 2,631,525 | | 2,631,525 | 2,490,000 | 141,525 | 1.00 |
| 2012 | 2,627,730 | | 2,627,730 | 2,580,000 | 47,730 | 1.00 |

## 2007 Lease Revenue Refunding Bonds

| Fiscal Year Ended June 30 | Loan Payment Revenue | Less: Expenditures | Net Available Revenue | Debt Service Principal | Debt Service Interest | Coverage |
|---|---|---|---|---|---|---|
| 2003 | $ | $ | $ | $ | $ | |
| 2004 | 4,943,295 | | 4,943,295 | 3,505,000 | 1,438,295 | 1.00 |
| 2005 | 5,743,295 | | 5,743,295 | 4,305,000 | 1,438,295 | 1.00 |
| 2006 | 5,838,295 | | 5,838,295 | 4,400,000 | 1,438,295 | 1.00 |
| 2007 | | | | 45,334,684 (4) | 1,385,375 | 0.00 |
| 2008 | 1,961,693 | | 1,961,693 | | 1,961,693 | 1.00 |
| 2009 | 1,873,234 | | 1,873,234 | | 1,873,234 | 1.00 |
| 2010 | 4,966,891 | | 4,966,891 | 3,135,000 | 1,831,891 | 1.00 |
| 2011 | 7,954,088 | | 7,954,088 | 5,415,000 | 2,539,088 | 1.00 |
| 2012 | 8,037,457 | | 8,037,457 | 5,740,000 | 2,297,457 | 1.00 |

# CITY OF ESCONDIDO
## Pledged-Revenue Coverage (Continued)
## Last Ten Fiscal Years

### Water and Wastewater Certificates of Participation

| Fiscal Year Ended June 30 | Charges for Services and Other Revenue | Less Operating Expenses | Net Available Revenue | Debt Service Principal | Debt Service Interest | Coverage |
|---|---|---|---|---|---|---|
| 2003 | $ 48,085,853 | $ 37,034,927 | $ 11,050,926 | $ 305,000 | $ 3,232,935 | 3.12 |
| 2004 | 49,789,945 | 39,267,735 | 10,522,210 | 755,000 | 3,718,091 | 2.35 |
| 2005 | 49,483,225 | 41,017,100 | 8,466,125 | 782,876 | 3,093,741 | 2.18 |
| 2006 | 63,178,518 (1) | 44,933,767 | 18,244,751 | 1,235,000 | 3,985,477 | 3.49 |
| 2007 | 68,444,251 | 50,652,440 | 17,791,811 | 1,790,000 | 3,472,448 | 3.38 |
| 2008 | 70,037,925 | 53,617,950 | 16,419,975 | 14,295,000 (5) | 3,652,947 | 0.91 |
| 2009 | 71,613,953 | 51,599,265 | 20,014,688 | 2,065,000 | 4,011,542 | 3.29 |
| 2010 | 72,191,950 | 52,131,987 | 20,059,963 | 2,135,000 | 3,937,058 | 3.30 |
| 2011 | 67,713,179 | 49,064,535 | 18,648,644 | 2,220,000 | 3,852,716 | 3.07 |
| 2012 | 71,296,465 | 53,021,213 | 18,275,252 | 2,310,000 (7) | 4,020,204 | 2.89 |

### 2012 Revenue Bonds

| Fiscal Year Ended June 30 | Charges for Services and Other Revenue | Less Operating Expenses | Net Available Revenue | Debt Service Principal | Debt Service Interest | Coverage |
|---|---|---|---|---|---|---|
| 2003 | $ | $ | $ | $ | $ | |
| 2004 | | | | | | |
| 2005 | | | | | | |
| 2006 | | | | | | |
| 2007 | | | | | | |
| 2008 | | | | | | |
| 2009 | | | | | | |
| 2010 | | | | | | |
| 2011 | | | | | | |
| 2012 | 71,296,465 | 53,021,213 | 18,275,252 | (8) | | n/a |

### Special Assessment Debt - Auto Parkway

| Fiscal Year Ended June 30 | Special Assessment Collections | Less: Expenditures | Net Available Revenue | Debt Service Principal | Debt Service Interest | Coverage |
|---|---|---|---|---|---|---|
| 2003 | $ 370,678 | $ | $ 370,678 | $ 240,000 | $ 198,034 | 0.85 |
| 2004 | 325,795 | | 325,795 | 150,000 | 185,994 | 0.97 |
| 2005 | 342,121 | | 342,121 | 150,000 | 178,869 | 1.04 |
| 2006 | 309,955 | | 309,955 | 160,000 | 171,349 | 0.94 |
| 2007 | 373,134 | | 373,134 | 165,000 | 163,304 | 1.14 |
| 2008 | 324,507 | | 324,507 | 175,000 | 154,760 | 0.98 |
| 2009 | 333,284 | | 333,284 | 185,000 | 145,624 | 1.01 |
| 2010 | 335,748 | | 335,748 | 195,000 | 135,422 | 1.02 |
| 2011 | 338,480 | | 338,480 | 205,000 | 124,172 | 1.03 |
| 2012 | 347,187 | | 347,187 | 215,000 | 112,359 | 1.06 |

## Special Assessment Debt - Hidden Trails

| Fiscal Year Ended June 30 | Special Assessment Collections | Less: Expenditures | Net Available Revenue | Debt Service Principal | Debt Service Interest | Coverage |
|---|---|---|---|---|---|---|
| 2003 | $ 270,766 | $ | $ 270,766 | $ | $ 182,880 | 1.48 |
| 2004 | 253,080 | | 253,080 | 45,000 | 181,980 | 1.11 |
| 2005 | 271,990 | | 271,990 | 45,000 | 180,113 | 1.21 |
| 2006 | 211,414 | | 211,414 | 50,000 | 178,020 | 0.93 |
| 2007 | 580,694 | | 580,694 | 50,000 | 175,708 | 2.57 |
| 2008 | 257,430 | | 257,430 | 55,000 | 173,173 | 1.13 |
| 2009 | 240,612 | | 240,612 | 65,000 | 170,423 | 1.02 |
| 2010 | 229,274 | | 229,274 | 60,000 | 166,850 | 1.01 |
| 2011 | 238,709 | | 238,709 | 75,000 | 162,900 | 1.00 |
| 2012 | 209,432 | | 209,432 | 65,000 | 159,357 | 0.93 |

## Special Assessment Debt - Eureka Ranch

| Fiscal Year Ended June 30 | Special Assessment Collections | Less: Expenditures | Net Available Revenue | Debt Service Principal | Debt Service Interest | Coverage |
|---|---|---|---|---|---|---|
| 2003 | $ | $ | $ | $ | $ | |
| 2004 | | | | | | |
| 2005 | | | | | | |
| 2006 | | | | | | |
| 2007 | 2,031,526 | | 2,031,526 | | 302,325 | 6.72 |
| 2008 | 1,073,930 | | 1,073,930 | | 906,975 | 1.18 |
| 2009 | 1,451,135 | | 1,451,135 | | 906,975 | 1.60 |
| 2010 | 1,419,402 | | 1,419,402 | $ 320,000 | 893,243 | 1.17 |
| 2011 | 1,182,479 | | 1,182,479 | 330,000 | 879,630 | 0.98 |
| 2012 | 1,225,888 | | 1,225,888 | 345,000 | 865,114 | 1.01 |

## Special Assessment Debt - Rancho San Pasqual

| Fiscal Year Ended June 30 | Special Assessment Collections | Less: Expenditures | Net Available Revenue | Debt Service Principal | Debt Service Interest | Coverage |
|---|---|---|---|---|---|---|
| 2003 | $ 386,795 | $ | $ 386,795 | $ 105,000 | $ 259,785 | 1.06 |
| 2004 | 396,183 | | 396,183 | 95,000 | 255,368 | 1.13 |
| 2005 | 568,965 | | 568,965 | 350,000 | 243,189 | 0.96 |
| 2006 | 341,255 | | 341,255 | 100,000 | 231,313 | 1.03 |
| 2007 | 405,396 | | 405,396 | 105,000 | 226,135 | 1.22 |
| 2008 | 343,088 | | 343,088 | 115,000 | 220,468 | 1.02 |
| 2009 | 335,979 | | 335,979 | 120,000 | 214,298 | 1.01 |
| 2010 | 351,695 | | 351,695 | 125,000 | 207,774 | 1.06 |
| 2011 | 351,270 | | 351,270 | 130,000 | 200,920 | 1.06 |
| 2012 | 357,610 | | 357,610 | 140,000 | 193,595 | 1.07 |

# CITY OF ESCONDIDO
## Pledged-Revenue Coverage (Continued)
## Last Ten Fiscal Years

Notes:
Details regarding the city's outstanding debt can be found in the notes to the financial statements. Revenue includes interest. Operating expenses do not include interest or depreciation.

(1) 2006 revenues reflect an increase in water sales, wastewater service charge rates, and recycled water sales and the inclusion of connection fees.
(2) 1992 Tax Allocation bonds were refunded during fiscal year 2002.
(3) The 1999 Lease Revenue Bonds were paid during fiscal year 2006.
(4) 1995 Lease Revenue bonds were refunded during fiscal year 2007.
(5) 2000A Series Water Revenue Certificates of Participation were partially refunded during fiscal year 2008.
(6) The 1993 Tax Allocation Bonds were paid during fiscal year 2010.
(7) The 2000A and 2002A Series Water Revenue Certificates of Participation were fully refunded during fiscal year 2012.
(8) The 2012 Series Water Revenue Bonds were issued during fiscal year 2012.

Source:
City of Escondido Finance Department.

# CITY OF ESCONDIDO
## Demographic and Economic Statistics
## Last Ten Calendar Years

| Calendar Year | Population(1) | Personal Income (in millions)(2) | Per Capita Income(2) | Unemployment Rate(3) |
|---|---|---|---|---|
| 2002 | 137,130 | $4,419 | $32,200 | 5.1 % |
| 2003 | 138,608 | 4,375 | 31,600 | 5.2 |
| 2004 | 140,328 | 4,510 | 32,100 | 4.7 |
| 2005 | 140,803 | 4,550 | 32,300 | 4.3 |
| 2006 | 141,788 | 3,198 | 22,556 | 4.2 |
| 2007 | 143,389 | 3,182 | 22,198 | 4.8 |
| 2008 | 143,259 | 3,438 | 23,999 | 6.2 |
| 2009 | 145,388 | 3,477 | 23,914 | 10.1 |
| 2010 | 145,196 | 2,833 | 19,514 | 10.6 |
| 2011 | 146,064 | 2,999 | 20,536 | 9.9 |

Sources:
(1) California State Department of Finance Projections.
(2) United States Census data, adjusted for inflation. Fluctuation in per capita income from 2005 to 2006 is due to a change in source data.
(3) EDD Bureau of Labor Statistics Department.

# CITY OF ESCONDIDO
## Principal Employers
## Current Year and Nine Years Ago

| Employer | 2012 Number of Employees | 2012 Percent of Total Employment | 2003 Number of Employees | 2003 Percent of Total Employment[(1)] |
|---|---|---|---|---|
| Palomar Medical Center | 2,797 | 3.76 % | 1,450 | |
| Escondido Union School District | 1,885 | 2.53 | 2,240 | |
| City of Escondido | 1,073 | 1.44 | 1,156 | |
| San Diego Wild Animal Park | 918 | 1.23 | | |
| Escondido Union High School District | 796 | 1.07 | 800 | |
| Berg Electric Corp[(2)] | 730 | 0.98 | 900 | |
| Welk Group Inc. | 500 | 0.67 | | |
| Vons Grocery Stores | 362 | 0.49 | | |
| Nordstrom Inc. | 330 | 0.44 | 413 | |
| Home Depot[(3)] | 330 | 0.44 | | |
| North County Transit District | | | 585 | |
| Pacific Bell | | | 504 | |
| Albertsons | | | 409 | |
| SDG&E | | | 407 | |

Notes:
"Total Employment" as used above represents the total employment of all employers located within City limits.

(1) The percent of total employment for 2003 was unavailable.

(2) Number includes Escondido and San Diego County employees.

(3) Employee Count was confirmed for only one of the two Home Depot locations. Last years employee count was used again for the unattainable Home Depot.

Source:
MuniServices, LLC.

# CITY OF ESCONDIDO
## Full-time and Part-time City Employees by Function
## Last Ten Fiscal Years
## As of June 30

| Function | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|---|
| General Government | 115 | 111 | 108 | 113 | 120 | 118 | 112 | 110 | 109 | 106 |
| Public Safety | 369 | 356 | 362 | 374 | 404 | 397 | 377 | 381 | 375 | 360 |
| Public Works | 184 | 169 | 161 | 168 | 175 | 156 | 149 | 142 | 143 | 151 |
| Community Development | 54 | 50 | 51 | 55 | 58 | 53 | 42 | 39 | 38 | 37 |
| Community Services | 195 | 208 | 203 | 236 | 280 | 265 | 221 | 225 | 224 | 216 |
| Housing & Neighborhood Services | 10 | 10 | 11 | 11 | 13 | 13 | 13 | 14 | 15 | 12 |
| Water | 99 | 107 | 114 | 116 | 124 | 121 | 119 | 117 | 118 | 118 |
| Wastewater | 67 | 62 | 63 | 71 | 74 | 75 | 72 | 74 | 75 | 73 |
| Total | 1,093 | 1,073 | 1,073 | 1,144 | 1,248 | 1,198 | 1,105 | 1,102 | 1,097 | 1,073 |

Source:

City of Escondido Finance Department.

# CITY OF ESCONDIDO
## Operating Indicators by Function
## Last Ten Fiscal Years

| Function | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|
| Police: | | | | |
| Physical Arrests | 6,725 | 6,304 | 6,538 | 7,126 |
| Traffic Violations | 13,461 | 10,252 | 14,220 | 18,396 |
| Parking Violations | 7,143 | 6,647 | 6,530 | 8,075 |
| Fire: | | | | |
| Number of Calls Answered | 9,486 | 10,420 | 10,547 | 10,416 |
| Number of Inspections Conducted | 5,000 | 3,054 | 780 | 1,851 |
| Public Works(1): | | | | |
| Street Resurfacing (miles) | | | | 2.5 |
| Parks and Recreation(1): | | | | |
| Number of Recreation Classes | | 1,152 | 1,124 | 1,093 |
| Number of Facility Rentals | | 805 | 919 | 919 |
| Golf Rounds Played | 98,121 | 91,869 | 82,231 | 87,196 |
| Water: | | | | |
| Number of Service Connections | 24,591 | 25,073 | 25,338 | 25,559 |
| Average Daily Consumption (gallons) | 27,076,000 | 30,365,000 | 25,608,270 | 27,285,671 |
| Sewer: | | | | |
| Number of Service Connections | 25,505 | 25,703 | 25,338 | 26,190 |
| Average Daily Treatment (gallons) | 15,600,000 | 14,300,000 | 14,700,000 | 14,400,000 |

Note:

(1) No data was available for Parks and Recreation prior to 2004 and Public Works prior to 2006.

Source:

City of Escondido.

| 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| 7,359 | 7,373 | 7,004 | 7,190 | 7,617 | 7,032 |
| 21,580 | 20,496 | 21,438 | 16,956 | 13,811 | 13,054 |
| 8,909 | 8,295 | 7,942 | 7,606 | 5,784 | 4,514 |
| 10,515 | 10,650 | 11,237 | 11,544 | 11,370 | 11,978 |
| 1,880 | 1,738 | 3,105 | 2,059 | 2,222 | 1,380 |
| 4.5 | 2.3 | 1.1 | 1.5 | 9.5 | 3.0 |
| 832 | 977 | 1,228 | 1,101 | 1,176 | 990 |
| 998 | 987 | 982 | 1,106 | 1,125 | 995 |
| 90,014 | 95,149 | 100,192 | 97,683 | 95,020 | 95,934 |
| 25,972 | 26,161 | 26,280 | 26,390 | 26,489 | 26,502 |
| 27,301,940 | 25,500,000 | 23,170,000 | 18,799,222 | 18,835,000 | 20,220,000 |
| 26,503 | 26,702 | 26,909 | 27,014 | 27,066 | 27,054 |
| 14,300,000 | 14,320,000 | 13,000,000 | 12,500,000 | 12,900,000 | 12,730,000 |

# CITY OF ESCONDIDO
## Capital Asset Statistics by Function
## Last Ten Fiscal Years

| Function | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|
| Police: | | | | |
| Stations | 1 | 1 | 1 | 1 |
| Fire: | | | | |
| Stations | 5 | 5 | 5 | 5 |
| Public Works: | | | | |
| Streets (miles) | 286 | 288 | 291.3 | 295.3 |
| Streetlights | 4,402 | 4,503 | 4,595 | 4,749 |
| Traffic Signals | 104 | 111 | 111 | 117 |
| Parks and Recreation: | | | | |
| Parks | 13 | 13 | 13 | 13 |
| Community Centers | 3 | 3 | 3 | 3 |
| Golf Courses | 2 | 2 | 2 | 2 |
| Water: | | | | |
| Water Mains (miles) | 387 | 375 | 376 | 415 |
| Maximum Daily Plant Capacity (gallons) | 75,000,000 | 75,000,000 | 75,000,000 | 75,000,000 |
| Sewer: | | | | |
| Sanitary Sewers (miles) | 352 | 362 | 362 | 369 |
| Storm Drains (miles) | 326 | 327 | 328 | 329 |
| Maximum Daily Treatment Capacity (gallons) | 16,500,000 | 18,000,000 | 18,000,000 | 18,000,000 |

Source:

City of Escondido.

| 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| 1 | 1 | 1 | 1 | 1 | 1 |
| 5 | 5 | 7 | 7 | 7 | 7 |
| 299.2 | 302.0 | 302.0 | 304.4 | 304.6 | 304.9 |
| 5,691 | 6,382 | 6,408 | 6,460 | 6,479 | 6,480 |
| 126 | 135 | 139 | 146 | 148 | 148 |
| 14 | 14 | 14 | 14 | 14 | 14 |
| 3 | 3 | 3 | 3 | 3 | 3 |
| 2 | 2 | 2 | 2 | 2 | 2 |
| 418 | 425 | 429 | 430 | 430 | 430 |
| 75,000,000 | 75,000,000 | 75,000,000 | 75,000,000 | 75,000,000 | 75,000,000 |
| 375 | 375 | 375 | 351 | 352 | 355 |
| 378 | 380 | 380 | 380 | 381 | 383 |
| 18,000,000 | 18,000,000 | 18,000,000 | 18,000,000 | 18,000,000 | 18,000,000 |

# City of Escondido

CALIFORNIA


FISCAL YEAR ENDED JUNE 30,2012

## APPENDIX C

## PROPOSED FORM OF BOND COUNSEL OPINION

*Upon issuance of the Series 2013A Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, proposes to render its final approving opinion in substantially the following form:*

[Date of Delivery]

Escondido Joint Powers Financing Authority
c/o City of Escondido
201 North Broadway
Escondido, California 92025-2798

Re: *$4,830,000 Escondido Joint Powers Financing Authority Lease Revenue Refunding Bonds, Series 2013A*

Members of the Board of Directors:

We have acted as Bond Counsel to the Escondido Joint Powers Financing Authority (the "Authority") in connection with the issuance by the Authority of its Lease Revenue Refunding Bonds, Series 2013A (the "Series 2013A Bonds") in the aggregate principal amount of $4,830,000. In such connection, we have reviewed: (i) the Indenture, dated as of February 1, 2013 (the "Indenture"), by and among The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), the Authority and the City of Escondido (the "City"); (ii) the Lease Agreement, dated as of February 1, 2013 (the "Lease Agreement"), by and between the City and the Authority; (iii) the Ground Lease, dated as of February 1, 2013 (the "Ground Lease"), by and between the City and the Authority; (iv) the Assignment Agreement, dated as of February 1, 2013 (the "Assignment Agreement"), by and between the Authority and the Trustee; (v) the Tax Certificate of the Authority and the City, dated as of the date hereof (the "Tax Certificate"); and (vi) opinions of counsel to the Authority, the City and the Trustee, certificates of the Authority, the City and the Trustee and others and such other documents, opinions and matters to the extent that we deemed necessary to render the opinions set forth herein. Capitalized terms not otherwise defined herein have the meanings ascribed thereto in the Indenture.

Based upon our examination of the foregoing, and in reliance thereon and on all matters of fact as we deem relevant under the circumstances, and upon consideration of applicable laws, we are of the opinion that:

1. The obligation of the City to pay Base Rental Payments in accordance with the terms of the Lease Agreement is a valid and binding obligation payable from the funds of the City lawfully available therefor. The obligation of the City to make Base Rental Payments under the Lease Agreement does not constitute a debt of the City, the State of California (the "State") or any political subdivision thereof within the meaning of any statutory or constitutional debt limitation or restriction and does not constitute a pledge of the faith and credit or taxing power of the City, the State or any political subdivision thereof.

2. The Lease Agreement and the Indenture have been duly authorized, executed and delivered by the City and the Authority and constitute valid and legally binding agreements of the City and the Authority enforceable against the City and the Authority in accordance with their terms, except that we express no opinion as to any provisions in the Lease Agreement or the Indenture with respect to indemnification, penalty, contribution, choice of law, choice of forum or waiver.

3. Under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest

(and original issue discount) on the Series 2013A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. It should be noted that, with respect to corporations, such interest may be included as an adjustment in the calculation of alternative minimum taxable income which may affect the alternative minimum tax liability of such corporations.

4. Interest (and original issue discount) on the Series 2013A Bonds is exempt from personal income taxes imposed in the State.

5. The difference between the issue price of a Series 2013A Bond (the first price at which a substantial amount of the Series 2013A Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Series 2013A Bonds constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Series 2013A Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Series 2013A Bond Owner will increase the Series 2013A Bond Owner's basis in the applicable Series 2013A Bond. In the opinion of Bond Counsel, the amount of original issue discount that accrues to the Owner of the Series 2013A Bond is excluded from the gross income of such Owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State personal income tax.

6. The amount by which a Series 2013A Bond Owner's original basis for determining loss on sale or exchange in a Series 2013A Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Series bond premium, which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the "Code"); such amortizable bond premium reduces the Series 2013A Bond Owner's basis in the applicable Series 2013A Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a Series 2013A Bond Owner realizing a taxable gain when a Series 2013A Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Series 2013A Bond to the Owner. Purchasers of the Series 2013A Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

The opinions expressed herein as to the exclusion from gross income of interest on the Series 2013A Bonds are based upon certain representations of fact and certifications made by the City and the Authority and are subject to the condition that the City and the Authority comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Series 2013A Bonds to assure that such interest (and original issue discount) on the Series 2013A Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the Series 2013A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2013A Bonds. The City and the Authority have covenanted to comply with all such requirements.

The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. Our engagement with respect to the Series 2013A Bonds terminates on the date of their issuance. The Indenture, the Lease Agreement and the Tax Certificate permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. No opinion is expressed herein as to the effect on the exclusion from gross income of interest (and original issue discount) on the Series 2013A Bonds for federal income tax purposes with respect to any Series 2013A Bond if any such action is taken or omitted based upon the opinion or advice of counsel other than ourselves. Other than as expressly stated herein, we express no other opinion regarding tax consequences with respect to the Series 2013A Bonds.

We have not made or undertaken to make an investigation of the state of title to any of the real property described in the Lease Agreement, the Ground Lease and the Assignment Agreement or of the accuracy or sufficiency of the description of such property contained therein, and we express no opinion with respect to such matters.

Our opinion is limited to matters governed by the laws of the State and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

The opinions expressed herein are based upon our analysis and interpretation of existing statutes, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. We call attention to the fact that the rights and obligations under the Indenture, the Lease Agreement and the Series 2013A Bonds are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Series 2013A Bonds and expressly disclaim any duty to advise the Owners of the Series 2013A Bonds with respect to matters contained in the Official Statement.

Respectfully submitted,

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## APPENDIX D

## PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE

*Upon issuance of the Series 2013A Bonds, the City proposes to enter into a Continuing Disclosure Agreement in substantially the following form:*

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the City of Escondido (the “City”) in connection with the issuance by the Escondido Joint Powers Financing Authority (the “Authority”) of its $4,830,000 Lease Revenue Refunding Bonds, Series 2013A (the “Bonds”). The Bonds are being issued pursuant to an Indenture, dated as of February 1, 2013 (the “Indenture”), by and among The Bank of New York Mellon Trust Company, N.A., as trustee, the City and the Authority. The City covenants and agrees as follows:

1. Purpose of this Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule.

2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

Annual Report. The term “Annual Report” means any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

Beneficial Owner. The term “Beneficial Owner” means any person which: (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries); or (b) is treated as the owner of any Bonds for federal income tax purposes.

EMMA. The term “EMMA” means the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access System for municipal securities disclosures, maintained on the Internet at http://emma.msrb.org/.

Fiscal Year. The term “Fiscal Year” means the one-year period ending on the last day of June of each year.

Holder. The term “Holder” means a registered owner of the Bonds.

Listed Events. The term “Listed Events” means any of the events listed in Sections 5(a) and (b) of this Disclosure Certificate.

Official Statement. The term “Official Statement” means the Official Statement dated March 7, 2013 relating to the Bonds.

Participating Underwriter. The term “Participating Underwriter” means any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

Rule. The term “Rule” means Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

3. Provision of Annual Reports.

(a) The City shall provide not later than 270 days following the end of its Fiscal Year (commencing with Fiscal Year 2013) to EMMA an Annual Report relating to the immediately preceding Fiscal Year which is consistent with the requirements of Section 4 of this Disclosure Certificate, which Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate.

(b) If the City is unable to provide to EMMA an Annual Report by the date required in subsection (a), the City shall send to EMMA a notice in the manner prescribed by the Municipal Securities Rulemaking Board.

4. Content of Annual Reports. The Annual Report shall contain or incorporate by reference the audited financial statements of the City and the Authority for the prior Fiscal Year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they come available.

The audited financial statements described above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been submitted to EMMA; provided, that if any document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board; and provided further, that the City shall clearly identify each such document so included by reference.

5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not more than ten (10) Business Days after the event:

1. principal and interest payment delinquencies;

2. unscheduled draws on debt service reserves reflecting financial difficulties;

3. unscheduled draws on credit enhancements reflecting financial difficulties;

4. substitution of credit or liquidity providers, or their failure to perform;

5. adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability or Notices of Proposed Issue (IRS Form 5701 TEB);

6. tender offers;

7. defeasances;

8. ratings changes; and

9. bankruptcy, insolvency, receivership or similar proceedings.

Note: For the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. unless described in Section 5(a)(5), other notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other events affecting the tax status of the Bonds;

2. modifications to the rights of Bond holders;

3. optional, unscheduled or contingent Bond redemptions;

4. release, substitution or sale of property securing repayment of the Bonds;

5. non-payment related defaults;

6. the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; and

7. appointment of a successor or additional trustee or the change of the name of a trustee.

(c) If the City determines that knowledge of the occurrence of a Listed Event under Section 5(b) would be material under applicable federal securities laws, the City shall file a notice of such occurrence with EMMA in a timely manner not more than ten (10) Business Days after the event.

6. Customarily Prepared and Public Information. Upon request, the City shall provide to any person financial information and operating data regarding the City which is customarily prepared by the City and is publicly available.

7. Termination of Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that, in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule.

9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure

Certificate or any other means of communication, or including any other information in any notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall not thereby have any obligation under this Disclosure Certificate to update such information or include it in any future notice of occurrence of a Listed Event.

10. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any Holders or Beneficial Owners of at least 50% aggregate principal amount of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

No Holder or Beneficial Owner of the Bonds may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the City satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the City shall have refused to comply therewith within a reasonable time.

11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Dated: March 28, 2013

CITY OF ESCONDIDO

By: ____________________________________
Its: City Manager

## APPENDIX E

## BOOK-ENTRY ONLY SYSTEM

*The information in this Appendix concerning DTC and DTC's book-entry only system has been obtained from sources that the Authority, the City and the Underwriter believe to be reliable, but none of the Authority, the City or the Underwriter takes any responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the Series 2013A Bonds, payment of principal, premium, if any, accreted value and interest on the Series 2013A Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Series 2013A Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC.*

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Series 2013A Bonds. The Series 2013A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered bond will be issued for each annual maturity of the Series 2013A Bonds, each in the aggregate principal amount of such annual maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Series 2013A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2013A Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2013A Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2013A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2013A Bonds, except in the event that use of the book-entry system for the Series 2013A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2013A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2013A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2013A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2013A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2013A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2013A Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series 2013A Bond documents. For example, Beneficial Owners of Series 2013A Bonds may wish to ascertain that the nominee holding the Series 2013A Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2013A Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2013A Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2013A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Series 2013A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Series 2013A Bond Owner shall give notice to elect to have its Series 2013A Bonds purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such Series 2013A Bonds by causing the Direct Participant to transfer the Participant's interest in the Series 2013A Bonds, on DTC's records, to the Trustee. The requirement for physical delivery of Series 2013A Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Series 2013A Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Series 2013A Bonds to the Trustee's DTC account. DTC may discontinue providing its services as depository with respect to the Series 2013A Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, physical certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, bonds will be printed and delivered to DTC.

THE TRUSTEE, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE SERIES 2013A BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES TO OWNERS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OF SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE SERIES 2013A BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

## APPENDIX F

## GENERAL INFORMATION REGARDING THE CITY OF ESCONDIDO

*The following information is presented as general background data. The Series 2013A Bonds are payable solely from the Base Rental Payments under the Lease Agreement as described in the Official Statement. The taxing power of the City, the State or any political subdivision thereof is not pledged to the payment of the Base Rental Payments or the Bonds.*

### Location

The City of Escondido (the "City") is located in a long valley surrounded by coastal mountains about eighteen miles inland and thirty miles north of downtown San Diego.

The City has diversified from its origins as an agricultural center for the surrounding citrus and avocado farms. Today, more than 175 industrial firms are located in the City. In addition, the City serves as a focal point for north San Diego County ("North County") recreation and entertainment. Interstate 15 and Highway 78 bisect the City, making the City easily accessible for regional commerce and recreation.

### Population

The City is the largest inland city in North County with an estimated current population of 146,064. Table F-1 sets forth total population for the City, the County of San Diego (the "County") and the State of California (the "State").

**Table F-1**
**City of Escondido, County of San Diego and State of California**
**Population**

| *January 1* | *City of Escondido* | *County of San Diego* | *State of California* |
|---|---|---|---|
| 2008 | 140,785 | 3,032,689 | 36,704,375 |
| 2009 | 142,161 | 3,064,436 | 36,966,713 |
| 2010 | 144,008 | 3,091,579 | 37,223,900 |
| 2011 | 144,998 | 3,115,810 | 37,427,946 |
| 2012 | 146,064 | 3,143,429 | 37,678,563 |

Source: State of California, Department of Finance, *E-4 Population Estimates for Cities, Counties and the State, 2001-2010, with 2000 & 2010 Census Counts and E-1 Population Estimates for Cities, Counties and the State, 2011-2012, Sacramento, California, August 2011.*

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**Employment and Industry**

Table F-2 summarizes the civilian labor force, civilian employment and civilian unemployment figures over the period from 2007 through 2011 in the City, the County, the State of California and the United States.

**Table F-2**
**City of Escondido, County of San Diego, State of California and United States**
**Labor Force, Employment and Unemployment Yearly Average**

| *Year and Area* | *Civilian Labor Force* | *Civilian Employment*[1] | *Civilian Unemployment*[2] | *Civilian Unemployment Rate*[3] |
|---|---|---|---|---|
| 2007 | | | | |
| Escondido | 70,600 | 67,300 | 3,400 | 4.8% |
| San Diego County | 1,517,600 | 1,448,500 | 69,100 | 4.6 |
| California | 17,921,000 | 16,960,700 | 960,300 | 5.4 |
| United States | 153,124,000 | 146,047,000 | 7,078,000 | 4.6 |
| 2008 | | | | |
| Escondido | 72,100 | 67,600 | 4,500 | 6.2 |
| San Diego County | 1,548,200 | 1,455,600 | 92,700 | 6.0 |
| California | 18,203,100 | 16,890,000 | 1,313,100 | 7.2 |
| United States | 154,287,000 | 145,362,000 | 8,924,000 | 5.8 |
| 2009 | | | | |
| Escondido | 72,500 | 65,300 | 7,200 | 10.0 |
| San Diego County | 1,554,200 | 1,405,000 | 149,200 | 9.6 |
| California | 18,208,300 | 16,144,500 | 2,063,900 | 11.3 |
| United States | 154,142,000 | 139,877,000 | 14,265,000 | 9.3 |
| 2010 | | | | |
| Escondido | 73,400 | 65,400 | 8,000 | 10.9 |
| San Diego County | 1,572,600 | 1,407,100 | 165,600 | 10.5 |
| California | 18,316,400 | 16,051,500 | 2,264,900 | 12.4 |
| United States | 153,889,000 | 139,064,000 | 14,825,000 | 9.6 |
| 2011 | | | | |
| Escondido | 73,900 | 66,200 | 7,700 | 10.4 |
| San Diego County | 1,583,800 | 1,426,100 | 157,700 | 10.0 |
| California | 18,384,900 | 16,226,600 | 2,158,300 | 11.7 |
| United States | 153,617,000 | 139,869,000 | 13,747,000 | 8.9 |

(1) Includes persons involved in labor-management trade disputes.
(2) Includes all persons without jobs who are actively seeking work.
(3) The unemployment rate is computed from unrounded data; therefore, it may differ from rates computed from rounded figures in this table.

Source: California Employment Development Department and U.S. Department of Labor, Bureau of Labor Statistics.

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Table F-3 sets forth the industry employment and the labor force estimates for the years 2007 through 2011 for the San Diego-Carlsbad-San Marcos MSA. Annual industry employment information is not compiled by sector for the City.

**Table F-3**
**San Diego-Carlsbad-San Marcos MSA**
**Industry Employment and Labor Force**
**Annual Average**

| ***TITLE*** | ***2007*** | ***2008*** | ***2009*** | ***2010*** | ***2011*** |
|---|---|---|---|---|---|
| Total Farm | 10,900 | 10,500 | 9,500 | 10,500 | 10,000 |
| Total Nonfarm | 1,308,800 | 1,298,700 | 1,231,400 | 1,222,800 | 1,231,200 |
| Total Private | 1,086,500 | 1,073,600 | 1,006,900 | 992,400 | 1,002,700 |
| Goods Producing | 189,800 | 179,200 | 156,800 | 148,600 | 148,400 |
| Natural Resources & Mining | 400 | 400 | 400 | 400 | 400 |
| Construction | 87,000 | 76,100 | 61,100 | 55,300 | 55,200 |
| Manufacturing | 102,500 | 102,800 | 95,300 | 92,900 | 92,800 |
| Durable Goods | 77,300 | 78,100 | 73,100 | 71,000 | 70,800 |
| Nondurable Goods | 25,200 | 24,700 | 22,200 | 21,900 | 21,900 |
| Service Providing | 1,119,000 | 1,119,500 | 1,074,600 | 1,074,200 | 1,082,800 |
| Private Service Producing | 896,600 | 894,400 | 850,100 | 843,800 | 854,400 |
| Trade, Transportation & Utilities | 222,300 | 215,900 | 199,600 | 197,300 | 199,000 |
| Wholesale Trade | 45,500 | 44,900 | 40,600 | 40,100 | 40,700 |
| Retail Trade | 148,100 | 142,000 | 131,600 | 130,700 | 132,200 |
| Transportation, Warehousing & Utilities | 28,800 | 29,000 | 27,400 | 26,500 | 26,100 |
| Information | 31,300 | 31,400 | 28,200 | 25,100 | 24,000 |
| Financial Activities | 80,300 | 75,200 | 69,800 | 67,200 | 66,800 |
| Professional & Business Services | 223,200 | 222,300 | 206,800 | 207,700 | 211,500 |
| Educational & Health Services | 129,500 | 137,300 | 144,300 | 145,500 | 149,100 |
| Leisure & Hospitality | 161,800 | 164,000 | 154,800 | 154,800 | 156,900 |
| Other Services | 48,300 | 48,400 | 46,800 | 46,200 | 47,100 |
| Government | 222,400 | 225,100 | 224,500 | 230,400 | 228,400 |
| Total, All Industries | 1,319,700 | 1,309,300 | 1,240,900 | 1,233,300 | 1,241,200 |

Note: The "Total, All Industries" data is not directly comparable to the employment data found herein.
Source: State of California, Employment Development Department, Labor Market Information Division, San Diego-Carlsbad-San Marcos MSA *Industry Employment & Labor Force - by Annual Average, March 2011 Benchmark.*

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**Major Employers**

Table F-4 sets forth the largest employers in the City as of June 30, 2011.

**Table F-4**
**City of Escondido**
**Largest Employers**

| *Employer* | *Number of Employees* |
|---|---|
| Palomar Medical Center | 2,689 |
| Escondido Union School District | 1,981 |
| City of Escondido | 1,091 |
| San Diego Safari Park | 953 |
| Escondido Union High School District | 766 |
| Nordstrom Inc. | 720 |
| Welk Group Inc. | 465 |
| Vons Grocery Stores | 391 |
| Palomar Community College District | 340 |
| Home Depot | 333 |

Source: City of Escondido Finance Department.

**Commercial Activity**

Trade outlet and retail sales activity are summarized in Tables F-5 and F-6 based on reports of the State Board of Equalization.

**Table F-5**
**City of Escondido**
**Total Taxable Transactions and Number of Sales Permits**
**2007 through 2011**[(1)]

| *Calendar Year* | *Retail Sales*[(2)] | *Retail Sales Permits* | *Total Taxable Transactions*[(2)] | *Issued Sales Permits* |
|---|---|---|---|---|
| 2007 | 2,195,572 | 1,783 | 2,696,218 | 4,091 |
| 2008 | 1,924,432 | 1,898 | 2,395,108 | 4,074 |
| 2009 | 1,611,325 | 2,312 | 2,040,596 | 3,576 |
| 2010 | 1,782,265 | 2,414 | 2,132,167 | 3,706 |
| 2011[(1)] | 1,408,957 | 2,549 | 1,722,325 | 3,830 |

(1) Through 3rd Quarter 2011.
(2) Dollar amounts are in thousands.
Source: California State Board of Equalization.

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**Table F-6**
**City of Escondido**
**Taxable Retail Sales**
**2007 through 2011[(1)]**
**($000)**

| *Type of Business* | *2007* | *2008* | *2009* | *2010* | *2011[(1)]* |
|---|---|---|---|---|---|
| Apparel Stores | $ 106,999 | $ 130,736 | $ 160,564 | $ 170,763 | $ 125,911 |
| General Merchandise Stores | 268,491 | 212,857 | 133,896 | 134,120 | 90,593 |
| Food Stores | 126,489 | 116,684 | 120,048 | 120,970 | 93,276 |
| Eating/Drinking Places | 174,338 | 170,032 | 162,468 | 169,879 | 133,479 |
| Home Furnishings/Appliances | 32,261 | 20,507 | 30,602 | 33,286 | 32,774 |
| Building Materials/Farm Implements | 243,426 | 183,154 | 157,370 | 167,646 | 128,045 |
| Auto Dealers | 753,082 | 606,190 | 481,614 | 529,178 | 465,942 |
| Service Stations | 250,484 | 282,099 | 218,496 | 254,285 | 234,209 |
| Other Retail Stores | 240,002 | 202,172 | 146,267 | 148,138 | 104,730 |
| Retail Stores Totals | 2,195,572 | 1,924,432 | 1,611,325 | 1,728,265 | 1,408,957 |
| All Other Outlets | 500,646 | 470,676 | 429,271 | 403,902 | 313,368 |
| Total All Outlets | $2,696,218 | $2,395,108 | $2,040,596 | $2,132,167 | $1,722,325 |

(1) Through 3rd Quarter 2011.
Source: California State Board of Equalization.

**Building Activity**

Table F-7 summarizes building activity in the City of Escondido from 2007 through 2011.

**Table F-7**
**City of Escondido**
**Building Permit Valuations**
**2007 through 2011**

| | *2007* | *2008* | *2009* | *2010* | *2011* |
|---|---|---|---|---|---|
| Residential | | | | | |
| Single Family | $ 35,253,451 | $ 33,144,125 | $ 31,276,919 | $ 21,709,519 | $ 8,852,193 |
| Multi-Family | 14,028,209 | 8,715,433 | 4,625,512 | 5,166,958 | 12,919,403 |
| Alteration/Additions | 10,419,656 | 5,194,468 | 3,743,437 | 3,032,618 | 3,585,270 |
| Total | 59,701,316 | 47,054,026 | 39,645,868 | $29,909,095 | 25,356,866 |
| Non-Residential | | | | | |
| New Commercial | 14,773,541 | 45,028,783 | 1,124,405 | 3,480,411 | 2,303,428 |
| New Industry | 2,789,464 | 0 | 535,136 | 1,362,179 | 0 |
| Other[(1)] | 22,647,445 | 9,045,233 | 3,176,047 | 1,914,091 | 2,279,369 |
| | 19,858,697 | 16,859,229 | 9,991,810 | 15,334,778 | 8,984,967 |
| Total | 60,069,147 | 70,933,245 | 14,827,398 | 22,091,459 | 13,567,764 |
| Total All Industry | $119,770,463 | $117,987,271 | $54,473,266 | $52,000,554 | $38,924,630 |
| Total | | | | | |
| Single Family Units | 131 | 120 | 114 | 84 | 32 |
| Multi-Family Units | 105 | 63 | 63 | 55 | 112 |
| Total | 236 | 183 | 177 | 139 | 144 |

(1) Includes churches and religious buildings, hospitals and institutional buildings, schools and educational buildings, residential garages, public works and utilities buildings and non-residential alterations and additions.
Source: Construction Industry Research Board.

**Transportation**

Interstate 15 serves the City, extending from San Diego through to Riverside and Las Vegas, Nevada. State Highway 78 runs west to east from the coastline between Oceanside and Carlsbad through the City to Interstate 10 and is one of the main east/west corridors through the County.

The Santa Fe Railroad has a freight service line serving the City, and Amtrak provides passenger service from Oceanside on the San Diego/Los Angeles line. The Sprinter provides commuter rail service from the City to Oceanside.

Two airports serve North County. San Diego International Airport (Lindbergh Field), 35 minutes from the City, provides access to fourteen major national and international commercial airlines and fourteen freight forwarding companies. The smaller McClellan-Palomar Airport, 15 minutes from downtown of the City, offers commercial service to Los Angeles, Las Vegas, Nevada and Phoenix, Arizona. McClellan-Palomar also offers complete private aircraft service.

**Education**

The City has 16 elementary schools (plus eight private schools), five middle schools, and three public high schools (plus three private schools). In addition, the City has a charter elementary school, middle school and night school.

The largest university in the County is San Diego State University, part of the California State University system. California State University at San Marcos is the closest university to the City. The University of California, San Diego in La Jolla is one of nine campuses of the University of California system. The statewide Community College System has nine colleges in San Diego County.

Private universities in San Diego County include United States International University, the University of San Diego, Point Loma Nazarene University and National University.

**Recreation and Culture**

The City is a 60 minute drive from Cleveland National Forest and a 30 minute drive from the Pacific Ocean and all of the outdoor activities associated with these areas. Thousands of acres of nearby recreation areas provide opportunities for picnicking, boating, fishing, tennis, softball and swimming. Over 25 golf courses are located within a 20 minute drive of the City.

Spectator sports fans can choose among professional football and baseball at nearby Qualcomm, Petco Park, professional indoor soccer at the San Diego Sports Arena, and thoroughbred horse racing at Del Mar Racetrack. The City's recreation department offers amateur athletes softball, football, tennis and other organized sporting activities at 12 parks and 6 playgrounds.

Concerts, plays, and museums are popular in and around the City. The California Center for the Arts, Escondido, an $81.0 million cultural center complex including a performing arts theater, a community theater, a museum and a conference center, opened in October 1994. The Patio Playhouse and the Lawrence Welk Theatre also offer dramatic productions. The San Diego Arts Gallery and the La Jolla Museum of Art are two of the many art galleries in the area and the Mingei International Museum offers various art exhibitions.