

City of Del Mar, California

*For the Fiscal Year Ended June 30, 2006
2005/2006 Comprehensive Annual Financial Report*

*Prepared By the
Finance Department
Kim Krause, Finance Director/Treasurer*

CITY OF DEL MAR
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE YEAR ENDED JUNE 30, 2006

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January 24, 2007

Honorable Mayor, Councilmembers, and the citizens of the City of Del Mar, California

LETTER OF TRANSMITTAL 2005/06 COMPREHENSIVE ANNUAL FINANCIAL REPORT

We are pleased to present the 2005/06 Comprehensive Annual Financial Report (CAFR) for the City of Del Mar. These financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards. Responsibility for the accuracy of the data, the completeness and reliability of the presentation, including all disclosures, rests with City management.

This report has been prepared using the financial reporting requirements prescribed by the Governmental Accounting Standards Board (GASB) Statement No. 34 - *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. This report is organized into three basic sections:

1. **Introductory Section** - Provides background to the rest of the report, this section includes the Table of Contents, this Transmittal Letter, awards and recognition given the City for its financial reporting, and the City's organizational chart.
2. **Financial Section** - Contains the independent auditors' report, management's discussion and analysis (MD&A) and the basic financial statements as well as other financial information necessary for the reader to assess the financial position of the City. The MD&A provides an overview of the City's financial statements and can be found immediately following the report of the independent auditors.
3. **Statistical Section** - this section contains both financial and non-financial trend data from the past ten fiscal years to assist the reader in more fully understanding the financial condition of the City.

To provide a reasonable basis for making the representations shown in this report and to compile sufficient reliable information for the preparation of the City's financial statements, the management of the City has established a comprehensive internal control framework designed to protect the City's assets from loss, theft, or misuse. Because the cost of internal controls should not exceed their benefits, our internal controls have been designed to provide reasonable rather than absolute assurance the financial statements will be free from material misstatements.

The City's financial statements have been audited by Moreland & Associates, Inc., a firm of certified public accountants. The independent auditor concluded, base on the audit, that there was a reasonable basis for rendering an unqualified opinion on the City's financial statements for the fiscal year ended June 30, 2006.



Profile of the City of Del Mar

Del Mar is a charter City incorporated in 1959. It is located about 20 miles north of San Diego on the Southern California Coast. The City is governed by a five member City Council under the Council/Manager form of Government. The City Council is elected at large with staggered four-year terms and the position of Mayor rotating amongst Council members annually.

Del Mar is a small coastal city of 4,524 residents and is primarily a residential community with substantial tourist appeal covering approximately two square miles and noted for its beautiful, well-guarded beaches. The City is fully built-out with current development limited to remodeling and rebuilding of existing properties. The 22nd Agricultural Association, commonly referred to as the Fairgrounds, is a significant presence in the City encompassing approximately one-third of the City's geography. The 22nd Agricultural Association is owned by the State of California and managed by a board of directors appointed by the Governor.

This report includes financial statements for the City and the financial activity related to the Del Mar Public Facilities Corporation. As a full service City, Del Mar provides police, fire, utility, library, lifeguarding, and parks and recreation services to its citizens and customers.

Budgetary Process

For the last five years, Del Mar has completed a two-year operating and capital improvement budget with projections for capital projects extended to five years. The budget process begins each year with the City Council setting goals in a public meeting. Departments also develop operational goals within their own programs and based on the goals set forth, the proposed budget is presented to the Council and discussed at a public workshop. The budget is adopted by the City Council at a meeting in June.

This year, the budget process was a little different, but it still began with a goal-setting workshop by the City Council and each Department updating its goals based on the Council goals. Then, rather than preparing another two-year budget, Departments reviewed the second year of their two-year budgets and updated their requests to the City Council. The updated requests were based on updated operational goals and/or needs identified during the current fiscal year. The proposed budget was still presented at a public workshop and adopted by the Council in June.

Throughout each fiscal year, the Council may increase or decrease the budget as needed, through resolution. The City Manager has the authority to move appropriations within a fund between programs; however, any adjustments between funds must be approved by the City Council. Quarterly financial reports are presented to the Council at regularly scheduled meetings.

Factors Affecting Financial Conditions

Del Mar is a fully built-out small coastal City, which relies heavily on the local real estate market (property taxes) and tourism as major revenue sources. Both the San Diego and Del Mar housing markets remain strong, which is fueled in part by the continued low mortgage interest rates for purchases. The total assessed value for the City exceeded \$1.8 billion, up more than 13% from the previous fiscal year and 59% from five years ago. The annual increase in assessed value is attributable to two main factors: 1) an annual increase in the assessed value of property (limited to 2% annually by Proposition 13) and 2) the increase in assessed valuations of property as a result of home sales.

Del Mar does not have or plan to have any new property tax base as it is fully built-out with no new or future development planned.

Tourism is a significant industry and major source of revenue for the City. With its beautiful beaches and moderate climate, Del Mar has become a popular destination for both local visitors and vacation travelers. Tourism in Del Mar, like the rest of the country, declined significantly following the terrorist attacks of September 11, 2001. Just this year, Del Mar surpassed its pre-9/11 levels for transient occupancy tax (TOT), while surpassing those levels in sales tax last year. In addition, TOT has been slower to rebound because many new hotels have been built near Del Mar.

While the State's budget appears to be healthier than years past, revenue loss to the State is always a concern to the City's financial future. Historically, the State has taken local revenues as a way of solving its own budget crisis. Proposition 1A, which passed in November 2005, provided constitutional protection for local revenues. In exchange for the Governor's support of this legislation, Del Mar, like all municipalities, agreed to transfer additional property tax revenues to the State over a two-year period. The cost to Del Mar was \$135,000 per year for 2004/05 and 2005/06. The State retains the ability to "borrow" money from local governments and with most of the City's significant revenue sources going through the hands of a State agency, there are numerous ways in which the State can affect the City's revenues.

Beginning in fiscal year 2005, the State enacted the "triple-flip", whereby ¼ of the City's monthly sales tax dollars are redirected to the State for repayment of \$15 billion in State debt. The State "refunds" these sales tax dollars to the City via "property tax in lieu of sales tax" twice annually.

As a fully built-out city, Del Mar will not see shopping malls or car dealers, nor is there room for additional hotel construction. Our approach for the future is to identify new revenue sources, to actively pursue grant opportunities particularly for large capital projects, and to examine ways to reduce expenditures through alternative approaches to providing necessary services for our residents.

Long-term Financial Planning

The City completed a long-range capital-financing plan during the 2006/07 budget process. The plan included 20-year projections for the General Fund operating revenue and expenditures, in addition to projecting 20 years of capital projects that are funded with general government dollars, which receive significant contributions from the General Fund. The City will continue to revise this plan and use it for future financial forecasting and capital planning.

Cash Management

The Treasurer is responsible for the investment of excess funds, and Del Mar's investment portfolio contains funds pooled in a state investment fund for liquidity and a mixture of federal agency bonds. Annually, the Council adopts the investment policy as required by state law. In practice, the City holds its investments until maturity.

Risk Management

The City is exposed to various risks of loss related to its operations, including losses associated with errors and omissions and injuries to employees and members of the public. The City maintains a combination of insurance coverage and cash reserves to manage and finance its various types of risk. The City operates a self-insurance program to provide for workers compensation claims and

participates in a joint powers authority for all other insurance purposes. The City's self-insurance retention reserve for general liability and worker's compensation is \$100,000 and \$125,000, respectively. More information about the City's risk management can be found in note 12 of the notes to the financial statements.

Pension Benefits

The City provides pension benefits to all full-time employees through a statewide pension plan managed by the California Public Employees Retirement System (CalPERS). The City has no liability in connection with employee benefits offered through these plans beyond its annual contractual payments. Additional information on these plans can be found in Note 7 in the Notes to the Financial Statements.

Acknowledgments

The Government Finance Officer's Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Del Mar for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2005. This was the tenth consecutive year the City has achieved this prestigious award. In order to receive an award, the City must publish an easily readable and comprehensive report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

This report has been the result of a joint effort by many people from many different areas of responsibility. It could not have been accomplished without the efficient and dedicated services of the entire staff of the Finance Department and I would like to express my appreciation to all members of the department who assisted in its preparation. I also would like to thank the City Manager Lauraine Brekke-Esparza, the City Council of the City of Del Mar and the Management Team for their continued support of excellence in financial reporting and for maintaining the highest level of professional standards in the management of Del Mar's finances.

Respectfully submitted,



Kim Krause,
Finance Director/Treasurer

CITY COUNCIL

Crystal Crawford
Mayor

Carl Hilliard
Deputy Mayor

Henry Abarbanel
Councilmember

Dave Druker
Councilmember

Jerry Finnell
Councilmember

CITY MANAGER

Lauraine Brekke-Esparza

**ASSISTANT CITY MANAGER AND
DIRECTOR OF PUBLIC SAFETY**

Joseph M. Hoefgen

CITY ATTORNEY

Tamara Smith

**DIRECTOR OF PLANNING AND
COMMUNITY DEVELOPMENT**

Linda Niles

**CITY CLERK AND
INFORMATION SYSTEMS DIRECTOR**

Mercedes Martin

FINANCE DIRECTOR/TREASURER

Kim Krause

PUBLIC WORKS DIRECTOR

David Scherer

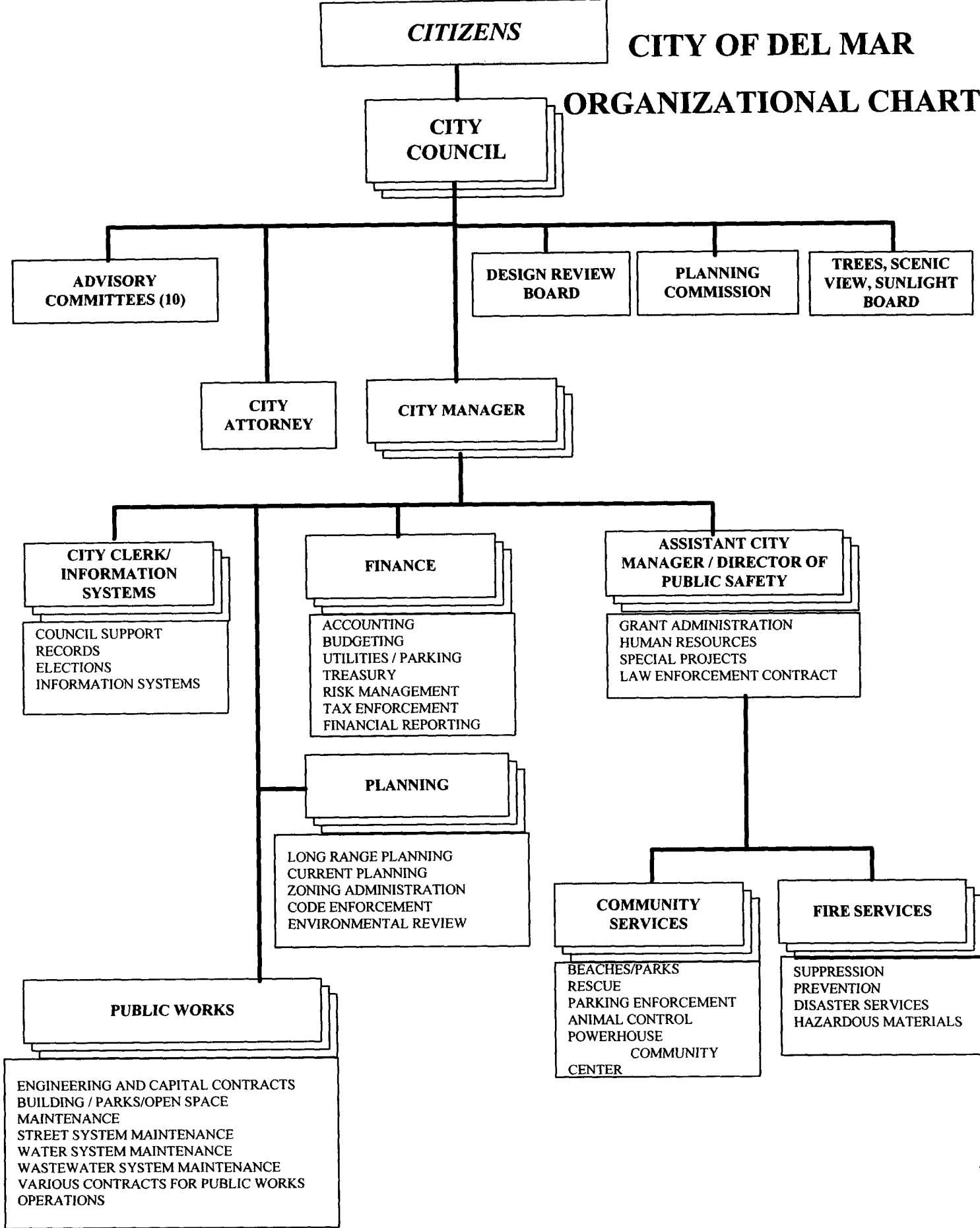
SHERIFF CAPTAIN

Gary Williams

CITY ENGINEER

Carmen Kasner

CITY OF DEL MAR ORGANIZATIONAL CHART



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Del Mar,
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

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.



Nancy L. Zjelke

President

Jeffrey R. Enos

Executive Director

California Society of Municipal Finance Officers

Certificate of Award

Outstanding Financial Reporting 2004-05

Presented to the

City of Del Mar



This certificate is issued in recognition of meeting professional standards and criteria in reporting which reflect a high level of quality in the annual financial statements and in the underlying accounting system from which the reports were prepared.

February 24, 2006

William A. Skanof

Bill Thomas, Chair
Professional & Technical Standards Committee

Dedicated to Excellence in Municipal Financial Management

September 8, 2006

The Honorable City Council of
the City of Del Mar, California

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Del Mar, California, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Del Mar's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Del Mar, California, as of June 30, 2006, 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.

In accordance with Government Auditing Standards, we have also issued our report dated September 8, 2006 on our consideration of the City of Del Mar's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis and other required supplementary information identified in the accompanying table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying introductory section, the major fund budgetary comparison schedules and the combining and individual nonmajor fund financial statements and schedules listed as supplementary information in the table of contents, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The major fund budgetary comparison schedules and the combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

1 *Moreland & Associates, Inc.*

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Management's Discussion and Analysis

As management of the City of Del Mar (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2006. This analysis focuses on current year activities and the resulting changes in an effort to explain the City's overall financial condition. We encourage readers to consider the information presented here in conjunction with the Letter of Transmittal (page i), and the City's financial statements (beginning on page 14).

Overview of Financial Statements

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

Government-Wide Financial Statements

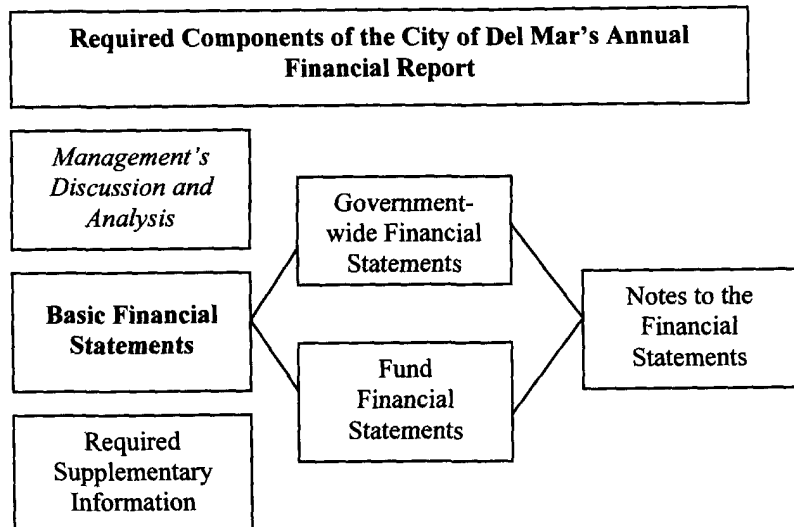
The *Government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business using the accrual basis of accounting.

The statements separate Governmental Activities, principally supported by taxes and revenues from other agencies, from Business-type Activities 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, and Community Services. The City's Business-type Activities include Water, Wastewater, Cleanwater and Worker's Compensation. Included in the Government-wide financial statements are:

- The *Statement of Net Assets* presents information on all of the City's assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether or not the financial position of the City is improving or deteriorating.
- The *Statement of Activities* presents information on the net cost of each governmental function (activity) during the fiscal year. This statement also identifies the amount of general revenues needed to fully fund each governmental function.

Fund Financial Statements provide more detailed information about the City's most significant *funds* – not the City as a whole. 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 demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: Governmental Funds, Proprietary Funds, and Fiduciary Funds.

- *Governmental Funds* (General Fund, Special Revenue, Debt Service, and Capital Projects Funds) are used to account for the same functions reported as Governmental Activities in the Government wide Financial Statements. However, unlike the Government-wide Financial Statements, Fund Financial Statements focus on short-term inflows and outflows of spendable resources. These funds are reported using a modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. This information may be useful in evaluating the City's short-term financing requirements.



The focus of the Fund Financial Statements is narrower than that of the Government-wide Financial Statements. The various fund Balance Sheets and the Statement of Revenues, Expenditures and Changes in Fund Balances require a reconciliation to facilitate the comparison between fund statements and the government-wide statements. This reconciliation is required because the government-wide statements are prepared using the full accrual basis of accounting while the fund statements are prepared using the modified accrual basis of accounting. These reconciliations can be found on pages 19 and 21, immediately following the Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances for the Governmental Funds.

- *Proprietary Funds* are comprised of Enterprise and Internal Service Funds. The City uses an Enterprise Fund to account for its Water, Wastewater and Cleanwater utilities. Internal Service Funds are used to accumulate and allocate costs internally to various functions. The only Internal Service Fund used by the City is Worker's Compensation.

Proprietary funds are reported in the same way that all activities are reported in Statement of Net Assets and Statement of Activities. In fact, the City's enterprise funds (which make up the City's proprietary funds) are the same as its business-type activities, but the statements provide more detail and additional information, such as cash flows.

- *Fiduciary Funds* are used to account for resources held for the benefit of parties outside of the City. Fiduciary Funds are not reflected in the government wide and primary governmental fund financial statements because the resources of those funds are not available to support the City's own programs. Fiduciary Funds are reported in the Financial section.

Notes to the financial statements provide additional information that is essential to the reader for a full understanding of the data provided in the Government-wide and Fund Financial Statements.

Other supplementary information presents certain required supplementary information concerning the City's progress in funding its pension benefits to employees and a comparison of budget to actual for major funds. The inclusion of the Statistical Section provides useful historical trend data on the City.

Government-wide Financial Analysis

Net Assets:

The following summaries of net assets and changes in net assets are presented for the fiscal years ended June 30, 2006 and June 30, 2005.

CITY OF DEL MAR'S NET ASSETS
(in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	2005	2006	2005	2006	2005	2006	2005-06
Assets							
Current and other assets	\$ 7,303	\$ 8,141	\$ 4,110	\$ 4,425	\$ 11,413	\$ 12,566	9.18%
Capital	17,502	18,569	21,318	21,084	38,820	39,653	2.10%
Total assets	24,805	26,710	25,428	25,509	50,233	52,219	11.28%
Liabilities							
Long-term liabilities	2,593	2,232	4,686	4,222	7,279	6,454	-12.78%
Other liabilities	1,649	1,925	352	378	2,001	2,303	13.11%
Total liabilities	4,242	4,157	5,038	4,600	9,280	8,757	0.33%
Net assets:							
Invested in capital assets, net of related debt	14,985	16,593	16,681	16,909	31,666	33,502	5.48%
Restricted	-	-	695	679	695	679	-2.36%
Unrestricted	5,578	5,960	3,014	3,321	8,592	9,281	7.42%
Total net assets	\$ 20,563	\$ 22,553	\$ 20,390	\$ 20,909	\$ 40,953	\$ 43,462	10.55%

The City's assets exceeded liabilities by \$43.46 million as compared to \$40.95 million at June 30, 2005. The capital asset figure for governmental activities does not include all of the City's infrastructure assets. The City is not required to record retroactive general infrastructure assets.

The City's net assets increased by \$2,509 thousand at June 30, 2006 as compared to \$1,743 thousand at June 30, 2005. Approximately 81% of this increase represents the degree to which increases in ongoing revenue have exceeded increases in ongoing expenses. Approximately 19% represents one-time capital grants and contributions received by the City for the purchase of capital assets.

The largest portion of the City's net assets (77%) reflects investment in capital assets (i.e. land, buildings, machinery, and equipment) less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to the citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated for these liabilities.

An additional portion of the City's net assets, approximately 2%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$9.2 million may be used to meet the City's ongoing obligations to citizens and creditors.

The majority (approximately 61%) of the \$5.5 million in unrestricted governmental activities net assets is attributable to the General Fund. Although the unrestricted net assets of our business-type activities total \$3.3 million, these resources cannot be used to help fund governmental activities. The City can only use these net assets to finance the continuing operations of the City's enterprises: water, wastewater, and cleanwater.

At the end of the current fiscal year, the City was able to report positive balances in all three categories of net assets for the government as a whole, as well as for the business-type activities.

Summary of Activities:

The condensed summary of activities, which follows, shows that net assets increased by \$2,509 thousand during the year.

CITY OF DEL MAR'S CHANGES IN NET ASSETS
(in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	2005	2006	2005	2006	2005	2006	2005-06
Revenues							
Program revenues							
Charges for services	\$ 2,251	\$ 2,627	\$ 4,710	\$ 4,754	\$ 6,961	\$ 7,381	6.03%
Operating grants and contributions	442	764	-	-	442	764	72.85%
Capital grants and contributions	1,100	490	-	-	1,100	490	-55.45%
General revenue							
Property tax	2,695	2,992	-	-	2,695	2,992	11.02%
Sales and use tax	1,558	1,669	-	-	1,558	1,669	7.12%
Transient occupancy tax	1,489	1,565	-	-	1,489	1,565	5.10%
Other taxes	1,126	1,155	-	-	1,126	1,155	2.58%
Use of money and property	563	557	50	73	613	630	2.77%
Other	394	299	-	-	394	299	-24.11%
Total Revenue	11,618	12,118	4,760	4,827	16,378	16,945	3.46%
Expenses							
General government	3,803	3,800	-	-	3,803	3,800	-0.08%
Public safety	4,558	4,987	-	-	4,558	4,987	9.41%
Public works	1,172	508	-	-	1,172	508	-56.66%
Parks and recreation	720	694	-	-	720	694	-3.61%
Interest on long-term debt	109	43	-	-	109	43	-60.55%
Cleanwater	-	-	332	343	332	343	3.31%
Water	-	-	1,879	2,036	1,879	2,036	8.36%
Wastewater	-	-	2,062	2,024	2,062	2,024	-1.84%
Total expenses	10,362	10,032	4,273	4,403	14,635	14,435	-1.37%
Excess before transfers	1,256	2,086	487	424	1,743	2,510	44.00%
Transfers	(191)	(175)	191	175	-	-	0.00%
Increase in net assets	1,065	1,911	678	599	1,743	2,510	44.00%
Beginning net assets	19,498	20,642	19,712	20,310	39,210	40,952	4.44%
Ending net assets	\$ 20,563	\$ 22,553	\$ 20,390	\$ 20,909	\$ 40,953	\$ 43,462	6.13%

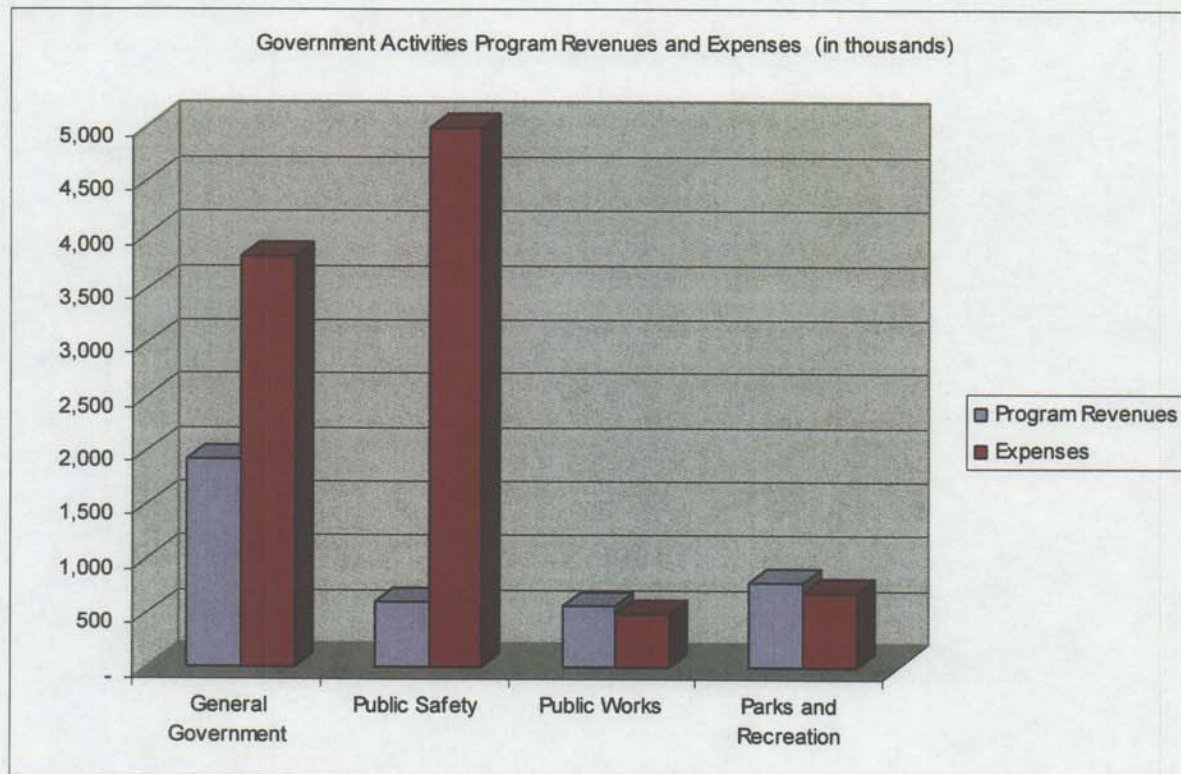
Governmental activities increased the City's net assets by \$1,911 thousand as compared to \$1,065 thousand in the previous fiscal year.

Governmental Activities:

Governmental activities increased the City's net assets by \$1,911 thousand. The increase was generated by total revenues of *governmental* activities of \$12.1 million (\$3.9 million in program revenues and \$8.2 million in general revenues) offset by \$10.0 million in total costs of *governmental* activities. Key factors of this increase include: actual expenditures below projections for the year; and the fact that the costs of capital asset acquisitions are capitalized and depreciated over the useful life of the assets under full-accrual accounting, versus being expensed in full in the year of acquisition.

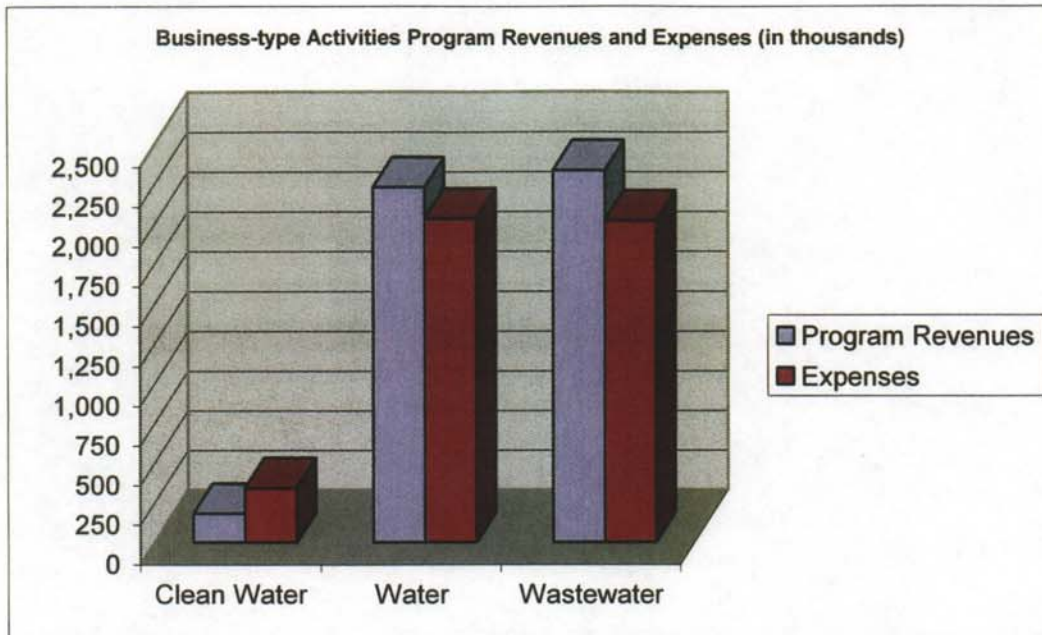
The following table presents the total cost of each of the City's major functions in addition to each function's program revenues (fees generated by the activities, contributions, and intergovernmental aid). The net cost (the differences between the adjoining bars in the graph) shows the financial burden that was placed on the City's taxpayers by each of these functions (costs covered by general revenues).

While total costs of all *governmental* activities were \$10.0 million, some of these costs were paid by those who directly benefited from the function (\$2.6 million), and other governments and organizations that subsidize certain programs with grants and contributions (\$1.3 million), and taxes and other revenues (such as income from property and investments and Motor Vehicle License Fees) received by the City to pay for the "public benefit" portion, totaling \$8.2 million.



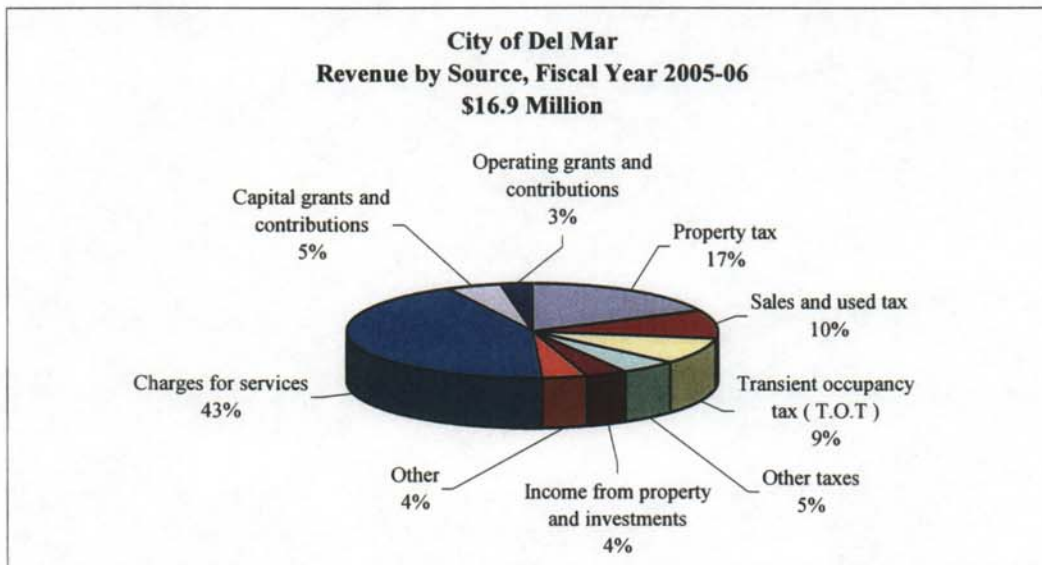
Business-type activities:

Program revenues for the City's business-type activities totaled \$4.75 million for the year, while functional expenses equaled \$4.40 million.

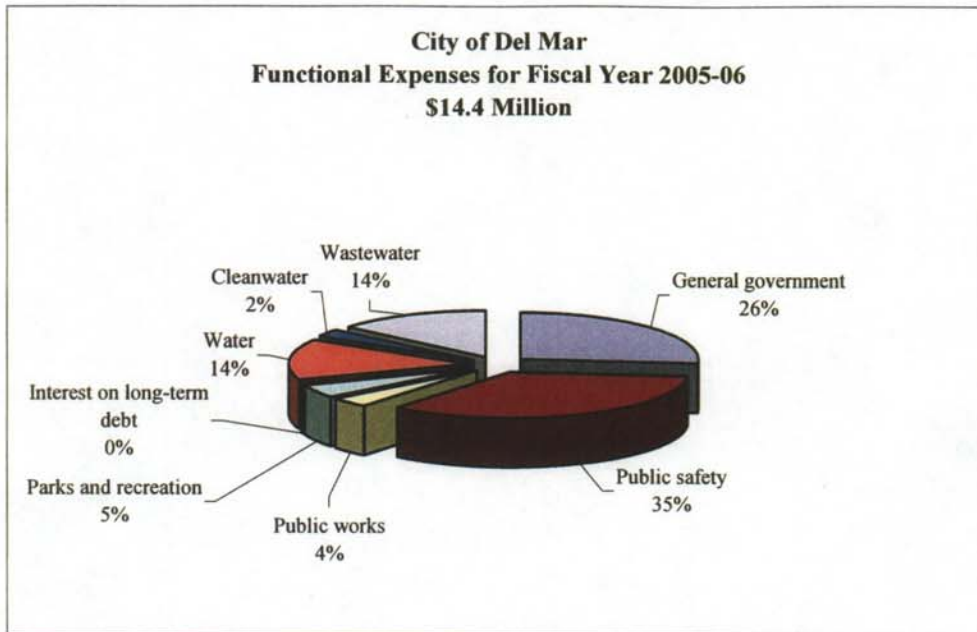


The Clean Water fund was established in fiscal year 2003-2004 with user rates established to achieve a 34% cost recovery level, as current year program expenditures exceed program revenues. The remainder is funded by the General Fund. Program revenues for Water and Wastewater exceed program expenses as the City purchased capital assets that will be reflected as program expenses over time. Water and Wastewater expenses do not reflect principal payment of long-term debt, which is reflected in the Statement of Cash Flows. Additionally, a small portion of the surplus is set aside for future capital costs.

Total Revenues by Source: More than 60% of the City's governmental revenue is generated through taxes collected (property, sales, transient occupancy tax, etc.), and in the current year, almost 100% of the City's business-type revenue was generated through charges for services. This graph depicts the City's combined governmental and business-type revenue sources.



Total Expenditures by Function: The total cost of all programs and services was approximately \$14.4 million in fiscal year 2005 – 06. This graph depicts the City’s combined governmental and business-type functional expenses.



The City’s expenses cover a wide range of services:

- General Government (26%)

Those programs in General Government include City Council, City Manager, Engineering, City Clerk, Information Systems, Finance, Planning, and Community Development.

- Public Safety (35%)

There are three operational areas of Public Safety which work together to ensure the overall safety of the community: Fire, Community Services, and Contract Law Enforcement provided by the San Diego Sheriff’s Department. These three operations provide quality safety services in the areas of fire prevention/suppression, emergency preparedness, beach protection, and law enforcement.

- Public Works (4%)

Public Works is charged with the maintenance and improvement of the City’s assets. Their area of responsibilities includes City facilities and grounds, streets, pedestrian paths, bike lanes, signage, traffic signals, landscaping, and open spaces.

- Parks and Recreation (5%)

The City Council has a commitment to the acquisition and maintenance of open space in Del Mar, and believes open space is vital in perpetuating the village character of the City as well as providing recreational areas for residents and visitors. This segment provides for the clean-up of the City’s beaches, the Powerhouse Community Center, parks, public pathways, building grounds, and tennis courts.

- Water Services (14%)

The City of Del Mar provides water services to approximately 1,800 customers. Del Mar purchases 100% of its water from the San Diego County Water Authority and contracts with the City of San Diego for the treatment and transportation of the water.

- Wastewater Services (14%)

The City of Del Mar operates and maintains a sanitary wastewater collection system. Sewage is treated by the City of San Diego.

- Cleanwater (2%)

The City established this fund in fiscal year 2003-2004 to account for the mandated costs of the City's National Pollution Discharge Elimination System (NPDES) permit.

Financial Analysis of the City'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 resources that are available for spending. 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. Types of governmental funds reported by the city include the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Project Funds.

At the end of the current year, the City's governmental funds reported combined ending fund balances of \$5.5 million, an increase of \$396 thousand in comparison with the previous year. Although \$4.3 million constitutes unreserved designated fund balance, approximately \$2.5 million is designated for: capital improvements (\$469,632) debt service (\$149,403), equipment replacement (\$585,015), park acquisition and development (\$528,290), revenue loss (\$500,000) self-insurance (\$100,000), environmental trust (\$4,089), leave liability (\$105,041) and special revenue purposes (\$103,539). Approximately \$1.8 million is designated for general contingencies, and is available for spending at the City's discretion. The remainder of fund balance, \$1.2 million, is reserved to indicate that it is not available for new spending because it has already been committed to 1) liquidate contracts and purchase orders for the prior period (\$585 thousand), and 2) provide for low and moderate-income housing (\$637 thousand).

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the unreserved fund balance of the General Fund was \$3.0 million, while total fund balance was \$3.8 million. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and the total fund balance to total fund expenditures. Unreserved fund balance represents 36% of total General Fund expenditures of \$8.5 million, while total fund balance represents 44% of that same amount. Overall, the General Fund's performance resulted in revenues in excess of expenditures in the fiscal year ended June 30, 2006 of \$1,859 thousand, before interfund transfers are considered. These transactions affect the balance sheet only and do not impact expenditure accounts.

The remaining governmental funds ended the year with a total fund balance of \$1.7 million, of which \$1.2 million is unreserved.

Revenues for governmental activities totaled approximately \$11.9 million in the fiscal year ended June 30, 2006, which represents an increase of 2.2% from the fiscal year ended June 30, 2005. The increase can be attributed to several factors: the continuation of a strong real estate market and the consequent growth in the assessed value of property, resulting in a 10.0% (\$297,000) increase in property taxes over prior year figures. The Sales and Use and Transient Occupancy Taxes reflect a healthy growth of 7.1% and 5.1% respectively (\$111,000 and \$76,000). The significant increase in operating grants (73% or \$344,000) is due to the receipt of a Fire Grant (FEMA) for fuel reduction (\$163,600) and Housing in-Lieu Fees for a condominium conversion project (\$237,700). The decrease in capital grants is due to the loss of one-time funds for pedestrian/bicycle lane projects in the previous fiscal year.

Governmental expenditures totaled almost \$11.3 million a slight decrease of approximately 1% from prior fiscal year 2005 figures. The decrease can be attributable to reduced expenditures in capital projects, due to the completion of the pedestrian/bicycle lane projects discussed previously under revenues.

Proprietary Funds:

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

The Water Fund had operating income of \$230,000 for the fiscal year. Water sales were approximately \$67,000 more than last year, which mirrored the increase in Source of Supply expenses. The remaining increase in expenses (\$108,000) was due to maintenance work on one of the reservoir facilities. The largest expenditure for the City continues to be purchased water, which was 36% of the total operating expenses. Unrestricted net assets at the end of the fiscal year were \$2.2 million.

During fiscal year 2003-2004, the City established a Cleanwater proprietary fund to account for the mandated costs of the City's National Pollution Discharge Elimination System (NPDES) permit. In the current fiscal year, the Cleanwater fund had operating losses of almost \$161,000 with revenues of \$182,000 and operating expenditures of \$343,000. Current year user rates were established to achieve a 53% cost recovery level for this fund. The remainder is funded through a balance sheet transfer from the General Fund. Unrestricted net assets at the end of the fiscal year were \$19,000.

Wastewater funds reported operating income of \$492,000 for the fiscal year. Revenues slightly decreased over prior year figures by approximately \$43,000 (1.80%), which mirrored the decrease in operating expenditures (\$42,000 or 2.3%). Total positive growth in the Wastewater fund was \$329,964 with unrestricted net assets of \$1.09 million at the end of the fiscal year.

General Fund Budgetary Highlights:

Management takes an active roll in monitoring revenues and expenditures during the year and updates estimates when new information becomes available. Because of this monitoring, net estimated revenues were increased during this fiscal year by \$926,000 (9.8%) to reflect the following:

- The original property tax estimate assumed a very conservative growth rate of 3% (\$71,000). The final budget reflected an increase of \$250,000.
- Property tax in lieu of VLF (Vehicle License Fees) was adjusted by \$50,000.
- Sales tax revenues were significantly (\$100,000) higher than anticipated, due to growth in restaurant activity and one-time events at the Fairgrounds, such as RV and horse sales.
- Updates were posted to franchise taxes (\$55,000), which had been underestimated for a number of years.
- An increase in parking citations (\$70,000) was primarily offset by a decrease in parking meters revenue (\$50,000).
- Federal grants of \$247,000 were approved during the fiscal year.
- Charges for services and housing-in-lieu fees were adjusted to reflect current activity (\$178,000).

The increase from the total original budgeted expenditures to the final budget amounted to \$629,000 (7.4%) some of which were in response to the following:

- Engineering costs for higher than anticipated demand in development review (\$28,000).
- Additional costs for maintaining a safe beach environment (\$173,000).
- Increase in emergency preparedness appropriation associated with one time FEMA grant for Crest Canyon vegetation mitigation (\$184,000) and increase in other miscellaneous grant expenditures in the Fire Department (\$85,000).
- Conduct a customer satisfaction survey (\$20,000) and utilize a consultant for Council goal setting (\$20,000).
- Building maintenance and the Library and City Hall Annex facilities (\$62,000).
- Additional costs for contract with third-party vendor to process a higher number of parking citations (\$32,000).

The difference between the final budgeted revenues and the actual revenues for the year on a budgetary basis was \$13,000.

The difference between the final budgeted expenditures and the actual expenditures for the year on a budgetary basis was \$609,000 and can be generally summarized as follows:

- Lower than anticipated legal and risk management costs for unexpected claims (\$76,000).
- Prolonged vacancies in Planning and Finance that resulted in significant personnel savings (\$101,000).
- Contracts that were encumbered but not complete by year-end (\$63,000) and rebudgets for projects/services that were approved but not initiated by year-end (\$50,000).
- General “savings” being carried forward into the new fiscal year by the various departments within the City to enhance and provide future services and programs (\$159,000).
- Reduced contractual costs with the San Diego Sheriff due to fewer arrests (\$29,000).
- Lower than anticipated contractual costs for red light infraction ticket issuance, this is also reflected in reduced revenues (\$65,000).
- Fire Department grant requests were overestimated (\$36,000) and/or not complete by year-end (\$30,000).

Capital Assets and Debt Administration

Capital Assets:

The City’s capital assets for its governmental and business-type activities as of June 30, 2006 amount to \$39.7 million (net of accumulated depreciation). Capital assets include land, buildings and improvements, infrastructure, equipment, water and wastewater systems, and construction in progress. The City began recording infrastructure assets effective with fiscal year 2005. Per GASB 34, the City is not required to record retroactive general infrastructure assets. More detailed information about the City’s capital assets is presented in Note 4 to the financial statements.

The total increase in the City’s net investment in capital assets for the current fiscal year was \$834,000 (\$1,068,000 for governmental activities and negative \$234,000 for business type activities). The decrease in capital assets for the business type activities is due to the configuration of the capital improvement programs for water and wastewater. The program is intended to fund project design in one fiscal and project construction in the next fiscal year. The only projects in the current fiscal year were design projects, causing the accumulated depreciation to increase more than the capital investment.

**City of Del Mar's
Capital Assets, Net of Depreciation
June 30, 2006
(In thousands of dollars)**

	Governmental Activities		Business-type Activities		Total		Change	Total Percentage Change
	2005	2006	2005	2006	2005	2006	2005-06	2005-06
Land	\$ 10,024	\$ 10,024	\$ 1,420	\$ 1,420	\$ 11,444	\$ 11,444	\$ -	0.00%
Buildings and improvement	7,364	7,396	22	85	7,386	7,481	95	1.27%
Equipment	2,011	2,046	605	619	2,616	2,665	49	1.84%
Infrastructure	87	1,408	-	-	87	1,408	1,321	93.82%
Construction in progress	1,436	1,383	470	771	1,906	2,154	248	11.51%
Water system	-	-	13,835	13,835	13,835	13,835	-	0.00%
Wastewater system	-	-	11,807	11,807	11,807	11,807	-	0.00%
	20,922	22,257	28,159	28,537	49,081	50,794	1,713	3.37%
Accumulated depreciation	(3,420)	(3,687)	(6,841)	(7,453)	(10,261)	(11,140)	(879)	7.89%
	<u>\$ 17,502</u>	<u>\$ 18,570</u>	<u>\$ 21,318</u>	<u>\$ 21,084</u>	<u>\$ 38,820</u>	<u>\$ 39,654</u>	<u>\$ 834</u>	<u>11.26%</u>

Long-Term Debt

At the end of the current fiscal year, the City's total outstanding long-term obligations were \$6.4 million, a decrease of \$825 thousand from the previous fiscal year, as shown in the table below. More detail about the City's long-term liabilities is presented in Note 5 to the financial statements.

	Governmental Activities		Business-type Activities		Total		Change	Percentage Change
	2005	2006	2005	2006	2005	2006	2005-06	2005-06
Bonds	\$ 1,440	\$ 1,320	\$ -	\$ -	\$ 1,440	\$ 1,320	\$ (120)	-9.09%
Notes	60	51	16	14	76	65	(11)	-16.92%
Capital leases	786	606	10	7	796	613	(183)	-29.85%
Certificates of participation	-	-	4,610	4,155	4,610	4,155	(455)	-10.95%
Compensated absences	307	255	48	46	355	301	(54)	-17.94%
Claims payable	-	-	2	-	2	-	(2)	-
Total Long-Term Debt	\$ 2,593	\$ 2,232	\$ 4,686	\$ 4,222	\$ 7,279	\$ 6,454	\$ (825)	-12.78%

Economic factors and other significant factors

- Property tax remains the City's most reliable source of revenue with the most recent estimates showing assessed values in the City at \$1.83 billion, almost 40% higher than they were just five years ago, and 120% more than what they were ten years ago.
- The City of Del Mar joined other California cities in agreeing to provide financial aid (in the form of property tax reductions) to the State of California for fiscal years 2004-2005 and 2005-2006 in return for the Governor's support of Constitutional protection of local revenues (Proposition 1A). The cost to the City is \$135,000 per year.
- PERS rates for each of the City's three plans increased for the 2006-2007 fiscal year: an increase of 7.3% for miscellaneous employees, .16% for safety (lifeguards), and 9.13% for safety (fire). The net increase in the miscellaneous plan is actually 1.3%, as the City no longer contributes 6% of the required employee contribution. The miscellaneous employees voted for an 8% payroll deduction in exchange for the 3% at 60 plan.

All of the above factors were considered in preparing for the City's budget for the 2006/07 fiscal year. During the current fiscal year, unreserved fund balance in the general fund increased to \$3,070,886 with approximately \$1.8 million being designated for general contingencies and the remaining \$1.3 million designated for specific purposes. The City of Del Mar has not appropriated any of these funds for spending in the 2007 fiscal year budget.

Requests for Information

The financial report is designed to provide a general overview of the City's finances for all of those with an interest in the government's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the Finance Department, 1050 Camino Del Mar, Del Mar, CA 92014, (858) 755-9354, or visit us online at www.delmar.ca.us.

CITY OF DEL MAR

**Statement of Net Assets
June 30, 2006**

ASSETS	Primary Government		
	Governmental Activities	Business-type Activities	Total
Current Assets:			
Cash and investments	\$ 1,055,043	\$ 746,256	\$ 1,801,299
Receivables:			
Accounts, net	146,784	929,445	1,076,229
Taxes	390,749	-	390,749
Accrued interest	55,560	28,989	84,549
Inventory	-	60,914	60,914
Due from other agency	54,463	-	54,463
Restricted cash and investments	637,116	47,286	684,402
Total current assets	<u>2,339,715</u>	<u>1,812,890</u>	<u>4,152,605</u>
Noncurrent Assets:			
Restricted assets:			
Cash and investments with fiscal agent	-	679,588	679,588
Total restricted assets	-	679,588	679,588
Long-term investments	5,800,518	1,818,422	7,618,940
Deferred charges	-	114,329	114,329
Capital Assets:			
Land	10,024,325	1,419,960	11,444,285
Water and wastewater systems	-	25,641,506	25,641,506
Buildings and improvements	7,395,505	85,016	7,480,521
Machinery and equipment	2,045,563	619,430	2,664,993
Construction in progress	1,383,402	771,829	2,155,231
Infrastructure	1,408,119	-	1,408,119
Less: accumulated depreciation	(3,687,281)	(7,453,289)	(11,140,570)
Total capital assets	<u>18,569,633</u>	<u>21,084,452</u>	<u>39,654,085</u>
Total noncurrent assets	<u>24,370,151</u>	<u>23,696,791</u>	<u>48,066,942</u>
Total assets	<u>26,709,866</u>	<u>25,509,681</u>	<u>52,219,547</u>

See accompanying notes to financial statements.

LIABILITIES	Primary Government		
	Governmental Activities	Business-type Activities	Total
Current Liabilities:			
Accounts payable and accrued liabilities	1,089,959	262,378	1,352,337
Accrued interest payable	36,245	68,934	105,179
Current liabilities payable from - contributions	70,931	-	70,931
Deposits payable	564,569	47,286	611,855
Retention payable	28,924	-	28,924
Unearned revenue	134,242	-	134,242
Long-term debt-due within one year	387,967	497,377	885,344
Total current liabilities	2,312,837	875,975	3,188,812
Noncurrent Liabilities:			
Long-term debt-due in more than one year	1,844,200	3,724,301	5,568,501
Total noncurrent liabilities	1,844,200	3,724,301	5,568,501
Total liabilities	4,157,037	4,600,276	8,757,313
NET ASSETS			
Invested in capital assets, net of related debt	16,592,553	16,908,644	33,501,197
Restricted for debt service	637,116	679,588	1,316,704
Unrestricted	5,323,160	3,321,173	8,644,333
Total net assets	\$ 22,552,829	\$ 20,909,405	\$ 43,462,234

CITY OF DEL MAR

**Statement of Activities
For the Year Ended June 30, 2006**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 3,800,429	\$ 1,577,472	\$ 339,827	\$ -
Public safety	4,986,741	267,613	335,301	-
Public works	508,283	-	88,688	487,794
Parks & recreation	694,358	782,070	-	2,250
Interest on long-term debt	43,020	-	-	-
Total governmental activities	10,032,831	2,627,155	763,816	490,044
Business-type activities:				
Water	2,035,750	2,234,603	-	-
Cleanwater	342,813	181,907	-	-
Wastewater	2,024,322	2,337,586	-	-
Total business-type activities	4,402,885	4,754,096	-	-
Total	\$ 14,435,716	\$ 7,381,251	\$ 763,816	\$ 490,044

General Revenues:

Taxes:

- Property taxes
- Sales and use tax
- Transient occupancy tax
- Franchise tax
- Business license tax

Motor vehicle in lieu

Intergovernmental unrestricted

Use of money and property

Other

Transfers

Total general revenues and transfers

Changes in net assets

Net assets at beginning of year

Net assets at end of year

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

Governmental Activities	Business-type Activities	Total
\$ (1,883,130)	\$ -	\$ (1,883,130)
(4,383,827)	-	(4,383,827)
68,199	-	68,199
89,962	-	89,962
(43,020)	-	(43,020)
<u>(6,151,816)</u>	<u>-</u>	<u>(6,151,816)</u>
-	198,853	198,853
-	(160,906)	(160,906)
-	313,264	313,264
-	<u>351,211</u>	<u>351,211</u>
<u>(6,151,816)</u>	<u>351,211</u>	<u>(5,800,605)</u>
2,992,161	-	2,992,161
1,668,537	-	1,668,537
1,564,641	-	1,564,641
317,261	-	317,261
186,756	-	186,756
336,709	-	336,709
315,271	-	315,271
557,198	72,688	629,886
298,733	-	298,733
<u>(175,105)</u>	<u>175,105</u>	<u>-</u>
<u>8,062,162</u>	<u>247,793</u>	<u>8,309,955</u>
1,910,346	599,004	2,509,350
20,642,483	20,310,401	40,952,884
<u>\$ 22,552,829</u>	<u>\$ 20,909,405</u>	<u>\$ 43,462,234</u>

CITY OF DEL MAR

**Balance Sheet
Governmental Funds
June 30, 2006**

ASSETS	General	Capital Projects Capital Improvement Project Fund	Nonmajor Governmental Funds	Total Governmental Funds
Cash and investments	\$4,098,654	\$ 1,282,205	\$ 797,887	\$ 6,178,746
Receivables:				
Taxes	390,749	-	-	390,749
Accrued interest	38,274	8,839	8,447	55,560
Accounts, net	113,789	13,300	14,962	142,051
Due from other agency	-	54,463	-	54,463
Restricted assets:				
Cash and investments	606,362	-	30,754	637,116
Total assets	<u>\$5,247,828</u>	<u>\$ 1,358,807</u>	<u>\$ 852,050</u>	<u>\$ 7,458,685</u>
<u>LIABILITIES AND FUND BALANCE</u>				
Liabilities:				
Accrued liabilities	\$ 736,446	\$ 316,167	\$ 35,730	\$ 1,088,343
Deposits payable	553,435	-	12,750	566,185
Deferred revenue	134,242	54,462	-	188,704
Specified contributions	52,927	-	18,004	70,931
Total liabilities	<u>1,477,050</u>	<u>370,629</u>	<u>66,484</u>	<u>1,914,163</u>
Fund Balances:				
Reserved	700,198	518,546	4,334	1,223,078
Unreserved:				
Designated	3,070,580	469,632	781,232	4,321,444
Total fund balances	<u>3,770,778</u>	<u>988,178</u>	<u>785,566</u>	<u>5,544,522</u>
Total liabilities and fund balances	<u>\$5,247,828</u>	<u>\$ 1,358,807</u>	<u>\$ 852,050</u>	<u>\$ 7,458,685</u>

CITY OF DEL MAR

**Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2006**

Amounts reported for governmental activities in the statement of net assets are different because:

Total fund balances - total governmental funds	\$ 5,544,522
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	18,569,633
Accrued interest is not due and payable in the current period and therefore is not reported in the funds.	(36,245)
Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.	(2,232,167)
Retention payable (Not reported in the fund financial statements).	(28,924)
Deferred revenues which are deferred because they are not available currently are taken into revenue in the statement of activities and, accordingly, increase the net assets on the statement of net assets.	54,461
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.	<u>681,549</u>
Net assets of governmental activities	<u>\$ 22,552,829</u>

CITY OF DEL MAR

Statement of Revenues, Expenditures and Changes in Fund Balances
 Governmental Funds
 For the Year Ended June 30, 2006

	General	Capital Projects Capital Improvement Project Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 6,824,074	\$ -	\$ 320,623	\$ 7,144,697
Licenses, fees and permits	356,492	-	429,125	785,617
Intergovernmental	462,566	467,485	224,462	1,154,513
Charges for services	946,373	-	-	946,373
Fines and forfeitures	956,378	-	-	956,378
Use of money and property	110,580	30,800	27,399	168,779
Contributions	52,995	-	-	52,995
Other	679,034	-	3,420	682,454
Total revenues	10,388,492	498,285	1,005,029	11,891,806
Expenditures:				
Current:				
General government	3,555,367	-	631	3,555,998
Public safety	4,729,836	-	170,010	4,899,846
Public works	148,204	350,860	298,966	798,030
Parks and recreation	-	-	572,092	572,092
Capital outlay	-	1,057,116	28,348	1,085,464
Debt service:				
Principal	77,542	-	231,602	309,144
Interest	18,265	-	82,426	100,691
Total expenditures	8,529,214	1,407,976	1,384,075	11,321,265
Excess (deficiency) of revenues over (under) expenditures	1,859,278	(909,691)	(379,046)	570,541
Other Financing Sources (Uses):				
Transfers in	135,795	898,673	384,940	1,419,408
Transfers out	(1,476,294)	(69,036)	(49,183)	(1,594,513)
Total other financing sources (uses)	(1,340,499)	829,637	335,757	(175,105)
Net change in fund balances	518,779	(80,054)	(43,289)	395,436
Fund balances at beginning of year	3,251,999	1,068,232	828,855	5,149,086
Fund balances at end of year	\$ 3,770,778	\$ 988,178	\$ 785,566	\$ 5,544,522

See accompanying notes to financial statements.

CITY OF DEL MAR

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-Wide Statement of Activities For the Year Ended June 30, 2006

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ 395,436
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	1,068,170
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to the governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	361,116
Deferred revenue does not provide for current financial resources and therefore is not reported as revenues in the governmental funds. The following amount represents the change from the prior year.	(83,740)
Interest expense on long-term debt is reported in the government-wide statement of activities and changes in net assets, but does not require the use of current financial resources. Therefore, interest expense is not reported as expenditures in governmental funds. The following amount represents the change in accrued interest from the prior year.	5,700
Retention payable (Not reported in the fund financial statements)	(28,924)
Internal service funds are used by management to charge the costs of activities involved in rendering services to departments within the City. The net revenue of certain activities of internal service funds is reported with governmental activities.	<u>192,588</u>
Change in net assets of governmental activities	<u>\$ 1,910,346</u>

CITY OF DEL MAR

**Statement of Net Assets
Proprietary Funds
June 30, 2006**

ASSETS	Enterprise Funds			Total	Governmental Activities Internal Service Fund
	Water	Wastewater	Nonmajor Enterprise Fund		
Current Assets:					
Cash and investments	\$ 547,355	\$ 197,430	\$ 1,471	\$ 746,256	\$ 676,815
Receivables:					
Accounts, net	476,617	414,108	38,720	929,445	4,734
Interest	17,392	10,249	1,348	28,989	-
Inventory	47,203	13,711	-	60,914	-
Restricted cash and investments	47,286	-	-	47,286	-
Total current assets	1,135,853	635,498	41,539	1,812,890	681,549
Noncurrent Assets:					
Restricted assets:					
Cash and investments with fiscal agents	229,973	449,615	-	679,588	-
Total restricted assets	229,973	449,615	-	679,588	-
Long-term investments	1,333,754	481,084	3,584	1,818,422	-
Deferred charges	17,531	96,798	-	114,329	-
Capital Assets:					
Land	983,060	436,900	-	1,419,960	-
Water & wastewater systems	13,834,912	11,806,594	-	25,641,506	-
Buildings and improvements	43,957	41,059	-	85,016	-
Machinery and equipment	205,711	405,560	8,159	619,430	-
Construction in progress	361,256	410,573	-	771,829	-
Less: Accumulated depreciation	(4,008,036)	(3,442,430)	(2,823)	(7,453,289)	-
Total capital assets (net of accumulated depreciation)	11,420,860	9,658,256	5,336	21,084,452	-
Total noncurrent assets	13,002,118	10,685,753	8,920	23,696,791	-
Total assets	14,137,971	11,321,251	50,459	25,509,681	681,549

LIABILITIES	Enterprise Funds			Totals	Governmental Activities Internal Service Fund
	Water	Wastewater	Nonmajor Enterprise Fund		
Current Liabilities:					
Accounts payable and accrued liabilities	207,155	34,586	20,637	262,378	-
Current portion of long-term liabilities payable	213,369	282,725	1,283	497,377	-
Accrued interest	10,054	58,880	-	68,934	-
Payable from restricted assets:					
Customer deposits	47,286	-	-	47,286	-
Total current liabilities	477,864	376,191	21,920	875,975	-
Noncurrent Liabilities:					
Capital leases	1,486	1,486	-	2,972	-
Certificates of participation	440,000	3,235,000	-	3,675,000	-
Compensated absences	15,247	15,971	3,849	35,067	-
Notes payable	5,631	5,631	-	11,262	-
	462,364	3,258,088	3,849	3,724,301	-
Total liabilities	940,228	3,634,279	25,769	4,600,276	-
NET ASSETS					
Invested in capital assets, net of related debt	10,765,456	6,137,852	5,336	16,908,644	-
Restricted for debt service	229,973	449,615	-	679,588	-
Unrestricted	2,202,314	1,099,505	19,354	3,321,173	681,549
Total net assets	\$13,197,743	\$7,686,972	\$ 24,690	\$20,909,405	\$ 681,549

CITY OF DEL MAR

**Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2006**

	Enterprise Funds			Total	Governmental Activities Internal Service Fund
	Water	Wastewater	Nonmajor Enterprise Fund		
Operating Revenues:					
Water sales	\$ 2,186,499	\$ -	\$ -	\$ 2,186,499	\$ -
Clean water service	-	-	179,134	179,134	-
Sewer service	-	2,312,502	-	2,312,502	-
Charges for services	-	-	-	-	299,523
Customer penalties	9,074	9,945	2,693	21,712	-
Other	39,030	15,139	80	54,249	-
Total operating revenues	2,234,603	2,337,586	181,907	4,754,096	299,523
Operating Expenses:					
Source of supply	718,831	-	-	718,831	-
Transmission and distribution	234,553	-	-	234,553	-
Water treatment	149,472	-	-	149,472	-
Sewer collection	-	142,922	-	142,922	-
Facility maintenance	108,350	-	-	108,350	-
Plant maintenance and operation	-	880,415	-	880,415	-
General and administrative	495,022	483,709	341,181	1,319,912	117,627
Depreciation and amortization	298,416	338,990	1,632	639,038	-
Total operating expenses	2,004,644	1,846,036	342,813	4,193,493	117,627
Operating income (loss)	229,959	491,550	(160,906)	560,603	181,896
Nonoperating Revenues (Expenses):					
Interest income	48,547	16,700	7,441	72,688	10,692
Interest expense	(31,106)	(178,286)	-	(209,392)	-
Total nonoperating revenues (expenses)	17,441	(161,586)	7,441	(136,704)	10,692
Income before transfers	247,400	329,964	(153,465)	423,899	192,588
Transfers in	6,268	6,269	162,568	175,105	-
Changes in net assets	253,668	336,233	9,103	599,004	192,588
Total net assets at beginning of year	12,944,075	7,350,739	15,587	20,310,401	488,961
Total net assets at end of year	\$13,197,743	\$7,686,972	\$ 24,690	\$20,909,405	\$ 681,549

See accompanying notes to financial statements.

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CITY OF DEL MAR

**Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2006**

	<u>Water</u>	<u>Wastewater</u>
Cash Flows from Operating Activities:		
Cash received from water, sewer & cleanwater customers	\$ 2,189,615	\$ 2,376,234
Cash received from other operating receipts	39,030	15,139
Cash payments for water purchases	(817,471)	-
Cash payments for sewer collection & maintenance	-	(1,033,836)
Cash payments for services & supplies	(233,247)	288
Cash payments to employees for services	(598,927)	(484,333)
Net cash provided by operating activities	<u>579,000</u>	<u>873,492</u>
Cash Flows from Noncapital Financing Activities:		
Transfers received	<u>6,268</u>	<u>6,269</u>
Net cash provided by noncapital financing activities	<u>6,268</u>	<u>6,269</u>
Cash Flows from Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(173,908)	(210,760)
Interest payments on long-term debt	(34,132)	(182,718)
Principal payments on long-term debt	<u>(197,805)</u>	<u>(265,125)</u>
Net cash (used) for capital and related financing activities	<u>(405,845)</u>	<u>(658,603)</u>
Cash Flows from Investing Activities:		
Purchase of investments	(193,532)	(168,543)
Interest received	<u>45,136</u>	<u>9,522</u>
Net cash (used for) investing activities	<u>(148,396)</u>	<u>(159,021)</u>
Net increase (decrease) in cash and cash equivalents	31,027	62,137
Cash and cash equivalents - beginning of year	<u>793,587</u>	<u>584,908</u>
Cash and cash equivalents - end of year	<u>\$ 824,614</u>	<u>\$ 647,045</u>
Reconciliation of Operating Income to Net Cash Flows		
Provided by Operating Activities:		
Operating income (loss)	\$ 229,959	\$ 491,550
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	298,416	338,990
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(5,959)	53,788
(Increase) decrease in inventory	1,306	289
Increase (decrease) in accounts payable	49,918	(10,502)
Increase (decrease) in customer deposits	5,784	-
Increase (decrease) in compensated absences	<u>(424)</u>	<u>(623)</u>
Total adjustments	<u>349,041</u>	<u>381,942</u>
Net cash provided by operating activities	<u>\$ 579,000</u>	<u>\$ 873,492</u>

See accompanying notes to financial statements.

Nonmajor Enterprise Fund	Total	Governmental Activities Internal Service Fund
\$ 173,167	\$ 4,739,016	\$ -
-	54,169	297,750
(11,400)	(828,871)	-
-	(1,033,836)	-
-	(232,959)	802
(341,352)	(1,424,612)	(117,627)
<u>(179,585)</u>	<u>1,272,907</u>	<u>180,925</u>
162,568	175,105	-
<u>162,568</u>	<u>175,105</u>	<u>-</u>
(2,204)	(386,872)	-
-	(216,850)	-
-	(462,930)	-
<u>(2,204)</u>	<u>(1,066,652)</u>	<u>-</u>
8,744	(353,331)	-
6,499	61,157	10,692
<u>15,243</u>	<u>(292,174)</u>	<u>10,692</u>
(3,978)	89,186	191,617
5,449	1,383,944	485,198
<u>\$ 1,471</u>	<u>\$ 1,473,130</u>	<u>\$ 676,815</u>
\$ (160,906)	\$ 560,603	\$ 181,896
1,632	639,038	-
(8,740)	39,089	(1,773)
-	1,595	802
(11,400)	28,016	-
-	5,784	-
(171)	(1,218)	-
<u>(18,679)</u>	<u>712,304</u>	<u>(971)</u>
<u>\$ (179,585)</u>	<u>\$ 1,272,907</u>	<u>\$ 180,925</u>

CITY OF DEL MAR

**Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2006**

ASSETS	Pension Trust Funds	Agency Funds
Accounts and assessments receivable	\$ -	\$ 7,514
Restricted assets:		
Cash and investments	2,834,323	962,176
Total assets	2,834,323	\$ 969,690
LIABILITIES		
Accounts payable	-	1,364
Due to bondholders	-	968,326
Total liabilities	-	\$ 969,690
NET ASSETS		
Held in trust for pension benefits and other purposes	\$ 2,834,323	

CITY OF DEL MAR

**Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2006**

	Pension Trust Funds
<u>ADDITIONS</u>	
Contributions:	
Plan members	\$ 261,441
Principal repayments	12,379
Total contributions	<u>273,820</u>
Investment Earnings:	
Interest	242,333
Loan interest	2,570
Net investment earnings	<u>244,903</u>
Total additions	<u>518,723</u>
<u>DEDUCTIONS</u>	
Participant withdrawals	422,720
Issuance of loans	17,500
Administrative expenses	<u>190</u>
Total deductions	<u>440,410</u>
Change in net assets	78,313
Total net assets at beginning of year	<u>2,756,010</u>
Total net assets at end of year	<u><u>\$ 2,834,323</u></u>

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June 30, 2006

Note 1 – Summary of Significant Accounting Policies:**A. Description of Reporting Entity:**

The City of Del Mar (City) was incorporated in 1959 under the laws of the State of California and enjoys all the rights and privileges pertaining to "Chartered" cities. The City operates under a council/manager form of government. The City provides basic government services to its citizens including: general government, public safety, public works, parks and recreation.

The accounting policies of the City and its component units conform to accounting principals generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

Description and scope of reporting entity:

The accompanying basic financial statements present the financial activity of the City, which is the primary government presented, along with the financial activity of its component unit, which is an entity for which the City is financially accountable. Although it is a separate legal entity, the blended component unit is in substance part of the City's operations and is reported as an integral part of the City's financial statements. The City's component unit is described below:

The Del Mar Public Facilities Corporation (Corporation) was formed on August 16, 1993. It is organized under the Nonprofit Public Benefit Corporation Law of The State of California to provide financial assistance to the City of Del Mar by acquiring, leasing, constructing or financing public sewer and/or water facilities and improvements. The financial activities of the Corporation have been aggregated and merged (termed "blending") with those of the City in the accompanying financial statements, as it meets the criteria for inclusion as set forth in Government Accounting Standards Board (GASB) Statement No. 14. The City does not produce separate financial statements for the Corporation.

The criteria set forth in GASB Statement No. 14 states that component units are those entities, which are financially accountable to the primary government unit, either because the City appoints a voting majority of the component unit's board and the City is able to impose its will on that organization or because there is a potential for that organization to provide a financial benefit or impose a financial burden on the City. Since the City Council serves as the governing board for the Corporation it is considered to be a blended component unit.

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 the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on user fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses for a given function or segment are 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.

The underlying accounting system of the City is organized and operated on the basis of separate funds, each of which is considered to be 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. Governmental 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.

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.

Note 1 – Summary of Significant Accounting Policies (Continued):**Measurement focus, basis of accounting and financial statement presentation:**

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service payments (principal and interest), compensatory time and claims and judgments are recorded only when payment is due.

Property taxes, sales tax, transient occupancy tax (T.O.T.) franchise taxes, vehicle license fees, highway users tax, interest associated with the current period, and some grants are all susceptible to accrual and so have been recognized as revenue in the current fiscal 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 primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The **Capital Improvement Project Fund** is used to account for the financial resources used for the acquisition or construction of major property, equipment or facilities (other than those financed by the proprietary funds).

The City reports the following major proprietary funds:

The **Water Fund** is used to account for the operation, maintenance, and capital facility financing of the City's water system.

The **Wastewater Fund** is used to account for the operation, maintenance, and capital facility financing of the City's wastewater system.

Additionally, the City reports the following fund types:

Special Revenue Funds are used to account for revenues derived from specific sources which are usually required by law or administrative regulation to be accounted for in a separate fund.

Debt Service Funds are used to account for bond proceeds required to be set aside for future debt service and related interest income. The funds are used to repay principal and interest on long-term indebtedness of the City.

The **Internal Service Fund** is used to account for the workers compensation services provided to other departments of the City.

Fiduciary Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, or other governments. These funds include the Pension Trust Funds and the Agency Funds.

The **Pension Trust Funds** are used to account for assets in the Deferred Compensation Plan and the Governmental Money Purchase Plan.

The **Agency Funds** are used to account for taxes received for special assessment debt for which the City is not obligated.

Note 1 – Summary of Significant Accounting Policies (Continued):

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected to follow those standards set by the GASB as opposed to subsequently issued private-sector guidance.

In general, the effect of interfund activity has been eliminated from the government-wide financial statements. The exception to this rule are the charges between the Del Mar Public Facilities Corporation (Water and Wastewater Funds) and the other functions of the City. 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 customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the funds principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges for sales and services. Operating expenses for enterprise funds include the cost of sales and services, general and administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Assets, liabilities, and net assets or equity:**□ Cash and Cash Equivalents:**

For purpose of the statements of cash flows, cash and cash equivalents have been defined as demand deposits and highly liquid investments purchased with an original maturity of 90 days or less. The City has no noncash investing capital or financing activities for the year ended June 30, 2006.

□ Investments:

Investments are reported in the accompanying balance sheet at fair value. The City has adopted the provisions of GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and External Pools," which require governmental entities to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. In accordance with GASB Statement No. 31, the City has adjusted certain investments to fair value (when material).

The City pools investments of all funds, except assets held by fiscal agents. Each fund's share in this pool is displayed in the accompanying financial statements as investments. Investment income earned by the pooled investments is allocated to the various funds on a quarterly basis, based on each fund's average cash and investment balance.

□ Receivables and Payables:

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

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

Note 1 – Summary of Significant Accounting Policies (Continued):

Assets, liabilities, and net assets or equity (Continued):

All accounts, taxes, and service receivables are shown net of an allowance for uncollectibles. The City's fiscal year end falls in the middle of a billing cycle for water, sewer, trash and recycling income. In order to accrue the amount of the year end receivables the City estimates the amount of unbilled receivables based on that portion of the billing cycle that has elapsed as of the fiscal year end.

□ **Inventory:**

The enterprise fund inventories are valued at average cost. The inventory consists of meters, pipes and other parts required to provide water and wastewater services to customers.

□ **Restricted Assets:**

The City reports assets that are restricted for customer deposits, contributions designated for specific purposes, and funds held in trust which are restricted for debt service payments.

□ **Capital Assets:**

Capital assets, which include land, buildings, building improvements, and equipment are depreciated and are reported in the applicable governmental or business-type activity columns in the government-wide financial statements.

Capital assets are defined by the City as assets with an initial, individual cost of \$5,000 and an estimated useful life greater than one year. Such assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Construction in progress costs are capitalized and transferred to their respective capital asset category upon completion of the project.

Depreciation is charged to operations using the straight-line method based on the estimated useful life of an asset. Land and construction-in-progress are not depreciated.

Water system	40 - 50 years
Wastewater	40 years
Structures	33 1/3 years
Meters and hydrants	25 years
Equipment	5 years

The City capitalized general infrastructure assets of \$1,321,491 during the year ended June 30, 2006. No retroactive infrastructure assets have been capitalized. Per GASB 34, the City is not required to record retroactive general infrastructure assets.

□ **Compensated Absences:**

Vacation pay is payable to employees at the time used or upon termination of employment. In the Statement of Net Assets compensated absences is recorded as a liability. On the Statement of Activities the cost of vacation is recorded when earned for both governmental and business-type activities. The City expects 25% of the compensated absence balance to be paid in the next 12 months and has accordingly recorded this portion as a current liability. The remaining portion is recorded as a noncurrent liability. Compensated absences, once exercised, are paid out of the same fund as they were originally accrued in, including the following governmental funds: General, Gasoline Tax, Open Space, and Supplemental Law Enforcement.

Note 1 – Summary of Significant Accounting Policies (Continued):

Assets, liabilities, and net assets or equity (Continued):

□ **Long-term Obligations:**

In the government-wide financial statements, and the proprietary 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 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 related debt.

In the fund financial statements, governmental fund types recognize bond premium and discounts, as well as bond issuance costs, during the current period. The face amount of debt issues 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:**

When it is probable that a claim liability has been incurred at year-end, and the amount of the loss can be reasonably estimated, the City records the estimated loss, net of any insurance coverage. Small dollar claims and judgments are recorded as expenditures when paid. Depending on the nature of the claims they may be paid out of a number of funds. General claims are paid from the General Fund, workers compensation claims are paid from the internal service funds, and claims specific to an enterprise fund are paid out of the respective enterprise fund (Water, Wastewater, or Cleanwater).

□ **Property Taxes:**

Under California law, property taxes are assessed and collected by the County of San Diego up to 1% of assessed value, plus other increases approved by the voters. The County bills and collects the taxes and remits them to the City in installments. The City of Del Mar accrues only those taxes to the extent they result in current receivables.

Lien Date	January 1
Levy Date	June 30
Due Dates	November 1 and February 1
Collection Dates	December 10 and April 10

□ **Fund Equity:**

In the fund financial statements, governmental funds report reservation of the fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans, and are subject to change.

□ **Use of Estimates:**

The preparation of 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates and assumptions.

Note 2 - Budgets and Budgetary Accounting:

The City follows these procedures in establishing the City's budget:

1. The annual budget adopted by the City Council provides for the general operation of the City. It includes proposed expenditures and the means of financing them.
2. The City Council approves total budgeted appropriations and any amendments to appropriations throughout the year. This "appropriated budget" covers City expenditures in the General, Special Revenue, Debt Service and Capital Projects Funds. Actual expenditures may not exceed budgeted appropriations at the department level. However, the City manager is authorized to transfer budgeted amounts between individual accounts within a department. Supplemental budgetary increases in appropriations for the General, Special Revenue, Debt Service and Capital Project Funds in the amount of \$1,764,059 were made during the year ended June 30, 2006.
3. Formal budgetary integration is employed as a management control device. Commitments for materials and services, such as purchase orders and contracts, are recorded during the year as encumbrances to assist in controlling expenditures. Unencumbered appropriations at year end automatically lapse. Those appropriations may be re-encumbered in the following year only after reconsideration.
4. Budgets for the General, Special Revenue, Debt Service and Capital Projects Funds (for which annual budgets were adopted) are adopted on a basis substantially consistent with generally accepted accounting principles (GAAP). Accordingly, actual revenues and expenditures can be compared with related budgeted amounts without any significant reconciling items. No budgetary comparisons are presented for proprietary funds as the City is not legally required to adopt a budget for these types of funds. In addition, no budgetary comparison schedule was prepared for the Open Space Debt Service Fund.
5. Under Article XIII B of the California Constitution (the Gann Spending Limitation Initiative), the City is restricted as to the amount of annual appropriations from certain proceeds of taxes. If proceeds of taxes exceed allowed appropriations, the excess must be either refunded to the State Controller or returned to the taxpayers through revised tax rates, revised fee schedules, or other refund arrangements.

Note 3 – Cash, Cash Equivalents, and Investments:

Cash and Investments

Cash and investments at June 30, 2006 are classified in the accompanying financial statements as follows:

Statement of Net Assets:

Current assets:

Cash and investments	\$ 1,801,299
Restricted cash and investments	684,402

Noncurrent assets:

Restricted assets:	
Cash and investments with fiscal agent	679,588
Long-term investments	7,618,940

Statement of Fiduciary Net Assets:

Restricted assets:

Cash and investments	<u>3,796,499</u>
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Total cash and investments	<u>\$14,580,728</u>
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Cash on hand	\$ 2,187
Investments	11,512,671
Deposit with financial institutions	<u>3,065,870</u>

Total cash and investments	<u>\$14,580,728</u>
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Note 3 – Cash, Cash Equivalents, and Investments (continued):**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 (or the City's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the City's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of *Portfolio</u>	<u>Maximum Investment In One Issuer</u>
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Commercial Paper	270 days	None	5%
Negotiable Certificates of Deposit	5 years	None	None
Repurchase Agreements	5 years	None	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	None	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

*Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.

Investments Authorized by Debt Agreements

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment In One Issuer</u>
U.S. Treasury Obligations	None	None	None
Farmers Home Administration	None	None	None
General Services Administration	None	None	None
U.S. Maritime Administration	None	None	None
Small Business Administration	None	None	None
Government National Mortgage Association	None	None	None
U.S. Dept of Housing & Urban Development	None	None	None
Washington Metro Area Transit Authority	None	None	None
U.S. Agency Securities	None	None	None
Federal Housing Administration Debentures	None	None	None
Commercial Paper	9 days	None	None
Interest Bearing Demand or Time Deposits	366 days	None	None
Money Market Funds	None	None	None

Note 3 – Cash, Cash Equivalents, 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 fiscal agent) to market interest rate fluctuations is provided by the following table that shows the distribution of the City’s investments by maturity.

Investment Type	Remaining Maturity (in months)				
	12 months or less	13 to 24 Months	25 to 60 Months	More than 60 Months	
Federal agency securities	\$ 6,845,810	\$ 2,954,388	\$ 1,942,822	\$ 1,948,600	\$ -
Corporate medium term notes	970,560	-	250,000	720,560	-
State investment pool	3,016,713	3,016,713	-	-	-
Held by fiscal agent:					
Federal agency securities	679,588	-	-	679,588	-
Total	\$ 11,512,671	\$ 5,971,101	\$ 2,192,822	\$ 3,348,748	\$ -

Information pertaining to the interest rate risk for the investments held in the deferred compensation plans is not available.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the City’s investment policy, or debt agreements, and the actual rating as of year ended for each investment type.

Investment Type	Minimum Legal Rating	Rating as of Year End					
		AA	A+	AAA	AA-	Not Rated	
Federal agency securities	\$ 6,845,810	N/A	\$ -	\$ -	\$ 6,845,810	\$ -	\$ -
Corporate medium term notes	970,560	A	479,802	240,758	-	250,000	-
State investment pool	3,016,713	N/A	-	-	-	-	3,016,713
Held by fiscal agent:							
Federal agency securities	679,588	N/A	-	-	679,588	-	-
Total	\$ 11,512,671		\$ 479,802	\$ 240,758	\$ 7,525,398	\$ 250,000	\$ 3,016,713

Information pertaining to the credit risk of the investments held in the deferred compensation plans is not available.

Note 3 – Cash, Cash Equivalents, and Investments (continued):**Concentration of Credit Risk**

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of the City's investments are as follows:

Issuer	Investment Type	Amount Reported
Federal Farm Credit Bank	Federal agency securities	\$ 1,944,148
Federal Home Ln Banks	Federal agency securities	3,177,425
Federal Home Ln Mtg Corp	Federal agency securities	983,143
FNMA	Federal agency securities	741,095

Information pertaining to concentration of credit risk for the investments held in the deferred compensation plans is not available.

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 for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to complete 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 government 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 market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by first pledging trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2006, \$215,498 of the City's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts. As of June 30, 2006, City investments in the following investment types were held by a custodial third party (counterparty):

Investment Type	Reported Amount
Federal agency securities held by fiscal agent	\$ 679,588
Federal agency securities	6,845,810
State investment pool	3,016,713
Corporate medium term notes	970,560

Information pertaining to the individual funds that are invested in the deferred compensation plans is not available.

Note 3 – Cash, Cash Equivalents, and Investments (continued):**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.

Note 4 – Capital Assets:

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

	Balance at July 1, 2005	Increases	Decreases	Balance at June 30, 2006
Governmental activities:				
Capital assets, non-depreciable:				
Land	\$ 10,024,325	\$ -	\$ -	\$ 10,024,325
Construction in progress	1,435,525	919,625	(971,748)	1,383,402
Total capital assets, non-depreciable	<u>11,459,850</u>	<u>919,625</u>	<u>(971,748)</u>	<u>11,407,727</u>
Capital assets, depreciable:				
Buildings and improvements	7,363,799	31,706	-	7,395,505
Machinery and equipment	2,010,817	91,195	(56,449)	2,045,563
Infrastructure	86,628	1,321,491	-	1,408,119
Total capital assets, depreciable	<u>9,461,244</u>	<u>1,444,392</u>	<u>(56,449)</u>	<u>10,849,187</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,699,855)	(207,659)	-	(1,907,514)
Machinery and equipment	(1,719,776)	(102,639)	45,249	(1,777,166)
Infrastructure	-	(2,601)	-	(2,601)
Total accumulated depreciation	<u>(3,419,631)</u>	<u>(312,899)</u>	<u>45,249</u>	<u>(3,687,281)</u>
Total capital assets, depreciable, net	<u>6,041,613</u>	<u>1,131,493</u>	<u>(11,200)</u>	<u>7,161,906</u>
Governmental activities capital assets, net	<u>\$ 17,501,463</u>	<u>\$ 2,051,118</u>	<u>\$ (982,948)</u>	<u>\$ 18,569,633</u>

Note 4 – Capital Assets (Continued):

	Balance at July 1, 2005	Increases	Decreases	Balance at June 30, 2006
Business-type activities:				
Capital assets, non-depreciable:				
Land	\$ 1,419,960	\$ -	\$ -	\$ 1,419,960
Construction in progress	470,875	334,018	(33,064)	771,829
Total capital assets, non-depreciable	<u>1,890,835</u>	<u>334,018</u>	<u>(33,064)</u>	<u>2,191,789</u>
Capital assets, depreciable:				
Improvements	22,035	62,981	-	85,016
Machinery and equipment	604,543	22,939	(8,052)	619,430
Water system	13,834,912	-	-	13,834,912
Wastewater system	11,806,594	-	-	11,806,594
Total capital assets, depreciable	<u>26,268,084</u>	<u>85,920</u>	<u>(8,052)</u>	<u>26,345,952</u>
Less accumulated depreciation for:				
Improvements	(20,474)	(298)	-	(20,772)
Machinery and equipment	(497,046)	(35,138)	8,052	(524,132)
Water system	(3,523,425)	(280,678)	-	(3,804,103)
Wastewater system	(2,800,267)	(304,015)	-	(3,104,282)
Total accumulated depreciation	<u>(6,841,212)</u>	<u>(620,129)</u>	<u>8,052</u>	<u>(7,453,289)</u>
Total capital assets, depreciable, net	<u>19,426,872</u>	<u>(534,209)</u>	<u>-</u>	<u>18,892,663</u>
Business-type activities capital assets, net	<u>\$ 21,317,707</u>	<u>\$ (200,191)</u>	<u>\$ (33,064)</u>	<u>\$ 21,084,452</u>

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

Governmental activities:	
General government	\$ 115,604
Public safety	86,895
Public works	16,482
Parks and recreation	<u>93,918</u>
Total depreciation expense-governmental activities	<u>\$ 312,899</u>
Business-type activities:	
Water	\$ 280,976
Clean Water	1,632
Wastewater	<u>337,521</u>
Total depreciation expense-business-type activities	<u>\$ 620,129</u>

Note 5 – Interfund Transfers:

<u>Transfer In:</u>	<u>Transfer Out</u>			<u>Total All Funds</u>
	<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>Nonmajor Governmental Funds</u>	
General Fund	\$ 30,113	\$ 69,036	\$ 36,646	\$ 135,795
Capital Improvement Project Fund	898,673	-	-	898,673
Nonmajor Governmental Funds	384,940	-	-	384,940
Water Fund	-	-	6,268	6,268
Wastewater Fund	-	-	6,269	6,269
Nonmajor Enterprise Fund	162,568	-	-	162,568
Total All Funds	\$ 1,476,294	\$ 69,036	\$ 49,183	\$ 1,594,513

Interfund Transfers:

Transfers were used to:

1. Provide funding from the General Fund to the Capital Improvement Project Fund for street and drainage projects.
2. Provide funding from the General Fund to the Nonmajor Enterprise Fund to supplement rates paid to the utility by users. The Cleanwater Fund is fairly new and is not yet self-supporting.
3. Provide funding from the General Fund to other Nonmajor Governmental Funds to supplement funding for various governmental activities and projects, such as law enforcement, street maintenance, and beach maintenance.

Note 6 – Long-term debt:

Following is a summary of the changes in principal balance of long-term debt for the year ended June 30, 2006:

	Principal Balance at July 1, 2005	Additions	Deductions	Principal Balance at June 30, 2006	Due Within One Year
Governmental activities:					
Bonds payable	\$ 1,440,000	\$ -	\$ 120,000	\$ 1,320,000	\$ 125,000
Notes payable	60,079	-	8,689	51,390	9,180
Obligations under capital leases	786,144	-	180,454	605,690	190,015
Compensated absences	307,060	-	51,973	255,087	63,772
Total governmental activity	\$ 2,593,283	\$ -	\$ 361,116	\$ 2,232,167	\$ 387,967
Business-type activities:					
Certificates of participation	4,610,000	-	455,000	4,155,000	480,000
Obligations under capital leases	10,390	-	3,292	7,098	3,461
Note payable	16,028	-	2,318	13,710	2,449
Compensated absences	47,088	-	1,218	45,870	11,467
Claims payable	2,320	-	2,320	-	-
Total business-type activity	\$ 4,685,826	\$ -	\$ 464,148	\$ 4,221,678	\$ 497,377

Governmental long-term debt:

1999 Wildfire Protection Bonds – due in annual installments of \$80,000 to \$170,000 through 2014; interest ranges from 4.00% to 4.60%. \$1,320,000

Note – The City entered into an agreement in April of 1995 to join the Regional Communications Systems of the Counties of San Diego and Imperial, California. As part of that agreement the City agreed to reimburse the County of San Diego for \$120,100 of its cost to set up the system. The note payment including interest at 5.65% is \$12,083 annually through December 2010. 51,390

Library capital lease - The City entered into a lease purchase agreement in 1994 to acquire real property to be used for a community library. The lease payment including interest at 6.25%, is \$31,108 semiannually through February 2009. 167,843

VOIP capital lease - The City entered into a lease purchase agreement in 2005 to acquire equipment to be used for communications. The lease payment including interest at 4.3% is \$2,799 monthly through January, 2010. 111,365

Note 6 –Long-term debt (Continued):

Powerhouse Park Project - The City entered into a lease financing agreement in 1999 to provide capital for use in the City's Powerhouse Park Project. The lease payment including interest at 4.95% is \$54,396.38 semi-annually through January 2009. 299,872

Equipment Lease - The City entered into a lease purchase agreement in October of 1998 to acquire equipment for use in its Regional Communications System (RCS). The lease payment including interest at 5.127% is \$14,336 annually through November 2007. 26,610

Compensated Absences 255,087

Sub-total governmental long-term debt 2,232,167

Less current portion (387,967)

Total long-term portion of governmental debt \$ 1,844,200

Business-type long-term debt:

1993 Certificates of Participation (COPS) – The Del Mar Public Facilities Corporation issued COP's consisting of \$2,500,000 in certificates maturing in various amounts from \$125,000 to \$225,000 annually on September 1 each year through 2008; the interest rate ranges from 4.20% to 4.50%. \$ 645,000

1993 Certificates of Participation (COPS) – The Del Mar Public Facilities Corporation issued COP's consisting of \$6,000,000 in certificates maturing in various amounts from \$165,000 to \$440,000 annually on September 1 each year through 2015. The interest rate is 5.00%. 3,510,000

Note – The City entered into an agreement in April of 1995 to join the Regional Communications Systems of the Counties of San Diego and Imperial, California. As part of that agreement the City agreed to reimburse the County of San Diego for \$32,027 of its cost to set up the system. The note payment, including interest at 5.65%, is \$3,224 annually through December 2010. 13,710

Equipment Lease - The City entered into a lease purchase agreement in October of 1998 to acquire equipment for use in its Regional Communications System (RCS). The lease payment, including interest at 5.127%, is \$3,825 annually through November 2007. 7,098

Compensated Absences 45,870

Sub-total business-type long-term debt 4,221,678

Less current portion (497,377)

Total long-term portion of business-type debt \$ 3,724,301

Note 6 – Long-term debt (Continued):

The balance of **governmental long-term debt** at June 30, 2006 consists of the following:

Year Ending June 30:	1999 Bonds	Note Payable	Capital Leases			
			Library	VOIP Equipment	Powerhouse Park	RCS Equipment
2007	\$ 178,915	\$ 12,083	\$ 62,216	\$ 33,590	\$ 108,793	\$ 14,336
2008	178,750	12,083	62,216	33,590	108,793	14,336
2009	178,317	12,083	62,216	33,590	108,793	-
2010	182,578	12,083	-	19,594	-	-
2011	176,560	12,088	-	-	-	-
2012-2015	699,388	-	-	-	-	-
Total	1,594,508	60,420	186,648	120,364	326,379	28,672
Less: interest portion	(274,508)	(9,030)	(18,805)	(8,999)	(26,507)	(2,062)
Present value	\$ 1,320,000	\$ 51,390	\$ 167,843	\$ 111,365	\$ 299,872	\$ 26,610

The balance of **business-type long-term debt** at June 30, 2006 consists of the following:

Year Ending June 30:	1993 COP Water Bonds	1993 COP Sewer Bonds	Note Payable	RCS Equipment Lease
				2007
2008	229,963	444,500	3,224	3,823
2009	230,062	444,625	3,224	-
2010	-	444,000	3,224	-
2011	-	447,500	3,224	-
2012-2015	-	2,238,000	-	-
Total	689,438	4,462,250	16,120	7,648
Less: interest portion	(44,438)	(952,250)	(2,410)	(550)
Present value	\$ 645,000	\$ 3,510,000	\$ 13,710	\$ 7,098

The aggregate maturities of all long-term debt excluding compensated absences are as follows:

Year Ending June 30:	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2007	\$ 324,195	\$ 85,739	\$ 485,910	\$ 194,178
2008	339,748	70,021	511,226	170,285
2009	341,556	53,444	532,734	145,178
2010	175,141	39,113	322,888	124,336
2011	156,440	32,206	343,050	107,672
2012-2015	640,000	59,388	1,980,000	258,000
Total	\$ 1,977,080	\$ 339,911	\$ 4,175,808	\$ 999,649

Note 7 – Fund balances / Net Assets:

A city may set up "reserves" of fund equity to segregate fund balances which cannot be appropriated for expenditure in a future period, or which are legally set aside for a specific future use. Unrestricted fund "designations" may also be established to indicate tentative plans for financial resource utilization in a future period.

The City's reserves and designations at June 30, 2006 are tabulated below, followed by explanations as to the nature and purpose of each reserve or designation.

	Governmental Fund Balances				Total
	General	Special Revenue	Debt Service	Capital Projects	
Reserved for:					
Encumbrances	\$ 62,835	\$ 4,334	\$ -	\$ 518,546	\$ 585,715
Housing	637,363	-	-	-	637,363
Total reserved	700,198	4,334	-	518,546	1,223,078
Unreserved - designated for:					
Capital improvements	-	-	-	469,632	469,632
Compensated absences	105,041	-	-	-	105,041
Debt service	-	-	149,403	-	149,403
Environmental trust	4,089	-	-	-	4,089
Equipment replacement	585,015	-	-	-	585,015
General contingencies	1,776,435	-	-	-	1,776,435
Park acquisition and development	-	528,290	-	-	528,290
Revenue loss	500,000	-	-	-	500,000
Self-insurance	100,000	-	-	-	100,000
Special revenue purposes	-	103,539	-	-	103,539
Total unreserved-designated	3,070,580	631,829	149,403	469,632	4,321,444
Total fund balances	\$ 3,770,778	\$ 636,163	\$ 149,403	\$ 988,178	\$ 5,544,522
Net Assets of Business-type Funds					
Net Assets:					
Invested in capital assets, net of related debt				\$ 16,908,644	
Restricted				679,588	
Unrestricted				3,321,173	
Total				\$ 20,909,405	

Note 7 – Fund balances / Net Assets (Continued):

Reserve for Encumbrances represents the portion of purchase orders and contracts for goods and services, that had not been received at June 30, 2006.

Reserve for Housing represents funds to provide for low and moderate income housing as required by the State Housing Law. These funds are collected as a fee from developers when building permits are issued.

Designated for Capital Improvements are funds set aside for various capital improvement projects the City has in process.

Designated for Compensated Absences are funds set aside for the compensated absences obligation recorded in the non-current liabilities section of the Statement of Net assets as described in Note 5.

Designated for Debt Service are funds set aside in the Debt Service Fund to meet the annual debt service on the general obligation bonds described in Note 5.

Designated for Environmental Trust represent funds set aside for the purpose of monitoring helicopter noise pollution as a result of litigation against the Federal government.

Designated for Equipment Replacement are funds set aside to provide for the purchase of new capital equipment.

Designated for General Contingencies represent the remainder of the unreserved fund balance at June 30, 2006 in the General Fund and has been designated for general contingencies.

Designated for Park Acquisition and Development are designated for acquisition and development of park lands.

Designated for Revenue Loss are funds established to provide for possible reductions in any single revenue source.

Designated for Self-Insurance funds are established to provide future self-insurance programs and the payment of the deductible portions on claims against the City covered by insurance policies.

Designated for Special Revenue Purposes are designated for the specific purposes as restricted by law or administrative action.

The business-type activities have a restriction of net assets for debt service totaling \$679,588. The restriction includes amounts restricted by the covenants of debt agreements, which are being held by fiscal agents. The amounts are restricted for payment of long-term debt principal and interest maturing in future years.

Note 8 – Public Employees Retirement System (Defined Benefit Pension Plan):

Plan Description:

The City's defined benefit pension plans, the Miscellaneous and Safety Plans for the City of Del Mar (Plans), provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Plans are part of the Public Agency portion of the California Public Employees' Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public entities within the State of California. A menu of benefit provisions, as well as other requirements, is established by State statutes within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report. Copies of CalPERS' annual financial report may be obtained from the CalPERS Executive Office: 400 P Street, Sacramento, CA 95814.

Funding Policy:

Participants are required to contribute 7% (9% for safety employees) of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. For the year ended June 30, 2006 the required employer contribution for the miscellaneous employees was \$274,154, which was 12.89% of their annual covered payroll; for safety (non-fire) the required employer contribution was \$35,098, which was 10.74% of their annual covered payroll; and for the fire safety plan the required employer contribution was \$198,245, which was 34.18% of their annual covered payroll. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

Annual Pension Costs:

The Annual Pension cost represents the cost incurred by the City to participate in PERS. The City has elected to contribute the following percentages of the required employee contribution on behalf of the employee and has included these costs in the Annual Pension Cost: 6% for miscellaneous, 7% for safety (non-fire), and 4% for safety (fire). For fiscal year 2005-2006, the City's annual pension cost of \$233,343 for safety and \$274,154 for miscellaneous was equal to the City's required and actual contributions. For 2006, the member contributions paid by the City were \$128,962 for miscellaneous and \$47,265 for safety. The required contribution for the fiscal year 2006 was determined as part of the June 30, 2005 actuarial valuation (most recent available) using the entry age normal actuarial cost method with the contributions determined as a percent of payroll. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected salary increases that vary by duration of service ranging from 3.25% to 14.45% for miscellaneous members (from 3.25% to 13.15% for safety members), and (c) inflation of 3.0%, (d) payroll growth of 3.25%, and (e) an individual salary growth based on merit scale varying by duration of employment, coupled with an assumed annual inflation component of 3.0%, and an annual production growth of 0.25%. The actuarial value of the plan's assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a three-year period. The Plans' initial unfunded liabilities are amortized over a closed period that depends on the Plans' date of entry into CalPERS. 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 an open 13-year period, which results in an amortization of 10% of unamortized gains and losses each year. If the Plans' accrued liability exceeds the actuarial value of the Plans' assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization period.

Note 8 – Public Employees Retirement System (Defined Benefit Pension Plan) (Continued):

Three-Year Trend Information for Miscellaneous and Safety Plans:

Fiscal Year	Annual Pension Cost	Percentage APC Contributed	Net Pension Obligation
Nonsafety employees			
06/30/04	\$ 211,615	100%	\$ -
06/30/05	204,555	100%	-
06/30/06	274,154	100%	-
Safety Employees			
06/30/04	\$ 162,673	100%	\$ -
06/30/05	223,197	100%	-
06/30/06	233,343	100%	-

Note 9 – Deferred Compensation:

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, organized as a trust for the exclusive benefit of the participants and available to all City employees, permits them to defer a portion of their salary until future years. The City is designated as a fiduciary of the plan; therefore the assets and transactions related to the plan are reported in the Pension Trust Fund as of June 30, 2006. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

Note 10 – Governmental Money Purchase Plan:

On November 15, 1999 the City adopted a money purchase pension plan. The plan was created in accordance with Internal Revenue Code Section 401(a). The plan is organized as a trust for the exclusive benefit of the participants and is available to the City's management employees. The plan allows the participants to defer a portion of their salary to future years and requires the City to contribute 1.14% of participant earnings into the plan which is paid by the employee. The plan allows the participants to become immediately fully vested in their accounts and has a normal retirement age of 60. The participants will not have access to funds until termination, retirement or death.

The City is designated as the fiduciary of the plans; therefore the assets and transactions related to the plans are reported in the Pension Trust Fund as of June 30, 2006.

Note 11 – Litigation, Commitments and Contingent Liabilities:

Litigation:

A minimal number of claims and suits have been filed against the City in the normal course of business. Based upon information received from the City Attorney, the estimated liability under such claims would be adequately covered by recorded liabilities, self-insurance reserves and insurance coverage.

Construction Contracts and Commitments:

As of June 30, 2006 construction contracts and commitments totaled \$886,802.

Note 12 – Post Employment Health Care Benefits:

The City has no obligation to provide post employment health care benefits for retirees. Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the City provides healthcare benefits to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium plus a 2% administration fee is paid in full by the insured on or before the tenth (10th) day of the month for the actual month covered. This program is offered for a duration of 18 months after the termination date. There is no associated cost to the City under this program.

Note 13 – Risk Management:

The City is a member of the San Diego Pooled Insurance Program Authority (SANDPIPA), a consortium of various governmental entities in San Diego County who have joined together to achieve savings on insurance premiums through volume purchasing and risk management consulting. Each member pays for its proportionate share of its individually contracted insurance coverage and consulting services. The City does not own an equity interest in SANDPIPA and separate financial statements are prepared for SANDPIPA.

General Liability:

As a member of SANDPIPA, the City is self-insured for the first \$100,000 of each occurrence. The difference between the City's \$100,000 self-insurance retention and \$2,000,000 of pooled liability insurance for each occurrence is covered by SANDPIPA, with an additional \$35,000,000 of purchased liability for a total of \$37,000,000. Specific coverage includes bodily injury, property damage, municipal errors and omissions and personal injury.

Other Insurance Policies:

The City maintains insurance coverage in the following specific areas: real and personal property damage with loss of revenue and increased expenses, auto-physical damage, machinery damage and faithful performance bonds.

The City uses a risk management self-insurance fund workers' compensation (an internal service fund) to account for and finance its uninsured risk of loss. All funds of the City make payments based on actuarial estimates of the amounts needed to pay prior and current year claims and to establish appropriate reserves. The City is self-insured for the first \$125,000 for each occurrence.

Settled claims have not exceeded any of the City's coverage amounts in any of the last four years and there were no reductions in the City's insurance coverage during the year ended June 30, 2006.

Changes in the aggregate liability for claims for the years ended June 30, 2005 and June 30, 2006 are as follows:

	Claims			
	Beginning Balance	Expenses and Change in Estimates	Claim Payments	Ending Balance
2004-2005	\$ 8,000	\$ -	\$ (8,000)	\$ -
2005-2006	-	-	-	-

Note 14 –Assessment District Bond Issues:

The City has issued Special Assessment Bonds as allowed under the State of California Special Improvement Act. The City has no obligation beyond the balances in the designated Agency fund for any delinquent assessment district bond payments. The City acts solely as an agent for those paying assessments and the bondholders of the obligations outstanding. If delinquencies occur beyond the amounts held in the reserve funds created from bond proceeds, the City has no duty to pay the delinquency out of any available funds of the City. Neither the faith, credit nor taxing power of the City is pledged to the payment of the bonds. Therefore, such bonds are not an appropriate liability of the City and are not included in the accompanying financial statements. At June 30, 2006, the outstanding special assessment district bonds are as follows:

Assessment District No. 89-1 Bonds of \$219,514 were issued October 2, 1990 to finance the undergrounding of utilities in the Luneta/Stratford Streets area. The bonds outstanding at June 30, 2006 were \$25,000.

Reassessment District No. 99-1 Bonds of \$1,350,000 were issued June 17, 1999 to finance seawall improvements. These bonds outstanding at June 30, 2006 were \$1,090,000.

Assessment District No.2005-01 Bonds of \$932,201 were issued October 1, 2005, to finance the removal of overhead utilities.in the Ocean View/Pines neighborhood area. The bonds outstanding at June 30, 2006. were \$932,201.

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**REQUIRED
SUPPLEMENTARY INFORMATION**

PERS Schedule of Funding Progress

June 30, 2006

Actuarial Valuation Date	Actuarial; Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded (Over Funded) AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a % of Covered Payroll
<u>Nonsafety employees</u>						
06/30/03	\$ 6,632,448	\$ 7,508,859	\$ 876,411	88.3%	\$ 2,174,153	40.3%
06/30/04	2,460,944,656	2,746,095,668	285,151,012	89.6%	743,691,970	38.3%
06/30/05	405,480,805	499,323,280	93,842,475	81.2%	108,618,321	86.4%
<u>Safety employees</u>						
06/30/03	\$ 6,389,600	\$ 7,853,378	\$ 1,463,778	81.4%	\$ 986,445	148.4%
06/30/04	5,310,136,496	6,380,125,312	1,069,988,816	83.2%	724,704,137	147.6%
06/30/05	5,941,509,083	7,109,296,602	1,167,787,519	83.2%	779,210,616	161.4%

City of Del Mar has fewer than 100 employees and is required by PERS to be in a risk pool. With the implementation of risk pooling during the year end June 30, 2004, stand-alone valuation reports are no longer available. Instead the Plan's financial results are pooled with the plans of other agencies.

**General Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2006**

	Budgeted Amounts		Actual Amounts	Variance With Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 6,284,600	\$ 6,739,599	\$ 6,824,074	\$ 84,475
Licenses, fees and permits	305,000	415,000	356,492	(58,508)
Intergovernmental	256,247	519,351	462,566	(56,785)
Charges for services	912,000	890,250	946,373	56,123
Fines and forfeitures	904,710	977,710	956,378	(21,332)
Use of money and property	164,600	164,600	110,580	(54,020)
Contributions	51,000	51,000	52,995	1,995
Other	570,738	617,233	679,034	61,801
Total Revenues	9,448,895	10,374,743	10,388,492	13,749
Expenditures:				
Current:				
General government:				
City council	50,898	93,898	89,336	4,562
Legal services	254,000	252,000	204,107	47,893
Community support	71,600	73,600	72,173	1,427
Solid waste	4,000	7,000	6,476	524
City manager	345,376	345,376	331,833	13,543
Human resources	30,250	36,750	30,990	5,760
Cable TV	82,785	82,785	64,831	17,954
Memberships	10,825	10,825	7,573	3,252
Engineering services	152,700	180,950	202,099	(21,149)
City clerk	294,048	294,048	289,905	4,143
Elections	1,275	1,275	1,195	80
Information systems	365,647	376,950	301,350	75,600
Finance	451,472	451,222	392,040	59,182
City hall general	144,995	144,995	136,432	8,563
Risk management	102,449	102,449	74,503	27,946
City hall annex	6,211	16,461	16,247	214
Planning	693,784	677,284	610,164	67,120
Planning commission	5,747	6,747	6,099	648
Design review board	5,822	6,822	6,481	341
Beach press initiative	7,284	7,284	7,284	-
San Dieguito lagoon	52,412	52,412	40,192	12,220
Building services	241,976	241,976	238,947	3,029
Rental housing	128,250	142,750	110,766	31,984
Community services	270,417	270,717	258,323	12,394
Library O & M	6,896	59,069	56,021	3,048
	3,781,119	3,935,645	3,555,367	380,278

(Continued)

General Fund
Budgetary Comparison Schedule (Continued)
For the Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Variance With Final Budget - Positive (Negative)
	Original	Final		
Expenditures:				
Public safety:				
Law enforcement	897,300	897,300	868,466	28,834
Traffic enforcement	557,240	557,240	492,275	64,965
Lifeguard services	842,224	1,015,004	988,044	26,960
Fire protection	1,654,814	1,740,079	1,732,885	7,194
Hazardous waste	11,200	11,200	10,526	674
Emergency preparedness	3,500	187,766	121,536	66,230
Parking enforcement	427,130	458,890	439,730	19,160
Code enforcement	84,851	84,851	76,374	8,477
	<u>4,478,259</u>	<u>4,952,330</u>	<u>4,729,836</u>	<u>222,494</u>
Public works:				
PW general & administration	115,411	115,411	114,775	636
Flood control/drainage	39,860	39,860	33,429	6,431
	<u>155,271</u>	<u>155,271</u>	<u>148,204</u>	<u>7,067</u>
Debt service:				
Principal	77,542	77,542	77,542	-
Interest	18,265	18,265	18,265	-
	<u>95,807</u>	<u>95,807</u>	<u>95,807</u>	<u>-</u>
Total expenditures	<u>8,510,456</u>	<u>9,139,053</u>	<u>8,529,214</u>	<u>609,839</u>
Excess of revenues over expenditures	<u>938,439</u>	<u>1,235,690</u>	<u>1,859,278</u>	<u>623,588</u>
Other Financing Sources (Uses):				
Transfers in	80,643	135,795	135,795	-
Transfers out	(1,072,095)	(1,476,294)	(1,476,294)	-
Total other financing sources (uses)	<u>(991,452)</u>	<u>(1,340,499)</u>	<u>(1,340,499)</u>	<u>-</u>
Net changes in fund balances	<u>(53,013)</u>	<u>(104,809)</u>	<u>518,779</u>	<u>623,588</u>
Fund balance at beginning of year	<u>3,251,999</u>	<u>3,251,999</u>	<u>3,251,999</u>	<u>-</u>
Fund balance at end of year	<u>\$ 3,198,986</u>	<u>\$ 3,147,190</u>	<u>\$ 3,770,778</u>	<u>\$ 623,588</u>

June 30, 2006**Note 1 – Budgets and Budgetary Accounting:**

The City follows these procedures in establishing the City's budget:

1. The annual budget adopted by the City Council provides for the general operation of the City. It includes proposed expenditures and the means of financing them.
2. The City Council approves total budgeted appropriations and any amendments to appropriations throughout the year. This "appropriated budget" covers City expenditures in the General, Special Revenue, Debt Service and Capital Projects Funds. Actual expenditures may not exceed budgeted appropriations at the department level. However, the City manager is authorized to transfer budgeted amounts between individual accounts within a department.
3. Formal budgetary integration is employed as a management control device. Commitments for materials and services, such as purchase orders and contracts, are recorded during the year as encumbrances to assist in controlling expenditures. Unencumbered appropriations at year end automatically lapse. Those appropriations may be re-encumbered in the following year only after reconsideration.
4. Budgets for the General (for which annual budgets were adopted) are adopted on a basis substantially consistent with generally accepted accounting principles (GAAP). Accordingly, actual revenues and expenditures can be compared with related budgeted amounts without any significant reconciling items.
5. Under Article XIII B of the California Constitution (the Gann Spending Limitation Initiative), the City is restricted as to the amount of annual appropriations from certain proceeds of taxes. If proceeds of taxes exceed allowed appropriations, the excess must be either refunded to the State Controller or returned to the taxpayers through revised tax rates, revised fee schedules, or other refund arrangements.

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SUPPLEMENTARY INFORMATION

CITY OF DEL MAR

**Capital Improvement Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2006**

	Final Budget	Actual Amounts	Variance with Final-Budget Positive (Negative)
Revenues:			
Intergovernmental	\$ 761,500	\$ 467,485	\$ (294,015)
Use of money and property	30,000	30,800	800
Total revenues	<u>791,500</u>	<u>498,285</u>	<u>(293,215)</u>
Expenditures:			
Public works:			
Street maintainence	406,760	350,860	55,900
Capital outlay	1,818,079	1,057,116	760,963
Total expenditures	<u>2,224,839</u>	<u>1,407,976</u>	<u>816,863</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,433,339)</u>	<u>(909,691)</u>	<u>523,648</u>
Other Financing Sources (Uses):			
Transfers in	898,673	898,673	-
Transfers out	(69,036)	(69,036)	-
Total other financing sources (uses)	<u>829,637</u>	<u>829,637</u>	<u>-</u>
Net changes in fund balances	(603,702)	(80,054)	523,648
Fund balances at beginning of year	<u>1,068,232</u>	<u>1,068,232</u>	<u>-</u>
Fund balances at end of year	<u>\$ 464,530</u>	<u>\$ 988,178</u>	<u>\$ 523,648</u>

NONMAJOR FUNDS

The **Gasoline Tax Fund** is used to account for state gasoline taxes received by the City. These funds may be used for street maintenance, right-of-way acquisition and street construction.

The **Open Space Fund** is used to account for revenue received by the City for use in acquiring, preserving and developing parks and open space areas within the City.

The **Supplemental Law Enforcement Funds** are used to account for grant revenue received by the City from the State of California for supplemental law enforcement expenses.

The **Regional Communications System Funds** are used to account for revenue received by the City to maintain its portion of the San Diego County and Imperial County Regional Communications System.

The **Open Space Debt Service Fund** accounts for the accumulation of resources and payment of the Open Space general obligation bond principal and interest from governmental resources.

The **Wildfire Debt Service Fund** accounts for the accumulation of resources and payment of the Wildfire Protection general obligation bond principal and interest from governmental resources.

CITY OF DEL MAR

**Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006**

ASSETS	Gasoline Tax	Open Space	Supplemental Law Enforcement
Cash and investments	\$ 53,653	\$ 568,702	\$ 8,653
Receivables:			
Accrued interest	2,446	4,194	-
Accounts, net	13,460	1,502	-
Restricted assets:			
Cash and investments	-	30,754	-
Total assets	\$ 69,559	\$ 605,152	\$ 8,653
LIABILITIES AND FUND BALANCE			
Liabilities:			
Accrued liabilities	\$ 7,832	\$ 19,245	\$ 8,653
Deposits payable	-	12,750	-
Specified contributions	-	18,004	-
Total liabilities	7,832	49,999	8,653
Fund balances:			
Reserved	4,334	-	-
Unreserved			
Designated	57,393	555,153	-
Total fund balance	61,727	555,153	-
Total liabilities and fund balances	\$ 69,559	\$ 605,152	\$ 8,653

Regional Communications System	Open Space Debt Service	Wildfire Debt Service	Total Nonmajor Governmental Funds
\$ 19,283	\$ 315	\$ 147,281	\$ 797,887
-	2	1,805	8,447
-	-	-	14,962
-	-	-	30,754
<u>\$ 19,283</u>	<u>\$ 317</u>	<u>\$ 149,086</u>	<u>\$ 852,050</u>
\$ -	\$ -	\$ -	\$ 35,730
-	-	-	12,750
-	-	-	18,004
-	-	-	66,484
-	-	-	4,334
<u>19,283</u>	<u>317</u>	<u>149,086</u>	<u>781,232</u>
<u>19,283</u>	<u>317</u>	<u>149,086</u>	<u>785,566</u>
<u>\$ 19,283</u>	<u>\$ 317</u>	<u>\$ 149,086</u>	<u>\$ 852,050</u>

CITY OF DEL MAR

**Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2006**

	<u>Gasoline Tax</u>	<u>Open Space</u>	<u>Supplemental Law Enforcement</u>
Revenues:			
Taxes	\$ 123,009	\$ 17,192	\$ -
Intergovernmental	20,308	104,345	99,809
Licenses, fees and permits	-	429,125	-
Use of money and property	10,543	13,235	-
Other	1,170	2,250	-
Total revenues	<u>155,030</u>	<u>566,147</u>	<u>99,809</u>
Expenditures:			
Current:			
General government	-	-	-
Public safety	-	-	149,436
Public works	298,966	-	-
Parks and recreation	-	572,092	-
Capital outlay	-	28,348	-
Debt service:			
Principal	-	90,573	-
Interest	-	18,220	-
Total expenditures	<u>298,966</u>	<u>709,233</u>	<u>149,436</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(143,936)</u>	<u>(143,086)</u>	<u>(49,627)</u>
Other Financing Sources (Uses):			
Transfers in	194,423	100,100	49,851
Transfers out	(31,170)	(5,476)	-
Total other financing sources (uses)	<u>163,253</u>	<u>94,624</u>	<u>49,851</u>
Net changes in fund balances	19,317	(48,462)	224
Fund balances at beginning of year	<u>42,410</u>	<u>603,615</u>	<u>(224)</u>
Fund balances at end of year	<u>\$ 61,727</u>	<u>\$ 555,153</u>	<u>\$ -</u>

<u>Regional Communications System</u>	<u>Open Space Debt Service</u>	<u>Wildfire Debt Service</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 43,875	\$ -	\$ 136,547	\$ 320,623
-	-	-	224,462
-	-	-	429,125
1,339	8	2,274	27,399
-	-	-	3,420
<u>45,214</u>	<u>8</u>	<u>138,821</u>	<u>1,005,029</u>
-	-	631	631
20,574	-	-	170,010
-	-	-	298,966
-	-	-	572,092
-	-	-	28,348
21,029	-	120,000	231,602
5,391	-	58,815	82,426
<u>46,994</u>	<u>-</u>	<u>179,446</u>	<u>1,384,075</u>
<u>(1,780)</u>	<u>8</u>	<u>(40,625)</u>	<u>(379,046)</u>
40,566	-	-	384,940
<u>(12,537)</u>	<u>-</u>	<u>-</u>	<u>(49,183)</u>
<u>28,029</u>	<u>-</u>	<u>-</u>	<u>335,757</u>
26,249	8	(40,625)	(43,289)
<u>(6,966)</u>	<u>309</u>	<u>189,711</u>	<u>828,855</u>
<u>\$ 19,283</u>	<u>\$ 317</u>	<u>\$ 149,086</u>	<u>\$ 785,566</u>

CITY OF DEL MAR

**Gasoline Tax Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2006**

	Final Budget	Actual Amounts	Variance with Final-Budget Positive (Negative)
Revenues:			
Taxes	\$ 124,000	\$ 123,009	\$ (991)
Intergovernmental	19,400	20,308	908
Use of money and property	12,000	10,543	(1,457)
Other		1,170	1,170
Total revenues	<u>155,400</u>	<u>155,030</u>	<u>(370)</u>
Expenditures:			
Public works:			
Street maintainence	111,607	95,278	16,329
Street lights & signs	130,015	88,181	41,834
Street landscaping	119,441	115,507	3,934
Total expenditures	<u>361,063</u>	<u>298,966</u>	<u>62,097</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(205,663)</u>	<u>(143,936)</u>	<u>61,727</u>
Other Financing Sources (Uses):			
Transfers in	194,423	194,423	-
Transfers out	(31,170)	(31,170)	-
Total other financing sources (uses)	<u>163,253</u>	<u>163,253</u>	<u>-</u>
Net changes in fund balances	(42,410)	19,317	61,727
Fund balances at beginning of year	<u>42,410</u>	<u>42,410</u>	<u>-</u>
Fund balances at end of year	<u>\$ -</u>	<u>\$ 61,727</u>	<u>\$ 61,727</u>

CITY OF DEL MAR

**Open Space Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2006**

	Final Budget	Actual Amounts	Variance with Final-Budget Positive (Negative)
Revenues:			
Taxes	\$ 20,000	\$ 17,192	\$ (2,808)
Licenses, fees and permits	500,000	429,125	(70,875)
Intergovernmental	214,032	104,345	(109,687)
Use of money and property	20,000	13,235	(6,765)
Contributions	7,500	-	(7,500)
Other	-	2,250	2,250
Total revenues	761,532	566,147	(195,385)
Expenditures:			
Parks and recreation:			
Beach services	343,262	338,857	4,405
Powerhouse operations	161,507	158,831	2,676
Park maintenance	83,010	74,404	8,606
	587,779	572,092	15,687
Capital outlay:			
Public pathways	14,132	3,895	10,237
Rivermouth opening	16,250	16,250	-
Erosion Powerhouse park	100,426	3,974	96,452
SCE Lagoon enhancement	7,124	75	7,049
Palm replacement	15,000	2,819	12,181
Riverpath Del Mar	1,977	1,335	642
	154,909	28,348	126,561
Debt service:			
Principal	90,573	90,573	-
Interest	18,220	18,220	-
	108,793	108,793	-
Total expenditures	851,481	709,233	142,248
Excess (deficiency) of revenues over (under) expenditures	(89,949)	(143,086)	(53,137)
Other Financing Sources (Uses):			
Transfer in	100,100	100,100	-
Transfers out	(5,476)	(5,476)	-
Total other financing sources (uses)	94,624	94,624	-
Net changes in fund balances	4,675	(48,462)	(53,137)
Fund balances at beginning of year	603,615	603,615	-
Fund balances at end of year	\$ 608,290	\$ 555,153	\$ (53,137)

CITY OF DEL MAR

**Supplemental Law Enforcement Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2006**

	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final-Budget Positive (Negative)</u>
Revenues:			
Intergovernmental	\$ 100,000	\$ 99,809	\$ (191)
Total revenues	<u>100,000</u>	<u>99,809</u>	<u>(191)</u>
Expenditures:			
Public safety:			
Law enforcement	51,000	40,800	10,200
Beach and community pool	113,344	108,636	4,708
Total expenditures	<u>164,344</u>	<u>149,436</u>	<u>14,908</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(64,344)</u>	<u>(49,627)</u>	<u>14,717</u>
Other Financing Sources (Uses):			
Transfers in	<u>49,851</u>	<u>49,851</u>	<u>-</u>
Total other financing sources (uses)	<u>49,851</u>	<u>49,851</u>	<u>-</u>
Net changes in fund balances	(14,493)	224	14,717
Fund balances at beginning of year	<u>(224)</u>	<u>(224)</u>	<u>-</u>
Fund balances at end of year	<u>\$ (14,717)</u>	<u>\$ -</u>	<u>\$ 14,717</u>

CITY OF DEL MAR

**Regional Communications System Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2006**

	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final-Budget Positive (Negative)</u>
Revenues:			
Taxes	\$ 45,000	\$ 43,875	\$ (1,125)
Use of money and property	-	1,339	1,339
Total revenues	<u>45,000</u>	<u>45,214</u>	<u>214</u>
Expenditures:			
Public safety:			
800 Mega-Hertz	59,146	20,574	38,572
Debt service:			
Principal	21,028	21,029	(1)
Interest	5,392	5,391	1
	<u>26,420</u>	<u>26,420</u>	<u>-</u>
Total expenditures	<u>85,566</u>	<u>46,994</u>	<u>38,572</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(40,566)</u>	<u>(1,780)</u>	<u>38,786</u>
Other Financing Sources (Uses):			
Transfers in	40,566	40,566	-
Transfers out	-	(12,537)	(12,537)
Total other financing sources (uses)	<u>40,566</u>	<u>28,029</u>	<u>(12,537)</u>
Net changes in fund balances	-	26,249	26,249
Fund balances at beginning of year	<u>(6,966)</u>	<u>(6,966)</u>	<u>-</u>
Fund balances at end of year	<u>\$ (6,966)</u>	<u>\$ 19,283</u>	<u>\$ 26,249</u>

CITY OF DEL MAR

**Wildfire Debt Service Fund
 Budgetary Comparison Schedule
 For the Year Ended June 30, 2006**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final-Budget Positive (Negative)</u>
Revenues:			
Taxes	\$ 165,000	\$ 136,547	\$ (28,453)
Use of money and property	5,000	2,274	(2,726)
Total revenues	<u>170,000</u>	<u>138,821</u>	<u>(31,179)</u>
Expenditures:			
General government	1,200	631	569
Debt service:			
Principal	120,000	120,000	-
Interest	58,815	58,815	-
	<u>178,815</u>	<u>178,815</u>	<u>-</u>
Total expenditures	<u>180,015</u>	<u>179,446</u>	<u>569</u>
Deficiency of revenues over expenditures	(10,015)	(40,625)	(30,610)
Fund balance at beginning of year	<u>189,711</u>	<u>189,711</u>	<u>-</u>
Fund balances at end of year	<u>\$ 179,696</u>	<u>\$ 149,086</u>	<u>(30,610)</u>

FIDUCIARY FUNDS

The **Fiduciary Funds** are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, or other governments. These funds include the **Deferred Compensation Pension Trust Fund, Governmental Money Purchase Plan Pension Trust Fund, Assessment District 89-1 Agency Fund, Assessment District 99-1 Agency Fund and Assessment District 2003-1 Agency Fund.**

CITY OF DEL MAR

**Combining Statement of Fiduciary Net Assets
Fiduciary Funds - Pension Trust Funds
June 30, 2006**

	Pension Trust Funds		Total
	Deferred Compensation	Governmental Money Purchase Plan	
ASSETS			
Restricted Assets:			
Cash and investments	\$ 2,723,252	\$ 111,071	\$ 2,834,323
Total assets	<u>2,723,252</u>	<u>111,071</u>	<u>2,834,323</u>
NET ASSETS			
Held in trust for pension benefits and other purposes	<u>\$ 2,723,252</u>	<u>\$ 111,071</u>	<u>\$ 2,834,323</u>

CITY OF DEL MAR

**Combining Statement of Changes in Fiduciary Net Assets
Fiduciary Funds - Pension Trust Funds
For the Year Ended June 30, 2006**

	Pension Trust Funds		Total
	Deferred Compensation	Governmental Money Purchase Plan	
ADDITIONS			
Contributions:			
Plan members	\$ 220,276	\$ 41,165	\$ 261,441
Principal repayments	12,379	-	12,379
Total contributions	232,655	41,165	273,820
Investment Earnings:			
Interest	221,395	20,938	242,333
Loan interest	2,570	-	2,570
Total investment earnings	223,965	20,938	244,903
Total additions	456,620	62,103	518,723
DEDUCTIONS			
Participant withdrawals	282,411	140,309	422,720
Issuance of loans	17,500	-	17,500
Administrative expenses	190	-	190
Total deductions	300,101	140,309	440,410
Change in net assets	156,519	(78,206)	78,313
Total net assets at beginning of year	2,566,733	189,277	2,756,010
Total net assets at end of year	\$ 2,723,252	\$ 111,071	\$ 2,834,323

CITY OF DEL MAR

**Combining Statement of Assets and Liabilities
Agency Funds
June 30, 2006**

ASSETS	Assessment District 89-1	Assessment District 99-1	Assessment District 2003-1	Total
Accounts and assessments receivable	\$ 846	\$ 2,185	\$ 4,483	\$ 7,514
Restricted assets:				
Cash and investments	106,868	288,441	566,867	962,176
Total assets	<u>\$ 107,714</u>	<u>\$ 290,626</u>	<u>\$ 571,350</u>	<u>\$ 969,690</u>
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ 1,364	\$ 1,364
Due to bondholders	107,714	290,626	569,986	968,326
Total liabilities	<u>\$ 107,714</u>	<u>\$ 290,626</u>	<u>\$ 571,350</u>	<u>\$ 969,690</u>

STATISTICAL SECTION

CITY OF DEL MAR

**Net Assets by Component
Last Four Fiscal Years
(accrual basis of accounting)
Table 1**

	Fiscal Year			
	2003	2004	2005	2006
Governmental activities:				
Invested in capital assets, net of related debt	\$ 13,508,526	\$ 14,216,403	\$ 14,984,944	\$ 16,592,553
Restricted	367,615			
Unrestricted	5,021,605	5,280,976	5,578,002	5,960,276
Total governmental activities net assets	\$ 18,897,746	\$ 19,497,379	\$ 20,562,946	\$ 22,552,829
Business-type activities:				
Invested in capital assets, net of related debt	\$ 16,535,059	\$ 16,507,382	\$ 16,681,291	\$ 16,908,644
Restricted	840,869	765,827	695,027	679,588
Unrestricted	1,979,909	2,438,731	3,013,620	3,321,173
Total business-type activities net assets	\$ 19,355,837	\$ 19,711,940	\$ 20,389,938	\$ 20,909,405
Primary government:				
Invested in capital assets, net of related debt	\$ 30,043,585	\$ 30,723,785	\$ 31,666,235	\$ 33,501,197
Restricted	1,208,484	765,827	695,027	679,588
Unrestricted	7,001,514	7,719,707	8,591,622	9,281,449
	\$ 38,253,583	\$ 39,209,319	\$ 40,952,884	\$ 43,462,234

The City of Del Mar implemented GASB 34 for the fiscal year ended June 30, 2003.
Information prior to the implementation of GASB 34 is not available.

Source: City of Del Mar

CITY OF DEL MAR

**Changes in Net Assets
Last Four Fiscal Years
(accrual basis of accounting)
Table 2**

	Fiscal Year			
	2003	2004	2005	2006
Expenses:				
Governmental activities:				
General government	\$ 3,203,924	\$ 3,665,960	\$ 3,803,204	\$ 3,800,429
Public Safety	3,484,350	4,078,281	4,557,872	4,986,741
Public Works	1,316,672	1,049,892	1,171,583	508,283
Parks and Recreation	626,863	679,069	719,867	694,358
Interest on long-term debt	137,934	120,901	109,235	43,020
Total governmental activities expenses	8,769,743	9,594,103	10,361,761	10,032,831
Business-type activities:				
Water	1,809,261	1,989,371	1,879,045	2,035,750
Cleanwater		292,554	332,111	342,813
Wastewater	2,129,611	2,330,249	2,062,148	2,024,322
Total business-type activities expenses	3,938,872	4,612,174	4,273,304	4,402,885
Total primary government expenses	12,708,615	14,206,277	14,635,065	14,435,716
Program Revenues:				
Governmental activities:				
Charges for services:				
General government	494,208	616,384	1,034,235	1,577,472
Public safety	729,178	823,763	1,030,952	267,613
Parks and recreation	207,695	488,225	699,078	782,070
Operating grants and contributions	247,462	680,786	391,369	763,816
Capital grants and contributions	571,582	683,324	1,048,930	490,044
Total governmental activities program revenues	2,250,125	3,292,482	4,204,564	3,881,015
Business-type activities:				
Charges for services:				
Water	2,093,896	2,316,389	2,188,208	2,234,603
Cleanwater		102,371	141,695	181,907
Wastewater	1,946,846	2,309,853	2,380,298	2,337,586
Total business-type activities program revenues	4,040,742	4,728,613	4,710,201	4,754,096
Total primary government program revenues	6,290,867	8,021,095	8,914,765	8,635,111
Net revenues(expenses):				
Governmental activities	(6,519,618)	(6,301,621)	(6,157,197)	(6,151,816)
Business-type activities	101,870	116,439	436,897	351,211
Total net revenues (expenses)	(6,417,748)	(6,185,182)	(5,720,300)	(5,800,605)

(Continued)

CITY OF DEL MAR

Changes in Net Assets (Continued)
Last Four Fiscal Years
(accrual basis of accounting)
Table 2

	Fiscal Year			
	2003	2004	2005	2006
General Revenues and Other				
Changes in Net Assets:				
Governmental activities:				
Taxes:				
Property taxes	2,446,848	2,640,411	2,954,897	2,992,161
Sales taxes	1,352,848	1,445,015	1,680,314	1,668,537
Transient occupancy tax	1,409,615	1,440,402	1,488,935	1,564,641
Franchise tax	264,523	272,973	297,079	317,261
Business license tax	157,326	172,130	185,753	186,756
Motor vehicle in lieu	258,119	209,146	105,682	336,709
Intergovernmental unrestricted	-	-	-	315,271
Use of money and property	513,938	403,479	409,202	557,198
Other	493,803	542,928	291,766	298,733
Transfers	(10,679)	(225,230)	(190,864)	(175,105)
Total governmental activities	<u>6,886,341</u>	<u>6,901,254</u>	<u>7,222,764</u>	<u>8,062,162</u>
Business-type activities:				
Use of money and property	114,370	14,434	50,237	72,688
Transfers	10,679	225,230	190,864	175,105
Total business-type activities	<u>125,049</u>	<u>239,664</u>	<u>241,101</u>	<u>247,793</u>
Total primary government	<u>7,011,390</u>	<u>7,140,918</u>	<u>7,463,865</u>	<u>8,309,955</u>
Changes in Net Assets				
Governmental activities	366,723	599,633	1,065,567	1,910,346
Business-type activities	226,919	356,103	677,998	599,004
Total primary government	<u>\$ 593,642</u>	<u>\$ 955,736</u>	<u>\$ 1,743,565</u>	<u>\$ 2,509,350</u>

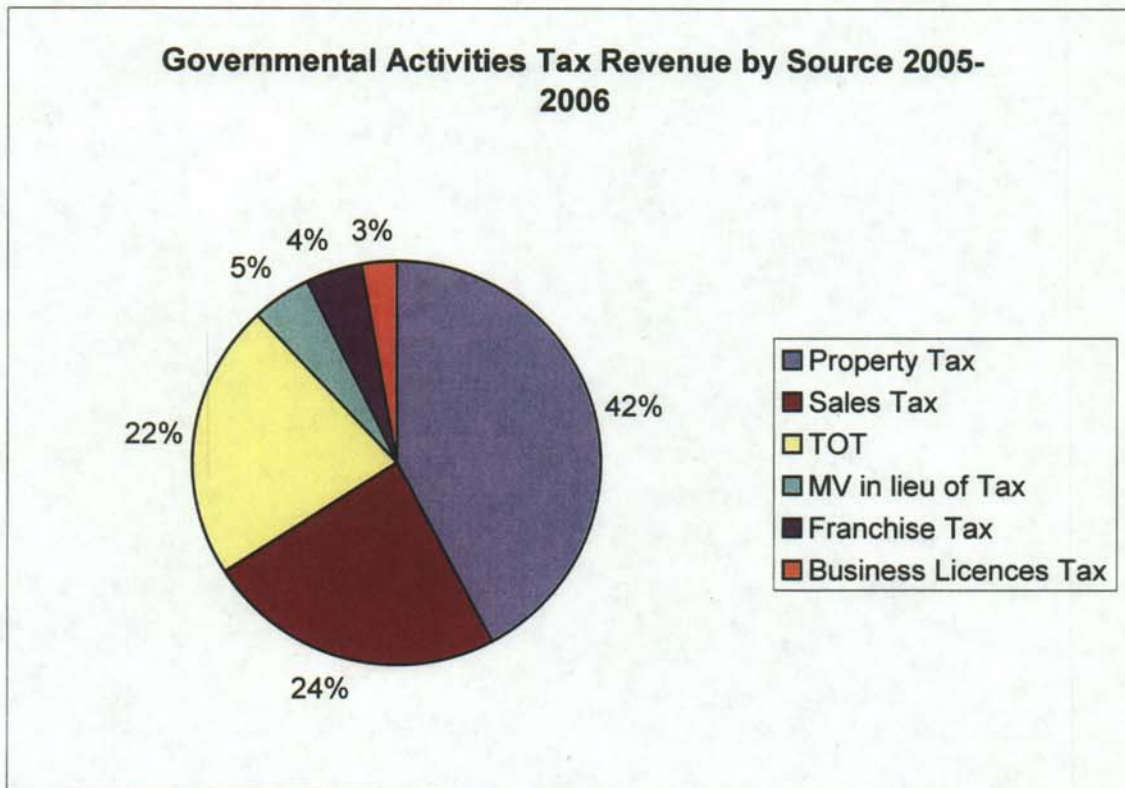
The City of Del Mar implemented GASB 34 for the fiscal year ended June 30,2006.
Information prior to the implementation of GASB 34 is not available.

Source: City of Del Mar

CITY OF DEL MAR

**Governmental Activities Tax Revenue By Source
Last Four Fiscal Years
(accrual basis of accounting)
Table 3**

Fiscal Year	Property Tax	Sales Tax	Transient Occupancy Tax	Motor Vehicle in lieu of Tax	Franchise Tax	Business Licences Tax	Total
2003	\$2,446,848	\$1,352,848	\$1,409,615	\$ 258,119	\$ 264,523	\$ 157,326	\$5,889,279
2004	2,640,411	1,445,015	1,440,402	209,146	272,973	172,130	6,180,077
2005	2,954,897	1,680,314	1,488,935	105,682	297,079	185,753	6,712,660
2006	2,992,161	1,668,537	1,564,641	336,709	317,261	186,756	7,066,065
Change from Based Year	22.3%	23.3%	11.0%	30.4%	19.9%	18.7%	20.0%



CITY OF DEL MAR

**Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
Table 4**

	Fiscal Year			
	1997	1998	1999	2000
General Fund				
Reserved	\$ 529,497	\$ 766,055	\$ 583,244	\$ 594,698
Unreserved	2,375,121	2,641,102	2,894,993	3,209,460
Total general fund	\$ 2,904,618	\$ 3,407,157	\$ 3,478,237	\$ 3,804,158
All other governmental funds				
Reserved	\$ 388,837	\$ 407,501	\$ 793,840	\$ 126,739
Unreserved	1,045,961	940,592	934,349	1,216,084
Total all other governmental funds	\$ 1,434,798	\$ 1,348,093	\$ 1,728,189	\$ 1,342,823

Notes: 1. Includes General, Special Revenue, Debt Service and Capital Projects Funds.

Source: City of Del Mar

Fiscal Year					
2001	2002	2003	2004	2005	2006
\$ 631,701	\$ 609,137	\$ 680,700	\$ 733,926	\$ 491,491	\$ 700,198
2,909,497	3,122,975	2,935,452	2,789,204	2,760,508	3,070,580
<u>\$ 3,541,198</u>	<u>\$ 3,732,112</u>	<u>\$ 3,616,152</u>	<u>\$ 3,523,130</u>	<u>\$ 3,251,999</u>	<u>\$ 3,770,778</u>
\$ 133,701	\$ 684,239	\$ 307,164	\$ 341,636	\$ 449,334	\$ 522,880
2,022,655	1,322,942	1,517,185	1,294,384	1,447,753	1,250,864
<u>\$ 2,156,356</u>	<u>\$ 2,007,181</u>	<u>\$ 1,824,349</u>	<u>\$ 1,636,020</u>	<u>\$ 1,897,087</u>	<u>\$ 1,773,744</u>

CITY OF DEL MAR

**Changes in Fund Balance of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
Table 5**

	Fiscal Year			
	1997	1998	1999	2000
Revenues:				
Taxes	\$ 3,676,373	\$ 4,061,372	\$ 4,485,712	\$ 5,375,006
Licenses, fees and permits	195,434	99,283	123,718	139,535
Intergovernmental	910,969	1,019,462	890,667	830,306
Charges for services	228,824	309,709	280,492	323,713
Fines and forfeitures	428,747	441,133	448,401	459,969
Used of money and property	428,225	456,079	515,976	585,164
Contributions	-	-	355,000	97,924
Other	228,260	328,181	191,061	159,386
Total revenues	6,096,832	6,715,219	7,291,027	7,971,003
Expenditures:				
General government	2,115,252	2,142,167	2,469,900	2,223,900
Public safety	2,354,970	2,604,778	2,709,616	2,775,640
Public works	451,948	448,906	532,095	517,180
Parks and recreation	133,823	177,734	173,719	153,511
Bond issue costs	-	-	58,555	-
Capital outlay	1,321,526	744,271	1,622,843	2,038,732
Debt service:				
Principal	122,444	115,193	120,107	211,003
Interest	63,936	66,336	61,571	169,391
Total expenditures	6,563,899	6,299,385	7,748,406	8,089,357
Excess of revenues over (under) expenditures	(467,067)	415,834	(457,379)	(118,354)
Other Financing Sources (Uses):				
Transfers in	847,853	552,387	827,326	1,321,709
Transfers out	(977,489)	(552,387)	(2,718,771)	(1,328,751)
Lease financing proceeds	-	-	850,000	-
Bond issuance proceeds	-	-	1,950,000	-
Total other financing sources (uses)	(129,636)	-	908,555	(7,042)
Net change in fund balances	\$ (596,703)	\$ 415,834	\$ 451,176	\$ (125,396)
Debt service as a percentage of noncapital expenditures	3.7%	3.4%	3.1%	6.7%

Notes: 1. Includes General, Special Revenue, Debt Service and Capital Projects Funds.

Source: City of Del Mar

Fiscal Year					
2001	2002	2003	2004	2005	2006
\$ 5,558,503	\$ 5,397,586	\$ 5,585,841	\$ 5,902,221	\$ 6,395,154	\$ 7,144,697
145,630	157,630	167,661	174,571	188,956	356,492
1,882,484	1,209,933	1,365,983	2,033,941	2,024,083	1,154,704
468,188	503,815	522,471	836,133	1,328,490	997,570
479,070	529,234	547,438	668,960	874,862	956,378
613,309	618,197	513,939	403,479	560,084	546,707
155,805	37,345	150,000	87,765	1,000	52,995
147,614	267,068	339,630	309,094	258,242	682,285
<u>9,450,603</u>	<u>8,720,808</u>	<u>9,192,963</u>	<u>10,416,164</u>	<u>11,630,871</u>	<u>11,891,828</u>
2,713,901	3,115,651	3,114,605	3,800,009	3,636,886	3,555,998
3,133,604	3,422,997	3,503,659	4,050,058	4,609,225	4,899,846
639,253	592,072	1,123,082	673,800	1,136,702	798,030
297,485	324,245	575,734	611,577	646,643	572,092
-	-	-	-	-	-
1,632,033	721,771	693,409	868,814	957,174	1,085,464
303,454	340,180	326,652	340,919	317,078	309,144
172,437	156,282	143,935	127,108	112,363	100,691
<u>8,892,167</u>	<u>8,673,198</u>	<u>9,481,076</u>	<u>10,472,285</u>	<u>11,416,071</u>	<u>11,321,265</u>
<u>558,436</u>	<u>47,610</u>	<u>(288,113)</u>	<u>(56,121)</u>	<u>214,800</u>	<u>570,563</u>
1,707,578	1,706,645	1,365,074	663,756	1,939,651	1,419,408
(1,715,441)	(1,712,288)	(1,375,753)	(888,986)	(2,164,515)	(1,594,513)
-	-	-	-	-	-
-	-	-	-	-	-
<u>(7,863)</u>	<u>(5,643)</u>	<u>(10,679)</u>	<u>(225,230)</u>	<u>(224,864)</u>	<u>(175,105)</u>
<u>\$ 550,573</u>	<u>\$ 41,967</u>	<u>\$ (298,792)</u>	<u>\$ (281,351)</u>	<u>\$ (10,064)</u>	<u>\$ 395,458</u>
7.0%	6.7%	5.7%	5.1%	4.3%	4.2%

CITY OF DEL MAR

**Property Tax Levies and Collections
Last Ten Fiscal Years
Table 6**

Fiscal Year	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of Levy		Delinquent Tax Collections	Total Tax Collections	Percent of Total Tax Collections To Tax Levy
		Amount	Percent of Levy			
1996-97	\$ 1,260,402	\$ 1,236,822	98.1%	\$ 32,893	\$ 1,269,715	100.7%
1997-98	1,266,333	1,249,993	98.7%	33,092	1,283,085	101.3%
1998-99	1,354,258	1,335,731	98.6%	25,506	1,361,237	100.5%
1999-00	1,736,935	1,708,340	98.4%	22,040	1,730,380	99.6%
2000-01	1,834,568	1,806,324	98.5%	26,994	1,833,318	99.9%
2001-02	2,072,660	2,047,456	98.8%	23,727	2,071,183	99.9%
2002-03	2,096,654	2,072,233	98.8%	10,424	2,082,657	99.3%
2003-04	2,190,076	2,166,476	98.9%	22,541	2,189,017	100.0%
2004-05	2,365,220	2,332,689	98.6%	26,113	2,358,802	99.7%
2005-06	2,691,149	2,641,347	98.1%	32,466	2,673,813	99.4%

Source: Finance Department, City of Del Mar

CITY OF DEL MAR

**Property Tax Rates - Direct and Overlapping Governments
(Per \$100 of assessed value)
Last Ten Fiscal Years
Table 7**

Fiscal Year	County Base	City	School District	Community College District	Other Districts	Total
1996-97	1.00000%	0.01583%	0.00000%	0.00000%	0.01055%	1.02638%
1997-98	1.00000%	0.01293%	0.00000%	0.00000%	0.00908%	1.02201%
1998-99	1.00000%	0.01062%	0.00000%	0.00000%	0.00997%	1.02059%
1999-00	1.00000%	0.03018%	0.00000%	0.00000%	0.00990%	1.04008%
2000-01	1.00000%	0.02165%	0.00000%	0.00000%	0.00971%	1.03136%
2001-02	1.00000%	0.02141%	0.00000%	0.00000%	0.00853%	1.02994%
2002-03	1.00000%	0.01509%	0.00000%	0.00000%	0.00745%	1.02254%
2003-04	1.00000%	0.01054%	0.00000%	0.00000%	0.00677%	1.01731%
2004-05	1.00000%	0.00685%	0.00000%	0.00000%	0.00580%	1.01265%
2005-06	1.00000%	0.00685%	0.00000%	0.00000%	0.00520%	1.01205%

Source: County of San Diego, Office of Auditor and Controller, Property Tax Service Division

CITY OF DEL MAR

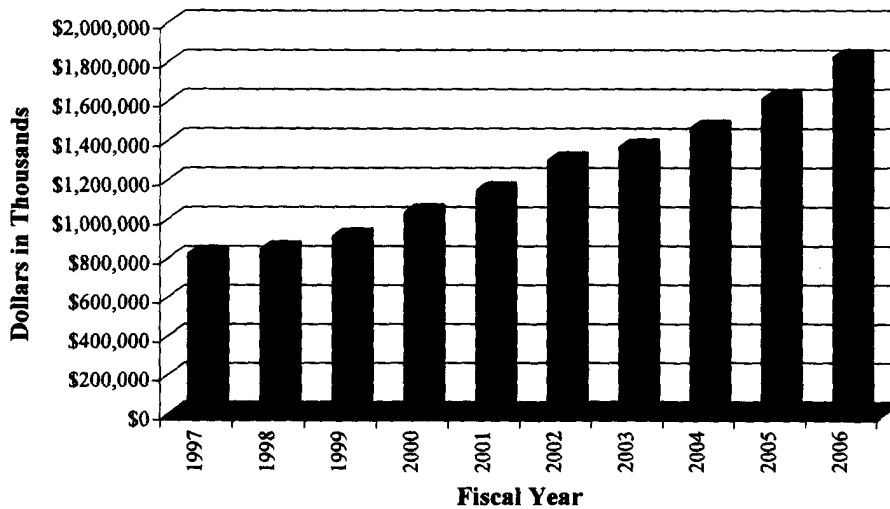
**Assessed and Estimated Value of all Taxable Property
June 30, 2006
Table 8**

<u>Fiscal Year</u>	<u>Land</u>	<u>Improvements</u>	<u>Personal Property</u>	<u>Total Valuations</u>	<u>All Other Exemptions</u>
1996-97	\$ 503,215,378	\$ 313,208,013	\$ 14,912,647	\$ 831,336,038	\$ 696,230
1997-98	522,952,205	318,329,241	15,097,407	856,378,853	1,000,960
1998-99	571,701,245	334,074,505	15,385,111	921,160,861	715,091
1999-00	665,904,651	361,836,101	16,642,697	1,044,383,449	1,062,090
2000-01	756,443,999	381,865,732	17,486,704	1,155,796,435	1,774,656
2001-02	889,553,441	400,603,222	18,688,885	1,308,825,548	1,924,100
2002-03	955,146,980	405,758,795	15,927,728	1,376,833,503	2,598,467
2003-04	1,028,989,637	427,910,574	16,916,861	1,473,817,072	2,746,435
2004-05	1,132,479,503	470,644,462	16,565,589	1,619,689,554	2,792,109
2005-06	1,316,771,917	501,839,920	15,912,217	1,834,524,054	2,881,088

Source: County of San Diego, Office of Auditor and Controller, Property Tax Service Division

Gross AV Less AO Exemptions	Homeowners Exemptions	Net Assessed Valuation	Percent Change
\$ 830,639,808	\$ 7,254,800	\$ 823,385,008	2.77%
855,377,893	7,389,200	847,988,693	2.99%
920,445,770	7,375,200	913,070,570	7.67%
1,043,321,359	7,511,000	1,035,810,359	13.44%
1,154,021,779	7,401,800	1,146,619,979	10.70%
1,306,901,448	7,205,800	1,299,695,648	13.35%
1,374,235,036	7,165,200	1,367,069,836	5.18%
1,471,070,637	7,149,800	1,463,920,837	7.08%
1,616,897,445	7,019,600	1,609,877,845	9.97%
1,831,642,966	7,032,200	1,824,610,766	13.34%

**Net Taxable Value
Last Ten Years**



CITY OF DEL MAR

Schedule of Legal Debt Margin

June 30, 2006

Table 9

Computation of Legal Debt Margin	
Assessed Valuation	\$ 1,831,642,966
Legal Debt Limit - 3.75 % of Total Assessed Valuation	68,686,611
Amount of Debt Applicable to Limit	1,320,000
Legal Debt Margin	\$ 67,366,611
Percent of Legal Debt Limit	1.96%

Note: The general laws of the State of California for municipalities provide for a legal debt limit of 15% of gross assessed valuation. However, this provision was enacted when assessed valuation was established based on 25% of market value. Effective with FY 81-82, taxable property is assessed at 100% of market value. Although the debt limit provision has not been amended by the State since this change, the percentage has been proportionately modified to debt limit.

CITY OF DEL MAR

**Direct and Overlapping Debt
June 30, 2006
Table 10**

2005-06 Assessed Valuation: \$1,831,642,966

	Percent Applicable to City of Del Mar	City of Del Mar Share of Debt
San Diego County General Fund Obligations	0.645 %	\$ 2,499,601
San Diego County Pension Obligations	0.645	7,941,775
San Diego County Superintendent of School General Fund Obligations	0.645	80,593
Metropolitan Water District	0.125	486,956
Mira Costa Community College District Certificates of Participation	3.048	145,085
Del Mar Union School District Certificates of Participation	18.657	2,182,869
Solana Beach School District Certificates of Participation	0.496	5,183
City of Del Mar	100.000	1,320,000
City of Del Mar 1915 Act Bonds	100.000	2,047,201
Total Direct and Overlapping Bonded Debt		<u>\$ 16,709,263</u> ⁽¹⁾

(1) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to Assessed Valuation:

Direct debt (\$1,320,000)	0.07%
Total Direct and Overlapping Tax and Assessment Debt	0.21%
Combined Total Debt	0.91%
State school building aid repayable as of 6/30/06:	\$0

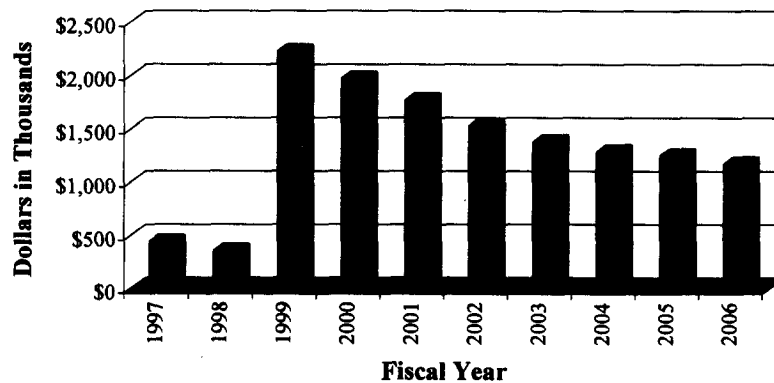
Source: Prepared for the City of Del Mar by California Municipal Statistics, Inc.

CITY OF DEL MAR

**Ratio of Net General Obligation Bonded Debt
June 30, 2006
Last Ten Fiscal Years
Table 11**

Fiscal Year	Population ⁽¹⁾	Assessed Value ⁽²⁾	Gross Bonded Debt ⁽³⁾	Less Debt Service Fund ⁽⁴⁾	Net Bonded Debt
1996-97	5,147	\$ 831,336,038	\$ 585,000	\$ 145,791	\$ 439,209
1997-98	5,257	855,377,893	500,000	144,132	355,868
1998-99	5,325	920,445,770	2,360,000	137,521	2,222,479
1999-00	5,365	1,043,321,359	2,260,000	290,391	1,969,609
2000-01	4,455	1,154,021,779	2,080,000	313,895	1,766,105
2001-02	4,455	1,306,901,448	1,870,000	343,516	1,526,484
2002-03	4,503	1,374,235,036	1,715,000	338,444	1,376,556
2003-04	4,555	1,471,070,637	1,555,000	270,001	1,284,999
2004-05	4,543	1,616,897,445	1,440,000	190,020	1,249,980
2005-06	4,524	1,831,642,966	1,320,000	149,403	1,170,597

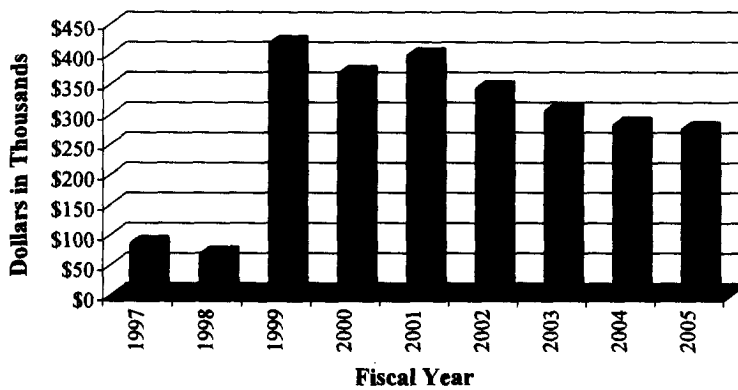
**Net Bonded Debt
Last Ten Fiscal Years**



- (1) From Sand Diego Association of Governments
- (2) From County of San Diego, Office of Auditor and Controller, Property Tax Service Division
- (3) Amount does not include special assessment bonds and revenue bonds.
- (4) Amount available for repayment of general obligation bonds.

<u>Ratio of Net Bonded Debt to Assessed Value</u>	<u>Net Bonded Debt per Capita</u>
0.05%	85
0.04%	68
0.24%	417
0.19%	367
0.15%	396
0.12%	343
0.10%	306
0.09%	282
0.08%	275
0.06%	259

**Net Bonded Debt Per Capita
Last Ten Fiscal Years**

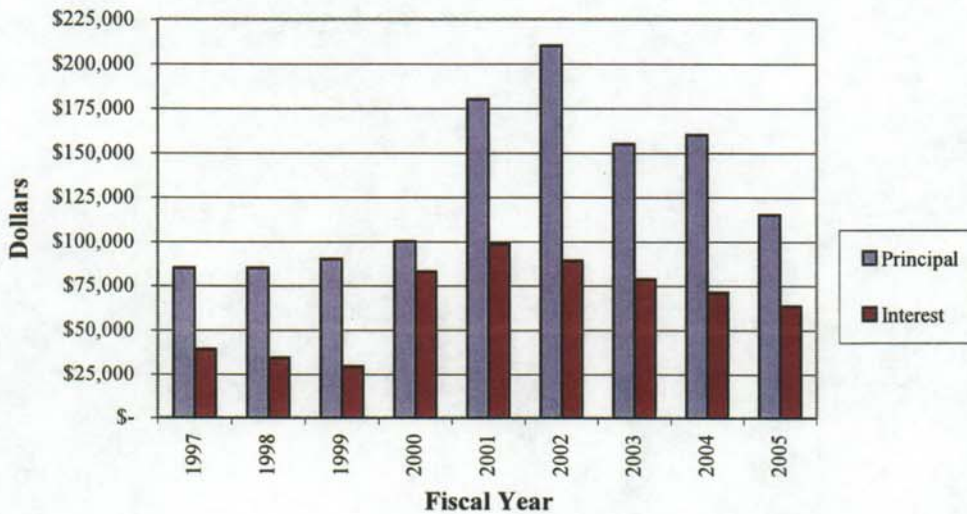


CITY OF DEL MAR

**Ratio of Annual Debt Service Expenditures
June 30, 2006
To Total General Governmental Expenditures
Last Ten Fiscal Years
Table 12**

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>	<u>Total General Governmental Expenditures</u>	<u>Ratio of Debt Service to Total General Expenditures</u>
1996-97	\$ 85,000	\$ 39,163	\$ 124,163	\$ 6,563,899	1.89%
1997-98	85,000	34,313	119,313	6,299,385	1.89%
1998-99	90,000	29,463	119,463	7,774,309	1.54%
1999-00	100,000	82,965	182,965	8,089,357	2.26%
2000-01	180,000	98,463	278,463	8,892,167	3.13%
2001-02	210,000	89,033	299,033	8,673,198	3.45%
2002-03	155,000	78,677	233,677	9,481,076	2.46%
2003-04	160,000	71,115	231,115	10,472,285	2.21%
2004-05	115,000	63,515	178,515	11,416,071	1.56%
2005-06	120,000	58,815	178,815	11,321,265	1.58%

**General Government Principal and Interest Payments
Last Ten Years**



CITY OF DEL MAR

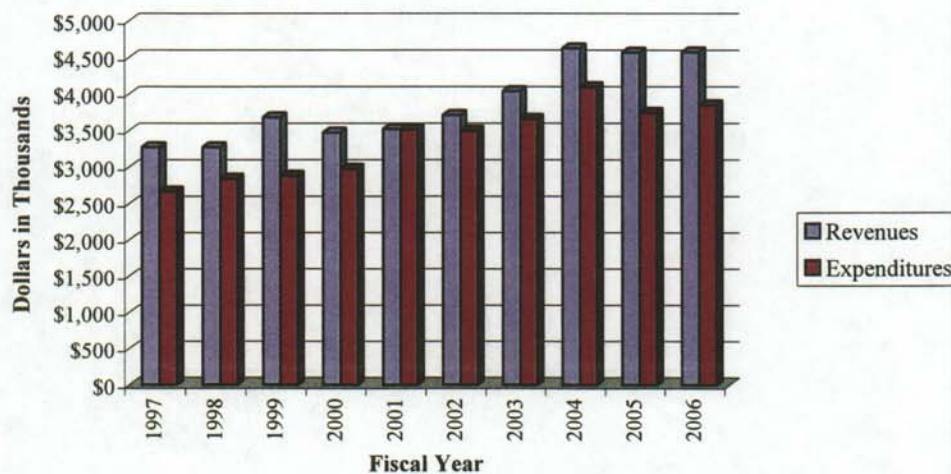
Revenue Bond Coverage - Water and Wastewater Bonds

June 30, 2006

Table 13

Fiscal Year	Total Operating Revenue (1)	Direct Operating Expenses (2)	Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
1996-97	\$ 3,272,598	\$ 2,667,407	\$ 605,191	\$ 355,000	\$398,565	\$ 753,565	0.80
1997-98	3,273,232	2,843,609	429,623	370,000	380,754	750,754	0.57
1998-99	3,681,957	2,883,276	798,681	385,000	362,179	747,179	1.07
1999-00	3,473,163	2,980,178	492,985	400,000	342,985	742,985	0.66
2000-01	3,521,991	3,517,577	4,414	415,000	322,984	737,984	0.01
2001-02	3,711,499	3,498,426	213,073	425,000	302,735	727,735	0.29
2002-03	4,040,742	3,661,623	379,119	445,000	281,410	726,410	0.52
2003-04	4,626,244	4,095,451	530,793	470,000	258,768	728,768	0.73
2004-05	4,568,506	3,747,352	821,154	435,000	236,713	671,713	1.22
2005-06	4,572,189	3,850,680	721,509	455,000	215,413	670,413	1.08

**Combined Water and Wastewater Revenues vs. Expenses
Last Ten Years**



(1) Total Water Fund & Wastewater Fund operating revenue.

(2) Total Water Fund & Wastewater Fund operating expenses.

CITY OF DEL MAR**Principal Taxpayers
June 30, 2006
Table 14**

<u>Taxpayer</u>	<u>Type of Business</u>	<u>Assessed Valuation</u>	<u>Percentage Of Total Assessed Valuation (1)</u>
G&I III Del Mar LP	Management Company	\$ 28,509,270	1.76%
Stensrud Family Trust	Trust	26,070,973	1.61%
Del Mar Thoroughbred Club	Professional Organization	20,602,855	1.27%
Starkman Linda D Trust	Trust	18,360,000	1.14%
Jacobs Family Trust	Trust	16,045,620	0.99%
Nicholas Arthur Trust	Trust	15,433,339	0.95%
SKL Trust	Trust	13,608,795	0.84%
L-O Delmar Holding INC.	Management Company	13,053,328	0.81%
John and Rebecca Moores	Individuals	13,046,564	0.81%
Heckmann Mary M	Individual	<u>12,446,983</u>	0.77%
		<u>\$ 177,177,727</u>	12.89%

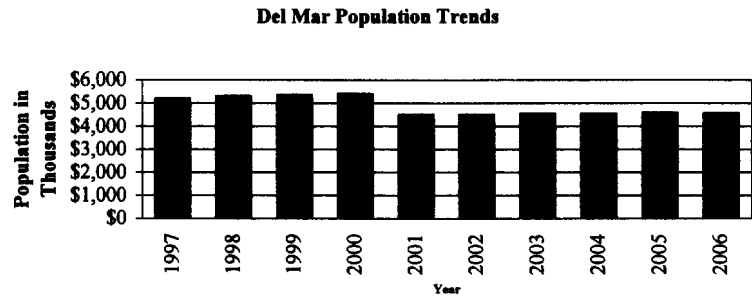
(1) 2005/06 total assessed valuation for the City is

\$1,831,642,966

CITY OF DEL MAR

**Demographic Statistics
June 30, 2006
Table 15**

Fiscal Year	Population
1997	5,147
1998	5,257
1999	5,325
2000	5,365
2001	4,455
2002	4,455
2003	4,499
2004	4,503
2005	4,543
2006	4,524



Median Age:	46.6
Median Household Income:	\$84,884
Median Educational Attainment:	Bachelor's Degree

Source: San Diego Association of Governments (SANDAG)

CITY OF DEL MAR

**Principal Employers
Current Year and Nine Years Ago
Table 16**

Employer	2006		1997	
	Number of Employees	Percent of Total Employment	Number of Employees	Percent of Total Employment
Premier Food Svc	800	27.59%		
J Taylor's Of Del Mar	250	8.62%	Not Available	
L'Auberge Del Mar Resort & Spa	170	5.86%		
Jake's Del Mar	130	4.48%		
Del Mar Thoroughbred Club	115	3.97%		
Distinctive Properties Re/Max	100	3.45%		
Brigantine Seafood Restaurant	100	3.45%		
Il Fornaio Cucina Italiana	100	3.45%		
Hospital Marketing Group	90	3.10%		
Johnson & Rountree	66	2.28%		
Pacifica Del Mar	65	2.24%		
Davidson Communities	60	2.07%		

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

Source: State Department of Commerce
City of Del Mar
InfoUSA

CITY OF DEL MAR

**Full-time and Part-time City Employees by Function
Last Ten Fiscal Years
Table 17**

<u>Function</u>	<u>Full-Time and Part-time Employees as of June 30</u>									
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
General government										
City Manager	3.0	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
City Clerk	3.0	4.0	4.0	4.0	4.0	5.0	5.0	5.0	5.0	5.0
Finance	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Planning	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Subtotal										
General Government	<u>18.0</u>	<u>18.5</u>	<u>18.5</u>	<u>18.5</u>	<u>18.5</u>	<u>19.5</u>	<u>19.5</u>	<u>19.5</u>	<u>19.5</u>	<u>19.5</u>
Public safety ¹										
Fire Services	11.0	11.5	11.5	11.5	11.5	11.5	11.5	10.5	10.5	9.5
Lifeguard Services	3.0	3.0	3.0	3.0	3.0	3.0	2.5	3.0	2.0	2.0
Parking Enforcement	2.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Code Enforcement	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Subtotal Public Safety	<u>17.0</u>	<u>18.5</u>	<u>18.5</u>	<u>18.5</u>	<u>18.5</u>	<u>18.5</u>	<u>18.0</u>	<u>17.5</u>	<u>16.5</u>	<u>15.5</u>
Public works	11.5	11.5	11.0	11.0	11.5	12.0	12.0	12.0	12.0	12.0
Parks and recreation	<u>2.5</u>	<u>1.5</u>	<u>2.0</u>	<u>1.0</u>	<u>2.5</u>	<u>3.0</u>	<u>4.5</u>	<u>4.0</u>	<u>5.0</u>	<u>5.0</u>
Total	<u>49.0</u>	<u>50.0</u>	<u>50.0</u>	<u>49.0</u>	<u>51.0</u>	<u>53.0</u>	<u>54.0</u>	<u>53.0</u>	<u>53.0</u>	<u>52.0</u>

¹ Police services are provide by San Diego County.

Source: City Budget Office

CITY OF DEL MAR

**Operating Indicators by Function
Last Ten Fiscal Years
Table 18**

	Fiscal Year					
	1997	1998	1999	2000	2001	2002
Police:						
Arrests ¹	N/A	N/A	N/A	N/A	N/A	N/A
Parking citations issued ²	N/A	N/A	N/A	N/A	N/A	17,693
Fire:						
Number of emergency calls	950	950	950	1,004	986	945
Inspections	180	180	180	180	180	180
Public works:						
Street resurfacing (miles)	2	0.41	0.42	0.02	0.45	1.16
Street Slurry (miles)	-	1.89	2.33	1.89	1.62	0.57
Parks and recreation:						
Number of recreation classes	-	-	-	-	150	250
Number of facility rentals	-	-	-	-	40	80
Water:						
New connections ³	N/A	N/A	N/A	N/A	3	6
Average daily consumption (thousands of gallons)	1,355	1,286	1,309	1,385	1,264	1,209
Sewer:						
New connections ³	N/A	N/A	N/A	N/A	-	6
Average daily sewage treatment (thousands of gallons)	687	681	670	697	718	699

¹ Police services are provide by the County of San Diego.

² Parking citation data is not available prior to 2002.

³ New connection data is not available prior to 2001.

Source: City of Del Mar

Fiscal Year			
2003	2004	2005	2006
N/A	N/A	N/A	N/A
18,634	20,061	22,564	24,277
0.05	0.08	0.12	0.08
840	1,003	877	1,027
180	180	130	130
1.25	0.14	-	0.26
0.25	0.32	-	-
450	450	350	350
170	210	260	290
2	6	5	5
1,147	1,248	1,182	1,172
4	6	5	6
697	680	695	675

CITY OF DEL MAR

**Capital Asset Statistics
by Function
Last Ten Fiscal Years
Table 19**

	Fiscal Year				
	1997	1998	1999	2000	2001
Fire:					
Fire stations	1	1	1	1	1
Public works:					
Streets (miles)	22.5	22.5	22.5	22.5	22.5
Streetlights	58	58	58	58	58
Traffic signals	7	7	7	7	7
Parks and recreation:					
Parks	3	3	3	3	3
Community centers	-	-	-	1	1
Water:					
Water mains (miles)	24.32	24.32	24.39	26.26	26.28
Maximum daily capacity (thousands of gallons)	1,250	1,250	1,250	1,250	1,250
Wastewater:					
Sanitary sewers (miles)	24.34	24.34	24.34	24.36	24.37
Storm sewers (miles)	0.16	-	-	-	-
Maximum daily treatment capacity (thousands of gallons)	800	800	800	800	800

Source: City of Del Mar

Fiscal Year				
2002	2003	2004	2005	2006
1	1	1	1	1
22.5	22.5	22.5	22.5	22.5
58	58	58	58	58
7	7	7	7	7
3	3	3	3	3
1	1	1	1	1
26.28	26.28	26.28	26.28	26.28
1,250	1,250	1,250	1,250	1,250
24.37	24.37	24.37	24.37	24.37
-	0.07	0.03	-	0.07
800	821	821	877	877

CITY OF DEL MAR

Miscellaneous Statistics

June 30, 2006

Table 20

Date of Incorporation	July 15, 1959	
Form of Government	Council/Manager Charter City	
Area	2 square miles	
Climate:		
Average annual high temperature	70 1/2	
Average annual low temperature	57	
Annual precipitation	9.3"	
Fire protection:		
Stations	1	
Firefighters and officers	11	
Fire incident responses	279	1
Emergency medical incident responses	709	2
Public service calls	39	3
Fire inspections	130	4
Culture and leisure:		
Parks	6 acres in 3 parks	
Passive/Active Recreation Areas	296.99 acres including 200 acres Fairgrounds/Racetrack	
Miles of beaches	2.2	
Beach attendance	3,000,000	
Tennis Courts	2	
Basketball Courts	1	
Libraries	1	
Library volumes	2,000	
Hotels:		
Major hotel rooms	352	
Average occupancy	72%	
Average persons per stay	2	
Average nights per stay	2	
Average room rate	\$173	
Education:		
Schools:		
Private	1	
Miles of streets	22.5	
Street lights	58	
Water system:		
Service connections	1726	
Fire hydrants	300	
Miles of sanitary sewers	18	
Employees:		
Full-time	52	