

COMPREHENSIVE ANNUAL FINANCIAL REPORT

CITY OF GOLETA,
CALIFORNIA



YEAR END
JUNE 30, 2006

CITY OF GOLETA
Goleta, California

Comprehensive Annual Financial Report

Year ended June 30, 2006

Prepared by

ADMINISTRATIVE SERVICES DEPARTMENT

Michelle Greene

Administrative Services Director

CITY OF GOLETA

Comprehensive Annual Financial Report

Year ended June 30, 2006

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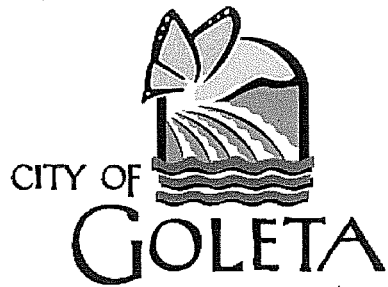
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October, 2006

To the Citizens of the City of Goleta:

CITY COUNCIL

Jonny Wallis
Mayor

Margaret Connell
Mayor Pro Tempore

Jean W. Blois
Councilmember

Cynthia Brock
Councilmember

Jack Hawxhurst
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 Administrative Services 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 30,290. 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 373 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 87% 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 \$1.9 million. The Revenue Neutrality Agreement between the City of Goleta and the County of Santa Barbara

INTRODUCTORY SECTION

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 \$1.6 million in property tax at time of incorporation. Said funds will need to be paid back to the County within ten years from date of incorporation. 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 slow recovery from the economic downturns experienced throughout the nation. All generally accepted economic indicators appear to indicate continued gradual improvement in the economy.

MAJOR INITIATIVES

Management:

Forty-one positions were authorized in FY 2005-06. The extensive recruitment process to date has yielded a highly motivated and committed City workforce with very low turnover rate.

City Hall:

The City entered into a lease for approximately 18,000 square feet located at 130 Cremona Drive, Suite B in January 2004, to serve as the City Hall facility. The current lease term expires in November 2006, with options to extend to 2011. In FY 2006-07, the City will be negotiating with the landlord to lease additional floor space to accommodate added city staff.

General Plan:

The draft General Plan was the subject of numerous public hearings throughout the fiscal year and is slated for adoption in the fall of 2006. Continued progress on the General Plan and its adoption will serve as a blueprint for investment and reinvestment in the community and be the basis of future City budgets.

Open Space and Habitat Management Plan:

The completion of the Ellwood-Devereux Open Space and Habitat Management Plan (OSHMP) encompassing 652 acres and the Environmental Impact Report stands as a major accomplishment. The OSHMP encompasses ten (10) parcels owned by multiple public and private entities within three jurisdictions (City of Goleta, County of Santa Barbara, and the University of California at Santa Barbara). The OSHMP achieves a long-standing regional goal of preservation, management, and focused development of the Ellwood-Devereux coastal area.

Street Maintenance:

Another prominent FY 2005-06 accomplishment is the completion of the third phase of the five-year strategy to invest \$16.5 million to improve the City's eighty-six (86) mile street network. To date, the City of Goleta has invested over \$8.3 million in improvements to its streets and sidewalks as part of the Street Improvement and Reinvestment Program. Another \$3 million is budgeted in FY 2006-07.

Building & Safety Division:

The Building & Safety Division was established in FY 2003-04 to respond to and address neighborhood quality of life issues, including nuisance abatement and code enforcement. This Division has been instrumental in addressing citizen complaints and issues. The most common requests for service are removal of abandoned vehicles, requests for inspection, removal of trees and repair of sidewalks.

Strategic Plan:

The City Council initiated a comprehensive Strategic Planning process which identified organizational goals and objectives, setting forth seventeen City goals and more than 145 objectives. The Strategic Plan is slated for Council adoption by the end of 2006.

Enhanced Public Information and Outreach:

In April 2006, the City's first community newsletter, the *Monarch Press*, was completed and distributed to all residents and businesses within the City. The City also saw enhanced public relations and outreach through the broadcasting of City Council and Planning Agency meetings and the hiring of a new position focused on community relations, public information and outreach.

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.

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

Annual Audit:

Mayer, Hoffman, McCann, P.C. 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, 2006 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, 2006 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%. Investment income includes appreciation/depreciation in the fair value of investments. The total investment income earned for all funds for the year was \$646,376. 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 \$113,908.

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 11.149% 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 Administrative Services Department. We also wish to express appreciation to the other City departments that provided assistance.

Respectfully submitted,

Reviewed by,


Approved by,



Zenda James
Interim Finance Director



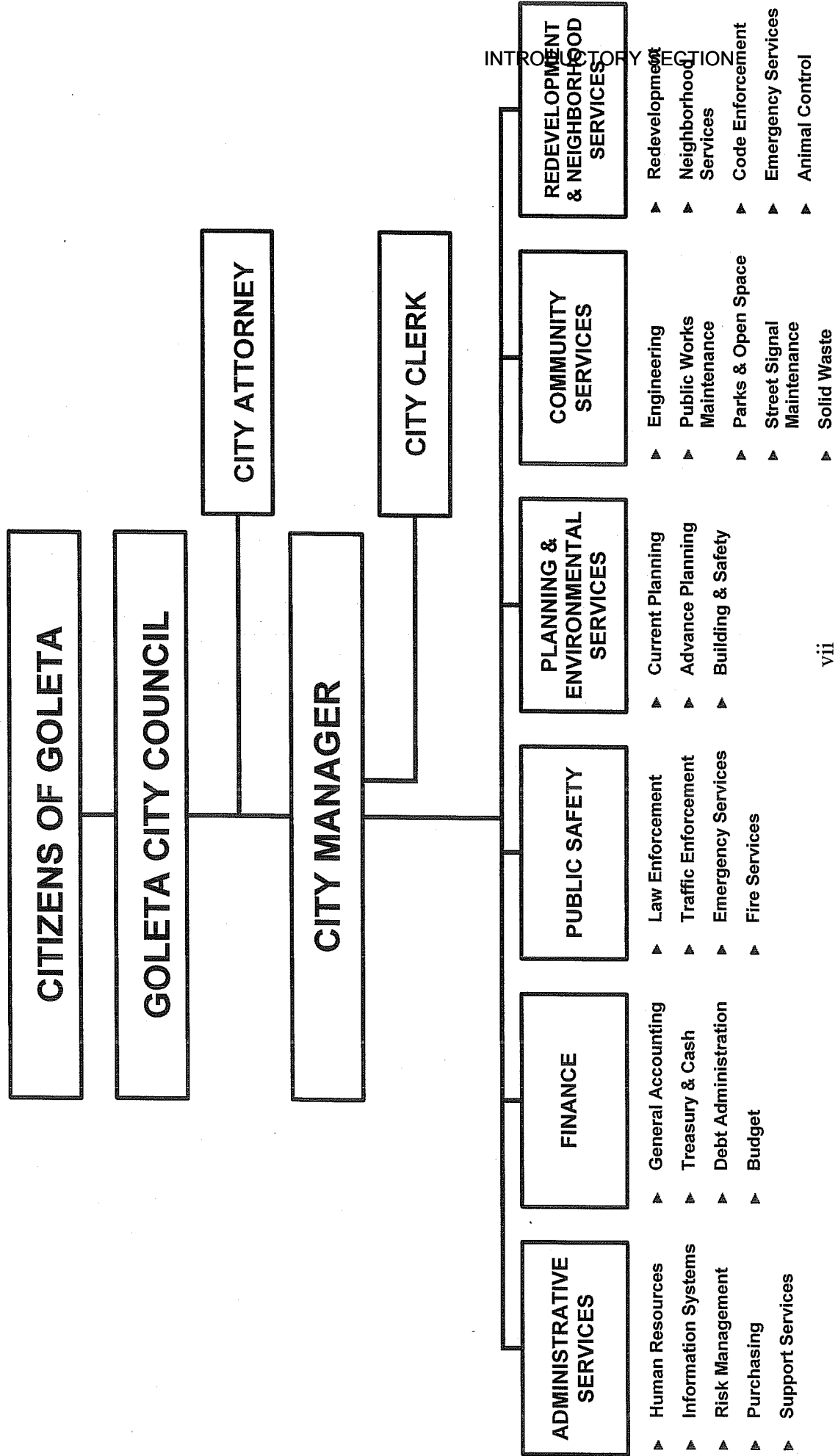
Michelle Greene
Administrative
Services Director



Daniel Singer
City Manager



ORGANIZATION CHART



City of Goleta

LIST OF PRINCIPAL OFFICIALS

Council – Manager Form of Government

CITY COUNCIL

JONNY WALLIS
Mayor

MARGARET A. CONNELL
Mayor Pro Tem

CYNTHIA BROCK
Council Member

JEAN BLOIS
Council Member

JACK HAWXHURST
Council Member

CITY ADMINISTRATION

DANIEL SINGER
City Manager

Michelle Greene, Administrative Services Director
Deborah Constantino, City Clerk

Kenneth M. Curtis, Planning & Environmental Services Director

Steven D. Wagner, Community Services Director/City Engineer

Vyto Adomaitis, Redevelopment and Neighborhood Services Director

Julie Hayward Biggs, City Attorney

Chris Pappas, Santa Barbara County Sheriff's Department

Martin Johnson, Santa Barbara County Fire Services

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Goleta
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

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.



President

Executive Director

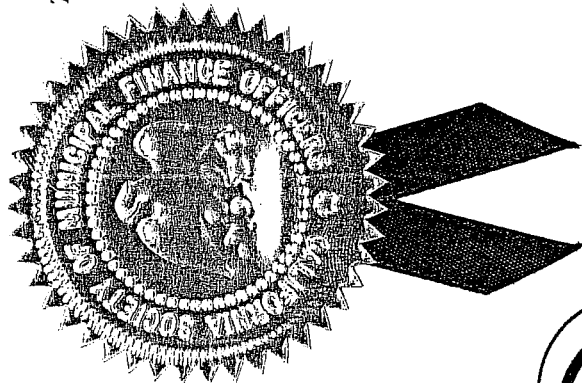
California Society of Municipal Finance Officers

Certificate of Award

Outstanding Financial Reporting 2004-05

Presented to the

City of Goleta



*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. Stumpf

Bill Thomas, Chair
Professional & Technical Standards Committee

Dedicated to Excellence in Municipal Financial Management



Mayer Hoffman McCann P.C.
An Independent CPA Firm
Conrad Government Services Division
2301 Dupont Drive, Suite 200
Irvine, California 92612
949-474-2020 ph
949-263-5520 fx
www.mhm-pc.com

FINANCIAL SECTION

Honorable Mayor and City Council
City of Goleta
Goleta, California

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Goleta, 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 management of the City of Goleta. 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, each major fund, and the aggregate remaining fund information of the City of Goleta, California, as of June 30, 2006, and the respective changes in financial position of the City of Goleta, California for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The information identified in the accompanying table of contents as *management's discussion and analysis* and *required supplementary information* are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Honorable Mayor and City Council
City of Goleta
Goleta, California
Page Two

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Goleta's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, budget schedules and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining, individual nonmajor fund financial statements and budget 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 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 tables 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 1, 2006 on our consideration of the City'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.

Mayer Hoffman McCann P.C.

Irvine, California
September 1, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 2006. Please read this document in conjunction with the accompanying transmittal letter and the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- The City's net assets increased 25% to \$44,720,234 as a result of this year's operations.
- During the year, the City's taxes and other revenues exceeded expenditures by \$7,569,430.
- The total revenue from all sources equaled \$26,088,973. A significant portion of the Special Revenue Funds revenues came from Development Impact Fees.
- The General Fund reported excess revenues over expenditures of \$1,898,331.
- During the year, Gas Tax and Measure D funds were utilized to improve streets and other approved infrastructure. Expenditures from both funds totaled \$2,957,341.
- The Library Fund is used to account for proceeds from Measure L, which authorized a special tax to fund services at the Goleta Library. The City of Goleta contracts with the Santa Barbara Public Library for these services.

USING THIS ANNUAL REPORT

This annual report consists of a series 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 68% 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, Library Fund, Measure D Funds, and RDA Debt Service Fund, as well as lesser funds reported collectively as Other 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 at the bottom of 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

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
Net Assets

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Current and other assets	\$ 22,849,120	\$ 15,772,152
Capital Assets	<u>28,372,175</u>	<u>26,707,586</u>
Total Assets	<u>\$ 51,221,295</u>	<u>\$ 42,479,738</u>
Other Liabilities	3,058,576	2,038,550
Long Term Liabilities		
Due in one year	662,915	697,559
Due in more than one year	<u>2,779,570</u>	<u>3,089,740</u>
Total Liabilities	<u>6,501,061</u>	<u>5,825,849</u>
Net Assets:		
Invested in Capital Assets, net of accumulated depreciation and related debt	27,093,022	24,991,474
Restricted	10,787,824	5,932,908
Unrestricted	<u>6,839,388</u>	<u>5,729,507</u>
Total Net Assets	<u>\$ 44,720,234</u>	<u>\$ 36,653,889</u>

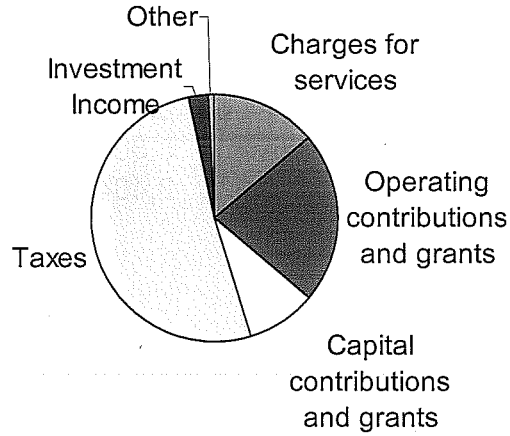
- Current and other assets increased \$7,057,416 primarily as a result of surplus income in the Governmental Funds.
- Capital assets totaled \$29,391,788 at year-end before depreciation of \$1,019,613 resulting in net assets of \$28,372,175.

<u>Asset Type</u>	
Land	\$ 23,543,955
Buildings	532,355
Improvements on buildings	570,704
Irrigation System - Stow Grove Park	78,633
Vehicles	157,579
Office Furniture	141,548
Computer Software	66,706
Tennis Courts	14,725
Infrastructure	<u>4,285,583</u>
Total fixed assets	\$ 29,391,788
Less depreciation	<u>1,019,613</u>
Capital Assets net Depreciation	<u>\$ 28,372,175</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 \$6,839,388. This increase is due principally to surplus income in the Governmental Funds.

Fiscal Year 2006 Government Activities (See Table 2)

Sources of Revenue



Functional Expenses

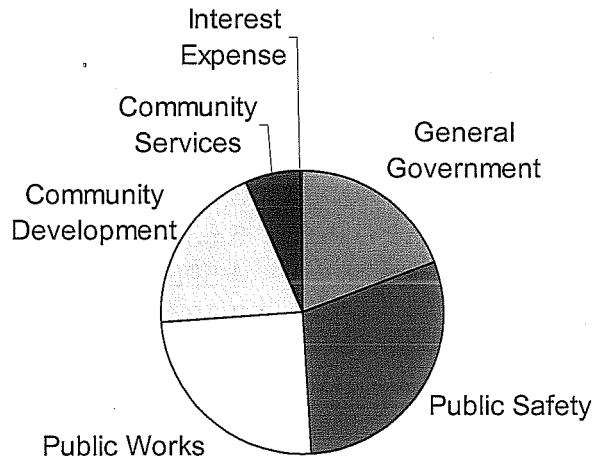


Table 2
Changes in Net Assets

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Revenues		
Program Revenue		
Charges for services	\$ 3,278,402	\$ 1,533,170
Operating contributions and grants	5,866,642	2,475,523
Capital contributions and grants	2,464,437	9,443,212
General revenue:		
Taxes:		
Sales taxes	4,039,979	3,864,389
Property taxes	4,867,360	4,893,131
Motor Vehicle in lieu tax	1,125,865	1,502,920
Transient occupancy tax	2,601,475	2,282,932
Franchise taxes	952,856	946,066
Other taxes		
Investment Income	646,378	280,398
Other	<u>245,579</u>	<u>155,914</u>
Total revenues	<u>\$ 26,088,973</u>	<u>\$ 27,377,655</u>
Expenses		
General Government	\$ 3,550,258	\$ 3,415,277
Public Safety	5,539,496	5,273,087
Public Works	4,595,206	5,538,722
Community Development	3,667,575	2,036,243
Community Services	1,133,688	727,856
Interest Expense	<u>33,320</u>	<u>39,416</u>
Total Expense	<u>\$ 18,519,543</u>	<u>\$ 17,030,601</u>
Increase(decrease) in Net Assets	<u>\$ 7,569,430</u>	<u>\$ 10,347,054</u>

The City's total revenues were \$26,088,973 while the total cost of all programs and services was \$18,519,543. Property Tax of \$4,867,360 is the City's largest revenue source at approximately 19%, while Sales Tax of \$4,039,979 is the City's second largest revenue source at 15%. Transient Occupancy Tax of \$2,601,475 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 building), Public Safety, 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, 2006

	<u>Total Cost Of Service</u>	<u>Net Cost of Services</u>
General Government	\$ 3,550,258	\$ (3,512,802)
Public Safety	5,539,496	(5,207,093)
Public Works	4,595,206	2,280,382
Community Development	3,667,575	(588,659)
Community Services	1,133,688	151,430
Interest Expense	<u>33,320</u>	<u>(33,320)</u>
Totals	<u>\$ 18,519,543</u>	<u>\$ (6,910,062)</u>

- General Government expenses comprise approximately 19% of the governmental expenses and include City Council, City Manager, City Clerk, City Attorney, Administrative Services, Support Services and Risk Management. Charges for services and other fees partially offset the cost of this program.

- Public Safety expenses comprise 30% of the governmental expenses. Revenue from fines and capital grants partially offset the cost of this program.
- Public Works expenses comprise approximately 25% 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 20% of the governmental expenses. Various building and planning fee revenues partially offset the cost of this program.
- Community Services expenses comprise 6% 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 Valley Community Center.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

At fiscal year-end the City's Governmental Funds reported a combined fund balance of \$18,740,340, an increase of \$5,043,126 over prior year. The most significant increases are in the development impact fee funds which are designated to be used for traffic, park and other public facility improvements.

General Fund Budgetary Highlights

Revenues: Actual revenues received were over budget by \$684,663, primarily as a result of higher than projected revenues from Supplementary Property Taxes, Transient Occupancy Tax, Investment Income and other construction related revenues, i.e. Building Permit Fees.

Expenditures: Actual expenditures were less than budgeted in most areas for an overall savings of \$297,348. Significant reductions were recognized in the Community Services/Public Works, City Council and City Attorney. The savings were in park maintenance, utility expenditures and personnel related costs. The savings in the City Attorney's budget resulted from City staff being more self-reliant and able to handle more routine items. In addition, the litigation activity has subsided. Expenditures exceeded budget in City Manager, Administrative Services, Public Safety, and Planning & Environmental Services.

Appropriations: The final appropriations for the General Fund at year end were \$297,348 less than the final budget for the reasons noted above.

Ending Fund Balance: The General Fund Ending Balance at June 30, 2006 was \$7,550,433. This amount was more than the final budget projection by \$1,011,668. The balance after deduction of encumbered funds of \$16,280 has been designated as follows:

Fund balances:	
Reserved for:	
Encumbrances	\$ 16,280
Debt service	600,000
Risk management	200,000
Advances	1,600,000
Cable equipment	237,000
Unreserved:	
Designated for continuing appropriations	4,650,000
Undesignated	247,153
	<hr/>
Total fund balances	<u>\$ 7,550,433</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 fourth full fiscal year of incorporation, the set aside for the County Advance Reserve totals \$600,000. The Encumbrance Reserve represents FY 2005-06 carryover appropriations for the City's outstanding contract commitments. The Cable Capital Equipment Reserve is the balance of funds remaining from the cable equipment grant specified in the cable franchise agreement. The Insurance/Risk Management Reserve is based on current loss experience. The fiscal policies also specified that a minimum of 33.33% (four months) of total operating expenditures plus transfers would be maintained. Based upon actual General Fund Expenditures and transfers would be maintained. Based upon actual General Fund expenditures and transfers of \$13,951,828, the Contingency Reserve is \$4,650,000.

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 \$4,285,583.

At the end of fiscal year 2006, the City had \$28,372,175 invested in a broad range of capital assets, including land, buildings, equipment, furniture, and infrastructure. (See Table 4 below.) Additional information on the City's capital assets can be found in the notes to the financial statements.

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

Governmental Activities

Land	\$ 23,543,955
Buildings	532,355
Improvements on buildings	570,704
Irrigation System - Stow Grove Park	78,633
Vehicles	157,579
Office Furniture	141,548
Computer Software	66,706
Tennis Courts	14,725
Infrastructure	4,285,583
	Depreciation
	<u>(1,019,613)</u>
Total fixed assets	<u>\$ 28,372,175</u>

Debt

At fiscal year-end the Long-Term Debt reported by the City included the Santa Barbara Shores COP and the Goleta Valley Community Center lease payment, both of which were assumed from the County upon incorporation. Additional information on the City's long-term debt can be found in the notes to the accompanying financial statements

Table 5
Long-Term Debt

Governmental Activities

Loans Payable:

County of Santa Barbara	
Start-Up Loan	\$ 1,500,000
Redevelopment Agency	
Start-Up Loan	300,000
Certificates of Participation	
Santa Barbara Shores	800,000
Capital Lease Payment - Goleta	
Valley Community Center	479,153
Claims and judgements payable	216,794
Compensated absences	<u>146,538</u>
	Totals
	<u>\$ 3,442,485</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 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 Administrative Services Department, 130 Cremona Dr. Suite B, Goleta, California 93117 or by calling (805) 961-7500.

CITY OF GOLETA
STATEMENT OF NET ASSETS
June 30, 2006

GOVERNMENT-WIDE
FINANCIAL STATEMENTS

	<u>Governmental Activities</u>
Assets:	
Cash and investments (note 2)	\$ 20,184,475
Receivables:	
Accounts	153,667
Interest	212,744
Due from other governments	2,275,624
Deposits	19,552
Prepaid assets	3,058
Capital assets (note 5):	
Non-depreciable	25,352,396
Depreciable	4,039,392
Less: accumulated depreciation	<u>(1,019,613)</u>
Total assets	<u>51,221,295</u>
Liabilities:	
Accounts payable	1,106,529
Accrued salaries and benefits	81,740
Accrued interest payable	16,455
Deferred revenue	1,658,250
Deposits payable	195,602
Non-current liabilities (note 6):	
Due within one year	662,915
Due in more than one year	<u>2,779,570</u>
Total liabilities	<u>6,501,061</u>
Net assets:	
Invested in capital assets, net of related debt	27,093,022
Restricted for:	
Public safety	85,024
Public works	2,292,672
Community development	7,561,285
Community services	200,869
Debt service	647,974
Unrestricted	<u>6,839,388</u>
Total net assets	<u>\$ 44,720,234</u>

See accompanying notes to basic financial statements.

CITY OF GOLETA
STATEMENT OF ACTIVITIES
Year ended June 30, 2006

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Governmental Activities</u>	Net (expense) revenue and changes in net assets
		<u>Charges for Services</u>	<u>Operating Contributions and Grants</u>		
Governmental activities:					
General government	\$ 3,550,258	37,456	-	-	(3,512,802)
Public safety	5,539,496	201,787	130,616	-	(5,207,093)
Public works	4,595,206	2,304,882	4,338,565	232,141	2,280,382
Community development	3,667,575	-	1,389,033	1,689,883	(588,659)
Community services	1,133,688	734,277	8,428	542,413	151,430
Interest and other charges	<u>33,320</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(33,320)</u>
 Total governmental activities	 <u>\$ 18,519,543</u>	 <u>3,278,402</u>	 <u>5,866,642</u>	 <u>2,464,437</u>	 <u>(6,910,062)</u>
 General revenues:					
Taxes:					
Sales taxes					4,039,979
Property taxes, levied for general purpose					4,867,360
Motor vehicle in lieu tax, unrestricted					1,125,865
Transient occupancy tax					2,601,475
Franchise taxes					952,856
Investment income					646,378
Other					<u>245,579</u>
Total general revenues					<u>14,479,492</u>
Change in net assets					7,569,430
Net assets at beginning of year, as restated (note 13)					<u>37,150,804</u>
Net assets at end of year					<u>\$ 44,720,234</u>

See accompanying notes to basic financial statements.

GOVERNMENTAL FUNDS

Major Governmental Funds

GENERAL FUND

The General Fund is the general operating fund of the City. The General Fund accounts for activities and services traditionally associated with governments such as police, which are financed primarily through tax-generated revenues and not required to be accounted for in another fund.

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for specific revenues (other than trusts or major capital projects) that are legally restricted to expenditures for a particular purpose. The following funds have been classified as major funds:

Gas Tax

The Gas Tax Fund is used to account for the City's share of the motor vehicle gas tax imposed under the provisions of the Street and Highway Code of the State of California under Sections 2015, 2106, 2107 and 2107.5 which are legally restricted for the acquisition, construction, improvement and maintenance of public streets.

Measure D

The Measure D Fund is used to account for funds received from a one-half cent sales tax levied by the Santa Barbara County Association of Governments. The proceeds are restricted to transportation uses. Measure D was approved by the voters of Santa Barbara County by an election held on November 7, 1989. The tax became effective on April 1, 1990.

DEBT SERVICE FUND

Debt Service Funds are used to accumulate resources for, and the payment of, general long term debt principal, interest and related costs. The following fund has been classified as a major fund.

RDA Debt Service – This fund is used to account for the accumulation of resources for and the payment of long-term debt principal and interest issued by the Redevelopment Agency.

NON-MAJOR GOVERNMENTAL FUNDS

Other Governmental Funds – These funds constitute all other governmental funds that do not meet the GASB Statement No. 34 major fund test of assets, liabilities, revenues or expenditures for the governmental funds. These funds consist solely of other Special Revenue Funds, Debt Service Funds and Capital Projects Funds of the City for the year ended.

CITY OF GOLETA
Governmental Funds
Balance Sheet
June 30, 2006

	<u>Special Revenue Funds</u>			<u>Debt Service Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Totals</u>
	<u>General</u>	<u>Gas Tax</u>	<u>Measure D</u>	<u>RDA Debt Service</u>		
Assets						
Cash and investments (note 2)	\$ 6,634,028	709,000	540,081	4,030,892	8,270,474	20,184,475
Receivables:						
Accounts	117,515	-	-	-	36,152	153,667
Interest	69,552	7,091	5,126	45,837	85,138	212,744
Due from other governments	1,138,958	78,487	-	-	1,058,179	2,275,624
Due from other funds (note 3)	460,546	-	-	-	-	460,546
Advances to other funds (note 3)	1,600,000	-	-	-	-	1,600,000
Deposits	19,552	-	-	-	-	19,552
Prepaid expenses	3,058	-	-	-	-	3,058
Total assets	\$ 10,043,209	794,578	545,207	4,076,729	9,449,943	24,909,666
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ 502,966	198,830	51,429	12,300	341,004	1,106,529
Accrued salaries and benefits	76,027	-	-	-	5,713	81,740
Due to other funds (note 3)	-	-	-	-	460,546	460,546
Deferred revenue	1,658,250	-	-	-	1,006,728	2,664,978
Advances from other funds (note 3)	-	-	-	1,600,000	-	1,600,000
Claims payable	59,931	-	-	-	-	59,931
Deposits payable	195,602	-	-	-	-	195,602
Total liabilities	2,492,776	198,830	51,429	1,612,300	1,813,991	6,169,326
Fund balances:						
Reserved for:						
Encumbrances	16,280	-	2,275	-	250,560	269,115
Debt service	600,000	-	-	2,464,429	-	3,064,429
Low mod housing	-	-	-	-	1,477,466	1,477,466
Risk management	200,000	-	-	-	-	200,000
Advances	1,600,000	-	-	-	-	1,600,000
Cable equipment	237,000	-	-	-	-	237,000
Unreserved:						
Designated for:						
Continuing appropriations -						
General fund	4,650,000	-	-	-	-	4,650,000
Special revenue funds	-	595,748	491,503	-	-	1,087,251
Undesignated, reported in:						
General fund	247,153	-	-	-	-	247,153
Special revenue funds	-	-	-	-	5,907,926	5,907,926
Capital projects funds	-	-	-	-	-	-
Total fund balances	7,550,433	595,748	493,778	2,464,429	7,635,952	18,740,340
Total liabilities and fund balances	\$ 10,043,209	794,578	545,207	4,076,729	9,449,943	24,909,666

See accompanying notes to basic financial statements.

CITY OF GOLETA
Governmental Funds

Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets

June 30, 2006

Fund balances of governmental funds	\$ 18,740,340
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>	
<p>Capital assets net of depreciation have not been included in governmental fund activity:</p>	
Capital assets	29,391,788
Accumulated depreciation	(1,019,613)
<p>Long term debt has not been included in the governmental fund activity:</p>	
Loans payable	(1,800,000)
Certificates of participation payable	(800,000)
Capital leases payable	(479,153)
Claims payable	(156,863)
Compensated absences	(146,538)
Accrued interest payable for the current portion of interest due on debt service has not been reported in the governmental funds.	(16,455)
Some revenue will be collected after year-end, but is not available soon enough to pay for the current period's expenditures, and therefore is reported as deferred revenue in the governmental funds.	<u>1,006,728</u>
Net assets of governmental activities	<u><u>\$ 44,720,234</u></u>

CITY OF GOLETA
 Governmental Fund types
 Statement of Revenues, Expenditures and Changes in Fund Balances
 Year ended June 30, 2006

	General	Special Revenue Funds		Debt Service Fund	Non-Major Governmental Funds	Totals
		Gas Tax	Measure D	RDA Debt Service		
Revenues:						
Taxes	\$ 12,461,669	-	1,709,005	1,707,005	295,690	16,173,369
Intergovernmental	1,125,865	980,770	-	-	2,478,389	4,585,024
Charges for services	1,161,152	-	-	-	432,225	1,593,377
Fines and forfeitures	201,787	-	-	-	-	201,787
Investment income	199,548	23,713	21,654	142,632	258,831	646,378
Developer fees	-	-	-	-	1,798,530	1,798,530
Other	224,287	21,292	-	-	-	245,579
Total revenues	15,374,308	1,025,775	1,730,659	1,849,637	5,263,665	25,244,044
Expenditures:						
Current:						
General government	3,183,812	-	-	336,907	-	3,520,719
Public safety	5,382,486	-	-	-	196,876	5,579,362
Public works	1,211,565	1,004,030	1,953,311	-	1,226,525	5,395,431
Community development	2,765,719	-	-	-	1,026,183	3,791,902
Community services	932,395	-	-	-	204,374	1,136,769
Pass-through to other agencies	-	-	-	103,384	-	103,384
Capital outlay	-	-	-	-	197,500	197,500
Debt service:						
Principal	-	-	-	-	436,959	436,959
Interest	-	-	-	-	38,892	38,892
Total expenditures	13,475,977	1,004,030	1,953,311	440,291	3,327,309	20,200,918
Excess (deficiency) of revenues over (under) expenditures	1,898,331	21,745	(222,652)	1,409,346	1,936,356	5,043,126
Other financing sources (uses):						
Transfers in (note 4)	44,608	-	-	-	1,160,144	1,204,752
Transfers out (note 4)	(475,851)	-	-	(684,293)	(44,608)	(1,204,752)
Total other financing sources and (uses)	(431,243)	-	-	(684,293)	1,115,536	-
Net change in fund balances	1,467,088	21,745	(222,652)	725,053	3,051,892	5,043,126
Fund balances, beginning of year	6,083,345	574,003	716,430	1,739,376	4,584,060	13,697,214
Fund balances, end of year	\$ 7,550,433	595,748	493,778	2,464,429	7,635,952	18,740,340

See accompanying notes to basic financial statements.

CITY OF GOLETA
 Reconciliation of the Statement of Revenues, Expenditures,
 and Changes in Fund Balances of Governmental Funds
 to the Statement of Activities
 Year ended June 30, 2006

Net change in fund balances - total governmental funds \$ 5,043,126

Amounts reported for governmental activities in the statement of activities differs from the amounts reported in the statement of activities because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlays, net of disposals	1,381,426
Depreciation, net of disposals	(213,752)

Repayment of debt service principal and capital lease liabilities are expenditures in the governmental funds but the repayment reduces long-term liabilities in the statement of net assets.	436,959
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Accrued Interest for debt service. This is the net change in accrued interest for the current period.	5,572
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Compensated absences and claims payable expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	(32,213)
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Some of the revenue will be collected after year-end, but is not available soon enough to pay for the current period's expenditures, and therefore is reported as deferred revenue in the governmental funds.	<u>948,312</u>
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Change in net assets of governmental activities	<u><u>\$ 7,569,430</u></u>
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