CITY OF SOLANA BEACH

CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the fiscal year ended

June 30, 2006

Prepared by the Finance Department

Dennis M. Coleman, Finance Director

Marie Marron Berkuti, Finance Manager
Sandi Lewis, Fiscal Services Specialist
Debbie Johnson, Fiscal Services Specialist
Aina Grant, Administrative Assistant
Rimga Viskanta, Management Assistant

(This page intentionally left blank)

CITY OF SOLANA BEACH

Comprehensive Annual Financial Report

Year ended June 30, 2006

TABLE OF CONTENTS

	Page
INTRODUCTORY SECTION:	
Transmittal Letter	i
List of Principal Officials	xii
Organization Charts	xiii
GFOA Certificate of Achievement for Excellence in Financial Reporting	xv
FINANCIAL SECTION:	
Independent Auditors' Report	1
Management's Discussion and Analysis	
(Required Supplementary Information)	3
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	15
Statement of Activities	16
Fund Financial Statements:	
Government Funds:	
Balance Sheet	19
Reconciliation of the Balance Sheet to Statement of Net Assets	20
Statement of Revenues, Expenditures, and Changes in Fund Balances	21
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances to Statement of Activities	22
Proprietary Fund:	
Statement of Fund Net Assets	23
Statement of Revenues, Expenses and Changes in Net Assets	24
Statement of Cash Flows	25
Fiduciary Fund:	
Statement of Fiduciary Assets and Liabilities – Agency Fund	26
Notes to Basic Financial Statements	27
Required Supplementary Information	
Notes to Required Supplementary Information	69
Budgetary Comparison Schedule – Major Fund:	
General Fund	70

CITY OF SOLANA BEACH

Comprehensive Annual Financial Report

TABLE OF CONTENTS (CONTINUED)

	Page
FINANCIAL SECTION, (CONTINUED):	
Supplementary Schedules	
Non-Major Government Funds:	
Combining Balance Sheet	73
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	74
Non-Major Special Revenue Funds:	
Combining Balance Sheet	78
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	82
Budgetary Comparison Schedules	86
Non-Major Debt Service Fund:	
Combining Balance Sheet	104
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	105
Budgetary Comparison Schedule	106
Non-Major Capital Projects Fund:	
Combining Balance Sheet	110
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	111
Budgetary Comparison Schedule	112
Agency Fund:	
Schedule of Changes in Assets and Liabilities	116

CITY OF SOLANA BEACH

Comprehensive Annual Financial Report

TABLE OF CONTENTS (CONTINUED)

STATISTICAL SECTION - Unaudited:

Financial Trends:	
Net Assets by Component	119
Changes in Net Assets	120
Fund Balances of Governmental Funds	122
Changes in Fund Balances of Governmental Funds	123
Revenue Capacity:	
Assessed Value and Estimated Actual Value of Taxable Property	124
Direct and Overlapping Property Tax Rates	126
Principal Property Tax Payers	128
Property Tax Levies and Collections	130
Debt Capacity:	
Ratios of Outstanding Debt by Type	132
Direct and Overlapping Debt	133
Legal Debt Margin Information	134
Pledged-Revenue Coverage	135
Demographic and Economic Information:	
Demographic and Economic Statistics	137
Principal Employers	138
Operating Information:	
Full-time Equivalent City Government Employees by Function/Program	140
Operating Indicators by Function/Program	142
Capital Assets Statistics by Function/Program	144

(This page intentionally left blank)

CITY OF SOLANA BEACH
635 SOUTH HIGHWAY 101 • SOLANA BEACH, CALIFORNIA 92075-2215 • (858) 720-2400
www.ci.solana-beach.ca.us FAX (858) 792-6513 / (858) 755-1782

September 29, 2006

To the Honorable Mayor, Members of the City Council, and Citizens of Solana Beach:

It is with great pleasure that we present to you the City of Solana Beach (City) Comprehensive Annual Financial Report (CAFR) for the Fiscal Year ended June 30, 2006.

This year's 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.

The Comprehensive Annual Financial Report includes the financial activity for all funds of the City. The City provides a wide range of services including planning; building; public works; engineering; maintenance of streets, parks and public facilities; community services and recreation; fire and marine safety; sanitation; and general administrative activities. Contracted services include law enforcement and animal control with the County of San Diego.

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 misuse, and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with GAAP. 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 (1) the costs of a control should not exceed the benefits likely to be derived; and (2) 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 the management of the City.

Annual Audit

Mayer Hoffman McCann P.C., appointed by the City Council, has audited the City's financial statements. The goal of the independent audit is to provide reasonable assurance that the financial statements of the City for the fiscal year end 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 ended June 30, 2006, provided no instances of material weaknesses in the internal control structure and no 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 GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

Management's Discussion and Analysis (MDA)

This letter of transmittal is designed to complement the MDA and should be read in conjunction with it. The MDA 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 MDA is intended to disclose any known significant events or decisions that affect the financial condition of the City. The City's MDA can be found immediately following the report of the independent auditors.

Government Profile

The City of Solana Beach was incorporated July 1, 1986 under the general laws of the State of California and is home to a population of 13,327 per the State of California Department of Finance. Included within the City's financial statements is the financial information of the Solana Beach Public Facilities Corporation. The City is considered the primary government and the Public Facilities Corporation is a component unit. Additionally, since the governing boards of the City and the component unit are the same, the financial statements of the City and the component unit are blended.

The Solana Beach Public Facilities Corporation was incorporated on July 25, 1990 as a nonprofit public benefit corporation duly organized and existing under the Nonprofit Public Benefit Corporation Law. Its purpose is to benefit the City by providing financing for the planning; development; acquisition; construction; improvement; extension; repair; and renovation of public works projects; public facilities; furnishings and equipment for use by the City.

The City of Solana Beach, an affluent coastal community, encompasses approximately 3.4 square miles and is located twenty-one miles north of the City of San Diego. It is bordered to the North, South, and East by the cities of Encinitas, Del Mar, and San Diego respectively, and the Pacific Ocean to the West.

The City is a general law city that 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 Deputy Mayor are selected by the Council from among its members to serve one-year terms. The Council acts as the legislative and policy-making body of the City, enacting all laws and directing such actions as required to provide for the general welfare of the community.

The City Manager, appointed by the Council, serves as the Chief Executive Officer and is responsible to the Council for the proper administration of all City affairs and the implementation of all policies established by Council. The City Attorney is the only other position appointed by the Council. All other department heads and employees are appointed by the City Manager.

Commissions and Committees play an important role in the governmental structure of Solana Beach. They provide many opportunities for citizens to participate in the affairs of the City. These Advisory Commissions and Committees assist in the performance of studies and the issuance of recommendations on various matters of concern to the Council.

Budgetary Process and Controls

The process of adopting a budget at the City of Solana Beach is generally a six-month process beginning in late December and ending in June when the City Council adopts the budget and appropriates funds necessary for the City to provide services to its residents.

The process is all-inclusive as department directors work with the City Manager and representatives of the Finance Department to discuss departmental requests relative to the City's available resources. The City's overall objectives and goals, along with the economic outlook, serve as a platform for the proposed budget that is distributed to the City Council, and Budget and Finance Committee for preliminary review and analysis in preparation of public workshops and hearings. The public workshops and hearings are

held to facilitate discussions of items contained within the proposed budget and allow the citizenry to participate in the budget process.

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, Special Revenue, Debt Service, and Capital Projects Funds are included in the annual appropriated budget.

The budget is arranged by fund, function, and department and is presented to the Council by the City Manager. The budget is then adopted annually by the Council prior to the beginning of the financial year and serves as the foundation for the City's financial planning and control. Department directors may make transfers of appropriations within their own departments with City Manager approval. The City budget is reviewed and has periodic adjustments at the middle of the fiscal year and at the end of the fiscal year. These adjustments are approved by the City Council.

The City also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. The adopted budget for Fiscal Year 2005-06 was prepared in accordance with Generally Accepted Accounting Principles.

As demonstrated by the statements and schedules included in the financial section of this report, the City continues to meet its responsibility for sound financial management.

Economic Condition and Outlook

Solana Beach is home to citizens who enjoy the small town atmosphere as well as a close proximity to the City of San Diego. The local beaches are a big attraction to both residents and non-residents. The City is comprised mainly of single-family homes and condominiums with some retail, light industrial, and service entities providing a tax base for the City.

As a suburban community, Solana Beach's economic base is linked primarily to the economy of the greater San Diego region. In particular, the greater San Diego economic

base sustains the City's residential and industrial facilities. The local economy is primarily based on small to medium sized retail establishments and specialty stores selling general merchandise, furniture, art and crafts, clothing, food, and gasoline. Such local economic generators as the San Diego County Fairgrounds and vacation tourism support a significant portion of the City's commercial base.

The California economy stabilized during the fiscal year despite the State's budget uncertainties, which continue to undermine the State economy. For Fiscal Year 2005-06, evidence from the legislative office suggested that California was in a period of very sluggish growth, which would persist for several months. While the residential real estate market remains strong, other areas of the economy, including income and spending, remain soft. Solana Beach's conservative fiscal policies will continue to serve the community well during these times of economic uncertainty.

General Fund property taxes have been, and are expected to be, the highest revenue generator for the City. Sales tax is the City's second largest revenue source. During Fiscal Year 2005-06, actual dollars received in General Fund property taxes increased from 2004-05 by $443,228 or 11.4%, while sales tax increased by $461,911 or 17.3%. Overall, the City's General Fund increased 13.9%. The strong housing market and strong sales tax figures demonstrate that the City of Solana Beach continues to be a desirable place to live and work.

For demographic statistics and property value trends please see Tables 9 and 10 in the Statistical Section of this report.

Major Projects and Financial Planning

Fletcher Cover Master Plan

Construction on this project began in mid-September 2006 and is expected to be completed by Memorial Day 2007. The renovation of Fletcher Cove will result in a more efficient utilization of the park site through a better layout and design of the facilities.

When completed, the park will provide more active and passive recreational and park amenities for community residents. It will also enhance the view corridors from Plaza Street and South Sierra by relocating the existing parking to a City-owned lot on South Sierra.

Solana Beach Forcemain

A construction contract was awarded in the first few months of the fiscal year to build this project. The Solana Beach Forcemain is located at the north end of the City in the San Elijo Lagoon east of the railroad tracks. The San Elijo Joint Powers Authority (SEJPA) sewage treatment plant is in Cardiff north of Manchester Avenue and west of Interstate-5. A 12-inch forcemain connects the SBPS to the SEJPA. Ninety percent of sewage from Solana Beach flows through this forcemain to the treatment plant. The existing 12-inch asbestos-cement forcemain line was constructed in the mid 1960's. It parallels the railroad tract until it crosses the San Elijo Lagoon to Manchester Avenue in Cardiff. The Solana Beach Sanitary Sewer Master Plan that was adopted by the City Council in 2000 (revised in May 2001) recommended, among other improvements, to replace the existing 12-inch asbestos cement pipe. This project is expected to be completed by May 2007.

I-5/Lomas Santa Fe Interchange

The Interchange project continued this year with more preliminary engineering and design. The I-5/Lomas Santa Fe Interchange will provide for the construction of northbound and southbound loop ramps and the realignment of the northbound off ramp. The project will enhance traffic flow in one of the most congested areas of the City.

Rosa & Cliff Street Bicycle/Pedestrian Bridges

The City embarked on a world-class project to provide vital pedestrian and bicycle links over the railroad tracks between Cedros Avenue and Highway 101. The bridges will also link with the Coastal Rail Trail along Highway 101. The bridges will span approximately 125 and 180 feet in length. The Rosa Street Bridge has been built and is open for service.

The majority of future scheduled projects are infrastructure related. Funds have been allocated for improving the City's storm drain system to comply with State mandated requirements, improving the sanitation pump stations and transmission lines, and improvements to public facilities. Future capital needs of the City are approximately $30.9 million over a five-year period. Most of the funding for these projects is from redevelopment and sanitation funds as well as external funding sources and grants.

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 maximize 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 the Federal Depository Insurance Corporation or collateralized.

The average yield on funds invested was 3.85% as compared to 2.11% the previous year. Investment income includes appreciation/depreciation in the fair value of investments. The total investment income for all funds for the year was $877,208.

Risk Management

The City of Solana Beach is a member of the San Diego Pooled Insurance Program Authority (SANDPIPA), a consortium of twelve governmental entities in San Diego County who have joined together to achieve savings on insurance premiums through volume purchasing and risk management consulting. Each member pays for its proportionate share of its individually contracted insurance coverage and consulting services.

Insurance activities are financed by charges to member cities and no long-term debt has been incurred.

As of June 30, 2006, the City is self-insured for each loss up to $100,000. Losses between $100,000 and $2,000,000 are self-funded through the SANDPIPA pool with excess layers between $2,000,000 and $35,000,000 purchased through an insurance policy.

The City has created a risk management fund which aims to maintain a minimum fund balance of $500,000 to adequately fund losses that are within the self-insured retention level of $100,000. The balance in this fund as of June 30, 2006 was $547,721.

Beginning October 1, 2003, the City put in place a program of self-insurance for worker's compensation and employer's liability exposures insurance claims and canceled its coverage with State Fund. Each claim/occurrence will have a self-insured retention of $125,000 with pooled coverage from $125,000 through $200 million with the California State of Association of Counties (CSAC). Employee health benefits are provided by the City through participation in the Public Employee's Retirement System Health Benefits Program that is commonly referred to as PEMCHA.

All claims are investigated, valued, reserved, defended and/or settled in accordance with generally accepted insurance industry practices. There is one existing claim that could exceed the City's applicable coverage (Braff vs. the City of Solana Beach).

Pension and Other Post-Employment Benefits

The City contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. The City participates in three separate plans for its Miscellaneous, Fire, and Marine Safety employees. 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. As a matter of policy, the

City fully funds each year's annual required contribution received from PERS. PERS compiles an actuarial valuation annually which reflects status of the City's three employee groups' funding. The valuations are compiled a year after the collection of the annual required contributions and because of the time lag the City's retirement plans are sometimes underfunded or superfunded. The latest valuation reports received from the PERS actuary, dated October 17, 2006 for the period ended June 30, 2005, reflects that the Miscellaneous plan is under funded by 13.9%; the Fire plan is under funded by 15.8%; and the Marine plan is under funded by 13.8%.

The City also provides post-retirement health benefits for certain retirees. As of the end of the current fiscal year there were seventeen retired employees receiving this benefit that is financed on a pay-as-you-go basis. GAAP does not require governments to report a liability in the financial statements in connection with an employer's obligation to provide these benefits. On September 13, 2006, the City Council took adopted Resolution No. 2006-162 which capped the retiree health benefits for eligible retirees, current and employees hired after January 1, 2007. Eligible retirees can receive benefits which are capped at $325 per month, current employees hired before January 1, 2007 receive can receive benefits capped at $290 per month and employees hired after January 2007 can receive benefits at the PEMCHA minimum currently at $ 80.80 per month.

Additional information on the City's pension arrangements and post employment benefits can be found in the Notes to the Financial Statements.

Awards and Acknowledgments

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Solana Beach for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2005. This was the seventh consecutive year that the City has received this award. The Certificate of Achievement is a prestigious national award

recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such Comprehensive Annual Financial Reports must satisfy both Generally Accepted Accounting Principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements and we are submitting it to GFOA.

The preparation of the Comprehensive Annual Financial Report in accordance with the GASB 34 financial reporting model was made possible by the dedicated work of the Finance Department staff. Each member of the staff, Marie Marron Berkuti, Debbie Johnson, Sandi Lewis, and Aina Grant has our sincere appreciation for their contributions made in the preparation of this report. We would also like to thank the Mayor and Council for their continued support for maintaining the highest standards of professionalism in the management of the City's finances.

Respectfully submitted,

David Ott
City Manager/Director of Public Safety

Respectfully submitted,

Dennis M. Coleman
Finance Director/City Treasurer

CITY OF SOLANA BEACH
FISCAL YEAR 2005-2006
DIRECTORY OF OFFICIALS AND ADVISORY BODIES

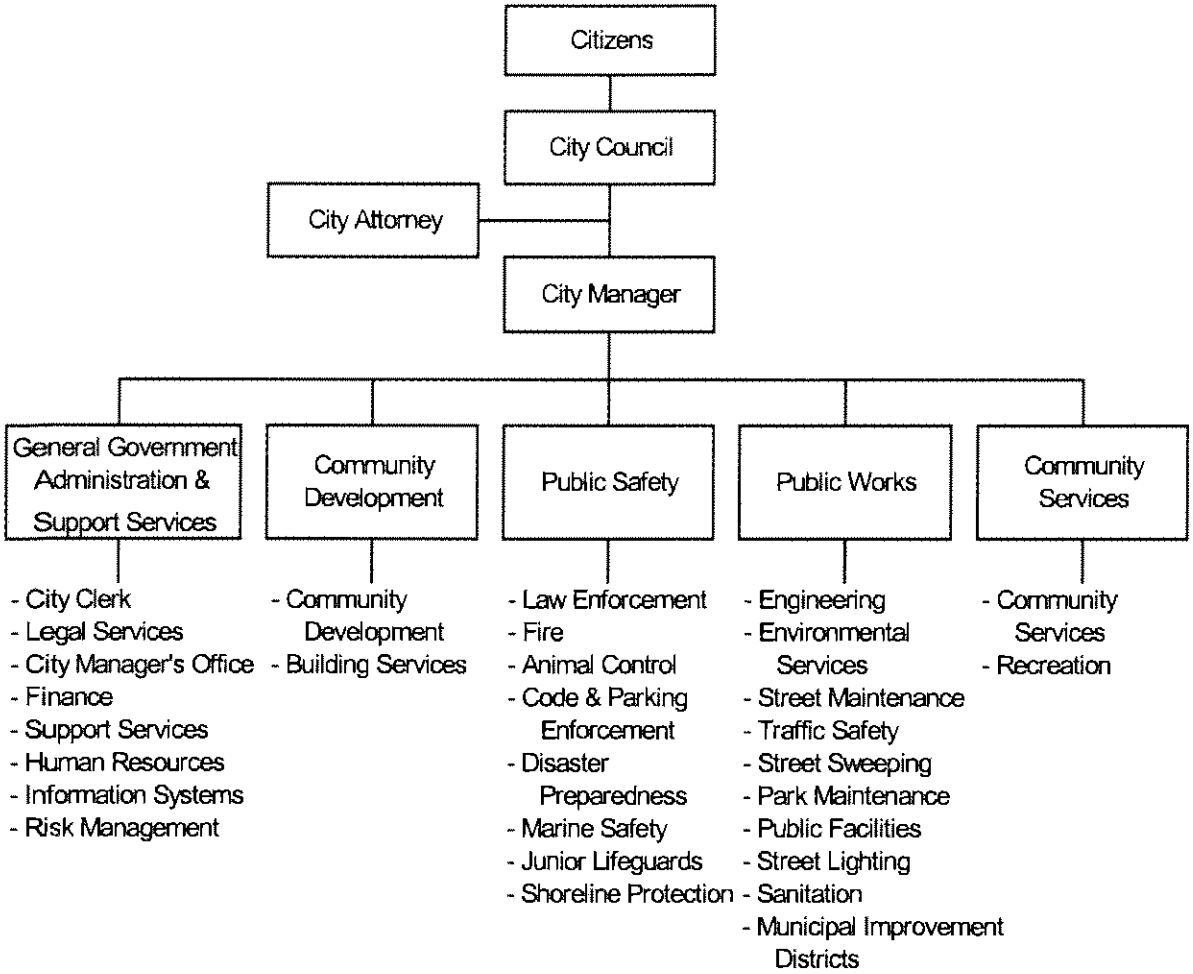
CITY COUNCIL	TERM EXPIRES
David A. Powell, Mayor	November 2006
Lesa Heebner, Deputy Mayor	November 2008
David W. Roberts, Council Member	November 2008
Joe G. Kellejian, Council Member	November 2008
Thomas M. Campbell, Council Member	November 2006

COMMITTEES AND COMMISSIONS

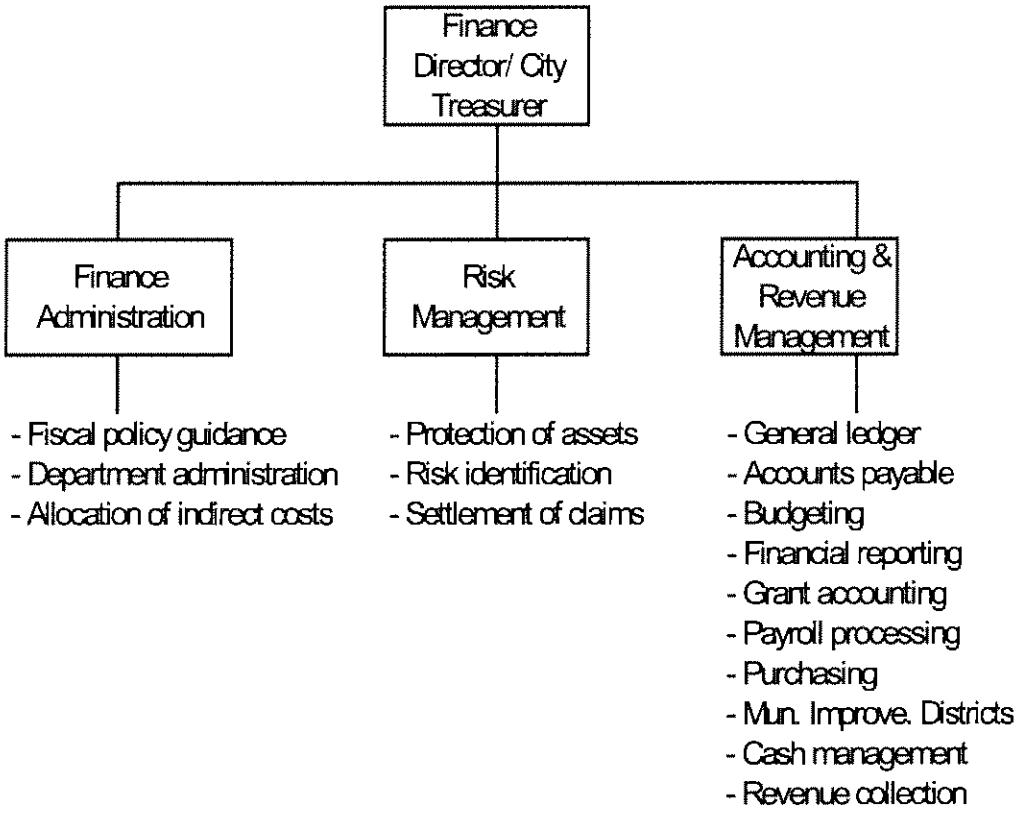
Budget & Finance Committee
Public Safety Commission
Parks & Recreation Committee
Public Arts Advisory Committee
View Assessment Committee

APPOINTED OFFICIALS AND DEPARTMENT DIRECTORS

Barry J. Johnson	City Manager
Chief David Ott	Deputy City Manager/Director of Public Safety
James P. Lough	City Attorney
Steve Apple	Director of Community Development
Dennis M. Coleman	Director of Finance/City Treasurer
Chandra Collure	Director of Public Works/City Engineer
Angela Ivey	City Clerk


Citizens
City Council
City Attorney
City Manager
General Government Administration & Support Services
Community Development
Public Safety
Public Works
Community Services
- City Clerk
- Legal Services
- City Manager's Office
- Finance
- Support Services
- Human Resources
- Information Systems
- Risk Management
- Community Development
- Building Services
- Law Enforcement
- Fire
- Animal Control
- Code & Parking Enforcement
- Disaster Preparedness
- Marine Safety
- Junior Lifeguards
- Shoreline Protection
- Engineering
- Environmental Services
- Street Maintenance
- Traffic Safety
- Street Sweeping
- Park Maintenance
- Public Facilities
- Street Lighting
- Sanitation
- Municipal Improvement Districts
- Community Services
- Recreation

CITY OF SOLANA BEACH
FINANCE DEPARTMENT
ORGANIZATIONAL CHART
FISCAL YEAR 2005/2006



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Solana Beach
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

(This page intentionally left blank)

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

Honorable Mayor and City Council
City of Solana Beach, California

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Solana Beach, 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 Solana Beach. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Solana Beach's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical 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 29, 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 29, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Solana Beach (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2006. It should be read in conjunction with the accompanying transmittal letter beginning on page i and the accompanying basic financial statements. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

- The City's net assets increased to $548,607 as a result of this year's operations.
- During the year, the City's taxes, other governmental revenues, and business activity revenues exceeded expenses by $5,572.
- Governmental net assets were $526,857.
- The total revenues from all sources were $23,346.
- The total cost of all City programs was $17,774.
- The General Fund reported an excess of revenues over expenditures and other financing uses of $511.
- Actual resources received in the General Fund exceeded final budget by $524 while actual expenditures were $1,327 less than final budget before other financing uses.
- At the end of the fiscal year, unreserved fund balance for the General Fund was $2,438 or 21.4% of total General Fund expenditures (excluding other financing uses).

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The three components of the financial statements are: (1) Government-wide financial statements, which include the Statement of Net Assets and the Statement of Activities. These statements provide information about the activities of the City as a whole. (2) Fund financial statements describe how City services are financed in the short term as well as what resources are available 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. (3) Notes to the financial statements.

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities (Government-wide)

A frequently asked question regarding the City's financial health is whether the year's activities contributed positively to the overall financial well-being. 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 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 accounted for regardless of when cash is received or paid.

These two statements report the City's net assets and changes thereto. 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 net assets are an indicator of whether the financial health is improving or deteriorating. However, it is important to consider other non-financial factors such as changes in the City's property tax base or condition of the City's roads to assess accurately the overall health of the City.

The Statement of Net Assets and the Statement of Activities, present information about the following:

- Governmental activities - All of the City's basic services are considered governmental activities, including general government, community development, public safety, public works, and community services. Property taxes, transient occupancy taxes, sales taxes, and franchise fees finance most of these activities.
- Proprietary activities/Business type activities - The City charges a fee to customers to cover all or most of the cost of the services provided. The City's Sanitation system is reported in this category.
- Component unit - The City's governmental activities include the blending of one separate legal entity: The City of Solana Beach Public Facilities Corporation. Although legally separate, this "component unit" is important because the City is financially accountable for it. The City of Solana Beach Public Facilities Corporation had no transactions, nor any assets, liabilities or equity over the past three fiscal years.

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. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds that aid in the administration of resources for particular purposes or to meet legal responsibilities associated with the usage of certain taxes, grants, and other money. The City's two kinds of funds, *governmental* and *proprietary*, use different accounting approaches as explained below.

- *Governmental funds* - Most of the City's basic services are reported in governmental funds. Governmental funds focus on how resources flow in and out with the balances remaining at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual*, which measures cash and all other *financial* assets that can readily be converted to cash. 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 shows whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* through a reconciliation in Note 1 in the Notes To Basic Financial Statements.

- *Proprietary funds* - When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities.

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. These fiduciary activities are reported in separate Statements of

Fiduciary Net Assets and Changes in Fiduciary Net Assets. The City is responsible for ensuring that the assets are used for their intended purposes. Therefore, fiduciary activities are excluded from the City's other financial statements because the assets cannot be used to finance operations.

THE CITY AS A WHOLE

Our analysis focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's governmental and business activities.

Table 1
City of Solana Beach Net Assets
(in Thousands)

	Governmental Activities		Business Activities		Total	
	2006	2005	2006	2005	2006	2005
Assets:						
Current and other assets	$ 24,644	$ 16,670	$ 26,637	$ 25,744	$ 51,281	$ 42,414
Capital assets, net	511,559	511,814	4,485	4,258	516,044	516,072
Total assets	536,203	528,484	31,122	30,002	567,325	558,486
Liabilities:						
Long-term debt outstanding	6,681	4,160	8,657	9,094	15,338	13,254
Other liabilities	2,665	1,642	716	555	3,381	2,197
Total liabilities	9,346	5,802	9,373	9,649	18,719	15,451
Net assets:						
Invested in capital assets, net of debt	508,884	509,151	4,485	4,258	513,369	513,409
Restricted	6,999	2,221	1,022	851	8,021	3,072
Unrestricted	10,975	11,310	16,243	15,244	27,218	26,554
Total net assets	$ 526,857	$ 522,682	$ 21,749	$ 20,353	$ 548,606	$ 543,035

The City's combined net assets for the fiscal year ended June 30, 2006 were $548,606. The City has chosen to account for its sanitation operations in an enterprise fund, which is shown as Business Activities on Table 1. The City's net assets for governmental activities increased from $522,682 to $526,857. The following is an explanation of the governmental activity changes between fiscal years as shown in Table 1:

- Current and other assets increased $7,974 or 48% principally due to increased cash holdings in assessment districts capital project funds and increased restricted cash with fiscal agent due to monies received from the Solana Beach Redevelopment Agency tax allocation bond issuance in June 2006.
- Capital assets decreased $255 (net of $26,579 depreciation and disposition) as detailed in Table 4. During fiscal year 2005-06, the Rosa Street Pedestrian Bridge was completed. The Bridge spans the separation grade for the North Country Transit District's Coaster and Amtrak trains between the Coastal Rail Trail and Cedros Avenue.
- Governmental long-term debt increased $2,521 due to the issuance of tax allocation bonds. See Table 5 for additional detail.
- Other liabilities increased $1,023 primarily due to reclassifying developer deposits from long-term debt to other liabilities.
- Investment in capital assets net of debt decreased $267 from an increase in accumulated depreciation over the prior fiscal year.
- Restricted net assets increased $4,778 primarily due to the inclusion of the Solana Beach Redevelopment Agency in the City's financial statements.
- Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements, decreased from $11,310 at June 30, 2005 to $10,975 at the end of this year. This net decrease of $335 is due principally to the costs associated with upgrading the City's information systems hardware and software, an increase in the City's contract with the County of San Diego for sheriff services, and increased costs for processing building permits and providing inspection services.

Governmental Activities

The cost of all Governmental activities this year was $14,440 as shown on Table 2 and 2.1. $1,946 of this cost was paid for by those who directly benefited from the programs, $2,009 was subsidized by grants received from other governmental organizations for both capital and operating activities, and $10,466 was financed through general City revenues. Overall governmental program revenues, including intergovernmental aid and fees for services were $3,955. Items of significance within Table 2 are:

Revenues:

- Charges for services increased by 19.8% as a result of increased plan check and inspection fees, citation fees collected from instituting the Redflex red light camera enforcement program, and increased collections from parking tickets issued.
- Grants and contributions decreased by 36.6% due to the inherent nature of timing differences between actual project expenditures and when reimbursements are received. The City makes every effort to request reimbursement from granting agencies shortly after project expenditures are known and paid.
- The general revenue categories rose over 9.2% predominantly because of increased motor vehicle-in-lieu receipts, transient occupancy tax collected from tourists staying in short-term vacation rentals, and increased investment income.

Expenses:

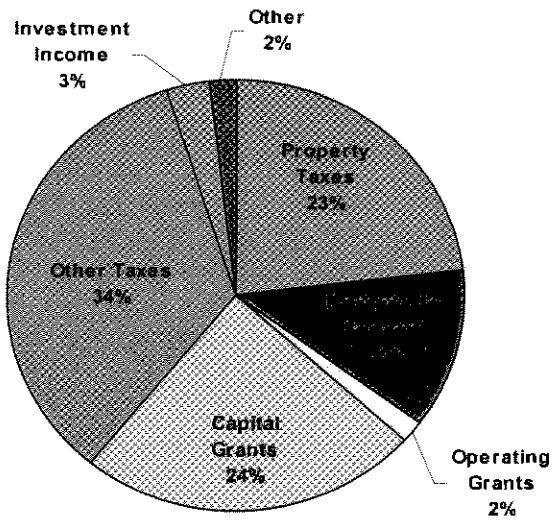
- General Government expenses increased $788 or 42.0% due to costs related to the city attorney staffing reorganization and increased retirement costs.
- The Public Safety line item increased by 5.0% due to annual increases related to police protection and increased firefighter retirement costs.
- Public Works experienced a 15.2% increase in expenses due primarily to increased retirement costs and payments to Redflex, the City's red light camera enforcement program.
- Community Development costs increased 32.2% resulting from increased private construction building permit processing and professional services, increased retirement costs, and costs associated with professional services provided for the Cedros Avenue special commercial zone and residential community character issues.
- Community Services increased 51.6% due primarily to depreciation costs associated with placing the Coastal Rail Trail into service.
- Interest on Long-term Debt realized a decrease of 6.8% resulting from lower amortized interest payments on current debt and by not incurring any new debt.

Table 2
City of Solana Beach Changes in Net Assets
(in Thousands)

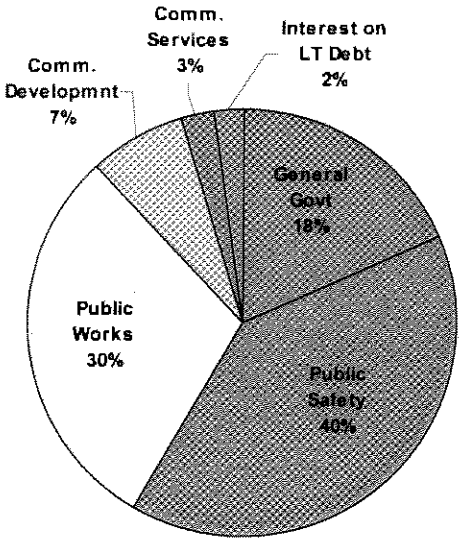
	Governmental Activities		Business Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	$ 2,288	$ 1,946	$ 3,741	$ 3,530	$ 6,029	$ 5,476
Operating grants and contributions	315	258			315	258
Capital grants and contributions	4,657	1,751			4,657	1,751
General revenues:						
Property taxes	4,479	4,031			4,479	4,031
Other taxes	6,625	5,723			6,625	5,723
Other	970	712	271	164	1,241	876
Total revenues	19,334	14,421	4,012	3,694	23,346	18,115
Expenses:						
General government	2,773	2,658			2,773	2,658
Public safety	6,087	5,700			6,087	5,700
Public works	4,484	4,725			4,484	4,725
Community development	1,090	805			1,090	805
Community services	394	414			394	414
Interest on long-term debt	330	138			330	138
Sanitation			2,616	2,799	2,616	2,799
Total expenses	15,158	14,440	2,616	2,799	17,774	17,239
Increase/(decrease) in net assets	4,176	(19)	1,396	895	5,572	876
Net assets - 07/01/05	522,682	522,701	20,353	19,458	543,035	542,159
Net assets - 06/30/06	$ 526,858	$ 522,682	$ 21,749	$ 20,353	$ 548,607	$ 543,035

Fiscal Year 2005
Governmental Activities
(Graphic representation of Table 2 in percentages)

Sources of Revenue



Program Expenses



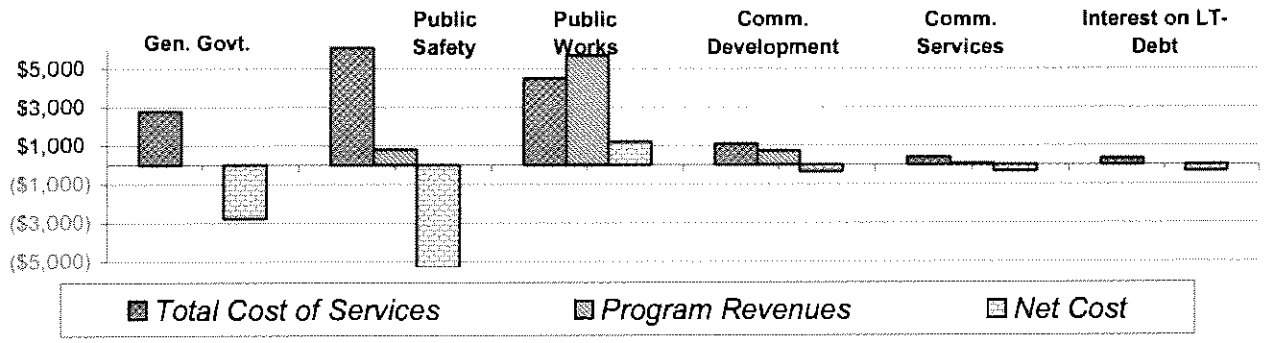
Net Cost of Governmental Activities

The City's programs include: General Government, Public Safety, Public Works, Community Development, and Community Services. Each programs' net cost (total cost less revenues generated by the activities) is presented on Table 2.1. The net cost shows the extent to which the City's general taxes support each of the City's programs.

Table 2.1
Net Cost of Governmental Activities
(in Thousands)

	Total Cost of Services		Program Revenues		Net Cost of Services	
	2006	2005	2006	2005	2006	2005
General government	$ 2,773	$ 2,658	$ -	$ -	$ (2,773)	$ (2,658)
Public safety	6,087	5,700	797	639	(5,290)	(5,061)
Public works	4,484	4,725	5,680	2,708	1,196	(2,017)
Community development	1,089	805	724	550	(365)	(255)
Community services	394	414	59	58	(335)	(356)
Interest on long-term debt	330	138	-	-	(330)	(138)
Totals	$ 15,157	$ 14,440	$ 7,260	$ 3,955	$ (7,897)	$ (10,485)

Total Cost of Services, Program Revenues & Net Cost
Governmental Activities
(in Thousands)



Total resources available during the year to finance governmental operations were $542,015 consisting of net assets at July 1, 2005 of $522,682, program revenues of $7,260, and general revenues of $12,074. Total governmental activities during the year were $15,158; thus net assets increased by $4,176 to $526,858.

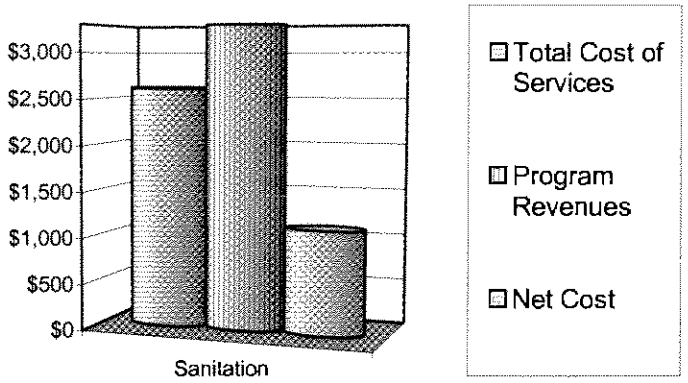
Business Type Activities

Net assets of the Proprietary Fund (Business Type activities) at June 30, 2006 as reflected in Table 1 were $210,749. As shown in Table 3, amounts paid by users of the system were $3,741 while the cost of providing all Proprietary (Business Type) activities this year was $2,616 resulting in a gain of $1,125. Net assets increased by $1,396 or 6.9%, primarily due to increased investment income and holding expenses in line with revenues.

Table 3
Net Cost of Business Activities
(in Thousands)

	Total Cost of Services		Program Revenue		Net Cost of Services	
	2006	2005	2006	2005	2006	2005
Sanitation	$ 2,616	$ 2,799	$ 3,741	$ 3,530	$ 1,125	$ 731

Fiscal Year 2006
Total Cost of Services, Program Revenues & Net Cost – Business Activities (in thousands)



General Fund Budgetary Highlights

The final appropriations for the City's General Fund at year-end were $1,327 less than actual expenditures prior to other financing uses. The budget to actual variance in appropriations was principally due to conservative estimates at mid-year by management. Actual revenues compared favorably to the final budget resulting in a $524 excess (excluding other financing sources). Budget amendments and supplemental appropriations were made during the normal course of business to increase appropriations for unanticipated expenditures after adoption of the original budget. Significant supplemental appropriations were:

- $238 for increased City Attorney retainer costs and hiring additional outside counsel to address various litigation issues,
- $36 for costs to cover Finance Department and City Clerk vacancies,
- $54 for increased PERS and cafeteria benefit costs,
- $222 for increased permit processing and building inspection costs,
- $22 for costs associated with the Human Resources, Finance, and Planning departments reorganization,
- $83 toward consulting services relating to the Cedros Special Community and Mansionization projects,
- $222 for increased permit processing and building inspection costs, and
- $474 towards upgrading the City's network systems.

Significant budgetary variations between certain departments' final amended budget versus actual for the general fund were:

- Information systems: savings occurred from the budgeted network systems upgrade being unspent.
- Support services: actual damage claims paid were significantly lower than budgeted.
- Street and other: professional service expense was lower than budgeted in street maintenance, traffic safety, and environmental services.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The capital assets of the City are those assets that are used in performance of City functions including infrastructure assets. Capital assets include equipment, buildings, land, park facilities, and roads. GASB Statement No. 34 allows four years after the year of original implementation to have a complete inventory of infrastructure related capital assets. The City implemented GASB 34 in fiscal year 2001.

At June 30, 2006, net capital assets of the governmental activities totaled $511,559 and the net capital assets of the business-type activities totaled $4,485. Depreciation on capital assets is recognized in the government-wide financial statements. (See Table 4 and Note 5 to the financial statements.)

The City's five-year Capital Improvement Plan projects spending of $30,900 through fiscal 2010-11. Over the next five years, funding will come from current fund balances, projected revenues and the Redevelopment Agency. Significant projects are: the Cliff Street Pedestrian Bridge, the Fletcher Cove Master Plan Implementation, the Interstate 5 and Lomas Santa Fe Interchange, rebuilding the Eden Gardens Pump Station, the Solana Beach Force Main, the Solana Beach Pump Station, and replacement of the Del Mar Shores Staircase.

Table 4
City of Solana Beach Capital Assets at Year-End
(Net of Depreciation)
(In Thousands)

	Governmental Activities		Business Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	$ 473,451	$ 473,451	$ 12	$ 12	$ 473,463	$ 473,463
Buildings & Improvements	8,539	8,632	3,689	3,756	12,228	12,388
Equipment & Vehicles	931	851	1	2	932	853
Infrastructure	27,514	27,482	-	-	27,514	27,482
Work in Progress	1,124	1,398	783	488	1,907	1,886
	$ 511,559	$ 511,814	$ 4,485	$ 4,258	$ 516,044	$ 516,072

Debt

At year-end, the City had $6,681 in governmental type debt, and $8,657 proprietary debt (including premium on debt issuance). The debt is a liability of the government and amounts to $884.15 per capita. (See Table 5 and Note 6 to the financial statements for detailed descriptions)

Table 5
City of Solana Beach Outstanding Debt at Year-End
(In Thousands)

	Governmental Activities		Business Activities		Total	
	2006	2005	2006	2005	2006	2005
Lease Revenue Bonds	$ 2,725	$ 2,915	$ -	$ -	$ 2,725	$ 2,915
Tax Allocation Bonds	3,555					
Loans Payable	-	-	8,565	9,025	8,565	9,025
Compensated Absences	279	258	17	16	296	274
Claims Payable	122	167	75	53	197	220
	$ 6,681	$ 3,340	$ 8,657	$ 9,094	$ 11,783	$ 12,434

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

In considering the City Budget for fiscal year 2006-2007, the City Council and management were optimistic about revenue stability due to the passage of Proposition 1A which protects local funding for public safety, health, libraries, parks, and other locally delivered services and prohibits the State from reducing local government property tax proceeds. It also requires local sales tax revenues remain with local government and be spent for local purposes. Overall, the budget anticipates General Fund revenue growth of approximately 12.6%. The CIP budget was set to be $17,486 for the upcoming year. Property Tax and Sales Tax revenues were estimated to grow approximately 12.6% and 7.3% respectively.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's fiduciary responsibility for the funds it receives. If you have questions about this report or need additional financial information, contact the City's Finance Department, at the City of Solana Beach, 635 South Highway 101, Solana Beach, California 92075 or online: http://www.ci.solana-beach.ca.us.

CITY OF SOLANA BEACH
Statement of Net Assets
June 30, 2006

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and investments (Note 2)	$ 19,978,467	6,722,855	26,701,322
Receivables:			
Accounts	265,209	336,351	601,560
Taxes	477,737	-	477,737
Interest	201,886	70,703	272,589
Due from other governments	116,036	-	116,036
Restricted cash with fiscal agent (Note 2)	3,604,528	862,417	4,466,945
Long term receivable	-	89,838	89,838
Deferred debt issuance cost	-	682,705	682,705
Investment in joint venture (including unamortized premium of $249,893) (Note 8)	-	17,871,647	17,871,647
Capital assets (Note 5):		-	
Non-depreciable capital assets	474,574,803	795,298	475,370,101
Depreciable capital assets	63,563,436	7,095,774	70,659,210
Less: Accumulated depreciation	(26,579,195)	(3,405,626)	(29,984,821)
Total assets	536,202,907	31,121,962	567,324,869
Liabilities			
Accounts payable	1,436,636	229,940	1,666,576
Accrued salaries and benefits	184,559	3,528	188,087
Accrued interest payable	24,367	125,800	150,167
Deposits payable	860,460	-	860,460
Unearned revenue	158,587	-	158,587
Premium on debt issuance	-	356,652	356,652
Noncurrent liabilities (Note 6):			
Due within one year	316,614	471,390	788,004
Due in more than one year	6,364,303	8,185,290	14,549,593
Total liabilities	9,345,526	9,372,600	18,718,126
Net assets			
Invested in capital assets, net of accumulated depreciation and related debt	508,883,572	4,485,446	513,369,018
Restricted for:			
Community development	348,050		348,050
Public safety	79,146		79,146
Public works	3,140,535		3,140,535
Redevelopment activities	3,431,356		3,431,356
Debt service		1,021,293	1,021,293
Unrestricted	10,974,722	16,242,623	27,217,345
Total net assets	526,857,381	21,749,362	548,606,743

See accompanying notes to basic financial statements.

CITY OF SOLANA BEACH
Statement of Activities
Year ended June 30, 2006

		Program Revenues			
	Expenses	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	Total Program Revenues
Governmental activities:					
General government	$ 2,773,232	-	-	-	-
Public safety	6,087,407	612,036	2,460	181,974	796,470
Public works	4,483,800	892,979	312,172	4,475,229	5,680,380
Community development	1,089,476	723,716	-	-	723,716
Community services	393,590	59,245	-	-	59,245
Interest on long-term debt and other fiscal charges	330,382	-	-	-	-
Total governmental activities	15,157,887	2,287,976	314,632	4,657,203	7,259,811
Business-type activities:					
Sanitation	2,616,081	3,741,212	-	-	3,741,212
Total business-type activities					
Total primary government	$ 17,773,968	6,029,188	314,632	4,657,203	11,001,023

General revenues:
Taxes:
Property taxes, levied for general purpose
Transient occupancy taxes
Sales taxes
Franchise taxes
Other taxes
Investment income
Uses of money and property
Other

Total general revenues

Change in net assets

Net assets at beginning of year

Net assets at end of year

See accompanying notes to basic financial statements.

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
(2,773,232)	-	(2,773,232)
(5,290,937)	-	(5,290,937)
1,196,580	-	1,196,580
(365,760)	-	(365,760)
(334,345)	-	(334,345)
(330,382)	-	(330,382)
(7,898,076)	-	(7,898,076)
-	1,125,131	1,125,131
(7,898,076)	1,125,131	(6,772,945)
4,478,992	-	4,478,992
919,639	-	919,639
2,943,359	-	2,943,359
569,936	-	569,936
2,191,678	-	2,191,678
606,068	271,140	877,208
26,227	-	26,227
337,900	-	337,900
12,073,799	271,140	12,344,939
4,175,723	1,396,271	5,571,994
522,681,658	20,353,091	543,034,749
$ 526,857,381	21,749,362	548,606,743

See accompanying notes to basic financial statements.

(This page intentionally left blank)

CITY OF SOLANA BEACH
Governmental Fund Types
Balance Sheet
June 30, 2006

Assets	General Fund	Other Governmental Funds	Totals 2006	Totals 2005
Cash and investments (Note 2)	$11,852,970	8,125,497	19,978,467	15,535,379
Receivables:				
Accounts	47,037	218,172	265,209	19,396
Tax	457,870	19,867	477,737	438,918
Interest	147,660	54,226	201,886	101,310
Due from other governments	116,036	-	116,036	322,693
Restricted cash with fiscal agent (Note 2)	-	3,604,528	3,604,528	251,715
Due from other funds (Note 3)	593,817	-	593,817	1,247,919
Total assets	$13,215,390	12,022,290	25,237,680	17,917,330
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	$ 968,337	468,299	1,436,636	1,368,898
Accrued liabilities	180,989	3,570	184,559	97,556
Deposits payable	860,460	-	860,460	819,998
Deferred revenue	-	145,559	145,559	152,533
Due to other funds (Note 3)	-	593,817	593,817	1,247,919
Total liabilities	2,009,786	1,211,245	3,221,031	3,686,904
Fund balances:				
Reserved for encumbrances	410,737	620,017	1,030,754	638,319
Reserved for debt service	-	2,126,010	2,126,010	251,715
Reserved for housing	-	450,651	450,651	341,698
Reserved for capital projects	-	101,141	101,141	101,141
Reserved for developer fees	223,269	-	223,269	416,897
Unreserved:				
Designated for:				
Specific projects and programs reported in:				
General fund	8,287,170	-	8,287,170	8,852,945
Special revenue funds	-	377,623	377,623	408,021
Undesignated, reported in:				
General fund	2,284,428	-	2,284,428	1,297,223
Special revenue funds	-	2,438,008	2,438,008	1,269,779
Capital projects funds	-	4,697,595	4,697,595	652,688
Total fund balances (deficit)	11,205,604	10,811,045	22,016,649	14,230,426
Total liabilities and and fund balances	$13,215,390	12,022,290	25,237,680	17,917,330

See accompanying notes to basic financial statements.

CITY OF SOLANA BEACH
Governmental Funds
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2006

Fund balances of governmental funds	$ 22,016,649
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets net of depreciation have not been included as financial resources in governmental fund activity.	
Capital assets	538,138,239
Accumulated depreciation	(26,579,195)
Long term debt and compensated absences that have not been included in the governmental fund activity.	
Bonds payable	(6,280,000)
Claims payable	(122,419)
Compensated absences	(278,498)
Accrued interest payable for the current portion of interest due on debt service has not been reported in the governmental funds.	(24,367)
The annual business license revenue collected in January each fiscal year pertains to a license period extending six months into the following fiscal year. Therefore, six months revenue is recorded as deferred revenue.	(13,028)
Net assets of governmental activities	$ 526,857,381

See accompanying notes to basic financial statements.

CITY OF SOLANA BEACH
Governmental Fund Types
Statement of Revenues, Expenditures and Changes in Fund Balances
Year ended June 30, 2006

	General Fund	Other Governmental Funds	Totals 2006	Totals 2005
Revenues:				
Taxes and assessments	$ 9,646,474	1,145,625	10,792,099	9,268,752
Intergovernmental	1,326,445	2,265,607	3,592,052	3,901,446
Licenses and permits	359,960	-	359,960	305,807
Charges for services	655,250	13,726	668,976	421,033
Fines and forfeitures	381,016	-	381,016	336,224
Contributions from property owners	-	2,712,563	2,712,563	-
Investment income	423,489	187,893	611,382	228,238
Uses of money and property	26,853	-	26,853	130,602
Other	479,830	7,381	487,211	422,028
Total revenues	13,299,317	6,332,795	19,632,112	15,014,130
Expenditures:				
Current:				
General government	2,630,670	444,103	3,074,773	2,602,447
Public safety	5,894,925	127,243	6,022,168	5,913,793
Public works	1,563,540	830,964	2,394,504	2,157,684
Community development	1,088,025	-	1,088,025	792,434
Community services	203,341	-	203,341	236,705
Capital outlay	-	2,091,842	2,091,842	4,154,864
Debt service (Note 6):				
Principal retirement	-	190,000	190,000	224,025
Interest	-	232,202	232,202	139,681
Pass-through payments	-	104,034	104,034	-
Total expenditures	11,380,501	4,020,388	15,400,889	16,221,633
Excess (deficiency) of revenues over (under) expenditures	1,918,816	2,312,407	4,231,223	(1,207,503)
Other financing sources (uses):				
Long-term debt issued (Note 6)	-	3,555,000	3,555,000	-
Transfers in (Note 4)	-	3,280,519	3,280,519	1,248,917
Transfers out (Note 4)	(1,407,742)	(1,872,777)	(3,280,519)	(1,248,917)
Total other financing sources (uses)	(1,407,742)	4,962,742	3,555,000	-
Net change in fund balances	511,074	7,275,149	7,786,223	(1,207,503)
Fund balances (deficit), beginning of year	10,694,530	3,535,896	14,230,426	15,437,929
Fund balances (deficit), end of year	$ 11,205,604	10,811,045	22,016,649	14,230,426

See accompanying notes to basic financial statements.

CITY OF SOLANA BEACH
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	$ 7,786,223
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 outlay, net of disposals	2,253,161
Depreciation, net of accumulated depreciation disposals	(2,508,368)
Proceeds from issuance of bonds payable is a revenue in the governmental funds but increases long-term liabilities in the statement of net assets.	(3,555,000)
Repayment of debt service principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	190,000
Accrued interest for debt service. This is the net change in accrued interest for the current period.	(13,083)
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.	23,780
Since the amount of business license revenue collected in January of each fiscal year pertains to a license period extending six months into the following fiscal year, it is recorded as deferred revenue on the statement of net assets.	(990)
Change in net assets of governmental activities	$ 4,175,723

See accompanying notes to basic financial statements.

CITY OF SOLANA BEACH
Proprietary Fund
Statement of Net Assets
June 30, 2006

	Enterprise Fund-Sanitation	
Assets	**2006**	**2005**
Current assets:		
Cash and investments (Note 2)	$ 6,722,855	5,962,887
Restricted cash with fiscal agent (Note 2)	862,417	839,363
Receivables:		
Accounts	336,351	298,792
Interest	70,703	48,099
Due from joint venture	-	-
Total current assets	7,992,326	7,149,141
Noncurrent assets:		
Sewer fees receivable	89,838	46,535
Deferred debt issuance costs	682,705	731,469
Investment in joint venture (including unamortized premium of $249,893) (Note 8)	17,871,647	17,816,811
Capital assets, net (Note 5)	4,485,446	4,258,382
Total noncurrent assets	23,129,636	22,853,197
Total assets	31,121,962	30,002,338
Liabilities		
Current liabilities:		
Accounts payable	229,940	40,636
Accrued salaries and benefits	3,528	3,260
Accrued interest payable	125,800	129,633
Loans payable (Note 6)	470,000	460,000
Compensated absences	1,390	1,297
Total current liabilities	830,658	634,826
Noncurrent liabilities:		
Compensated absences payable	15,290	14,269
Claims payable	75,000	53,025
Premium on debt issuance	356,652	382,127
Loan payable (Note 6)	8,095,000	8,565,000
Total noncurrent liabilities	8,541,942	9,014,421
Total liabilities	9,372,600	9,649,247
Net Assets		
Invested in capital assets, net of accumulated depreciation and related debt	4,485,446	4,258,382
Restricted for debt service	1,021,293	850,800
Unrestricted	16,242,623	15,243,909
Total net assets	$21,749,362	20,353,091

See accompanying notes to basic financial statements.

CITY OF SOLANA BEACH
Proprietary Fund
Statement of Revenues,
Expenses and Changes in Fund Net Assets
Year Ended June 30, 2006

	Enterprise Fund - Sanitation	
	2006	2005
Operating revenues:		
Charges for sales and services:		
Sewer service and connection fees	$ 3,714,144	3,516,154
Other	27,068	14,273
Total operating revenues	3,741,212	3,530,427
Operating expenses:		
Cost of sales and services	1,742,119	1,765,678
Administration	182,457	187,833
Depreciation	165,271	163,315
Total operating expenses	2,089,847	2,116,826
Total operating income	1,651,365	1,413,601
Nonoperating revenues (expenses):		
Investment income	271,140	164,044
Interest expense	(359,592)	(370,925)
Amortization of premium	(10,945)	(10,945)
Share in joint venture net loss	(155,697)	(300,188)
Total nonoperating revenues (expenses)	(255,094)	(518,014)
Net change in net assets	1,396,271	895,587
Net assets, beginning of year	20,353,091	19,457,504
Net assets, end of year	$21,749,362	$20,353,091

See accompanying notes to basic financial statements.

CITY OF SOLANA BEACH
Proprietary Fund
Statement of Cash Flows
Year ended June 30, 2006

	Enterprise Fund -Sanitation	
	2006	2005
Cash flows from operating activities:		
Cash received from customers and other governments	$ 3,633,282	3,317,877
Cash payments to suppliers for goods and services	(1,530,840)	(1,709,916)
Cash payments to employees for services	(181,075)	(193,288)
Cash received for other operating activities	27,068	14,273
Net cash provided by operating activities	1,948,435	1,428,946
Cash flows from capital related and financing activities:		
Principal payments on long-term liabilities	(485,475)	(475,475)
Interest paid on long-term liabilities	(314,661)	(325,910)
Payments on issuance of debt	(408,600)	(468,711)
Purchase of capital assets	(227,064)	(126,637)
Net cash used for capital related and financing activities	(1,435,800)	(1,396,733)
Cash flows from investing activities-interest income	248,536	136,117
Net increase (decrease) in cash and cash equivalents	761,171	168,330
Cash and cash equivalents, beginning of year	5,963,334	5,795,004
Cash and cash equivalents, end of year	$ 6,724,505	5,963,334
Reconciliation of cash equivalents to the statement of net assets		
Cash and investments reported on statement of net assets	6,722,855	5,962,887
Cash and investments with fiscal agent reported on statement of net assets	862,417	839,363
Less: Investments that do not qualify as cash equivalents	(860,767)	(838,916)
Cash and cash equivalents	$ 6,724,505	5,963,334
Reconciliation of operating income to net cash used for operating activities:		
Operating income	$ 1,651,365	1,413,601
Adjustments to reconcile operating income to net cash used for operating activities:		
Depreciation	165,271	163,315
(Increase) decrease in accounts receivable	(37,559)	(213,788)
(Increase) decrease in sewer fees receivable	(43,303)	15,511
(Increase) decrease in due from SEPA joint venture	-	130,341
Increase (decrease) in accounts payable and other liabilities	211,547	(80,792)
Increase (decrease) in compensated absences	1,114	758
Net provided by operating activities	$ 1,948,435	1,428,946

Noncash investing, capital and financing activities:

During the year June 30, 2006, there were noncash investment activities of: $155,697 which related to the decrease in share of joint venture equity; and $10,945 which related to the amortization of debt premium.

See accompanying notes to basic financial statements.

CITY OF SOLANA BEACH
Agency Fund
Statement of Fiduciary Assets and Liabilities
June 30, 2006

Assets	**Assessment Districts**	
	2006	**2005**
Cash and investments	$ 153,499	$ 12,706
Interest receivable	91	58
Total assets	$ 153,590	$ 12,764
Liabilities		
Due to bondholders	$ 153,590	$ 12,764

See accompanying notes to basic financial statements.

(1) Reporting Entity and Summary of Significant Accounting Policies

(a) Summary of Significant Accounting Policies

The basic financial statements of the City have been prepared in conformity with generally accepted accounting principles as applicable to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The Financial Reporting Entity

The financial statements of the City of Solana Beach include the financial activities of the City and the Solana Beach Public Facilities Corporation.

Since the Solana Beach City Council acts as the Board of Directors and is able to impose its will on the Public Facilities Corporation, the City is considered to be the primary government and the other entity is a component unit. Additionally, since the governing boards of the City and the component unit are the same, the financial statements of the City and the component unit are blended. Separate component unit financial statements are not issued for the Solana Beach Public Facilities Corporation.

The City of Solana Beach was formed July 1, 1986 after an election held June 3, 1986 in the proposed incorporated area. The City's incorporation involved a reorganization consisting primarily of the incorporation of the City of Solana Beach; the detachment of territory from the Cardiff Sanitation District and annexation of the same territory to the Solana Beach Sanitation District; the establishment of the Solana Fire Protection District and Solana Beach Sanitation District as subsidiary districts of the City; and the establishment of five improvement (special revenue) districts of the City which coincide with five previously existing county service areas (CSAs). The City merged the Fire District into the City by dissolving the District and creating a separate Fire Department within the City's General Fund effective January 1, 1988. Effective July 1, 1990, the Solana Beach Sanitation District was dissolved and is now a department of the City.

The Solana Beach Public Facilities Corporation was incorporated on July 25, 1990 as a nonprofit public benefit corporation duly organized and existing under the Nonprofit Public Benefit Corporation Law. Its purpose is to benefit the City by providing financing for the planning; development; acquisition; construction; improvement; extension; repair; and renovation of public works projects; public facilities; furnishings and equipment for use by the City.

(1) Reporting Entity and Summary of Significant Accounting Policies, (Continued)

(b) Basis of Accounting and Measurement Focus

The *basic financial statements* of the City are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to basic financial statements

Financial reporting is based upon all GASB pronouncements, as well as the FASB Statements and Interpretations, APB Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. FASB pronouncements issued after November 30, 1989 are not followed in the preparation of the accompanying financial statements.

Government-wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the primary government (including its blended component units). Eliminations have been made in the Statement of Activities so that certain allocated expenses are recorded only once (by the function to which they were allocated). However, general government expenses have not been allocated as indirect expenses to the various functions of the City.

Government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. *Basis of accounting* refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with GASB Statement No. 33 government-wide activity requirements.

(1) Reporting Entity and Summary of Significant Accounting Policies, (Continued)

(b) Basis of Accounting and Measurement Focus, (Continued)

Program revenues include charges for services, special assessments, and payments made by parties outside of the reporting government's citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the statement of activities to present the net cost of each program.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as an expenditure.

Fund Financial Statements

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

Fund financial statements for the primary government's governmental, proprietary, and fiduciary funds are presented after the government-wide financial statements. These statements display information about the major fund individually and nonmajor funds in the aggregate for governmental and enterprise funds. Fiduciary statements include financial information for fiduciary funds and similar component units. Fiduciary funds of the City primarily represent assets held by the City in a custodial capacity for other individuals or organizations.

Governmental Funds

In the fund financial statements, governmental funds are presented using the *modified-accrual basis of accounting*. Their revenues are recognized when they become *measurable* and *available* as net current assets. *Measurable* means that the amounts can be estimated, or otherwise

determined. *Available* means that the amounts were collected during the

(1) Reporting Entity and Summary of Significant Accounting Policies, (Continued)

(b) Basis of Accounting and Measurement Focus, (Continued)

reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The City uses an availability period of 60 days.

Sales taxes, property taxes, franchise taxes, gas taxes, motor vehicles in lieu, transient occupancy taxes, grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period to the extent normally collected within the availability period. Other revenue items are considered to be measurable and available where cash is received by the government.

Revenue recognition is subject to the *measurable* and *available* criteria for the governmental funds in the fund financial statements. *Exchange transactions* are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). *Locally imposed derived tax revenues* are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. *Imposed nonexchange* transactions are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. *Government-mandated and voluntary nonexchange transactions* are recognized as revenues when all applicable eligibility requirements have been met.

In the fund financial statements, governmental funds are presented using the *current financial resources measurement focus*. This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance (net current assets) is considered to be a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Non-current portions of long-term receivables due to governmental funds are reported on their balance sheets in spite of their spending measurement focus. Special reporting treatments are used to indicate,

however, that they should not be considered "available spendable

(1) Reporting Entity and Summary of Significant Accounting Policies, (Continued)

(b) Basis of Accounting and Measurement Focus, (Continued)

resources," since they do not represent net current assets.

Revenues, expenditures, assets, and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33 which requires that local governments defer grant revenue that is not received within the City's adopted policy of 60 days after the fiscal year ends to meet the "available" criteria of revenue recognition. In the past, the industry practice for grants was to recognize revenue in the fiscal year in which the related expense was incurred. Therefore recognition of governmental fund type revenue represented by non-current receivables are deferred until they become current receivables. Non-current portions of other long-term receivables are offset by fund balance reserve accounts.

Due to the nature of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as *expenditures* in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as *other financing sources* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

When both restricted and unrestricted resources are combined in a fund, expenses are considered to be paid first from restricted resources, and then from unrestricted resources.

Proprietary and Fiduciary Funds

The City's enterprise fund is a proprietary fund. In the fund financial statements, the proprietary fund is presented using the *accrual basis of accounting*. Revenues are recognized when they are earned and expenses are recognized when the related goods or services are delivered. In the fund financial statements, the proprietary fund is presented using the *economic resources measurement focus*. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Proprietary fund type operating statements present increases (revenues)

and decreases (expenses) in total net assets.

(1) Reporting Entity and Summary of Significant Accounting Policies, (Continued)

(b) Basis of Accounting and Measurement Focus, (continued)

Proprietary and Fiduciary Funds (continued)

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies, taxes, and investment earnings result from nonexchange transactions or ancillary activities. Amounts paid to acquire capital assets are capitalized as assets in the enterprise fund financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the enterprise fund financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the enterprise fund are reported as a reduction of the related liability, rather than as an expenditure. Agency funds are custodial in nature (assets equal liabilities) and do not involve the recording of City revenues and expenses.

(c) Fund Classifications

The City reports the following major funds:

General Fund. This is the primary operating fund of the City. It accounts for all activities of the general government, except those required to be accounted for in another fund.

Enterprise Fund. This fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that costs of providing sewage and wastewater treatment services to the general public on a continuing basis be financed or recovered primarily through user charges.

The City's fund structure also includes the following fund type:

Agency Funds. This fund is used to account for the Cedros Avenue, Barbara Avenue, and Pacific Avenue Assessment Districts for which the City acts as an agent for debt service activity.

(1) Reporting Entity and Summary of Significant Accounting Policies, (Continued)

(d) Explanation of Differences between Governmental Funds Balance Sheet and the Statement of Net Assets

The "total fund balances" of the City's governmental funds $22,016,647 differs from "net assets" of governmental activities $526,857,380 reported in the statement of net assets. This difference primarily results from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets.

Capital Related Items

When capital assets (property, plant, equipment) that are to be used in governmental activities are purchased or constructed, the costs of those assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the City as a whole.

Cost of capital assets	$538,138,239
Accumulated depreciation	(26,579,195)
Total capital assets, net	$511,559,044

Long-term Debt Transactions

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities (both current and long-term) are reported in the statement of net assets.

Bonds payable	$6,280,000
Claims payable	122,419
Compensated absences	278,498
Total long-term liabilities	$6,680,917

(1) Reporting Entity and Summary of Significant Accounting Policies, (Continued)

(d) Explanation of Differences between Governmental Funds Balance Sheet and the Statement of Net Assets, (Continued)

Assets	Total Governmental Funds	Capital Related Items	Accumulated Depreciation	Long-term Debt Transactions
Cash and investments	$ 19,978,467	-	-	-
Receivables:				
Accounts	265,209	-	-	-
Tax	477,737	-	-	-
Interest	201,886	-	-	-
Due from other governments	116,036	-	-	-
Restricted cash with fiscal agent	3,604,528	-	-	-
Due from other funds	593,817	-	-	-
Capital assets	-	538,138,239	-	-
Less: Accumulated depreciation	-	-	(26,579,195)	-
Total assets	$ 25,237,680	538,138,239	(26,579,195)	-
Liabilities and Fund Balances/Net Assets				
Liabilities:				
Accounts payable	$ 1,436,636	-	-	-
Accrued salaries and benefits	184,559	-	-	-
Accrued interest payable	-	-	-	-
Deposits payable	860,460	-	-	-
Deferred revenue	145,559	-	-	-
Due to other funds	593,817	-	-	-
Long-term liabilities	-	-	-	6,280,000
Total liabilities	3,221,031	-	-	6,280,000
Fund balances/net assets	22,016,648	538,138,239	(26,579,195)	(6,280,000)
Total liabilities and and fund balances/net assets	$ 25,237,680	538,138,239	(26,579,195)	-

Interest Payable	Claims Payable	Compensated Absences	Certain Revenue	Reclassifications and Eliminations	Statement of Net Assets
-	-	-	-	-	19,978,467
-	-	-	-	-	265,209
-	-	-	-	-	477,737
-	-	-	-	-	201,886
-	-	-	-	-	116,036
-	-	-	-	-	3,604,528
-	-	-	-	(593,817)	-
-	-	-	-	-	538,138,239
-	-	-	-	-	(26,579,195)
-	-	-	-	(593,817)	536,202,907
-	-	-	-	-	1,436,636
-	-	-	-	-	184,559
24,367	-	-	-	-	24,367
-	-	-	-	-	860,460
-	-	-	13,028	-	158,587
-	-	-	-	(593,817)	-
-	122,419	278,498	-	-	6,680,917
24,367	122,419	278,498	13,028	(593,817)	9,345,526
(24,367)	(122,419)	(278,498)	(13,028)	-	526,857,380
-	-	-	-	(593,817)	536,202,907

(1) Reporting Entity and Summary of Significant Accounting Policies, (Continued)

(d) Explanation of Differences between Governmental Funds Balance Sheet and the Statement of Net Assets, (Continued)

Accrued Interest

Accrued liabilities in the statement of net assets differs from the amount reported in governmental funds due to accrued interest on outstanding debt payable (see Note 6).

Accrued interest added	$24,367

Certain Revenue

Business License renewals are billed on January 1, and are due on January 31, for the license period beginning on January 1. Since the amount collected pertains to a license period extending six months into the following fiscal year, the portion of business licenses collected pertaining to the next fiscal year is recorded as *deferred revenue* on the Statement of Net Assets. Such deferred revenues are earned in the subsequent fiscal year.

Business license deferred revenue	$13,028

Reclassifications and Eliminations

Interfund balances must generally be eliminated in the government-wide statements, except for net residual amounts due between governmental activities. Amounts involving fiduciary funds should be reported as external transactions. Any allocations must reduce the expenses of the function from which the expenses are being allocated, so that expenses are reported only once - in the function in which they are allocated.

(1) Reporting Entity and Summary of Significant Accounting Policies, (Continued)

(e) Explanation of Differences between Governmental Fund Operating Statements and the Statement of Activities

The "net change in fund balances" for governmental funds $7,786,223 differs from the "change in net assets" for governmental activities $4,175,723 reported in the statement of activities. The differences arise primarily from the long-term economic focus of the statement of activities versus the current financial resources focus of the governmental funds. The effect of the differences is illustrated below.

Capital Related Items

When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balance decreases by the amount of financial resources expended, whereas net assets decreased by the amount of depreciation expense charged for the year.

Capital additions, net of disposals	$2,253,161
Depreciation expenses, net of disposals	(2,508,368)
Difference	$ (255,207)

Long-term Debt Transactions

Proceeds from the issuance of bonds payable increases long-term liabilities in the statement of net assets and therefore are not reported as other financing sources in governmental funds.

Proceeds from issuance of bonds	$(3,555,000)

(1) Reporting Entity and Summary of Significant Accounting Policies, (Continued)

(e) Explanation of Differences between Governmental Fund Operating Statements and the Statement of Activities, (Continued)

	Total Governmental Funds	Capital Related Items	Accumulated Depreciation	Long-term Debt Transactions
Revenues:				
Taxes and assessments	$ 10,792,099	-	-	-
Intergovernmental	3,592,052	-	-	-
Licenses and permits	359,960	-	-	-
Charges for services	668,976	-	-	-
Fines and forfeitures	381,016	-	-	-
Contributions from property owners	2,712,563	-	-	-
Investment income	611,382	-	-	-
Uses of money and property	26,853	-	-	-
Other	487,211	-	-	-
Total revenues	19,632,112	-	-	-
Expenditures:				
Current:				
General government	$ 3,074,773	(116,470)	117,284	-
Public safety	6,022,168	(109,693)	174,932	-
Public works	2,394,504	22,555	2,066,741	-
Community development	1,088,025	-	1,451	-
Community services	203,341	-	190,249	-
Capital outlay	2,091,842	(2,049,553)	(42,289)	-
Debt service:				
Principal retirement	190,000	-	-	(190,000)
Interest	232,202	-	-	-
Pass-through payments	104,034	-	-	-
Total expenses	15,400,889	(2,253,161)	2,508,368	(190,000)
Other financing sources (uses):				
Long-term debt issued	3,555,000	-	-	(3,555,000)
Transfers in	3,280,519	-	-	-
Transfers out	(3,280,519)	-	-	-
Total other financing sources (uses)	3,555,000	-	-	(3,555,000)
Net change in fund balances/net assets	7,786,222	2,253,161	(2,508,368)	(3,365,000)
Fund balances/net assets beginning of year	14,230,426	535,885,078	(24,070,827)	(2,915,000)
Fund balances/net assets, end of year	$ 22,016,648	538,138,239	(26,579,195)	(6,280,000)

Accrued Interest	Claims Payable	Compensated Absences	Certain Revenue	Reclassifications and Eliminations	Statement of Activities
-	-	-	-	(12,996)	10,779,103
-	-	-		-	3,592,052
-	-	-	(990)	-	358,970
-	-	-	-	(143,700)	525,276
-	-	-	-	-	381,016
-	-	-	-	-	2,712,563
-	-	-	-	(5,941)	605,441
-	-	-	-	-	26,853
-	-	-	-	(134,875)	352,336
-	-	-	(990)	(297,512)	19,333,610
-	(44,394)	20,614	-	(278,575)	2,773,232
-	-	-	-	-	6,087,407
-	-	-	-	-	4,483,800
-	-	-	-	-	1,089,476
-	-	-	-	-	393,590
-	-	-	-	-	-
-	-	-	-	-	-
13,083	-	-	-	(5,941)	239,344
-	-	-	-	(12,996)	91,038
13,083	(44,394)	20,614	-	(297,512)	15,157,887
-	-	-	-	-	-
-	-	-	-	(3,280,519)	-
-	-	-	-	3,280,519	-
-	-	-	-	-	-
(13,083)	44,394	(20,614)	(990)	-	4,175,723
(11,284)	(166,813)	(257,884)	(12,038)	-	522,681,658
(24,367)	(122,419)	(278,498)	(13,028)	-	526,857,381

(1) Reporting Entity and Summary of Significant Accounting Policies, (Continued)

(e) Explanation of Differences between Governmental Fund Operating Statements and the Statement of Activities, (Continued)

Long-term Debt Transactions, (Continued)

Some 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.

Net change in compensated absences	$(20,614)
Net change in claims payable	44,394

Repayment of debt service is reported as an expenditure in governmental funds and, thus, has the effect of reducing fund balance because current financial resources have been used. For the City as a whole, however, the principal payments reduce the liabilities in the statement of net assets and do not result in an expense in the statement of activities.

Bond principle payment made	$190,000

Accrued Interest

Beginning fund balance in the statement of activities has been restated to reflect the retroactive recording of accrued interest on outstanding debt.

Accrued interest deducted	$(13,083)

Certain Revenue

Business License renewals are billed on January 1, and are due on January 31, for the license period beginning on January 1. Since the amount collected pertains to a license period extending six months into the following fiscal year, the portion of business licenses collected pertaining to the next fiscal year is recorded as *deferred revenue* on the Statement of Net Assets. Such deferred revenues are earned in the subsequent fiscal year.

Net change in business license deferred revenue deducted	$(990)

(1) Reporting Entity and Summary of Significant Accounting Policies, (Continued)

(e) Explanation of Differences between Governmental Fund Operating Statements and the Statement of Activities, (Continued)

Reclassification and Eliminations

Interfund balances must generally be eliminated in the government-wide financial statements, except for net residual amounts due between governmental activities. Amounts involving fiduciary funds should be reported as external transactions. Any allocations must reduce the expenses of the function from which the expenses are being allocated, so that expenses are reported only once - in the function in which they are allocated.

(f) Cash and Investments

Investments are reported in the accompanying balance sheet at fair value. These investments are not transferable and they have terms that are not affected by changes in market interest rates.

Changes in fair value that occur during a fiscal year are recognized as *investment income* reported for that fiscal year. *Investment income* reports interest earnings, changes in fair value, and any gains or losses realized upon the liquidation, maturity, or sale of investments. The City's practice is to hold investments until maturity.

The City follows the practice of pooling cash and investments of all funds except for funds required to be held by the outside fiscal agent under provisions of the loan payable agreement. Interest income earned on pooled cash and investments is allocated quarterly to the funds based on average monthly cash and investment balances.

(1) Reporting Entity and Summary of Significant Accounting Policies, (Continued)

(g) Statement of Cash Flows

For purposes of the statement of cash flows the City considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. In addition, cash invested in the City's cash management pool is considered to be cash equivalents. At June 30, 2006, cash and cash equivalents reported in the Sanitation Enterprise Fund of $6,724,504 consisted of the California Local Agency Investment Fund $6,714,252; cash and investments with fiscal agent $244; and pooled deposits in the City's cash management pool $10,008.

(h) Capital Assets

Capital assets (including additions to infrastructure) are recorded at cost where historical records are available and at an estimated original cost where no historical records exist. Contributed capital assets are valued at their estimated fair market value at the date of the contribution. Generally, capital asset purchases in excess of $1,000 (including infrastructure) are capitalized if they have an expected useful life of one year or more.

Capital assets include additions to public domain (infrastructure) general capital assets consisting of certain improvements including roads and streets, curbs, gutters and sidewalks, street lights, signs and signals, park equipment and storm drains.

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method in the government – wide financial statements and in the fund financial statements of the enterprise fund. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective balance sheet. The range of lives used for depreciation purposes for each capital asset class are as follows:

Buildings and improvements	20-50 years
Equipment	3-25 years
Infrastructure - Sewer lines	40-50 years
Infrastructure - Other	20-60 years

(1) Reporting Entity and Summary of Significant Accounting Policies, (Continued)

(i) Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on July 1 and are payable in two installments on December 10 and April 10. The County bills and collects the property taxes and remits them to the City in installments during the year. City property tax revenues are recognized when levied to the extent that they result in current receivables in accordance with GASB Code Section P70.

The County is permitted by State Law (Proposition 13) to levy taxes at 1% of full market value (at time of purchase) and can increase the property tax rate no more than two percent per year. The City receives a share of this basic levy.

(j) Amortization Expense in Enterprise Fund

Debt issuance costs totaling $828,999 are being amortized in the Sanitation fund over the term of the debt (through the year 2020). Additionally, $437,782 of premium paid on investment in joint venture is being amortized over the estimated life of the investment (through the year 2030).

(k) Compensated Absences

The City accounts for compensated absences in accordance with GASB Statement No. 16. In governmental funds, compensated absences are recorded as expenditures in the year paid, as it is the City's policy to liquidate any unpaid vacation or sick leave at June 30 from future resources rather than currently available expendable resources. Accordingly, the entire unpaid liability for the governmental funds is recorded in the government-wide financial statements as these amounts will be liquidated from future resources. Compensated absences are reported in governmental funds only if they have matured.

(2) Cash and Investments

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

Statement of Net Assets:	
Cash and investments	$26,701,322
Restricted cash and investments with fiscal agent	4,466,945
Statement of Fiduciary Net Assets:	
Cash and investments	153,499
	$31,321,766

Cash and investments at June 30, 2006 consisted of the following:

Imprest cash on hand	$ 244
Demand deposits held by City	429,966
Investments held by City:	
Local Agency Investment Fund	26,424,610
Investments held by fiscal agent:	
Money market fund	3,347,095
Federal Agency Securities	1,119,851
Total cash and investments	$31,321,766

Investments Authorized by the California Government Code and the City's Investment Policy

The table below identifies the investment types that are authorized for the City by the California Government Code and the City's investment policy. The table also identifies certain provisions of the California Government Code (or the City's investment policy, if more restrictive) that address interest rate risk and concentration of credit risk. The City has no investments held by bond trustee.

(2) Cash and Investments, (Continued)

Investments Authorized by the California Government Code and the City's Investment Policy (continued)

Investment Types Authorized by State Law	Authorized By Investment Policy	Maximum Maturity	*Maximum Percentage Of Portfolio	*Maximum Investment in One Issuer
Local Agency Bonds	Yes	5 years	None	None
U.S. Treasury Bills	Yes	None	60%	None
U.S. Treasury Notes	Yes	5 years	40%	None
U.S. Agency Securities	Yes	5 years	20%	None
Banker's Acceptances	Yes	180 days	10%	None
Commercial Paper	Yes	180 days	10%	10%
Negotiable Certificates of Deposit	No	5 years	10%	None
Repurchase Agreements	No	1 year	None	None
Passbook savings demand deposits	Yes	5 years	None	None
Reverse Repurchase Agreements	No	92 days	20% of base value	None
Medium-Term Notes	No	5 years	30%	None
Mutual funds	No	5 years	None	None
Money Market Mutual Funds	No	5 years	None	None
Local Agency Investment Fund (LAIF)	Yes	5 years	$40,000,000	None

* Based on state law requirements or investment policy requirements, whichever is more restrictive.

(2) Cash and Investments, (Continued)

Investments Authorized by Debt Agreements

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage Allowed	Maximum Investment in One Issuer
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	360 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	None	None	None
Local Agency Investment Fund	N/A	None	None
State or Municipal Obligations	None	None	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

(2) Cash and Investments, (Continued)

Disclosures Relating to Interest Rate Risk (continued)

Information about the sensitivity of the fair values of the City's to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity (including investments with fiscal agent):

		Remaining Maturity (in Years)			
Investment Type	Amount	1 Year Or Less	1 to 2 Years	2 to 3 Years	3 to 5 Years
Held by City:					
LAIF	$ 26,424,610	$ 26,424,610	-	-	-
Held by Fiscal Agent:					
Money market funds	3,347,095	3,347,095	-	-	-
Federal Agency (FNMA)	1,119,851	1,119,851	-	-	-
Total	$30,891,556	30,891,556			

Disclosures Relating to Credit Risk

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

		Minimum Legal	Ratings as of Year End			
Investment Type		Rating	AAA	AA	A	Not Not Rated
Held by City:						
LAIF	$26,424,610	N/A		-	-	26,424,610
Held by fiscal agent:						
Money market funds	3,347,095	N/A	3,347,095		-	
Federal agency	1,119,851	N/A	1,119,851		-	
Total	$30,891,556		4,466,946	-	-	26,424,610

(2) Cash and Investments, (Continued)

Concentration of Credit Risk

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

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2006, none of the City's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts. For investments identified herein as held by fiscal agent, the fiscal agent selects the investment under the terms of the applicable trust agreement, acquires the investment, and holds the investment on behalf of the reporting government.

Investment in State Investment Pool

The Entity is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Entity's investment in this pool is reported in the accompanying financial statements at amounts based upon the Entity's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. LAIF is not rated.

(3) Interfund Balances

Interfund balances at June 30, 2006 consisted of the following:

	Due from: Nonmajor Funds
Due To:	
General Fund	$593,817

The Interfund Balances arise from the advance payment by the City's General Fund for projects, which are reimbursable through various Federal and State Grant Programs. In accordance with the requirements of the Grant Programs, the above expenditures have been incurred and reimbursement is expected to be received within the next fiscal year.

(4) Interfund Transfers

Interfund transfers at June 30, 2006 consisted of the following:

	Transfers In: Nonmajor Funds	Total
Transfers Out:		
General Fund	1,407,742	1,407,742
Nonmajor Funds	1,872,777	1,872,777
Total	3,280,519	3,280,519

The most significant interfund transfers were from the General Fund and the Solana Beach Redevelopment Agency Debt Service fund to the City Capital Projects and Solana Beach Redevelopment Agency Capital Improvement Project funds in order to provide available funds for capital projects During the fiscal year ended June 30, 2006, there were no significant interfund transfers that were not expected, budgeted for, unusual nor of a non-routine nature.

(5) Capital Assets

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

Governmental Activities:

Description	Beginning Balance	Additions	Deletions	Ending Balance
Non-depreciable:				
Land	$ 473,451,238	-	-	473,451,238
Infrastructure construction in progress	1,398,000	1,306,675	1,581,110	1,123,565
Depreciable:				
Buildings	5,434,448	-	-	5,434,448
Improvements	5,191,998	200,951	-	5,392,949
Equipment	1,296,111	202,148	2,028	1,496,231
Vehicles	1,393,271	102,549	40,261	1,455,559
Infrastructure	47,720,011	2,064,238	-	49,784,249
Totals at historical cost	535,885,077	3,876,561	1,623,399	538,138,239
Less accumulated depreciation for:				
Buildings	1,378,292	109,143	-	1,487,435
Improvements	616,659	184,441	-	801,100
Equipment	1,024,683	139,075	2,028	1,161,730
Vehicles	813,200	86,474	40,261	859,413
Infrastructure	20,237,992	2,031,525	-	22,269,517
Total accumulated depreciation	24,070,826	2,550,658	42,289	26,579,195
Total capital assets, net	$511,814,251	1,325,903	1,581,110	511,559,044

(5) Capital Assets, (Continued)

Business-type Activities:

Description	Beginning Balance	Additions	Deletions	Ending Balance
Non-depreciable:				
Land	11,845			11,845
Construction in progress	488,272	392,335	97,154	783,453
Depreciable:				
Buildings and improvements	6,492,303	97,154		6,589,457
Equipment	506,317	-		506,317
Totals at historical cost	7,498,737	489,489	97,154	7,891,072
Less accumulated depreciation for:				
Buildings and improvements	2,736,350	163,311		2,899,661
Equipment	504,005	1,960		505,965
Total accumulated depreciation	3,240,355	165,271	-	3,405,626
Total capital assets, net	4,258,382	324,218	97,154	4,485,446

Depreciation expense was charged in the following functions in the Statement of Activities:

	Governmental Activities	Business-Type Activities
General Government	$ 117,284	-
Public Safety	174,932	-
Public Works	2,066,741	-
Community Development	1,451	-
Community Services	190,246	-
Sanitation	-	165,271
Total	$2,550,657	165,271

There were no significant construction commitments at June 30, 2006.

(6) Long-term Liabilities

Long-term liability activity for the year ended June 30, 2006 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Amounts Due within One Year
Governmental Activities:					
Bonds:					
2006 tax allocation bonds	$ -	3,555,000	-	3,555,000	30,000
Lease revenue bond-ABAG	2,915,000	-	190,000	2,725,000	200,000
Total bonds	2,915,000	3,555,000	190,000	6,280,000	230,000
Other liabilities:					
Compensated absences	257,884	212,905	192,291	278,498	23,208
Claims payable	166,813	82,419	126,813	122,419	63,406
Total other liabilities	424,697	295,324	319,104	400,917	86,614
Total governmental activities	3,339,697	3,850,324	509,104	6,680,917	316,614
Business-type Activities:					
Loans payable:					
Sanitation - 2003	9,025,000	-	460,000	8,565,000	470,000
Other liabilities:					
Compensated absences	15,566	8,523	7,409	16,680	1,390
Claims payable	53,025	21,975	-	75,000	-
Total other liabilities	68,591	30,498	7,409	91,680	1,390
Total business-type activities	9,093,591	30,498	467,409	8,656,680	471,390
Total	$12,433,288	3,880,822	976,513	15,337,597	788,004

(6) Long-term Liabilities, (Continued)

	Balance June 30, 2006
Governmental Activities:	
2006 Tax Allocation Bonds:	
On June 8, 2006, the Solana Beach Redevelopment Agency issued $3,555,000 of tax allocation bonds to be used for capital projects to alleviate blight in the project area. These bonds have a 30 year maturity with the final maturity paid on June 1, 2036 with interest rates ranging from 3.6% to 5.1%. Interest on the bonds is payable semi-annually on June 1 and December 1 commencing on December 1, 2006.	
The amount on deposit in the Reserve Fund shall be maintained at the Reserve Requirement (the "Reserve Requirement") at all times prior to the payment of the Bonds in full, except to the extent required for the purposes set forth in the Indenture.	
As defined in the Indenture, "Reserve Requirement" means, excluding therefrom in the case of the Bonds an amount equal to the amount then on deposit in the Escrow Fund and in the case of any Parity Bonds an amount equal to the amount then on deposit in any escrow fund created with respect to such Parity Bonds created pursuant to the Indenture, as of the date of calculation an amount equal to the lesser of (i) 10% of the initial outstanding principal amount of such Bonds; ii) Maximum Annual Debt Service on such Bonds; or (iii) 125% of average Annual Debt Service on such Bonds. As of June 30, 2006, $115,810 was held in reserve.	$3,555,000

(6) Long-term Liabilities, (Continued)

Lease Revenue Bonds:

On January 10, 2002, the City issued $3,465,000 of Series 2002 ABAG Lease Revenue Bonds to advance refund $2,185,000 of the outstanding Certificates of Participation, Series 1992, and $1,125,000 of the outstanding Certificates of Participation, Series 1995, establish a reserve account for the bonds, and to pay the cost of issuing the bonds. $3,504,499 of the 2002 series proceeds were used to purchase U.S. Government securities to advance refund the 1992 and 1995 series. Those securities were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1992 and 1995 series. As a result, the 1992 and 1995 series certificates of participation are considered to be defeased and the liability for the 1992 and 1995 series has been removed from the Government-wide Statement of Net Assets. The 2002 bonds have annual interest ranging from 3.00% to 5.00% and annual principal installments ranging from $95,000 to $235,000 through December 1, 2023. $2,725,000

Compensated Absences

The City's policies relating to compensated absences are described in Note 1. The following liability at June 30, 2006 is expected to be paid in future years from future resources. Compensated absences have been typically liquidated from the General Fund. 278,498

(6) Long-term Liabilities, (Continued)

Claims Payable

The City accounts for material claims and judgments in accordance with GASB Code Section C50. When it is probable that a claim liability has been incurred at year end, and the amount of the loss can be reasonably estimated, the City records the estimated loss, net of any insurance coverage under its self insurance program (See Note 9).

Under the City's self-insurance program, deposits to the San Diego Pooled Insurance Authority (SANDPIPA) are recorded as insurance expenditures when paid. Refunds of deposits from SANDPIPA, based on favorable claims experience in prior years, are recorded as reductions of insurance expense when received (see Note 10). Claims payable has been typically liquidated from the General Fund. 122,419

Total long-term liabilities - governmental activities $6,680,917

Business-Type Activities:

Loan Payable - San Elijo Joint Powers Authority:	Balance June 30, 2006
On April 16, 2003 the City of Solana Beach and the San Elijo Joint Powers Authority (JPA) amended a loan agreement whereby the JPA loaned $9,905,000 to the City to refund the 1993 Refunding Revenue Bonds. The 1993 Bonds were originally issued to refinance the cost of acquiring and constructing certain improvements to the San Elijo Wastewater Treatment Facilities owned by the JPA. Funding for the loan was provided through the issuance of Revenue Bonds by the JPA in the amount of $18,640,000. $10,282,918 of the 2003 Series proceeds were used to purchase U.S. Government Securities to advance refund the 1993 Series. As a result, the 1993 Series is considered defeased and the liability has been removed from the Government-wide Statement of Net Assets.	
The amended loan matures on March 1, 2020. Principal payments ranging from $430,000 to $810,000 are due annually on March 1. Interest payments are due semi-annually on September and March 1.	$8,565,000

Compensated Absences

The City's policies relating to compensated absences are described in Note 1. The following liability at June 30, 2006 is expected to be paid from future years from future resources.	16,680

Claims Payable

The City accounts for material claims and judgments in accordance with GASB Code Section C50. When it is probable that a claim liability has been incurred at year end, and the amount of the loss can be reasonably estimated, the City records the estimated loss, net of any insurance coverage under its self insurance program (See Note 9).

Under the City's self-insurance program, deposits to the San Diego Pooled Insurance Authority (SANDPIPA) are recorded as insurance expenditures when paid. Refunds of deposits from SANDPIPA, based on favorable claims experience in prior years, are recorded as reductions of insurance expense when received (see Note 10).

Total long-term liabilities – business-type activities	$8,656,680

Annual Amortization Requirements of Long-Term Liabilities

The annual requirements to amortize loan revenue bonds payable as of June 30, 2006 are as follows:

(6) Long-term Liabilities, (Continued)

Governmental Activities:

2006 Tax Allocation Bonds

Year Ending June 30	Principal	Interest	Total
2007	$ 30,000	$ 167,923	$ 197,923
2008	30,000	170,173	200,173
2009	60,000	169,063	229,063
2010	65,000	166,723	231,723
2011	70,000	164,158	234,158
2012-2016	390,000	774,155	1,164,155
2017-2021	495,000	676,040	1,171,040
2022-2026	625,000	545,863	1,170,863
2027-2031	790,000	377,250	1,167,250
2032-2036	1,000,000	158,100	1,158,100
	$3,555,000	$3,369,448	$6,924,448

Lease Revenue Bonds Payable:

Year Ending June 30	Principal	Interest	Total
2007	$ 200,000	123,556	323,556
2008	205,000	114,181	319,181
2009	220,000	104,656	324,656
2010	225,000	95,756	320,756
2011	235,000	86,263	321,263
2012-2016	515,000	343,856	858,856
2017-2021	655,000	201,741	856,741
2022-2024	470,000	36,000	506,000
	$2,725,000	1,106,009	3,831,009

(6) Long-term Liabilities, (Continued)

Business-type Activities:
Sanitation Loan Payable:

Year Ending June 30	Principal	Interest	Total
2007	$ 470,000	377,400	847,400
2008	485,000	365,650	850,650
2009	500,000	351,100	851,100
2010	515,000	333,600	848,600
2011	535,000	313,000	848,000
2012-2016	3,045,000	1,206,550	4,251,550
2017-2020	3,015,000	386,000	3,401,000
	$8,565,000	3,333,300	11,898,300

(7) Defined Benefit Pension Plan (PERS)

The City of Solana Beach contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement, disability benefits, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Copies of PERS' annual financial report may be obtained from its executive office at 400 "P" Street, Sacramento, California 95814.

Participants are required to contribute 7% (9% for safety and marine employees) of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. Benefit provisions and all other requirements are established by state statute and town contract with employee bargaining groups.

Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2005 to June 30, 2006 has been determined by an actuarial valuation of the plan as of June 30, 2003. The contribution rate indicated for the period is 10.302% of payroll for the miscellaneous plan,

22.753% of payroll for the safety plan and 21.563% for the marine plan. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2006, this contribution rate would be multiplied by the payroll of covered employees that was actually paid during the period July 1, 2005 to June 30, 2006.

A summary of principle assumptions and methods used to determine the ARC is shown below.

	Miscellaneous	Safety and Marine
Valuation Date:	June 30, 2003	June 30, 2003
Actuarial Cost Method:	Entry age actuarial cost method	Entry age actuarial cost method
Amortization Method:	Level percent of payroll	Level percent of payroll
Average Remaining Period:	17 Years as of the valuation date	15 Years as of the valuation date
Asset Valuation Method:	3 Year smoothed market	3 Year smoothed market
Actuarial Assumptions:		
Investment Rate of Return	7.75% (net of administrative expenses)	7.75% (net of administrative expenses)
Projected Salary Increases	3.25% to 14.45% depending on age, service, and type of employment	3.25% to 13.15% depending on age, service, and type of employment
Inflation	3.00%	3.00%
Payroll Growth	3.25%	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%.	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%.

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of 10% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization period may not be lower than the payment calculated over a 30 year amortization period.

For both the miscellaneous and marine plan, the unfunded actuarial liability is amortized over a period ending June 30, 2036. For the safety and marine plan, the City was overfunded for the year ended June 30, 2036. Amortization periods are not determined for overfunded plans.

(7) Defined Benefit Pension Plan (PERS), (Continued)

The Schedule of Funding Progress below shows the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded accrued liability to payroll.

Three-Year Trend Information For PERS ($ Amount In Thousands)

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/03 Misc.	$179	100%	-
6/30/03 Fire	195	100%	-
6/30/03 Marine	19	100%	-
	$393		-
6/30/04 Misc.	$211	100%	-
6/30/04 Fire	277	100%	-
6/30/04 Marine	38	100%	-
	$526		-
6/30/05 Misc.	$465	100%	-
6/30/05 Fire	431	100%	-
6/30/05 Marine	58	100%	-
	$954		-

(7) Defined Benefit Pension Plan (PERS), (Continued)

Schedule Of Funding Progress For PERS ($ Amount In Thousands)
(Most Recent Information Available)

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded (Excess Assets) AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a % of Covered Payroll [(B-A)/C]
6/30/04: *						
Misc.	$ 2,461	$ 2,746	$ 285	89.6%	$744	38.3%
Fire	1,027	1,252	226	82.0%	155	145.9%
Marine	1,027	1,252	226	82.0%	155	145.9%
Total	$4,515	$5,250	$737	86.0%	$1,054	69.73%
6/30/03:						
Misc.	$ 3,897	$ 4,528	$ 631	86.1%	$1,954	32.3%
Fire	8,009	9,516	1,507	84.2%	1,412	106.7%
Marine	1,183	1,372	189	86.2%	198	95.4%
Total	$13,089	$15,416	$ 2,327	84.9%	$3,564	65.3%
6/30/02:						
Misc.	$ 3,645	$ 3,538	$ (107)	103.0%	$1,844	(5.8%)
Fire	7,698	8,727	1,029	88.2%	1,216	84.6%
Marine	1,164	1,132	(32)	102.8%	205	(15.6%)
Total	$12,507	$13,397	$890	93.4%	$3,265	27.3%

* Based on risk pool's actuarial valuation

(8) Investment in Joint Venture

On June 17, 1987, the Cardiff Sanitation District and the City of Solana Beach established the San Elijo Joint Powers Authority (SEJPA), a separate legal entity, whose function is to manage, operate, maintain and expand a plant for the treatment and disposal of sewage or wastewater and to determine the joint and separate obligations of the members concerning the transmission, treatment, disposal and reclamation of sewage and wastewater within the respective service territories. The SEJPA's governing board consists of two members from each entity. The City of Solana Beach's investment in the SEJPA has been recorded using the equity method of accounting and is shown as an investment in joint venture in the City's financial statements. Summarized audited information of the SEJPA for the fiscal year ended June 30, 2006 is as follows:

Operating revenues	$ 5,112,394
Operating expenses	(5,129,206)
Non-operating revenues (net of expenses)	(294,581)
Capital grants	442,957
Net change in net assets	$ 131,564
Total assets	$64,330,929
Total liabilities	$29,087,422
Fund equity:	
Net assets - total fund equity	$35,243,507

Prior to the formation of the San Elijo Joint Powers Authority (SEJPA), the Cardiff Sanitation District and the City of Solana Beach operated the San Elijo water pollution control facility under an agreement whereby operating costs were shared based on usage and capital expansions were funded 56% by Cardiff and 44% by Solana Beach. Upon formation of the SEJPA in June 1987 the members continued funding SEJPA activities in this manner until May 1989, when the equity interests in the joint venture were revised to 50% Cardiff and 50% Solana Beach. To effect the change in equity interests, the City of Solana Beach agreed to pay Cardiff Sanitation District $750,680, which included a premium on the value of the equity interest in the amount of $437,782. This premium is being amortized over the estimated useful life of the facility or forty years.

(8) Investment in Joint Venture, (Continued)

A summary of the changes in the City's investment in the San Elijo Joint Powers Authority for the year ended June 30, 2006 is as follows:

June 30, 2005 Balance	$17,555,973
Add: Unamortized premium	260,838
	17,816,811
FYE June 30, 2006 activity:	
Increase (decrease) in investment in joint venture	65,781
Less: Amortization of premium	(10,945)
Total investment at June 30, 2006	$17,871,647

At June 30, 2006 the SEJPA had $16,065,000 2003 Refunding Revenue Bonds outstanding (See Note 6). The financial statements of the SEJPA can be obtained from the Solana Beach Finance Department located at Solana Beach City Hall, 635 S. Highway 101, Solana Beach, California 92075.

(9) Solana Beach Sanitation Enterprise Fund Debt Service Coverage

In compliance with bond issuance covenants, specifically Appendix F Section 4(c) of the $18,640,000 San Elijo Joint Powers Authority, 2003 Refunding Revenue Bonds, the City is including this table showing debt service coverage for the fiscal year of at least 1.10 times (i) the loan installments coming due and payable during the fiscal year, (ii) all payments required with respect to parity debt, and (iii) amount required to replenish the Reserve Fund as required by the indenture.

(9) Solana Beach Sanitation Enterprise Fund Debt Service Coverage, (Continued)

	Fiscal Year 2005-06
Revenues:	
Operating revenues-service charges and connection fees	$3,714,144
Other operating	27,068
Non-operating revenues	271,140
Gross revenues	4,012,352
Less: Operations, non-operations and maintenance expenses	2,616,081
Net income	1,396,271
Add back:	
Interest expense (accrual method of accounting)	359,592
Depreciation and amortization	165,271
Amortization of bond issuance costs	48,765
Amortization of investment in JPA	10,945
Net revenues available for debt service	1,980,844
Debt service:	
2003 Revenue bonds:	
Interest charges	359,592
Principal repayment	460,000
Total debt service	819,592
Coverage by net revenues available for debt service	2.41

(10) Risk Management

The City is a member of the San Diego Pooled Insurance Program Authority (SANDPIPA), a consortium of twelve governmental entities in San Diego County who have joined together to achieve savings on insurance premiums through volume purchasing and risk management consulting. Each member pays for its proportionate share of its individually contracted insurance coverage and consulting services.

(10) Risk Management, (Continued)

1. General Liability: The City self-insures for the first $100,000 of each occurrence. Specific coverage includes property damage, municipal errors and omissions, automobile, and personal injury. This coverage is limited to $15,000,000 in annual aggregate claims per policy year.

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

Worker's Compensation Insurance coverage was carried with the State Compensation Insurance Fund for all work-related injuries through September 30, 2004. As of October 1, 2004, the City began to self-insure itself for workers compensation coverage.

SANDPIPA is governed by a Board of Directors consisting of one member appointed by each member city. The Board elects a President, Vice-President, and Treasurer and meets bi-monthly to supervise and conduct Authority affairs. The day-to-day business of SANDPIPA is handled by a full-time manager employed by the Authority.

Lawsuits in the nature of claims for damages to persons and/or property have been filed against the City. The City Attorney directs and the Risk Manager assists in the disposition of these claims. In addition, claims management is provided by Carl Warren and Company. The City notifies all appropriate parties, including Carl Warren and Company, SANDPIPA and the excess insurance carriers of claims/suits that have been filed when appropriate.

SANDPIPA monitors the progress of claims/suits that are reported. The City records a liability up to the amount of its self-insurance retention (See Note 6). There is one existing claim that could exceed the City's applicable coverage (Braff vs. the City of Solana Beach).

(10) Risk Management, (Continued)

The following represents changes in the claims liability for the two years ended June 30, 2006 and 2005:

	2006	2005
Unpaid claim liabilities, beginning of year	$166,816	11,494
Incurred claims and claims adjustment	82,419	155,319
Net decrease in provision for insured events in prior fiscal years	(126,813)	- 0
Unpaid claim liabilities, end of year	$122,419	166,813

There was no significant reduction in insurance coverage by major categories of risk from fiscal year 2004-2005 to fiscal year 2005-2006. Furthermore, there was no settlement that exceeded the insurance coverage for the past three fiscal years.

(11) Other Required Disclosures

Deficit Fund Balances

The following Special Revenue funds reported a deficit fund balance at June 30, 2006:

TEA 21 and TEA	$180,150
CDBG	26,872
CALTRANS	20,184
Department of Boating and Waterways	118
Miscellaneous Grant	99,008

The deficit fund balances noted above are expected to be eliminated through future grant reimbursement.

(12) Operating Lease

On December 6, 2001, the City entered into an operating lease for certain equipment. The lease provides for monthly payments of $205 for 5 years commencing on January 1, 2002. Current year rental costs were $2,460.

Minimum future rental payments under the operating lease were as follows:

	Equipment
2007	$1,230

(13) Assessment Districts

Cedros Avenue Assessment District:

During July 1989, the Cedros Avenue Assessment District No. 1 issued Improvement Bonds totaling $216,939 (less bond issuance costs of $19,807) to finance various capital improvements. The outstanding bonds at June 30, 2006 were approximately $12,700.

Undergrounding Districts:

During July 2006, the Solana Beach Public Financing Authority issued Assessment District Revenue Bonds totaling $2,112,000 (less bond issuance costs of $244,393) to finance the undergrounding of utility lines for the Barbara/Granados Avenue Utility Undergrounding District and the Pacific Avenue/East and West Circle Drive Utility Underground Assessment District. The outstanding bonds at June 30, 2006 were $2,112,000.

The City has no obligation or duty to pay any delinquency out of any available funds of the City. Neither the faith and credit nor the taxing power of the City is pledged to the payment of the bonds, and therefore the bonded indebtedness is not shown in the financial statements of the City.

(14) Reserves and Designations for Fund Equity

In the Governmental Fund Types Balance Sheet, fund balances are classified in the following categories:

Reserved for encumbrances – Amounts reserved for encumbrances are commitments for materials and services on purchase orders and contracts which are not yet performed.

Reserved for debt service – The amount reserved for debt service is for future principal and interest payments on long-term debt.

Reserved for housing – The reserve for low and moderate income housing is in accordance with the California Health and Safety Code.

Reserved for deposits – This reserve is established for deposits being held to indicate that they are not available, spendable resources.

Reserved for developer fees – Amounts reserved for developer fees represent amounts from various developers that are restricted to specific uses related to their projects to ensure city code compliance.

Designated for specific projects and programs – This classification was established to reflect funds earmarked by the City Council or City administration for specific projects or programs in future years.

CITY OF SOLANA BEACH

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

(1) Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and used as a management control device. Annual appropriated budgets are adopted for the general, special revenue, debt service and capital project funds (with the exception of the Assessment District capital project funds). Certain funds did not have original budgets adopted; however, these funds did have budgets adopted before fiscal year end. The City Manager is authorized to transfer budgeted amounts between accounts within any department and fund. Expenditures may not exceed appropriations at the fund level. Annual appropriations lapse at fiscal year end. Selected appropriations are carried over. Project-length financial plans are adopted for the City capital projects.

(2) Expenditures in Excess of Appropriations

Expenditures exceeded appropriations in the following funds:

	Appropriations	Expenditures	Variance Favorable (Unfavorable)
Dept of Boating & Waterways Special Revenue Fund	$ —	118	(118)
Solana Beach RDA Debt Service Fund	103,600	342,370	(238,770)

CITY OF SOLANA BEACH
General Fund
Budgetary Comparison Schedule
Year ended June 30, 2006

	2006				2005
	Adopted Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Actual
Revenues:					
Taxes and assessments:					
Property	$ 4,215,400	4,215,400	4,313,211	97,811	3,869,983
Sales	2,837,700	2,891,700	3,123,359	231,659	2,661,448
Franchise and other	2,218,900	2,238,900	2,209,904	(28,996)	2,014,500
Intergovernmental	990,500	1,205,674	1,326,445	120,771	1,415,906
Licenses and permits	231,500	323,500	359,960	36,460	305,807
Charges for services	313,000	634,000	655,250	21,250	404,523
Fines and forfeitures	511,000	511,000	381,016	(129,984)	336,224
Investment income	177,200	322,200	423,489	101,289	213,123
Revenues from use of money and property	26,000	26,000	26,853	853	34,902
Other	380,910	406,910	479,830	72,920	416,023
Total revenues	11,902,110	12,775,284	13,299,317	524,033	11,672,439
Expenditures:					
General government:					
City council	234,940	242,150	206,673	35,477	184,237
City clerk	254,800	255,000	248,812	6,188	236,180
Legal services	100,450	340,700	340,612	88	690,779
Manager	448,120	437,200	391,930	45,270	310,715
Finance	490,360	530,684	510,537	20,147	451,081
Personnel	251,730	264,000	257,508	6,492	191,313
Information systems	296,020	739,214	305,406	433,808	159,455
Support services	378,600	482,300	369,192	113,108	376,221
Total general government	2,455,020	3,291,248	2,630,670	660,578	2,599,981
Public safety:					
Junior lifeguard	120,000	120,000	85,107	34,893	58,370
Marine safety	569,220	579,900	565,249	14,651	477,173
Law enforcement	2,445,000	2,445,000	2,403,199	41,801	2,081,200
Code & parking enforcement	124,720	124,000	120,447	3,553	96,673
Fire	2,446,560	2,588,711	2,539,548	49,163	2,810,588
Animal regulation	67,700	69,700	69,623	77	62,440
Civil defense	33,000	42,724	35,352	7,372	21,336
Environmental services	64,700	108,364	76,400	31,964	58,346
Total public safety	5,870,900	6,078,399	5,894,925	183,474	5,666,126

CITY OF SOLANA BEACH
General Fund
Budgetary Comparison Schedule
Year ended June 30, 2006
(Continued)

	2006				2005
	Adopted Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Actual
Public works:					
Street and other	1,248,980	1,391,513	997,970	393,543	983,837
Public facility	136,700	160,088	146,082	14,007	138,269
Engineering	419,960	446,449	419,488	26,961	395,451
Total public works	1,805,640	1,998,051	1,563,540	434,511	1,517,557
Community development:					
Planning	509,400	672,277	652,108	20,168	492,890
Building services	203,900	436,000	435,917	83	299,544
Total community development	713,300	1,108,277	1,088,025	20,252	792,434
Community services:					
Community services	-	-	-	-	132,517
Recreation programs	239,950	231,200	203,341	27,859	104,188
Total community services	239,950	231,200	203,341	27,859	236,705
Total expenditures	11,084,810	12,707,175	11,380,501	1,326,674	10,812,803
Excess (deficiency) of revenues over expenditures	817,300	68,109	1,918,816	1,850,707	859,636
Other financing sources (uses):					
Transfers in				-	2,195
Transfers out	(851,600)	(1,407,742)	(1,407,742)	-	(1,246,722)
Net change in fund balance	(34,300)	(1,339,633)	511,074	1,850,707	(384,891)
Fund balance, July 1	10,694,530	10,694,530	10,694,530	-	11,079,421
Fund balance, June 30	$10,660,230	9,354,897	11,205,604	1,850,707	10,694,530

(This page intentionally left blank)

CITY OF SOLANA BEACH
Non-Major Funds
Combining Balance Sheet
June 30, 2006

Assets	Special Revenue Funds	Debt Service Fund	Capital Projects Fund	Totals 2006	Totals 2005
Cash and investments	$ 4,148,703	214,729	3,762,065	8,125,497	5,092,764
Receivables:					
Accounts	195,672	-	22,500	218,172	5,946
Tax	7,793	12,074	-	19,867	35,784
Interest	41,246	6,720	6,260	54,226	32,008
Due from other governments	-	-	-	-	26,449
Restricted cash with fiscal agent	-	2,117,174	1,487,354	3,604,528	251,715
Total assets	$ 4,393,414	2,350,697	5,278,179	12,022,290	5,444,666
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	$ 143,014	89,812	235,473	468,299	505,805
Accrued liabilities	2,439	-	1,131	3,570	2,513
Deferred revenue	145,559	-	-	145,559	152,533
Due to other funds	458,942	134,875	-	593,817	1,247,919
Total liabilities	749,954	224,687	236,604	1,211,245	1,908,770
Fund balances:					
Reserved for encumbrances	377,178	-	242,839	620,017	510,854
Reserved for debt service	-	2,126,010	-	2,126,010	251,715
Reserved for housing	450,651	-	-	450,651	341,698
Reserved for capital projects	-	-	101,141	101,141	101,141
Unreserved:					
Designated for specific projects and programs reported in:					
Special revenue funds	377,623	-	-	377,623	408,021
Undesignated, reported in:					
Special revenue funds	2,438,008	-	-	2,438,008	1,269,779
Capital projects fund	-	-	4,697,595	4,697,595	652,688
Total fund balances	3,643,460	2,126,010	5,041,575	10,811,045	3,535,896
Total liabilities and fund balanaces	$ 4,393,414	2,350,697	5,278,179	12,022,290	5,444,666

CITY OF SOLANA BEACH
Non-Major Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2006

	Special Revenue Funds	Debt Service Fund	Capital Project Fund	Totals 2006	Totals 2005
Revenues:					
Taxes and assessments	$ 768,044	377,581	-	1,145,625	722,821
Intergovernmental	2,265,607	-	-	2,265,607	2,485,540
Charges for services	13,726	-	-	13,726	16,510
Contributions from property owners	-	-	2,712,563	2,712,563	-
Investment income	138,262	18,640	30,991	187,893	110,815
Other	-	-	7,381	7,381	6,005
Total revenues	3,185,639	396,221	2,750,935	6,332,795	3,341,691
Expenditures:					
Current:					
General government	-	139,585	304,518	444,103	2,466
Public safety	127,243	-	-	127,243	247,667
Public works	695,964	-	135,000	830,964	640,127
Capital outlay	940,530	-	1,151,312	2,091,842	4,154,864
Debt service:					
Principal retirement	-	190,000	-	190,000	224,025
Interest	-	232,202	-	232,202	139,681
Pass-through payments	-	104,034	-	104,034	
Total expenditures	1,763,737	665,821	1,590,830	4,020,388	5,408,830
Excess (deficiency) of revenues over (under) expenditures	1,421,902	(269,600)	1,160,105	2,312,407	(2,067,139)
Other financing sources:					
Long-term debt issued	-	3,555,000	-	3,555,000	-
Transfers in	140,588	321,600	2,818,331	3,280,519	1,246,722
Transfers out	(140,072)	(1,732,705)	-	(1,872,777)	(2,195)
Net change in fund balances	1,422,418	1,874,295	3,978,436	7,275,149	(822,612)
Fund balances, July 1	2,221,042	251,715	1,063,139	3,535,896	4,358,508
Fund balances, June 30	$ 3,643,460	2,126,010	5,041,575	10,811,045	3,535,896

NON-MAJOR SPECIAL REVENUE FUNDS

The following Special Revenue Funds have been classified as non-major funds in the accompanying financial statements:

Gas Tax Fund – The Gas Tax Fund is used to account for revenues received and expenditures made for street related activities. Revenues are received from the State of California for the City's share of gasoline taxes pursuant to California Streets and Highways Code Sections 2105, 2106, 2107 and 2107.5.

Municipal Improvement Districts Fund – The Municipal Improvement Districts Fund is used to account for receipts and expenditures related to landscape maintenance within the various improvement districts. Budgets for the maintenance costs are determined by the property owners who are then assessed on a per parcel basis. The assessments are collected via the County tax roll.

SEEG Fund – The SEEG Fund is used to account for the State Environment Enhancement Grant.

Lighting District Fund – The Lighting District Fund accounts for revenues received and expenditures made related to street lights on city streets. The City determines the yearly budget and property owners are charged their proportionate share based on a per unit basis. The assessments are collected via the San Diego County tax roll.

TRANSNET Fund – This fund accounts for revenues and expenditures related to transportation development, transit and related studies. Funding is provided to the City as a secondary recipient under agreements with the County of San Diego and with the San Diego Association of Governments (SANDAG).

Proposition A Fund – The Proposition A Fund is used to account for the San Diego County Proposition A one half (1/2) cent transportation sales tax which went into effect on July 1, 1988. All revenues in this fund must be expensed for transportation related purposes.

TEA 21/TEA Fund – The Intermodal Surface Transportation Enhancement Act (ISTEA) and Transportation Enhancement Act (TEA) Fund accounts for transportation grant related receipts and expenditures

COPS Fund – The COPS Fund is used to account for federal and state grants received for police services.

Fire Mitigation Fund – The Fire Mitigation Fund is used to account for fire mitigation fees collected during new structural development based on construction type and size. The fees are restricted to equipment purchases only.

Transportation Development Act Fund – The Transportation Development Act Fund is used to account for revenues and expenditures made for transportation development, transit and related studies. Funding is provided to the City as a secondary recipient under agreements with the County of San Diego and with the San Diego Association of Governments.

NON-MAJOR SPECIAL REVENUE FUNDS, (CONTINUED)

CDBG Fund – The CDBG Fund is used to account for the federal block grant for community development.

CALTRANS Fund – These monies are derived from Congestion Mitigation and Air Quality funds. CALTRANS is responsible for distributing these funds as well as Intermodel Surface Transportation Efficiency Act (ISTEA) funds from the federal governments to local agencies.

Boating and Waterways Fund – The Boating and Waterways Fund is used to account for grants received from the Department of Boating and Waterways. These funds are being used to fund the Army Corp. of Engineers beach replenishment study.

Redevelopment Agency Low/Mod Housing – This fund is used to account for low and moderate housing set-aside funds and projects.

Miscellaneous Grant Fund – The Miscellaneous Grant Fund is used to account for grants received to fund the Coastal Rail Trail.

Housing Fund – The Housing Fund is used to account for resources reserved to provide for low and moderate income housing.

(This page intentionally left blank)

CITY OF SOLANA BEACH
Non-Major Special Revenue Funds
Combining Balance Sheet
June 30, 2006

Assets	Gas Tax	Municipal Improvement Districts	SEEG	Lighting District	TRANSNET
Cash and investments	$ 108,336	404,783	693	858,881	2,004,036
Accounts receivable	41,715				
Taxes receivable		3,729		4,064	
Interest receivable	993	3,128		8,929	20,943
Due from other governmental agencies					
Total assets	$ 151,044	411,640	693	871,874	2,024,979
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	$ 9,387	33,284		40,484	1,297
Accrued liabilities		733		1,706	
Deferred revenue					
Due to other funds					
Total liabilities	9,387	34,017	-	42,190	1,297
Fund balances (deficit):					
Reserved for encumbrances	298,087			2,500	
Reserved for low and moderate income housing					
Unreserved; designated for specific projects and programs		377,623			
Unreserved; undesignated	(156,430)		693	827,184	2,023,682
Total fund balances (deficit)	141,657	377,623	693	829,684	2,023,682
Total liabilities and fund balances	$ 151,044	411,640	693	871,874	2,024,979

Proposition A	TEA 21 & TEA	COPS	Fire Mitigation	Transportation Development Act	CDBG	CALTRANS
7,653		166,677	85,649	65,771		
	139,745		2,460		6,206	5,546
		1,511	815	500		
7,653	139,745	168,188	88,924	66,271	6,206	5,546
	6,844	22,629	9,660	7,386	12,043	
	313,051	145,559			21,035	25,730
-	319,895	168,188	9,660	7,386	33,078	25,730
3,265				50,000	23,326	
4,388	(180,150)	-	79,264	8,885	(50,198)	(20,184)
7,653	(180,150)	-	79,264	58,885	(26,872)	(20,184)
7,653	139,745	168,188	88,924	66,271	6,206	5,546

(continued)

CITY OF SOLANA BEACH
Non-Major Special Revenue Funds
Combining Balance Sheet
(Continued)

Assets	Dept. of Boating & Waterways	Miscellaneous Grants Fund	Redevelopment Agency Low/Mod Housing	Housing Fund
Cash and investments	$ -		75,386	370,838
Accounts receivable				
Taxes receivable				
Interest receivable			343	4,084
Due from other governmental agencies				
Total assets	$ -	-	75,729	374,922
Liabilities and Fund Balances				
Liabilities:				
Accounts payable				
Accrued liabilities				
Deferred revenue				
Due to other funds	118	99,008		
Total liabilities	118	99,008	-	-
Fund balances (deficit):				
Reserved for encumbrances				
Reserved for low and moderate income housing			75,729	374,922
Unreserved; designated for specific projects and programs				
Unreserved; undesignated	(118)	(99,008)	-	-
Total fund balances (deficit)	(118)	(99,008)	75,729	374,922
Total liabilities and fund balances	$ -	-	75,729	374,922

Totals	
2006	2005
4,148,703	3,896,453
195,672	5,946
7,793	35,784
41,246	27,228
-	26,449
4,393,414	3,991,860
143,014	367,853
2,439	2,513
145,559	152,533
458,942	1,247,919
749,954	1,770,818
377,178	201,544
450,651	341,698
377,623	408,021
2,438,008	1,269,779
3,643,460	2,221,042
4,393,414	3,991,860

CITY OF SOLANA BEACH
Non-Major Special Revenue Funds
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
Year ended June 30, 2006

	Gas Tax	Municipal Improvement Districts	SEEG	Lighting District	TRANSNET
Revenues:					
Taxes and assessments	$	404,250		363,794	
Intergovernmental	312,172	2,993	133,050	3,341	475,000
Charges for services					
Investment income	2,197	12,943		28,037	66,792
Total revenues	314,369	420,186	133,050	395,172	541,792
Expenditures:					
Current:					
Public safety					
Public works		451,375		244,589	
Capital outlay	380,308		-	34,593	127,340
Total expenditures	380,308	451,375	-	279,182	127,340
Excess (deficiency) of revenues over (under) expenditures	(65,939)	(31,189)	133,050	115,990	414,452
Other financing sources:					
Transfers in					
Transfers out	-	-	-	-	(65,072)
Net change in fund balances	(65,939)	(31,189)	133,050	115,990	349,380
Fund balances (deficit), July 1, as restated	207,596	408,812	(132,357)	713,694	1,674,302
Fund balances (deficit), June 30	$ 141,657	377,623	693	829,684	2,023,682

Proposition A	TEA 21 & TEA	COPS	Fire Mitigation	Transportation Development Act	CDBG	CALTRANS
	643,405	106,974	2,460		155,211	356,001
			13,726			
2,105		5,356	2,756	3,864		-
2,105	643,405	112,330	18,942	3,864	155,211	356,001
		112,330	14,795			
118,622	171,419			33,893	53,128	21,227
118,622	171,419	112,330	14,795	33,893	53,128	21,227
(116,517)	471,986	-	4,147	(30,029)	102,083	334,774
65,072						
-	-	-	-	-	-	-
(51,445)	471,986	-	4,147	(30,029)	102,083	334,774
59,098	(652,136)	-	75,117	88,914	(128,955)	(354,958)
7,653	(180,150)	-	79,264	58,885	(26,872)	(20,184)

(continued)

CITY OF SOLANA BEACH
Non-Major Special Revenue Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
(Continued)

	Dept. of Boating & Waterways	Miscellaneous Grants Fund	Redevelopment Agency Low/Mod Housing	Housing Fund
Revenues:				
Taxes and assessments				
Intergovernmental	75,000	-	-	
Charges for services				
Investment income	-		213	13,999
Total revenues	75,000	-	213	13,999
Expenditures:				
Current:				
Public safety	118			
Public works				
Capital outlay		-	-	-
Total expenditures	118	-	-	-
Excess (deficiency) of revenues over (under) expenditures	74,882	-	213	13,999
Other financing sources:				
Transfers in			75,516	
Transfers out	(75,000)	-	-	-
Net change in fund balances	(118)	-	75,729	13,999
Fund balances (deficit), July 1, as restated	-	(99,008)	-	360,923
Fund balances (deficit), June 30	$ (118)	(99,008)	75,729	374,922

Totals	
2006	2005
768,044	722,821
2,265,607	2,485,540
13,726	16,510
138,262	83,801
3,185,639	3,308,672
127,243	247,667
695,964	640,127
940,530	3,425,962
1,763,737	4,313,756
1,421,902	(1,005,084)
140,588	-
(140,072)	(2,195)
1,422,418	(1,007,279)
2,221,042	3,228,321
3,643,460	2,221,042

CITY OF SOLANA BEACH
Gas Tax Special Revenue Fund
Budgetary Comparison Schedule
Year ended June 30, 2006

	2006				2005
	Adopted Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Actual
Revenues:					
Intergovernmental	$ 295,100	295,100	312,172	17,072	257,689
Investment income	1,800	1,800	2,197	397	1,863
Other income	-	43,087	-	(43,087)	-
Total revenues	296,900	339,987	314,369	(25,618)	259,552
Expenditures:					
Current:					
Capital outlay	350,000	685,960	380,308	305,652	280,627
Net change in fund balance	(53,100)	(345,973)	(65,939)	280,034	(21,075)
Fund balance, July 1	207,596	207,596	207,596	-	228,671
Fund balance (deficit), June 30	$ 154,496	(138,377)	141,657	280,034	207,596

CITY OF SOLANA BEACH
Municipal Improvement Districts Special Revenue Fund
Budgetary Comparison Schedule
Year ended June 30, 2006

	2006				2005
	Adopted Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Actual
Revenues:					
Taxes and assessments	$ 379,900	379,900	404,250	24,350	384,984
Intergovernmental	3,000	3,000	2,993	(7)	2,995
Investment income	7,500	7,500	12,943	5,443	8,785
Total revenues	390,400	390,400	420,186	29,786	396,764
Expenditures:					
Current:					
Public works	443,500	539,921	451,375	88,546	402,391
Net change in fund balance	(53,100)	(149,521)	(31,189)	118,332	(5,627)
Fund balance, July 1	408,812	408,812	408,812	-	414,439
Fund balance, June 30	$ 355,712	259,291	377,623	118,332	408,812

CITY OF SOLANA BEACH
SEEG Special Revenue Fund
Budgetary Comparison Schedule
Year ended June 30, 2006

	2006				2005
	Adopted Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Actual
Revenues:					
Intergovernmental	$ -	-	133,050	133,050	116,950
Expenditures:					
Current:					
Capital outlay	-	-	-	-	249,307
Net change in fund balance	-	-	133,050	133,050	(132,357)
Fund balance (deficit), July 1	(132,357)	(132,357)	(132,357)	-	-
Fund balance (deficit), June 30	$(132,357)	(132,357)	693	133,050	(132,357)

CITY OF SOLANA BEACH
Lighting District Special Revenue Fund
Budgetary Comparison Schedule
Year ended June 30, 2006

	2006				2005
	Adopted Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Actual
Revenues:					
Taxes and assessments	$ 330,500	330,500	363,794	33,294	337,837
Intergovernmental	3,200	3,200	3,341	141	3,289
Investment income	16,400	16,400	28,037	11,637	17,427
Total revenues	350,100	350,100	395,172	45,072	358,553
Expenditures:					
Current:		-	-		
Public works	248,600	253,680	244,589	9,091	237,736
Capital outlay	157,000	188,345	34,593	153,752	355,877
Total expenditures	405,600	442,025	279,182	162,843	593,613
Net change in fund balance	(55,500)	(91,925)	115,990	207,915	(235,060)
Fund balance, July 1	713,694	713,694	713,694	-	948,754
Fund balance, June 30	$ 658,194	621,769	829,684	207,915	713,694

CITY OF SOLANA BEACH
TRANSNET Special Revenue Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2006

	2006				2005
	Adopted Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Actual
Revenues:					
Intergovernmental	$ 442,000	442,000	475,000	33,000	618,454
Investment income	22,400	22,400	66,792	44,392	24,051
Total revenues	464,400	464,400	541,792	77,392	642,505
Expenditures:					
Current:					
Capital outlay	1,014,600	1,051,011	127,340	923,670	37,577
Excess (deficiency) of revenues over (under) expenditures	(550,200)	(586,611)	414,452	1,001,062	604,928
Other financing uses:					
Transfers out	-	-	(65,072)	(65,072)	-
Net change in fund balance	(550,200)	(586,611)	349,380	935,990	604,928
Fund balance, July 1	1,674,302	1,674,302	1,674,302	-	1,069,374
Fund balance, June 30	$1,124,102	1,087,691	2,023,682	935,990	1,674,302

CITY OF SOLANA BEACH
Proposition A Special Revenue Fund
Budgetary Comparison Schedule
Year ended June 30, 2006

	2006				2005
	Adopted Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Actual
Revenues:					
Intergovernmental	$ 500,000	500,000	-	(500,000)	-
Investment income	-	-	2,105	2,105	2,010
Total revenues	500,000	500,000	2,105	(497,895)	2,010
Expenditures:					
Current:					
Capital outlay	900,000	903,265	118,622	784,643	205,432
Excess (deficiency) of revenues over (under) expenditures	(400,000)	(403,265)	(116,517)	286,748	(203,422)
Other financing sources:					
Transfers in	-	-	65,072	65,072	-
Net change in fund balance	(400,000)	(403,265)	(51,445)	351,820	(203,422)
Fund balance, July 1, as restated	59,098	59,098	59,098	-	262,520
Fund balance (deficit), June 30	$(340,902)	(344,167)	7,653	351,820	59,098

CITY OF SOLANA BEACH
TEA 21 and TEA Special Revenue Funds
Budgetary Comparison Schedule
Year ended June 30, 2006

	2006				2005
	Adopted Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Actual
Revenues:					
Intergovernmental	$ 277,800	407,594	643,405	235,811	1,022,692
Expenditures:					
Capital outlay	277,800	447,562	171,419	276,143	808,490
Net change in fund balance	-	(39,968)	471,986	511,954	214,202
Fund balance (deficit), July 1	(652,136)	(652,136)	(652,136)	-	(866,338)
Fund balance (deficit), June 30	$ (652,136)	(692,104)	(180,150)	511,954	(652,136)

CITY OF SOLANA BEACH
COPS Special Revenue Fund
Budgetary Comparison Schedule
Year Ended June 30, 2006

	2006				2005
	Adopted Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Actual
Revenues:					
Intergovernmental	$ 100,000	100,000	106,974	6,974	110,626
Investment income	1,600	1,600	5,356	3,756	1,889
Total revenues	101,600	101,600	112,330	10,730	112,515
Expenditures:					
Current:					
Public safety	114,000	114,000	112,330	1,670	112,515
Net change in fund balance	(12,400)	(12,400)	-	12,400	-
Fund balance, July 1	-	-	-	-	-
Fund balance (deficit), June 30	$ (12,400)	(12,400)	-	12,400	-

CITY OF SOLANA BEACH
Fire Mitigation Fees Special Revenue Fund
Budgetary Comparison Schedule
Year Ended June 30, 2006

	2006				2005
	Adopted Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Actual
Revenues:					
Intergovernmental	$ -	-	2,460	2,460	-
Charges for services	15,000	15,000	13,726	(1,274)	16,510
Investment income	1,500	1,500	2,756	1,256	1,641
Total revenues	16,500	16,500	18,942	2,442	18,151
Expenditures:					
Current:		-	-		
Public safety	-	14,900	14,795	105	18,248
Excess (deficiency) of revenues over (under) expenditures	16,500	1,600	4,147	2,547	(97)
Other financing sources:					
Transfers in	-	-	-	-	-
Net change in fund balance	16,500	1,600	4,147	2,547	(97)
Fund balance, July 1	75,117	75,117	75,117	-	75,214
Fund balance, June 30	$ 91,617	76,717	79,264	2,547	75,117

CITY OF SOLANA BEACH
Transportation Development Act Special Revenue Fund
Budgetary Comparison Schedule
Year Ended June 30, 2006

	2006				2005
	Adopted Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Actual
Revenues:					
Intergovernmental	$ -	-	-	-	-
Investment income	-	-	3,864	3,864	15,257
Total revenues	-	-	3,864	3,864	15,257
Expenditures:					
Current:					
Capital outlay	-	192,515	33,893	158,622	536,947
Net change in fund balance	-	(192,515)	(30,029)	162,486	(521,690)
Fund balance, July 1, as restated	88,914	88,914	88,914	-	610,604
Fund balance (deficit), June 30	$ 88,914	(103,601)	58,885	162,486	88,914

CITY OF SOLANA BEACH
CDBG Special Revenue Fund
Budgetary Comparison Schedule
Year ended June 30, 2006

	2006				2005
	Adopted Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Actual
Revenues:					
Intergovernmental	$ -	-	155,211	155,211	26,449
Expenditures:					
Current:					
Capital outlay	-	79,051	53,128	25,923	151,799
Net change in fund balance	-	(79,051)	102,083	181,134	(125,350)
Fund balance (deficit), July 1	(128,955)	(128,955)	(128,955)	-	(3,605)
Fund balance (deficit), June 30	$(128,955)	(208,006)	(26,872)	181,134	(128,955)

CITY OF SOLANA BEACH
CALTRANS Special Revenue Fund
Budgetary Comparison Schedule
Year ended June 30, 2006

	2006				2005
	Adopted Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Actual
Revenues:					
Intergovernmental	$ -	-	356,001	356,001	8,159
Investment income	-	-	-	-	140
Total revenues	-	-	356,001	356,001	8,299
Expenditures:					
Current:					
Capital outlay	-	27,000	21,227	5,773	356,099
Net change in fund balance	-	(27,000)	334,774	361,774	(347,800)
Fund balance (deficit), July 1	(354,958)	(354,958)	(354,958)	-	(7,158)
Fund balance (deficit), June 30	$ (354,958)	(381,958)	(20,184)	361,774	(354,958)

CITY OF SOLANA BEACH
Dept. of Boating & Waterways Special Revenue Fund
Budgetary Comparison Schedule
Year ended June 30, 2006

	2006				2005
	Adopted Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Actual
Revenues:					
Intergovernmental	$ -	75,000	75,000	-	
Investment income	-	-	-	-	894
Total revenues	-	75,000	75,000	-	894
Expenditures:					
Current:					
Public safety	-	-	118	(118)	116,904
Excess (deficiency) of revenues over (under) expenditures	-	75,000	74,882	(118)	(116,010)
Other financing uses:					
Transfers out	-	(75,000)	(75,000)	-	(2,195)
Net change in fund balance	-	-	(118)	(118)	(118,205)
Fund balance, July 1	-	-	-	-	118,205
Fund balance (deficit), June 30	$ -	-	(118)	(118)	-

CITY OF SOLANA BEACH
Miscellaneous Grants Special Revenue Fund
Budgetary Comparison Schedule
Year ended June 30, 2006

	2006				2005
	Adopted Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Actual
Revenues:					
Intergovernmental	$ -	-	-	-	318,237
Investment income	-	-	-	-	-
Total revenues	-	-	-	-	318,237
Expenditures:					
Current:					
Capital outlay	-	-	-	-	340,394
Net change in fund balance	-	-	-	-	(22,157)
Fund balance (deficit), July 1	(99,008)	(99,008)	(99,008)	-	(76,851)
Fund balance (deficit), June 30	$ (99,008)	(99,008)	(99,008)	-	(99,008)

CITY OF SOLANA BEACH
Solana Beach Redevelopment Agency Low/Mod Housing Special Revenue Fund
Budgetary Comparison Schedule
Year ended June 30, 2006

	2006				2005
	Adopted Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Actual
Revenues:					
Investment income	$ -	-	213	213	-
Expenditures:					
Current:					
Community development	-	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures	-	-	213	213	-
Other financing sources:					
Transfers in	74,000	75,600	75,516	(84)	-
Net change in fund balance	74,000	75,600	75,729	129	-
Fund balance, July 1	-	-	-	-	-
Fund balance, June 30	$ 74,000	75,600	75,729	129	-

CITY OF SOLANA BEACH
Housing Special Revenue Fund
Budgetary Comparison Schedule
Year ended June 30, 2006

	2006				2005
	Adopted Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Actual
Revenues:					
Investment income	$ 9,500	9,500	13,999	4,499	9,844
Expenditures:					
Current:					
Capital outlay	-	19,225	-	19,225	103,413
		-	-		
Net change in fund balance	9,500	(9,725)	13,999	23,724	(93,569)
Fund balance, July 1	360,923	360,923	360,923	-	454,492
Fund balance, June 30	$ 370,423	351,198	374,922	23,724	360,923

(This page intentionally left blank)

NON-MAJOR DEBT SERVICE FUNDS

The following Debt Service funds have been classified as a non-major fund in the accompanying financial statements:

City Debt Service Fund – The City's Debt Service Fund is used to account for the accumulation of resources for the payment of interest and principal on the City's debt.

Solana Beach RDA Debt Service Fund – This fund is used to account for the collection of tax increment which is used to pay for principal and interest on long-term obligations issued by the redevelopment agency.

CITY OF SOLANA BEACH
Debt Service Fund
Combining Balance Sheet
June 30, 2006

	City Debt Service Fund	Solana Beach Redevelopment Agency	Totals 2006	Totals 2005
Assets				
Cash and investments	$ 10,091	204,638	214,729	-
Taxes receivable	-	12,074	12,074	-
Interest receivable	-	6,720	6,720	-
Restricted cash with fiscal agent	251,908	1,865,266	2,117,174	251,715
Total assets	261,999	2,088,698	2,350,697	251,715
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	$ -	89,812	89,812	-
Due to other funds	-	134,875	134,875	-
Total liabilities	-	224,687	224,687	-
Fund balances (deficit):				
Reserved for debt service	261,999	1,864,011	2,126,010	251,715
Total liabilities and fund balances	$ 261,999	$ 2,088,698	$2,350,697	$ 251,715

CITY OF SOLANA BEACH
Debt Service Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
June 30, 2006

	City Debt Service Fund	Solana Beach Redevelopment Agency	Totals 2006	Totals 2005
Revenues:				
Taxes and assessments	$ -	377,581	377,581	-
Investment income	12,135	6,505	18,640	11,899
Total revenues	12,135	384,086	396,221	11,899
Expenditures:				
Current:				
General government	1,845	137,740	139,585	2,466
Debt service:				
Principal	190,000	-	190,000	224,025
Interest & fiscal charges	131,606	100,596	232,202	139,681
Pass-through payments	-	104,034	104,034	-
Total expenditures	323,451	342,370	665,821	366,172
(Deficiency) of revenues over (under) expenditures	(311,316)	41,716	(269,600)	(354,273)
Other financing sources:				
Long-term debt issued	-	3,555,000	3,555,000	-
Transfers in	321,600	-	321,600	354,322
Transfers out	-	(1,732,705)	(1,732,705)	-
Net change in fund balance	10,284	1,864,011	1,874,295	49
Fund balance, July 1	251,715	-	251,715	251,666
Fund balance, June 30	261,999	1,864,011	2,126,010	251,715

CITY OF SOLANA BEACH
City Debt Service Fund
Budgetary Comparison Schedule
Year ended June 30, 2006

	2006				2005
	Adopted Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Actual
Revenues:					
Investment income	$ 10,000	10,000	12,135	2,135	11,899
Expenditures:					
Current:					
General government	5,000	5,000	1,845	3,155	2,466
Debt service:					
Principal	190,000	190,000	190,000	-	224,025
Interest	131,600	131,600	131,606	(6)	139,681
Total expenditures	326,600	326,600	323,451	3,149	366,172
(Deficiency) of revenues over (under) expenditures	(316,600)	(316,600)	(311,316)	5,284	(354,273)
Other financing sources:					
Transfers in	321,600	321,600	321,600	-	354,322
Net change in fund balance	5,000	5,000	10,284	5,284	49
Fund balance, July 1	251,715	251,715	251,715	-	251,666
Fund balance, June 30	$256,715	256,715	261,999	5,284	251,715

CITY OF SOLANA BEACH
Solana Beach Redevelopment Agency Debt Service Fund
Budgetary Comparison Schedule
Year ended June 30, 2006

	2006				2005
	Adopted Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Actual
Revenues:					
Taxes and assessments	$294,000	377,600	377,581	(19)	-
Investment income	-	-	6,505	6,505	-
Total revenues	294,000	377,600	384,086	6,486	
Expenditures:					
Current:					
General government	2,800	2,900	137,740	(134,840)	-
Debt service:					
Interest & fiscal charges		100,700	100,596	104	-
Pass-through payments		-	104,034	(104,034)	-
Total expenditures	2,800	103,600	342,370	(238,770)	-
(Deficiency) of revenues over (under) expenditures	291,200	274,000	41,716	(232,284)	-
Other financing sources:					
Long-term debt issued		3,555,000	3,555,000	-	-
Transfers out	(160,100)	(1,755,200)	(1,732,705)	22,495	-
Net change in fund balance	131,100	2,073,800	1,864,011	(209,789)	-
Fund balance, July 1	-	-	-	-	-
Fund balance, June 30	$131,100	2,073,800	1,864,011	(209,789)	-

(This page intentionally left blank)

NON-MAJOR CAPITAL PROJECTS FUNDS

The following Capital Projects fund has been classified as a non-major fund in the accompanying financial statements:

City CIP Fund – The City Capital Improvements Fund is used to account for the acquisition, construction, and improvement of capital facilities and infrastructure. The projects are funded by transfers from the General Fund.

RDA CIP Fund – This fund is used to account for administration and capital projects in the redevelopment project area.

Assessment Districts CIP Fund – This fund is used to account for capital projects in the assessment districts.

CITY OF SOLANA BEACH
Non-Major Capital Projects Funds
Combining Balance Sheet
June 30, 2006

Assets	City Capital Projects	Solana Beach Redevelopment Agency	Assessment Districts	Totals 2006	Totals 2005
Cash and investments	$ 1,100,868	1,165	2,660,032	3,762,065	1,196,311
Accounts receivable	22,500	-	-	22,500	-
Interest receivable	1,998	4,262	-	6,260	4,780
Restricted cash with fiscal agent	-	1,487,354	-	1,487,354	-
Total assets	$ 1,125,366	1,492,781	2,660,032	5,278,179	1,201,091
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	$ 153,125	35	82,313	235,473	137,952
Accrued liabilities	-	1,131	-	1,131	-
Total liabilities	153,125	1,166	82,313	236,604	137,952
Fund balances:					
Reserved for encumbrances	242,839	-	-	242,839	309,310
Reserved for capital projects	101,141	-	-	101,141	101,141
Unreserved; undesignated	628,261	1,491,615	2,577,719	4,697,595	652,688
Total fund balances	972,241	1,491,615	2,577,719	5,041,575	1,063,139
Total liabilities and fund balances	$ 1,125,366	1,492,781	2,660,032	5,278,179	1,201,091

CITY OF SOLANA BEACH
Non-Major Capital Projects Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Year ended June 30, 2006

	City Capital Projects	Solana Beach Redevelopment Agency	Assessment Districts	Totals 2006	Totals 2005
Revenues:					
Contributions from property owners	-	-	2,712,563	2,712,563	-
Investment income	26,891	4,100	-	30,991	15,115
Other	7,381	-	-	7,381	6,005
Total revenues	34,272	4,100	2,712,563	2,750,935	21,120
Expenditures:					
Current:					
General government	-	169,674	134,844	304,518	-
Public safety	-	-	-	-	-
Public works	135,000	-	-	135,000	-
Capital outlay	1,151,312	-	-	1,151,312	728,902
Total expenditures	1,286,312	169,674	134,844	1,590,830	728,902
Excess (deficiency) of revenues over (under) expenditures	(1,252,040)	(165,574)	2,577,719	1,160,105	(707,782)
Other financing sources:					
Transfers in	1,161,142	1,657,189	-	2,818,331	892,400
Transfers out	-	-	-	-	-
Net change in fund balances	(90,898)	1,491,615	2,577,719	3,978,436	184,618
Fund balances (deficit), July 1	1,063,139	-	-	1,063,139	878,521
Fund balances (deficit), June 30	$ 972,241	1,491,615	2,577,719	5,041,575	1,063,139

CITY OF SOLANA BEACH
City Capital Projects
Budgetary Comparison Schedule
Year ended June 30, 2006

	2006				2005
	Adopted Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Actual
Revenues:					
Investment income	18,800	18,800	26,891	8,091	15,115
Other	-	-	7,381	7,381	6,005
Total revenues	18,800	18,800	34,272	15,472	21,120
Expenditures:					
Current:					
Public works	-	135,000	135,000	-	-
Capital outlay	710,200	1,674,255	1,151,312	522,943	728,902
Total expenditures	710,200	1,809,255	1,286,312	522,943	728,902
Excess (deficiency) of revenues over (under) expenditures	(691,400)	(1,790,455)	(1,252,040)	(507,471)	(707,782)
Other financing sources:					
Transfers in	530,000	1,161,142	1,161,142	-	892,400
Net change in fund balances	(161,400)	(629,313)	(90,898)	(507,471)	184,618
Fund balances (deficit), July 1	1,063,139	1,063,139	1,063,139	-	878,521
Fund balances (deficit), June 30	$ 901,739	433,826	972,241	(507,471)	1,063,139

CITY OF SOLANA BEACH
Solana Beach Redevelopment Agency Capital Projects
Budgetary Comparison Schedule
Year ended June 30, 2006

	2006				2005
	Adopted Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Actual
Revenues:					
Investment income	-	-	4,100	4,100	-
Expenditures:					
Current:					
General government	158,500	178,500	169,674	8,826	-
Excess (deficiency) of revenues over (under) expenditures	(158,500)	(178,500)	(165,574)	12,926	-
Other financing sources:					
Transfers in	160,100	1,755,200	1,657,189	(98,011)	-
Net change in fund balances	1,600	1,576,700	1,491,615	(85,085)	-
Fund balances (deficit), July 1	-	-	-	-	-
Fund balances (deficit), June 30	$ 1,600	1,576,700	1,491,615	(85,085)	-

CITY OF SOLANA BEACH
Assessment Districts Capital Projects
Budgetary Comparison Schedule
Year ended June 30, 2006

	2006				2005
	Adopted Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Actual
Revenues:					
Contributions from property owners	$ -	-	2,712,563	-	-
Expenditures:					
Current:					
General government	-	-	134,844	-	-
Net change in fund balances	-	-	2,577,719	-	-
Fund balances (deficit), July 1	-	-	-	-	-
Fund balances (deficit), June 30	$ -	-	2,577,719	-	-

AGENCY FUNDS

Cedros Avenue Assessment District Fund – The Cedros Avenue Assessment District Fund accounts for payments from property owners as well as debt service on bonds which were issued to pay for the improvements within the assessment district. This is accounted for as an agency fund because the City has no responsibility for the debt service on the bonds.

Undergrounding District Funds – The Barbara/Granados Avenue and the Pacific Avenue/East and West Circle Drive Utility Underground Assessment Districts are utility districts created to finance the undergrounding of utility lines. These funds account for payments from property owners as well as debt service on bonds which were issued to pay for the undergrounding improvements within the assessment districts. This is accounted for as an agency fund because the City has no responsibility for the debt service on the bonds.

CITY OF SOLANA BEACH
Agency Funds
Combining Statement of Changes in Assets and Liabilities
Year ended June 30, 2006

Assessment Districts	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Assets:				
Cash and investments	$ 12,706	2,854,647	(2,713,854)	153,499
Interest receivable	58	91	(58)	91
Total assets	$ 12,764	2,854,738	(2,713,912)	153,590
Liabilities:				
Due to bondholders	$ 12,764	2,910,907	(2,770,081)	153,590

Statistical Section

This part of the City of Solana Beach's Statistical comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the city's overall financial health.

Contents

Financial Trends

These schedules contain trend information to help the reader understand how the city's financial performance and well-being have changed over time.

* **Net Assets by Component**
* **Changes in Net Assets**
* **Fund Balances of Governmental Funds**
* **Changes in Fund Balances of Governmental Funds**

Revenue Capacity

These schedules contain information to help the reader assess the factors affecting the city's ability to generate its property taxes.

* **Assessed Value and Estimated Actual Value of Taxable Property**
* **Direct and Overlapping Property Tax Rates**
* **Principal Property Tax Payers**
* **Property Tax Levies and Collections**

Debt Capacity

These schedules present information to help the reader assess the affordability of the city's current levels of outstanding debt and the city's ability to issue additional debt in the future.

* **Ratios of Outstanding Debt by Type**
* **Direct and Overlapping Debt**
* **Legal Debt Margin Information**
* **Pledged-Revenue Coverage**

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the city's financial activities take place and to help make comparisons over time and with other governments.

* **Demographic and Economic Statistics**
* **Principal Employers**

Operating Information

These schedules contain information about the city's operations and resources to help the reader understand how the city's financial information relates to the services the city provides and the

* **Full-time Equivalent City Government Employees by Function/Program**
* **Operating Indicators by Function/Program**
* **Capital Assets Statistics by Function/Program**

Sources: *Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The city implemented Statement 34 in 2003; schedules presenting government-wide information include information beginning in that year.*

(This page intentionally left blank)

CITY OF SOLANA BEACH

Net Assets by Component
Last Four Fiscal Years
(Accrual Basis of Accounting)

	Fiscal Year			
	2003	**2004**	**2005**	**2006**
Government activities				
Invested in capital assets, net of related debt	$ 36,655,805	$ 37,489,188	$ 509,150,966	$ 508,883,573
Restricted	3,010,042	3,698,578	2,221,042	6,996,982
Unrestricted	11,214,960	11,645,853	11,309,650	10,976,825
Total governmental activities net assets	**$ 50,880,807**	**$ 52,833,619**	**$ 522,681,658**	**$ 526,857,380**
Business-type activities				
Invested in capital assets, net of related debt	$ 3,971,593	$ 4,979,576	$ 4,258,382	$ 4,485,446
Restricted	2,397,171	809,381	850,800	1,021,293
Unrestricted	11,776,896	13,692,108	15,243,909	16,242,623
Total business-type activities net assets	**$ 18,145,660**	**$ 19,481,065**	**$ 20,353,091**	**$ 21,749,362**
Primary government				
Invested in capital assets, net of related debt	$ 40,627,398	$ 42,468,764	$ 513,409,348	$ 513,369,019
Restricted	5,407,213	4,507,959	3,071,842	8,018,275
Unrestricted	22,991,856	25,337,961	26,553,559	27,219,448
Total primary government activities net assets	**$ 69,026,467**	**$ 72,314,684**	**$ 543,034,749**	**$ 548,606,742**

Note: The city began to report accrual information when it implemented GASB Statement 34 in fiscal year 203.

CITY OF SOLANA BEACH

Changes in Net Assets
Last Four Fiscal Years
(Accrual Basis of Accounting)

	Fiscal Year			
	2003	2004	2005	2006
Expenses				
Governmental Activities:				
General government	$ 1,175,182	$ 1,869,797	$ 2,657,830	$ 2,773,232
Public safety	5,405,861	5,426,159	5,699,742	6,087,407
Public works	3,585,561	4,099,736	4,725,613	4,483,800
Community development	669,741	609,010	804,491	1,089,476
Community services	354,778	272,811	413,747	393,590
Interest on long-term debt	159,210	148,504	138,123	330,382
Total Governmental Activities expenses	11,350,333	12,426,017	14,439,546	15,157,887
Business-Type Activities:				
Sanitation	3,206,253	2,322,722	2,798,884	2,616,081
Total Business-Type Activities Expenses	3,206,253	2,322,722	2,798,884	2,616,081
Total Primary Government Expenses	$ 14,556,586	$ 14,748,739	$ 17,238,430	$ 17,773,968
Program Revenues				
Governmental Activities:				
Charges for services:				
General government	$ -	$ -	$ -	$ -
Public safety	448,726	322,410	528,680	612,036
Public works	794,497	841,104	809,414	892,979
Community development	431,434	402,152	549,425	723,716
Community services	57,568	59,007	58,192	59,245
Operating Contributions:				
Public safety	-	-	-	2,460
Public works	291,059	255,956	257,689	312,172
Capital Contributions and Grants:				
Public safety	245,146	291,021	110,626	181,974
Public works	1,107,610	2,622,423	1,640,684	4,475,229
Total Governmental Activities Program Revenu	3,376,040	4,794,073	3,954,710	7,259,811
Business-Type Activities:				
Charges for services:				
Sanitation	3,055,575	3,559,721	3,530,427	3,741,212
Total Business-Type Activities Program Reven	3,055,575	3,559,721	3,530,427	3,741,212
Total Primary Government Program Revenu	$ 6,431,615	$ 8,353,794	$ 7,485,137	$ 11,001,023

CITY OF SOLANA BEACH

Changes in Net Assets
Last Four Fiscal Years
(Accrual Basis of Accounting)

	Fiscal Year			
	2003	**2004**	**2005**	**2006**
Net (Expenses)/Revenue				
Governmental Activities	(7,974,293)	(7,631,944)	(10,484,836)	(7,898,076)
Business-Type Activities	(150,678)	1,236,999	731,543	1,125,131
Total primary Government Net Expense	(8,124,971)	(6,394,945)	(9,753,293)	(6,772,945)
General Revenues and Other Charges in Net Assets				
Governmental Activities:				
Taxes:				
Property taxes, levied for general purpose	$ 3,646,279	$ 3,956,173	$ 4,031,269	$ 4,478,992
Transient occupancy taxes	515,588	561,429	783,539	919,638
Sales taxes	2,482,421	2,691,127	2,661,448	$ 2,943,359
Franchise taxes	402,079	477,870	521,996	569,936
Other taxes	1,439,466	1,240,834	1,756,042	2,191,678
Investment income	303,471	165,575	323,938	606,068
Use of money and property	28,342	30,653	34,902	26,227
Other	437,132	461,095	352,889	337,900
Total Governmental Activities	9,254,778	9,584,756	10,466,023	12,073,798
Business-Type Activities:				
Investment income	149,442	98,406	164,044	271,140
Share in joint venture net loss	(466,575)	-	-	-
Total Business-Type Activities	(317,133)	98,406	164,044	271,140
Total Primary Government	8,937,645	9,683,162	10,630,067	12,344,938
Changes in Net Assets				
Governmental Activities	1,280,485	1,952,812	(18,813)	4,175,722
Business-Type Activities	(467,811)	1,335,405	895,587	1,396,271
Total Primary Government	$ 812,674	$ 3,288,217	$ 876,774	$ 5,571,993

CITY OF SOLANA BEACH

Fund Balances of Governmental Funds
Last Four Fiscal Years
(Modified Accrual Basis Of Accounting)

	Fiscal Year			
	2003	2004	2005	2006
General Fund				
Reserved	$ 974,342	$ 565,386	$ 544,362	$ 634,006
Unreserved	9,581,261	10,514,035	10,150,168	10,573,702
Total General Fund	$ 10,555,603	$ 11,079,421	$ 10,694,530	$ 11,207,708
All Other Governmental Funds				
Reserved	$ 2,316,972	$ 4,786,874	$ 1,205,408	$ 3,297,818
Unreserved, reported in nonmajor,				
Special revenue funds	821,858	(747,926)	1,677,800	2,813,527
Capital Projects funds	831,336	319,560	652,688	4,697,594
Total all other Governmental Funds	$ 3,970,166	$ 4,358,508	$ 3,535,896	$ 10,808,939

CITY OF SOLANA BEACH

Changes In Fund Balances Of Governmental Funds
Last Four Fiscal Years
(Modified Accrual Basis Of Accounting)

	Fiscal Year			
	2003	**2004**	**2005**	**2006**
Revenues:				
Taxes and assessments	$ 8,265,139	$ 10,462,543	$ 9,268,752	$ 10,688,064
Intergovernmental	2,699,782	2,187,223	3,901,446	3,592,052
Licenses and permits	246,346	266,716	305,807	359,960
Charges for services	440,699	379,462	421,033	668,977
Fines and forfeitures	160,572	175,062	336,224	381,016
Contributions from property owners	-	-	-	2,712,563
Investment income	246,621	121,059	228,238	611,383
Use of money and property	94,863	80,056	130,602	26,853
Other	637,904	360,489	422,028	487,211
Total revenues	**12,791,926**	**14,032,610**	**15,014,130**	**19,528,079**
Expenditures:				
General government	1,701,717	1,945,506	2,602,447	3,074,773
Public safety	5,267,668	5,415,657	5,913,793	6,022,168
Public works	2,000,241	2,623,014	2,157,684	2,394,504
Community development	668,761	608,030	792,434	1,088,025
Community services	319,170	237,370	236,705	203,341
Capital outlay	1,303,763	1,890,368	4,154,864	2,091,842
Debt service:				
Principal retirement	282,500	249,403	224,025	190,000
Interest	161,575	151,102	139,681	232,203
Total expenses	**11,705,395**	**13,120,450**	**16,221,633**	**15,296,856**
Excess (Deficiency) of Revenues Over (Under) Expenditures	**1,086,531**	**912,160**	**(1,207,503)**	**4,231,223**
Other financing sources (uses):				
Transfers in	411,715	706,947	1,248,917	3,282,360
Transfers out	(411,715)	(706,947)	(1,248,917)	(3,282,360)
Long-term debt issued		-	-	3,555,000
Total other financing sources (uses)	**-**	**-**	**-**	**3,555,000**
Net change in fund balances / net assets	**$ 1,086,531**	**$ 912,160**	**$ (1,207,503)**	**$ 7,786,223**
Debt service as a percentage of noncapital expenditures	**4.3%**	**3.6%**	**3.0%**	**3.2%**

CITY OF SOLANA BEACH

Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years
(in thousands of dollars)

Fiscal Year	Residential Property	Commercial Property	Other Property	Less: Tax-Exempt Property
1997	$ 1,210,594	$ 148,354	$ 86,536	$ -
1998	1,240,497	150,127	87,931	-
1999	1,288,485	122,712	146,957	-
2000	1,445,902	183,841	100,330	-
2001	1,560,492	197,667	104,361	-
2002	1,681,838	202,768	130,772	-
2003	1,795,862	215,156	119,715	-
2004	1,916,873	223,024	131,368	-
2005	2,085,753	237,780	128,736	-
2006	2,298,209	255,260	162,600	-

(a) The County of San Diego does not compile Estimated Actual Valuations

Source: San Diego County Assessor 1996/97 - 2005/06 Combined Tax Rolls
HDL Coren & Cone.
City of Solana Beach Finance Department

Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value[a]	Taxable Assessed Value as a Percentage of Actual Taxable Value
$ 1,445,484	0.1735%	N/A	N/A
1,478,555	0.1735%	N/A	N/A
1,558,154	0.1735%	N/A	N/A
1,730,073	0.1735%	N/A	N/A
1,862,520	0.1735%	N/A	N/A
2,015,378	0.1735%	N/A	N/A
2,130,733	0.1735%	N/A	N/A
2,271,265	0.1735%	N/A	N/A
2,452,269	0.1735%	N/A	N/A
2,716,069	0.1735%	N/A	N/A

CITY OF SOLANA BEACH

Direct and Overlapping Property Tax Rates, Last Ten Fiscal Years

(rate per $100 of taxable value)

	City Direct Rates			
Fiscal Year	General Basic Tax Levy	Municipal Improvement District	Lighting District	Total Direct Rate
1997	$ 0.1602	$ 0.0037	$ 0.0096	$ 0.1735
1998	0.1602	0.0037	0.0096	0.1735
1999	0.1602	0.0037	0.0096	0.1735
2000	0.1602	0.0037	0.0096	0.1735
2001	0.1602	0.0037	0.0096	0.1735
2002	0.1602	0.0037	0.0096	0.1735
2003	0.1602	0.0037	0.0096	0.1735
2004	0.1602	0.0037	0.0096	0.1735
2005	0.1602	0.0037	0.0096	0.1735
2006	0.1602	0.0037	0.0096	0.1735

	Overlapping Rates				
Fiscal Year	San Diego County (1)	Carlsbad/ Oceanside/ Vista Projects	School Districts	Community College	Santa Fe Irrigation District (2)
1997	0.167550	0.0004	0.402810	0.10486	0.025340
1998	0.167550	0.0004	0.402810	0.10486	0.025340
1999	0.167550	0.0004	0.402810	0.10486	0.025340
2000	0.167550	0.0004	0.402810	0.10486	0.025340
2001	0.167550	0.0004	0.402810	0.10486	0.025340
2002	0.167550	0.0004	0.402810	0.10486	0.025340
2003	0.167550	0.0004	0.402810	0.10486	0.025340
2004	0.167550	0.0004	0.402810	0.10486	0.025340
2005	0.167550	0.0004	0.402810	0.10486	0.025340
2006	0.167550	0.0004	0.402810	0.10486	0.025340

(1) Includes County School Services, Library, Childrens Institution Tuition, and Regional Occupational Centers.

(2) Includes Cwa Santa Fe Irrigation District (.00423) and Santa Fe Irrigation (.02111)

(3) Includes only rate(s) from indebtedness adopted prior to 1989 per California State Statute

Source: San Diego County Assessor 1996/97 - 2005/06 Tax Rate Table and HDL Coren and Cone.

Overlapping Rates					
	Voter Approved (3)				
Educational Revenue Augmentation	Cwa Santa Fe Irrigation Debt Service	Metropolitan Water District Debt Service	Santa Fe Irrigation Tax Rate Reduction	Vista Project	Total Tax Rate
0.12551	0.00107	0.0089	-0.00673	0.000180	1.003410
0.12551	0.00117	0.0089	-0.00674	0.000180	1.003500
0.12551	0.00107	0.0089	-0.00822	0.000140	1.001880
0.12551	0.00100	0.0089	-0.00851	-	1.001380
0.12551	0.00091	0.0088	-0.00926	-	1.000440
0.12551	0.00083	0.0077	-0.01009	-	0.998430
0.12551	0.00075	0.0067	-0.01048	-	0.996960
0.12551	0.00067	0.0061	-0.01099	-	0.995770
0.12551	-	0.0058	-0.01123	-	0.994560
0.12551	-	0.0052	-	-	1.005190

CITY OF SOLANA BEACH

Principal Property Tax Payers, Current Year and Nine Years Ago

	2006	
Taxpayer	**Taxable Assessed Value**	**Rank**
S B Towne Centre LLC	$ 28,427,204	1
Sanyo Foods Corporation of America	27,428,492	2
Pacific Solana Beach Holdings LP	26,777,405	3
Fenton Solana Highlands LLC	25,255,306	4
Solana Beach Towne Centres Investment	18,929,473	5
Santa Fe Christian Schools	16,615,518	6
E R P Operating Limited Partnership	16,257,432	7
Lavida Delmar Associates Limited Partnership	14,321,891	8
Del Mar Investors Limited Partnership	13,183,500	9
Urschel Laboratories Inc.	11,793,459	10
Lomas Santa Fe Group	-	
Solana Beach Partners	-	
Miller Children's Trust	-	
Stevens Valley Assoicates	-	
Pacifica Solana LLP	-	
Plaza West Limited	-	
Generation Properties Limited Partnership	-	
Total	$ 198,989,680	

Source:

HDL Coren & Cone and San Diego County Assessor 1996/97 & 2005/2006 Combined

	1997		
Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
1.03%	-		-
1.00%	$ 21,550,387	1	1.48%
0.97%	-		-
0.92%	-		-
0.69%	20,102,684	3	1.38%
0.60%	-		-
0.59%	-		-
0.52%	-		-
0.48%	-		-
0.43%	6,776,777	7	0.46%
-	20,170,073	2	1.38%
-	12,079,321	4	0.83%
-	9,350,000	5	0.64%
-	9,084,810	6	0.62%
-	6,518,692	8	0.45%
-	6,392,983	9	0.44%
-	6,150,000	10	0.42%
7.22%	$ 118,175,727		8.09%

CITY OF SOLANA BEACH

Property Tax Levies and Collections, Last Ten Fiscal Years

Fiscal Year Ended June 30,	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy	
		Amount	Percentage of Levy
1997	$ 2,476,674	$ 2,421,005	97.8%
1998	3,083,478	3,027,453	98.2%
1999	3,204,457	3,150,016	98.3%
2000	3,462,536	3,400,773	98.2%
2001	3,753,666	3,691,387	98.3%
2002	4,002,562	3,941,924	98.5%
2003	4,203,037	4,144,738	98.6%
2004	4,454,612	4,398,480	98.7%
2005	4,630,963 (1)	4,584,653	99.0%
2006	5,071,474	4,829,420	95.2%

(1) City Finance Department Estimates including Educational Revenue Augmentation Fund (ERAF) Shift

Sources: City of Solana Beach Finance Department, County of Los Angeles Office of Auditor-Controller.

Collections in Subsequent Years	Total Collections to Date	
	Amount	Percentage of Levy
89,176	2,510,181	101%
118,580	3,146,033	102%
90,799	3,240,815	101%
75,399	3,476,172	100%
80,799	3,772,186	100%
83,602	4,025,526	101%
76,910	4,221,648	100%
77,196	4,475,676	100%
49,173	4,633,826	100%
-	4,829,420	95%

CITY OF SOLANA BEACH

Ratios of Outstanding Debt by Type,
Last Four Fiscal Years
(dollars in thousands, except per capita)

	Government Activities		Business-type Activities			
Fiscal Year	2002 ABAG Lease Revenue Bonds	Capital Leases	Loans	Total Primary Government	Percentage of Personal Income [a]	Per Capita [a]
2003	3,275,000	113,428	9,905,000	$ 13,293,428	0.01%	373
2004	3,100,000	39,025	9,475,000	12,614,025	0.01%	332
2005	2,915,000	-	9,025,000	11,940,000	N/A	N/A
2006	2,725,000	-	8,565,000	11,290,000	N/A	N/A

Notes: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

[a] See Demographic and Economic Statistics schedule for personal income and population data. These ratios are calculated using personal income and population for the prior calendar year.

CITY OF SOLANA BEACH

Direct and Overlapping Governmental Activities Debt
As of June 30, 2006

Fiscal Year 2005-06 Assessed Valuation : $2,686,299,751 (includes deduction of $30,280,120 of Redevelopment Incremental Valuation)

	Gross Bonded Debt Balance	Percent Applicable to City (1)	Net Bonded Debt
Direct Debt:			
City of Solana Beach Certificates of Participation	$ 2,725,000	100.000%	$ 2,725,000
Total Direct Debt			$ 2,725,000
Overlapping Debt:			
Metropolitan Water District	$ 389,565,000	0.184%	$ 716,800
San Dieguito Union High School District Community Facilites District No. 95-1	17,552,899	3.274%	574,682
San Dieguito Union High School District Combined Community Facilities District	48,440,000	1.256%	608,406
City of Solana Beach 1915 Act Bonds	2,112,000	100.000%	2,112,000
Olivenhain Municpal Water District, Assessment District No. 96-1	19,335,000	0.711%	137,472
San Diego County General Fund Obligations	387,535,000	0.946%	3,666,081
San Diego County Pension Obligations	1,231,282,916	0.946%	11,647,936
San Diego County Superintedent of Schools General Fund Obligations	12,495,000	0.946%	118,203
Mira Costa Community College District Certificates of Participation	4,760,000	4.470%	212,772
Solana Beach School District Certificates of Participation	1,045,000	26.550%	277,448
Total Overlapping Debt			$ 20,071,799
Total Direct and Overlapping Debt		(2)	$ 22,796,799

Debt to Assessed Valuation Ratios :

Direct Debt	0.10%
Overlapping Debt	0.75%
Total Debt	0.85%

Note: (1) - Percentage of overlapping agency's assess valuation located within the boundaries of the city.
(2) - Excludes tax and revenue anticipation notes, enterprise revenues, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Source: California Municpal Statistics, Inc.

CITY OF SOLANA BEACH

Legal Debt Margin Information
Last Ten Fiscal Years
(dollars in thousands)

Legal Debt Margin Calculation for Fiscal Year 2006

Assessed value	$ 2,716,580
Debt limit (15% of assessed value)	407,487
Debt applicable to limit:	
General obligation bonds	-
Total net debt applicable to limit	-
Legal debt margin	$ 407,487

Fiscal Year	Debt Limit	Total net debt Applicable to Limit	Legal Debt Limit	Legal Debt Limit as a Percentage of Debt limit
1997	213,669	-	213,669	100.00%
1998	218,607	-	218,607	100.00%
1999	230,673	-	230,673	100.00%
2000	276,069	-	276,069	100.00%
2001	275,786	-	275,786	100.00%
2002	298,866	-	298,866	100.00%
2003	316,259	-	316,259	100.00%
2004	337,323	-	337,323	100.00%
2005	367,897	-	367,897	100.00%
2006	407,487	-	407,487	100.00%

CITY OF SOLANA BEACH

Pledged-Revenue Coverage
Last Four Fiscal Years

2002 ABAG Lease Revenue Bonds

Fiscal Year	Use of Money & Property	Lease/ Rents	Less: Expenditures	Net Available Revenue
2003	$ 12,611	$ 337,631	$ 3,265	$ 346,977
2004	11,151	319,918	2,580	328,489
2005	11,899	323,412	2,466	332,845
2006	12,135	321,600	1,845	331,890

Fiscal Year	Debt Service		Coverage
	Principal	Interest	
2003	$ 190,000	$ 147,631	1.03
2004	175,000	144,918	1.03
2005	185,000	138,412	1.03
2006	190,000	131,606	1.03

Notes: Details regarding the city's outstanding debt can be found in the notes to the financial statements.
Expenditures do not include interest, depreciation, or amortization expenses.

(This page intentionally left blank)

CITY OF SOLANA BEACH

Demographic and Economic Statistics
Last Ten Calendar Years

Calendar Year	Population (1)	Personal Income * (2) *(thousands of dollars)*	Per Capita * Personal Income (2)	Unemployment Rate (3)
1997	13,677	$ 70,535,060	26,196	5.4%
1998	13,945	77,968,184	28,490	4.2%
1999	14,152	84,346,910	30,236	3.5%
2000	14,360	92,654,006	32,803	2.7%
2001	13,247	97,009,480	33,886	2.7%
2002	13,280	100,655,726	34,719	2.5%
2003	13,329	104,050,119	35,620	2.8%
2004	13,431	111,434,714	37,965	2.3%
2005	13,400	N/A	N/A	2.3%
2006	13,327	N/A	N/A	2.4%

*** Note:** This is the data of the San Diego - Carlsbad - San Marcos Metropolitan Statistical Area.
The data for the City is not available.

Sources: (1) State of California Department of Finance
(2) U.S. Department of Commerce Bureau of Economic Analysis
(3) State of California Economic Development Department

CITY OF SOLANA BEACH

Principal Employers
Current Year and Nine Years Ago

	2005-06		
Employer	Employees	Rank	Percentage of Total City Employment
American Golf Corp.	150	1	1.55%
Duckett-Wilson Development Co	125	2	1.29%
Belly Up Tavern Inc	110	3	1.14%
Fidel's Little Mexico Inc.	100	4	1.03%
Wild Oats Markets Inc.	100	5	1.03%
Bridge Medical Inc.	90	6	0.93%
Santa Fe Christian Community	90	7	0.93%
Kesdee Inc.	80	8	0.83%
Dixieline Lumber Co.	66	9	0.68%
Club One Inc.	65	10	0.67%
	976		10.10%

* Information not available.

Source: Dun & Bradstreet Selectory Business Data Service.

1996-97 *		
Employees	Rank	Percentage of Total City Employment
0		0.00%

CITY OF SOLANA BEACH

Full-time-Equivalent City Government Employees by Function/Program
Last Ten Fiscal Years

Fiscal Years:	1997	1998	1999	2000
Function/Program				
General government				
City Council	5.00	5.00	5.00	5.15
City Clerk	1.00	1.00	1.50	2.65
City Manager	1.24	1.24	1.24	1.94
Legal Services	-			
Finance	4.25	4.25	4.75	4.15
Non Deprtmental	1.75	1.75	1.88	0.25
Personnel	0.75	0.75	0.75	1.00
Data Processing	N/A	N/A	N/A	0.15
Community Development	4.13	4.00	4.00	5.00
Public Safety				
Fire	20.00	21.00	20.62	21.00
Code Enforcement	2.00	2.30	2.50	2.50
Marine Safety	7.38	7.44	7.44	7.59
Junior Lifeguards	1.99	1.99	2.09	2.25
Public Works				
Engineering	2.94	2.94	2.94	4.19
Environmental/Flood Control	0.52	0.52	0.52	0.27
Street Maintenance	2.21	2.21	2.21	2.21
Park Maintenance	0.75	0.75	0.75	0.75
Recreation & Community Services				
Community Services	1.00	1.00	1.50	1.67
Recreation	1.00	1.00	2.03	2.03
Sanitation	2.95	2.95	2.95	3.60
Improvement Districts	1.04	1.04	1.04	1.19
Redevelopment Agency	0.10	0.10	0.10	0.15
Total Personnel	62.00	63.23	65.81	69.69

N/A - Data Not Available

Notes: A full-time employee is scheduled to work 2,080 hours per year (including vacation and sick leave). Full-time-equivalent employment is calculated by dividing total Full-time equivalent employment is calculated by dividing total labor hours by 2080.

Source: City of Solana Beach's Annual Budget

2001	2002	2003	2004	2005	2006
5.20	5.20	5.20	5.20	0.20	0.20
2.65	2.87	2.87	2.87	2.75	2.75
2.04	2.14	2.14	2.14	2.05	1.99
0.81	1.00	1.00	1.00	0.25	0.25
4.00	4.00	4.00	3.70	3.60	4.60
-					
1.20	1.20	1.20	1.20	1.73	1.20
0.25	0.25	0.25	0.25	1.15	1.10
5.00	5.00	5.00	5.00	5.50	6.25
20.62	20.62	20.62	20.67	20.01	20.01
3.25	3.25	3.25	2.25	1.55	1.88
7.96	7.96	8.30	8.31	8.45	8.67
2.45	2.45	2.46		1.84	1.84
3.52	3.87	3.59	3.14	3.64	3.89
0.27	0.44	0.69	1.49	1.69	1.69
2.21	2.77	2.77	2.77	2.96	2.96
0.75	0.75	0.75	0.75	0.94	0.94
2.16	1.75	1.75	1.05	0.62	0.64
1.99	1.99	1.99	1.99	1.91	2.27
1.64	1.95	1.98	1.68	1.64	1.64
1.19	1.47	1.47	1.42	1.54	1.54
N/A	N/A	N/A	N/A	0.25	0.30
69.16	70.93	71.28	66.88	64.27	66.61

CITY OF SOLANA BEACH

Operating Indicators by Function/Program
Last Ten Fiscal Years

	Fiscal Year			
	1997	1998	1999	2000
Function/Program				
Community development				
Number of:				
Business licenses (A)	N/A	N/A	N/A	N/A
Plan checks (B)	N/A	N/A	N/A	N/A
Code violations (calendar basis)	N/A	N/A	N/A	N/A
Police				
Number of:				
Priority 1	N/A	N/A	N/A	N/A
Priority 2	N/A	N/A	N/A	N/A
Priority 3	N/A	N/A	N/A	N/A
Priority 4	N/A	N/A	N/A	N/A
FBI Index Crimes	N/A	N/A	N/A	N/A
Fire				
Emergency Responses	N/A	N/A	N/A	N/A
Training Hours	N/A	N/A	N/A	N/A
Plan Checks	N/A	N/A	N/A	N/A
Public works				
Miles of:	N/A	N/A	N/A	N/A
Street resurfacing/repair	N/A	N/A	N/A	N/A
Street sweeping	N/A	N/A	N/A	N/A
Number of:				
Street signal maintained	N/A	N/A	N/A	N/A
Trees pruned per year	N/A	N/A	N/A	N/A
Square feet graffiti removed	N/A	N/A	N/A	N/A
Recreation & community services				
Number of enrollees:	N/A	N/A	N/A	N/A
Day camp	N/A	N/A	N/A	N/A
Classes	N/A	N/A	N/A	N/A
Special events				

N/A - Data not available
(A) - Includes new & renewal licenses, excludes temporary licenses
(B) - Excludes temporary plan checks.

Sources: Various city departments.

Fiscal Year					
2001	2002	2003	2004	2005	2006
N/A	N/A	N/A	N/A	1272	1400*
N/A	N/A	788	815	812	815*
N/A	N/A	489	1220	1496	1218*
N/A	N/A	23	18	19	19*
N/A	N/A	593	711	755	799*
N/A	N/A	3105	2128	2205	2282*
N/A	N/A	2133	1373	1473	1573*
N/A	N/A	401	342	382	422*
N/A	N/A	1128	1140	1377	1300*
N/A	N/A	3019	4197	4717	4200*
N/A	N/A	118	109	188	125*
N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A	N/A

CITY OF SOLANA BEACH

Capital Asset Statistics by Function/Program
Last Ten Fiscal Years

	Fiscal Year				
	1997	1998	1999	2000	2001
Function/Program					
Public Saftey					
Code enforcement vehicles	2	2	2	2	2
Fire					
Stations	1	1	1	1	1
Fire Engines	4	4	4	4	4
Other vehicles	2	2	2	2	2
Public works					
Streets (miles)	46	46	46	46	46
Street lights (city-owned)	748	748	748	748	748
Traffic signals	13	13	13	13	13
Public works vehicles	7	7	7	7	7
Public workks Coproration Yard	1	1	1	1	1
Recreation & community service					
Community centers	1	1	1	1	1
Parks	1	1	1	1	1
Marine Safety					
Lifeguard Stations	3	3	3	3	3
Vehicles	5	5	5	5	5

Notes: No capital asset indicators are available for the general government.

Sources: Various city departments.

Fiscal Year				
2002	2003	2004	2005	2006
2	2	2	2	2
1	1	1	1	1
4	4	4	4	4
2	2	2	2	2
46	46	46	46	46
748	748	748	748	748
13	13	13	13	13
7	7	7	7	7
1	1	1	1	1
1	1	1	1	1
1	1	1	1	1
3	3	3	3	3
5	5	5	5	5

(This page intentionally left blank)