



TO: Mayor and Councilmembers
Redevelopment Agency Chair and Agency Member

FROM: Dan Singer, City Manager/Executive Director

CONTACT: Alvertina Rivera, Finance Director

SUBJECT: Comprehensive Annual Financial Report, RDA Audited Financial Statements and Single Audit for the Year Ended June 30, 2008

RECOMMENDATION:

As the City Council:

- A. Accept the Comprehensive Annual Financial Report and Single Audit for the Year Ended June 30, 2008.

As the Redevelopment Agency:

- B. Accept the Redevelopment Agency Audited Financial Statements for the Year Ended June 30, 2008.

BACKGROUND:

The City of Goleta Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2008, complies with the financial reporting model developed by the Governmental Accounting Standards Board (GASB) Statement 34, including infrastructure valuation. This financial reporting model is intended to improve financial reporting by adding significant additional information not previously available in local government financial statements.

The reports presented herein presented by the Finance Department in conformity with Generally Accepted Accounting Principles (GAAP) and have been audited in accordance with Generally Accepted Auditing Standards (GAAS) by a firm of licensed Certified Public Accountants. These reports consist of management representations concerning the finances of the City. All disclosures necessary to enable an understanding of the City's financial activities have been included.

In addition to fund-by-fund information presented in the City's and RDA financial statements, included are Government-Wide Financial Statements. The Government-Wide Financial Statements include a Statement of Net Assets that provides the total net equity of the City including infrastructure. The Statement of Activities illustrates the cost of providing government services.

While, the CAFR includes financial reporting for the City and Redevelopment Agency (Agency), the Redevelopment Agency Annual Basic Financial Statements focus on only the Agency. The Single Audit is limited to the expenditure of Federal grant funds and is required because the City had expenditures exceeding \$500,000 of Federal monies.

DISCUSSION:

CAFR Overview

- At the end of the fiscal year 2008, the City's net assets totaled \$192,748,749, an increase of approximately .85% from the prior year. Of the total net assets, \$8.8 million is unrestricted and thus may be used to meet the City's ongoing obligations.
- As of June 30, 2008, the City's taxes and other revenues exceeded expenses by \$1,619,772.
- The total revenue from all sources equaled \$26,926,760.
- The General Fund reported excess revenues over expenditures of \$720,980.
- The General Fund had an ending balance of \$10,085,065 of which \$5,153,000 is designated to meet the City's Contingency Reserve policy.

RDA Overview

- The Agency's total net assets increased 55% to \$7,018,028 as a result of transfers to the LMI fund and the year's operations.
- During the year, the Agency's taxes and other revenues exceeded expenditures by \$2,480,325.
- Total revenue from all sources was \$4,549,306, an increase of 119% over the previous fiscal year due in large part to transfers in to the LMI fund from other funds of \$1,459,816.
- The Agency's total combined fund balance is \$7,010,802. The fund balance consists of \$2,404,895 in the Debt Service Fund, \$1,264,795 in the Capital Projects Fund, and \$3,805,554 in the Housing Set-Aside Fund.

General Fund Highlights

The City fared well during its sixth full fiscal year. The City's General Fund revenues exceeded operating expenditures and transfers out by \$720,980. Once again Property Tax surpassed Sales Tax as the largest General Fund revenue source at 30% of the

total. Sales Tax is the City's second largest General Fund revenue source at 26%. The City enjoys a diverse Sales Tax base which is not heavily reliant on any one sector. Transient Occupancy Tax was the third largest General Fund revenue source at 17%. These three funding sources account for 73% of the General Fund revenues.

The General Fund Ending Balance was \$10,085,065 as of June 30, 2008. This amount was more than the final budget projection by \$1,261,860 as a result of savings in the City Attorney, Advance Planning, and Street Maintenance programs. All unexpended allocations will be carried-over into the next fiscal year in accordance with the two-year budget cycle.

Fund Balances:	
Reserved for:	
Compensated Leave	\$ 97,972
Debt Service	900,000
Unreserved:	
Cash Flows	1,616,212
Designated for Continuing Appropriations	998,181
Contingencies	5,153,000
Risk Management	200,000
Equipment	69,700
Building Maintenance	50,000
City Hall Acquisition	1,000,000
	<hr/>
Total Fund Balances	<u>\$ 10,085,065</u>

The City Council specified that each year an additional \$150,000 be set aside for the repayment of the \$1.5 million advance from Santa Barbara County. Based upon completion of the sixth full fiscal year of incorporation, the set aside for the County Advance Reserve totals \$900,000. The County of Santa Barbara forgave the \$1,500,000 advance on June 30, 2008. The Council has also established fiscal policies for funding Compensated Leave, Risk Management, Equipment Acquisition and Replacement and Building Maintenance reserves. These fiscal policies also specify that a minimum of 33.33% (four months) of total budgeted operating expenditures plus transfers would be maintained as a Contingency Reserve. Based upon final budgeted General Fund expenditures and transfers, the Contingency Reserve is \$5,153,000. Additionally, Council has approved the continuing designation of unexpended funds for special projects into the next fiscal year. This amount is \$998,181 in the current year.

Based upon conservative, prudent, and diligent efforts by the City Council, the City continues to maintain sound fiscal integrity.

The CAFR Transmittal Letter and Management's Discussion and Analysis are included with this report. The entire CAFR, as well as the Single Audit and RDA Audited Financial Statements are available for viewing at City Hall and on the City's website, and have been distributed to City Council under separate cover.

FISCAL IMPACTS:

Not Applicable.

Submitted By:

Reviewed By:

Approved By:

Alvertina Rivera
Finance Director

Michelle Greene
Administrative
Services Director

Daniel Singer
City Manager

ATTACHMENTS:

1. Comprehensive Annual Financial Report Transmittal Letter
2. CAFR Management's Discussion and Analysis

ATTACHMENT 1

Comprehensive Annual Financial Report Transmittal Letter



December 01, 2008

To the Citizens of the City of Goleta:

CITY COUNCIL
Michael T. Bennett
Mayor

Roger S. Aceves
Mayor Pro Tempore

Jean W. Blois
Councilmember

Eric Onnen
Councilmember

Jonny Wallis
Councilmember

CITY MANAGER
Daniel Singer

It is with great pleasure that we present to you the City of Goleta Comprehensive Annual Financial Report (CAFR). This report complies with the financial reporting model developed by the Governmental Accounting Standards Board (GASB) Statement 34. The financial reporting model is intended to improve financial reporting by adding significant additional information not previously available in local government financial statements.

This report was prepared by the Finance Department in conformity with Generally Accepted Accounting Principles (GAAP) and has been audited in accordance with Generally Accepted Auditing Standards (GAAS) by a firm of licensed Certified Public Accountants. The report consists of management representations concerning the finances of the City. Consequently, responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position of the City. All disclosures necessary to enable an understanding of the City's financial activities have been included.

This CAFR includes the financial activity for all funds of the City. The City provides its citizens a wide range of services including law enforcement, planning, building, public works, engineering, maintenance, and general management.

In addition to the fund-by-fund financial information presented in the City's financial statements are government-wide financial statements. The government-wide financial statements include a Statement of Net Assets that provides the total net equity of the City including infrastructure and the Statement of Activities that illustrates the cost of providing government services. These statements have been prepared using the accrual basis of accounting versus the modified accrual method used in the fund financial statements. A reconciliation report is provided as a key to understanding the changes between the two reporting methods. In addition, the new reporting model includes an emphasis on the City's major funds as shown in the Governmental Fund Statements.

These statements combined with other information are further analyzed in a narrative section entitled Management's Discussion and Analysis (MD&A). The MD&A provides "financial highlights" and interprets the financial reports by analyzing trends and by explaining changes, fluctuations and variances in the financial data. In addition, the MD&A is intended to disclose any known significant events or decisions that affect the financial condition of the City.

GOVERNMENT PROFILE

The City of Goleta incorporated on February 1, 2002 as a General Law City under the laws of the State of California. The City of Goleta encompasses approximately 8 square miles in southern Santa Barbara County and has a population of approximately 30,169. The City is adjacent to the City of Santa Barbara and is approximately 90 miles from Los Angeles.

The City operates under the Council-Manager form of government. The City Council is comprised of five members elected at large for staggered four year terms of office. The Mayor and Mayor Pro Tem are selected by the Council from among its members to serve one-year terms. The City Council serves as the legislative and policy-making body of the City, enacting all laws and directing such actions as are required to provide for the general welfare of the community. The City provides municipal services through contracts for street, park, and landscape maintenance, and legal services. The City of Goleta also contracts with the Santa Barbara County Sheriff's Department for law enforcement services. Fire protection services are provided by Santa Barbara County Fire Department. There are 437 acres of parks and open space. The City owns the Goleta Public Library and contracts with the City of Santa Barbara for library services.

The City Manager, appointed by the City Council, serves as the Chief Executive Officer and is responsible to the City Council for administration of all City affairs and the implementation of all policies established by the City Council. The City Attorney serves under contract to the City and is appointed by the City Council. All other department directors are appointed by the City Manager.

ECONOMIC CONDITION AND OUTLOOK

The City of Goleta is comprised of single-family homes, condominiums and apartments with a mixture of retail, light industrial, manufacturing, and service entities providing a diverse tax base for the City. Property Tax, Sales Tax, Transient Occupancy Tax and Motor Vehicle-in-Lieu Fees comprise approximately 82% of the City's General Fund revenues.

The City of Goleta and the immediate surrounding cities are key factors in the overall economic activity of the entire South Coast. The City and its immediate vicinity provide a significant share of the South Coast and County's basic economic activity in the form of educational services, intellectual services, tourism, and manufacturing. Three of these four sectors continue to grow. The role of durable manufacturing is decreasing both in magnitude and economic impact. However, it does remain an important part of the economy, the largest sector in the City, the second largest in the area. In contrast, the decline in manufacturing employment has been compensated for by an increase in service employment and trade. Additionally, the large scale regional retail outlets have increased the City's presence as a retail trade center.

These shifts in the economy are changing to some degree the economic character of the City and its role. The growth in service employment appears to be driven by two very different influences: growth in intellectual services and tourism. The City's proximity to the University of California, Santa Barbara (UCSB) continues to stimulate intellectual services activity. The overall appeal of the area and the presence of the airport in particular continue to stimulate tourism in the area.

The City's General Fund revenues exceeded operating expenditures by \$720,980. The Revenue Neutrality Agreement between the City of Goleta and the County of Santa Barbara specifies that property tax generated by the property located within the City be divided equally

between the City and County in perpetuity. As a result the City received approximately \$1.5 million in property tax at time of incorporation. Said funds were forgiven by the County on June 30, 2008. Additional provisions of the Revenue Neutrality Agreement are as follows:

- 30% of the retail sales tax allocable to the City shall be allocated to the County in perpetuity.
- An additional 20% of the retail sales tax allocable to the City shall be allocated to the County for a period of ten years.
- 40% of the transient occupancy tax generated by TOT taxpayers, which currently exist in the City, shall be allocated to the County for a period of ten years.

The California economy continues to demonstrate signs of a recession that is affecting not only this state and nation, but seems to have extended world-wide. All generally accepted economic indicators appear to indicate economic conditions will worsen before any noticeable improvement is seen. Fortunately, while Goleta is not completely immune from the effects of the economy, it is a unique position that is affected to a lesser extent by the current economic conditions.

MAJOR INITIATIVES

Management:

Forty-five and a quarter positions were authorized in FY 2007-08. The extensive recruitment process to date has yielded a highly motivated and committed City workforce with very low turnover rate.

General Plan:

Continued progress on the General Plan and its implementation will serve as a blueprint for investment and reinvestment in the community and be the basis of future City budgets. The General Plan, now two-years-old, will be shortly followed by a new City Zoning Code, Transferable Development Rights Ordinance and Design Guidelines that are all aimed at rounding out the community's economic development and cultural opportunities, and protection of natural resources. Approximately 4,000 new housing units and 1.7 million square feet of commercial and industrial development space are programmed to occur by 2025 under these plans.

Street Maintenance:

Another prominent FY 2007-08 accomplishment is the completion of the fifth phase of the five-year strategy to improve the City's eighty-six (86) mile street network. To date, the City of Goleta has invested over \$15 million in improvements to its streets and sidewalks as part of the Street Improvement and Reinvestment Program. Another \$4.1 million is budgeted in FY 2008-09.

Strategic Plan:

The City Council initiated a comprehensive Strategic Planning process which identified organizational goals and objectives, setting forth thirteen City goals and more than 150 objectives. The Strategic Plan was officially adopted by the Council on July 16, 2007, then revised on November 18, 2008 and has been utilized within the organization to establish priorities for the initiation, budgeting and completion of various programs and projects.

Internal Controls:

The management of the City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the government are protected from loss, theft, or other misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with Generally Accepted Accounting Principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the costs of a control should not exceed the benefits likely to be achieved and the valuation of costs and benefits requires estimates and judgments by management.

As a recipient of State, County, and Federal financial resources, the City also is responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to those programs. The internal control structure is subject to periodic evaluation by management of the City.

Budgetary Controls:

In addition to internal controls, the City maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Activities of the General and Special Revenue Funds are included in the annual appropriated budget. All governmental funds are included in the annual appropriated budgets.

The two-year budget is arranged by department, function and fund and presented to the Council by the City Manager. The budget is then adopted by the City Council prior to the beginning of the first fiscal year and serves as the foundation for the City's financial planning and control. The budget is reviewed quarterly and necessary adjustments are made to ensure that expenditures are not outpacing anticipated revenues.

Annual Audit:

Rogers, Anderson, Malody and Scott, LLP has audited the City's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ending June 30, 2008 are free of material misstatement. As part of the City's annual audit, reviews are made to determine the adequacy of the internal control structure, as well as to determine that the City has complied with applicable laws and regulations. The results of the City's annual audit for the fiscal year ending June 30, 2008 provided no instances of material weaknesses in the internal control structure or violations of applicable laws and regulations. The independent auditor concluded there was a basis for rendering an unqualified opinion and the City's financial statements are fairly presented in conformity with Generally Accepted Accounting Principles. The independent auditor's report is presented as the first component of the financial section of this report.

Cash Management Policies and Practices:

Cash resources of the individual funds are combined to form a pool of cash and investments. Cash temporarily idle during the year was invested in the Local Agency Investment Fund, consistent with the City's Investment Policy.

The City's Investment Policy is designed to ensure the productive use of assets entrusted to its care and to invest and manage those funds wisely and prudently. Criteria for selecting investments and the order of priority are: (1) safety, (2) liquidity, and (3) yield. The basic premise underlying the City's investment policy is to ensure that money is safe, always available, and earning the highest and best returns. Accordingly, deposits were either insured by Federal depository insurance or collateralized.

The average yield on funds invested was 4.37%. Investment income includes appreciation/depreciation in the fair value of investments. The total investment income earned for all funds for the year was \$1,071,351. As the City's reserve funds grow in future years, a higher yield in investment income is projected.

Risk Management:

The City joined the California Joint Powers Insurance Authority (the Authority) in July 2002 to provide for the transfer of risk for general liability. The Authority is a pool of cities, which has formed an insurance group. Each member city pays into the pool an annual deposit. In addition, various risk control techniques, including annual safety audits and employee accident prevention training, have been implemented to minimize loss. The aggregate deposit paid for all insurance coverage was \$254,412.

The limit of general liability insurance provided on June 30, 2006 was \$50 million (combined single limit occurrence). The City has all-risk property insurance as indicated on a list of scheduled property. The City also has environmental liability insurance and a fidelity blanket bond.

The City enrolled in the Authority's Worker's Compensation Insurance Program in February 2002. The coverage provides statutory benefits for all City employees and volunteers.

All claims are investigated, valued, reserved, defended and/or settled in accordance with generally accepted insurance industry practices. There are no known existing claims that would exceed the City's applicable coverage.

Pension and Other Post-Employment Benefits:

The City is a member of the California Public Employees Retirement System under the CalPERS 2% @ 55 Plan. CalPERS is a multiple-employer public employee defined benefit pension plan. Each year an independent actuary engaged by the pension plan calculates the amount of the annual contribution that the City must make to the pension plan to ensure that the plan will be able to fully meet its obligations to retired employees on a timely basis. The City's annual contribution rate is 10.097% of base wages. The City also pays the employees' portion of the retirement contribution of 7% of base wages.

ACKNOWLEDGEMENTS

The preparation of this comprehensive annual financial report could not have been accomplished without the hard work and team effort of the Finance Department. We also wish to express appreciation to the other City departments that provided assistance.

Respectfully submitted,

Reviewed by,

Approved by,

Alvertina Rivera
Finance Director

Michelle Greene
Administrative
Services Director

Daniel Singer
City Manager

ATTACHMENT 2

CAFR Management's Discussion and Analysis

Management's Discussion and Analysis Fiscal Year Ended June 30, 2008

This discussion and analysis of the City of Goleta's financial performance provides an overview of the City's financial activities for the year ended June 30, 2008. The City welcomes everyone to read the information in this document in conjunction with the accompanying transmittal letter found on pages i - vii, and the accompanying basic financial statements found on pages 14 - 19 of this report.

FINANCIAL HIGHLIGHTS

- At the end of the fiscal year 2008, the City's net assets totaled \$192,748,749, an increase of approximately .85% from the prior year. Of the total net assets, \$8.8 million is unrestricted and thus may be used to meet the City's ongoing obligations.
- As of June 30, 2008, the City's taxes and other revenues exceeded expenses by \$1,619,772.
- The total revenue from all sources equaled \$26,926,760.
- The General Fund reported excess revenues over expenditures of \$720,980.
- The General Fund had an ending balance of \$10,085,065 of which \$5,153,000 is designated to meet the City's Contingency Reserve policy.

USING THIS ANNUAL FINANCIAL REPORT

This annual report consists of three types of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and allow a longer-term view of the City's finances. Fund Financial Statements illustrate how City services were financed in the short term as well as what remains for future spending. Fund Financial Statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

Reporting the City as a Whole: The Statement of Net Assets and the Statement of Activities

One of the most important questions asked about the City's finances is "Is the City as a whole better or worse off as a result of this year's activities". The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

All of the City's basic services are considered to be governmental activities. The Statement of Net Assets and the Statement of Activities present information about these Governmental activities, including General Government, Community Development, Public Safety, and Public Works. Property Tax, Sales Tax, Transient Occupancy Tax and Motor Vehicle-in-Lieu Fees finance approximately 48% of these activities.

Reporting the City's Most Significant Funds: Fund Financial Statements

The Fund Financial Statements provide detailed information about the most significant funds, not the City as a whole. Included are the General Fund, Environmental Programs Fund, Library Services Fund, RDA Housing Fund and RDA Debt Service Fund, as well as lesser funds reported collectively as Non-Major Governmental Funds. Some funds are required to be established by State law, however, the City establishes many other funds to help it control and manage money for specified purposes or to demonstrate that the City is meeting legal responsibilities for using certain taxes, grants, and other money. The City currently has just one type of fund, governmental, which uses the following accounting approach.

Governmental Funds focus on how money flows into and out of those funds and the balances left at year-end that are available for future appropriation. Most of the City's basic services are reported in governmental funds. These funds are reported using an accounting method known as modified accrual accounting. Under this method of accounting, revenues are recognized in the accounting period in which they become measurable and available to finance expenditures of the current fiscal period while expenditures are recognized in the accounting period in which the liability is incurred.

The Governmental Fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or less financial resources that can be spent in the near future to finance the City's programs. The relationship (or difference) between governmental activities (reported in the Statement of Net Assets and Statement of Activities) and Governmental Funds are described in the reconciliation schedules accompanying the fund financial statements.

The City as Trustee: Reporting the City's Fiduciary Responsibilities

The City is the trustee, or fiduciary, for certain amounts held on behalf of developers, property owners, and others. The City's fiduciary activities are reported in separate Agency Fund Statements. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

THE CITY AS A WHOLE

Statement of Net Assets and Changes in Net Assets

The analysis focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's governmental activities. The City does not have any business type activities.

Table 1
Statement of Net Assets
As of June 30, 2008 and 2007

	Governmental Activities	
	2008	2007
Current and other assets	\$ 26,727,951	\$ 24,283,197
Capital Assets	168,943,862	172,305,797
Total Assets	\$ 195,671,813	\$ 196,588,994
Other Liabilities	2,013,039	2,634,330
Long Term Liabilities		
Due in one year	238,951	705,315
Due in more than one year	671,074	2,120,372
Total Liabilities	2,923,064	5,460,017
Net Assets:		
Invested in Capital Assets, net of accumulated depreciation and related debt	168,561,463	171,497,745
Restricted	15,401,523	10,792,609
Unrestricted	8,785,763	8,838,623
Total Net Assets	\$ 192,748,749	\$ 191,128,977

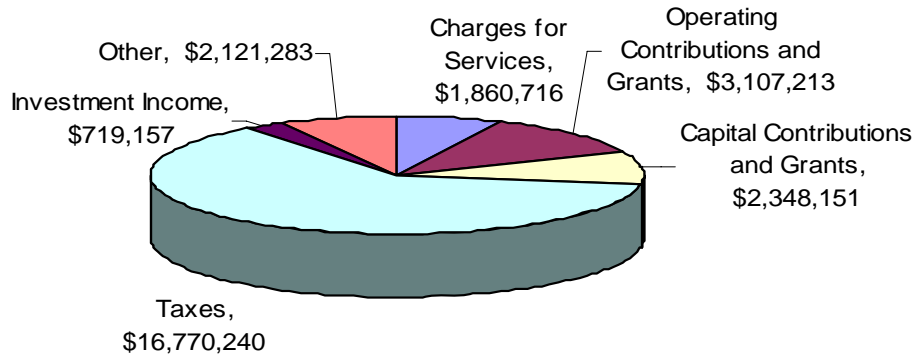
- Current and other assets increased \$2,444,754 primarily as a result of RDA Housing and Debt Service Fund activity for the year.
- Capital assets totaled \$238,076,065 at year-end before accumulated depreciation of \$69,132,203 resulting in net assets of \$168,943,862.

Asset Type	
Land	\$ 23,977,933
Building and improvements	3,391,045
Furniture and equipment	464,611
Vehicles	329,445
Infrastructure	206,384,247
Construction in progress	3,528,784
Total fixed assets	238,076,065
Less depreciation	69,132,203
Capital Assets net of Depreciation	<u>\$ 168,943,862</u>

- Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by legal requirements are \$8,785,763. This represents a \$52,860 decrease from prior year due primarily to Non-Major Governmental Funds activity for the year.

**Fiscal year 2008 Governmental Activities
(See Table2)**

Sources of Revenue



Functional Expense

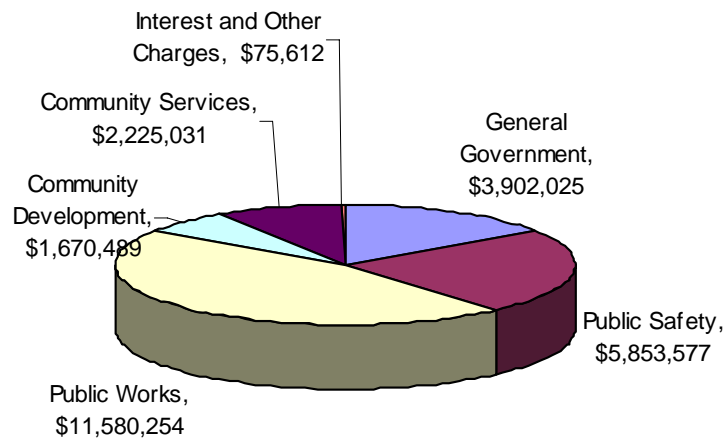


Table 2
Changes in Net Assets
As of June 30, 2008 and 2007

	Governmental Activities	
	2008	2007
Revenues		
Program Revenues:		
Charges for services	\$ 1,860,716	\$ 2,045,066
Operating contributions and grants	3,107,213	4,393,776
Capital contributions and grants	2,348,151	1,034,384
General revenues:		
Taxes:		
Sales taxes	4,160,113	4,116,748
Property taxes levied for general purposes	4,609,491	4,359,151
Redevelopment Agency Tax Increment	2,754,708	2,252,723
Motor Vehicle in lieu tax, unrestricted	1,106,524	1,139,903
Transient occupancy tax	2,783,144	2,571,528
Franchise taxes	938,208	1,116,446
Other taxes	418,052	-
Investment Income	719,157	1,152,334
Other	621,283	-
Total revenues	25,426,760	24,182,059
Expenses		
General Government	3,902,025	3,372,878
Public Safety	5,853,577	5,617,168
Public Works	11,580,254	10,581,153
Community Development	1,670,489	1,177,266
Community Services	2,225,031	2,584,997
Interest and other charges	75,612	130,839
Total expenses	25,306,988	23,464,301
Excess before special items	119,772	717,758
Special item - forgiveness of debt	1,500,000	-
Increase in Net Assets	\$ 1,619,772	\$ 717,758

The City's total revenues were \$26,926,760 while the total cost of all programs and services was \$25,306,988. Property Tax of \$4,609,491 is the City's largest revenue source at approximately 17%, while Sales Tax of \$4,160,113 is the City's second largest revenue source at 15%. Transient Occupancy Tax of \$2,783,144 is the City's third largest revenue source at approximately 10%. These revenues fund a significant portion of the City's basic services, however, it should be noted that population-based subventions, such as Motor Vehicle-in-Lieu Fees are currently based on a formula of three times the number of registered voters for the seven years following incorporation. Beginning the eighth year, population-based subventions will be formulated using actual population, and revenues from these sources are anticipated to decline.

Government Activities

Table 3 presents the cost of each of the City's programs, General Government, Community Development (planning and environmental services), Public Safety, Community Services and Public Works, as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the City's taxpayers by each of these functions.

Table 3
Net Cost of Governmental Activities
Year Ended June 30, 2008

	Total Cost of Services	Net Cost of Services
General Government	\$ 3,902,025	\$ (3,893,435)
Public Safety	5,853,577	(5,456,069)
Public Works	11,580,254	(5,715,313)
Community Development	1,670,489	(679,548)
Community Services	2,225,031	(2,170,931)
Interest and other charges	75,612	(75,612)
Totals	\$ 25,306,988	\$ (17,990,908)

- General Government expenses comprise approximately 15% of the governmental expenses and include City Council, City Manager, City Clerk, City Attorney, Administrative Services, Support Services, Finance and Risk Management. Charges for services and other fees partially offset the cost of this program.
- Public Safety expenses comprise 23% of the governmental expenses. Revenue from fines and capital grants partially offset the cost of this program.
- Public Works expenses comprise approximately 46% of the governmental expenses. Revenues from charges for services, operating and capital contributions and grants offset the cost of this program.
- Community Development expenses comprise approximately 7% of the governmental expenses. Various building and planning fee revenues partially offset the cost of this program.
- Community Services expenses comprise 9% of the governmental expenses. Related fees and charges for services offset the cost of this program.

Interest expense comprises less than 1% of the governmental expenses. This interest expense is to pay for the Santa Barbara Shores Debt Service and Goleta

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

At fiscal year-end the City's Governmental Funds reported a combined fund balance of \$24,718,143, an increase of \$3,484,461 over prior year. The General Fund activity accounts for 21% of that increase, the RDA Housing Fund accounts for 55% and the RDA Debt Service Fund accounts for 20%.

General Fund Budgetary Highlights

Revenues: Actual revenues received were over budget by \$283,496, primarily as a result of higher than projected revenues from taxes, investment earnings and other income.

Expenditures: Actual expenditures were less than budgeted in most areas for an overall savings of \$998,181. Significant reductions were recognized in the City Attorney, Planning, Advance Planning and Street Maintenance departments. All unexpended allocations will be carried-over into the next fiscal year in accordance with the two-year budget cycle.

Appropriations: The final appropriations for the General Fund at year end were \$998,181 less than the final budget for the reasons noted above.

Ending Fund Balance: The General Fund Ending Balance was \$10,085,065 as of June 30, 2008. This amount was more than the final budget projection by \$1,261,860 as a result of the revenue and expenditure activity noted above.

Fund balances:	
Reserved for:	
Compensated leave	\$ 97,972
Debt service	900,000
Unreserved:	
Cash Flows	1,616,212
Designated for Continuing appropriations	998,181
Contingencies	5,153,000
Risk management	200,000
Equipment	69,700
Building Maintenance	50,000
City Hall acquisition	1,000,000
	<hr/>
Total fund balances	<u>\$ 10,085,065</u>

The City Council specified that each year an additional \$150,000 be set aside for the repayment of the \$1.5 million advance from Santa Barbara County. Based upon completion of the sixth full fiscal year of incorporation, the set aside for the County Advance Reserve totals \$900,000. The County of Santa Barbara forgave the \$1,500,000 advance at June 30, 2008. The Council has also established fiscal policies for funding Compensated Leave, Risk Management, Equipment Acquisition and Replacement, Building Maintenance reserves. These fiscal policies also specify that a minimum of 33.33% (four months) of total budgeted operating expenditures plus transfers would be maintained as a Contingency Reserve. Based upon final budgeted General Fund expenditures and transfers, the Contingency Reserve is \$5,153,000. Additionally, Council has approved the Continuing Designation of unexpended funds for special project into the next fiscal year. This amount is \$998,181 in the current year. Per Council direction, all remaining fund balance is to be placed in a Cash Flow reserve.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Capital assets include public domain (infrastructure) general fixed assets consisting of certain improvements including roads, streets, sidewalks, medians, and storm drains. The City has valued these assets at \$238,076,065. At the end of fiscal year 2008, the City had \$168,943,862 invested in a broad range of capital assets, including land, buildings, equipment, furniture, vehicles and infrastructure. (See Table 4 below.)

Additional information on the City of Goleta's capital assets can be found in Notes 1 and 5 to the financial statements.

Table 4
Capital Assets at Year-End
(Net of Depreciation)

Governmental Activities

Land	\$ 23,977,933
Buildings and improvements	3,391,045
Furniture and equipment	464,611
Vehicles	329,445
Infrastructure	206,384,247
Construction in progress	3,528,784
Depreciation	(69,132,203)
Total fixed assets	<u>\$ 168,943,862</u>

Long-Term Debt

At fiscal year-end the Long-term Debt reported by the City included the Goleta Valley Community Center lease payment, which was assumed from the County upon incorporation.

Additional information on the City of Goleta's long-term debt can be found in Notes 1 and 6 to the financial statements.

Table 5
Long-Term Debt

Governmental Activities

Loans Payable:	
Capital Lease Payment - Goleta Valley Community Center	\$ 382,399
Claims and judgments payable	311,114
Compensated absences	216,512
Total	<u>\$ 910,025</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City's primary revenue sources are all potentially affected by economic factors or legislative action. Sales taxes are currently performing at a level to meet current year expectations but may change due to consumer economic uncertainty. Property Tax is projected to slightly exceed initial budget projections. The City's Transient Occupancy Tax is not heavily reliant on tourism, thus it continues to be a relatively stable source of revenue.

Expenditures are projected to increase in future years as service levels are defined and revenues to support these service levels are confirmed.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide Goleta citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the City of Goleta Finance Department, 130 Cremona Dr. Suite B, Goleta, California 93117 or by calling (805) 961-7500.

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