



City of Solana Beach

Comprehensive Annual Financial Report
For The Fiscal Year
July 1, 2004 – June 30, 2005

CITY OF SOLANA BEACH
CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the fiscal year ended
June 30, 2005

Prepared by the Finance Department
Dennis M. Coleman, Finance Director
Marie Marron Berkuti, Finance Manager
Debbie Johnson, Fiscal Services Specialist
Sandi Lewis, Fiscal Services Specialist

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CITY OF SOLANA BEACH
Comprehensive Annual Financial Report
Year ended June 30, 2005

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CITY OF SOLANA BEACH

Comprehensive Annual Financial Report

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INTRODUCTORY SECTION





CITY OF SOLANA BEACH

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September 22, 2005

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, 2005.

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 Generally Accepted Accounting Principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these

objectives are met. The concept of reasonable assurance recognizes that (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

Conrad and Associates, LLP, who were appointed by the City Council, have audited the City's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year end June 30, 2005, 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, 2005, 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 Generally Accepted Accounting Principles. The independent auditor's report is presented as the first component of the financial section of this report. In addition, the City qualified to have a single audit of federal awards. A copy of the single audit may be obtained by contacting the City Finance Department at 635 S. Highway 101, Solana Beach, CA 92075.

Managements 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 13,400 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 to be 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, and is a nonprofit public benefit corporation duly organized and existing under the Nonprofit Public Benefit Corporation Law for the purpose of benefiting the City by providing financing for the planning, development, acquisition, construction, improvement, extension, repair, renovation of public buildings, works, projects, 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 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 2004-05 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 2004-05, 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, employment, income and spending remained soft, as were other areas of the economy. 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 continue to be, the highest revenue generator for the City. Sales tax is the City's second largest revenue source. During Fiscal Year 2004-05, actual dollars received in General Fund property taxes increased from 2003-04 by \$106,030 or 3%, while sales tax decreased by \$29,679 or 1% and overall, the City's General Fund increased 11.3%. It is important to note that the major growth in the General Fund revenues

was due to the repayment by the State of California for the Motor Vehicle in Lieu fees. The repayment of \$226,024 helped to increase Intergovernmental Revenues by \$399,456, or 39%, from Fiscal Year 2003-04 to 2004-05. 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

Coastal Rail Trail Phase III -Construction

With Phases 1 and 2 of the Coastal Rail Trail completed, Phase 3 - Construction began in mid-April 2004 with a groundbreaking ceremony and the 2-mile linear park was substantially completed by the end of the fiscal year. This park provides residents and visitors a recreational pedestrian and bicycle pathway surrounded in a beautifully native landscaped backdrop from the northern to the southern city limits.

Fletcher Cove Restrooms

A construction contract was awarded in the first few months of the fiscal year to build this project. The project has been completed. The new restroom replaced the forty-year-old existing structure and is the first major construction project of the overall Fletcher Cove Master Plan. Funding for this project was solely from the City's CIP fund.

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 at 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 \$20.5 million over a five-year period. Most of the funding for these projects is from 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 2.108% as compared to 1.6% 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 \$487,982.

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.

At June 30, 2005, 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 of which the goal is 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 at June 30, 2005 was \$531,740.

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 \$145 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 are no known existing claims that would exceed the City's applicable coverages.

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 contribution. The latest valuation reports received from the PERS actuary 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 fourteen retired employees receiving this benefit that is financed on a pay-as-you-go basis. GAAP currently does not require governments to report a liability in the financial statements in connection with an employers' obligation to provide these benefits.

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, 2004. This was the sixth 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.

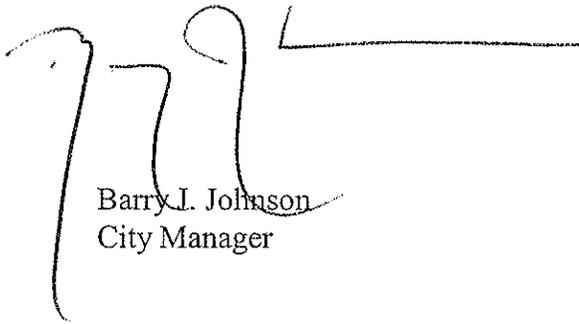
In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such Comprehensive Annual Financial Reports must satisfy both Generally Accepted Accounting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

Similarly, the California Society of Municipal Finance Officers (CSMFO) presented the City of Solana Beach with a Certificate of Award for Outstanding Financial Reporting for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2004. The Certificate of Award is a prestigious state recognition for conformance with certain high standards for preparation of local government financial reports. This was the eleven consecutive year that the City received the award. The CSMFO Certificate of Award is also valid for a period of one year only.

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, and Sandi Lewis, has our sincere appreciation for their contributions made in the preparation of this report. In addition, we would like to recognize the efforts of our former Accounting Manager, John Fusco, for his assistance. 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,



Barry I. Johnson
City Manager

Respectfully submitted,



Dennis M. Coleman
Finance Director/City Treasurer

**CITY OF SOLANA BEACH
FISCAL YEAR 2004-2005
DIRECTORY OF OFFICIALS AND ADVISORY BODIES**

CITY COUNCIL

TERM EXPIRES

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

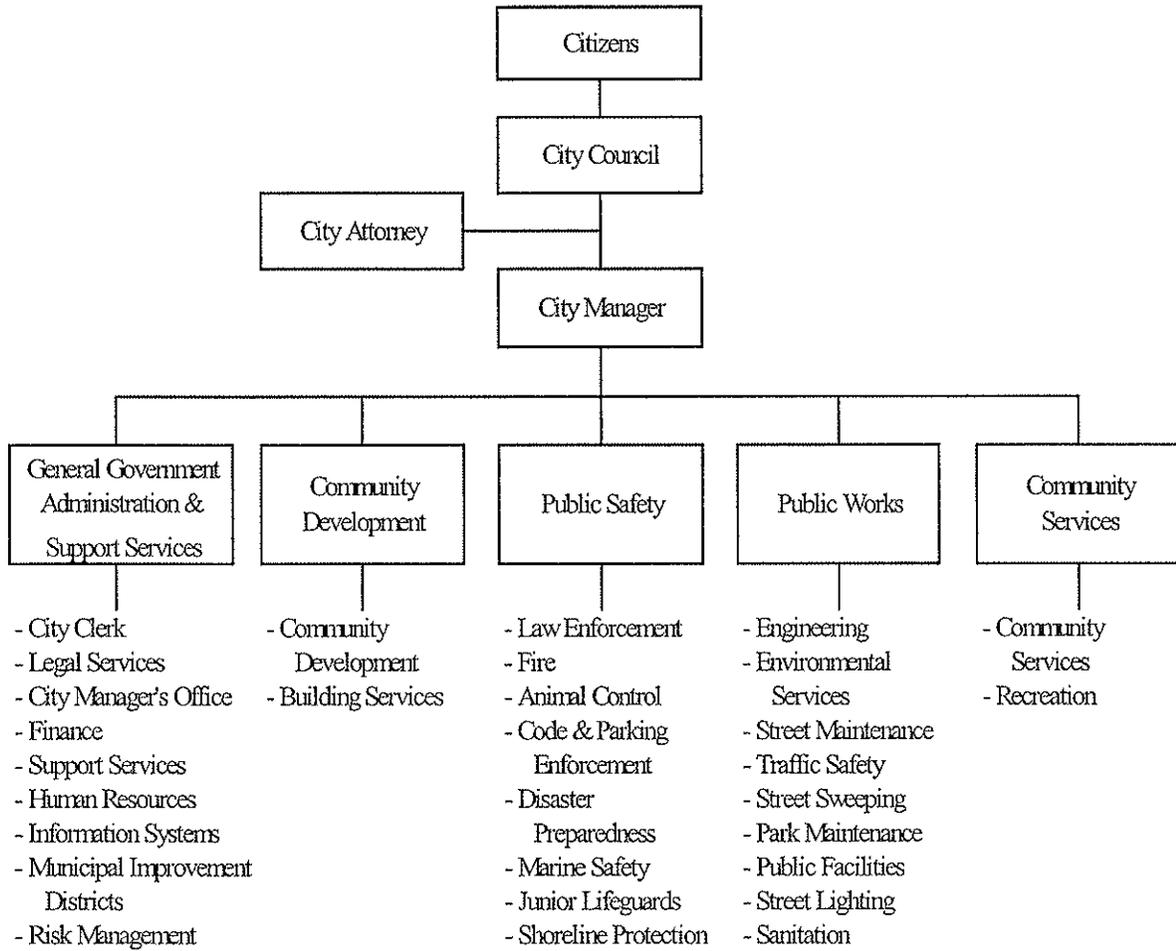
COMMITTEES AND COMMISSIONS

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

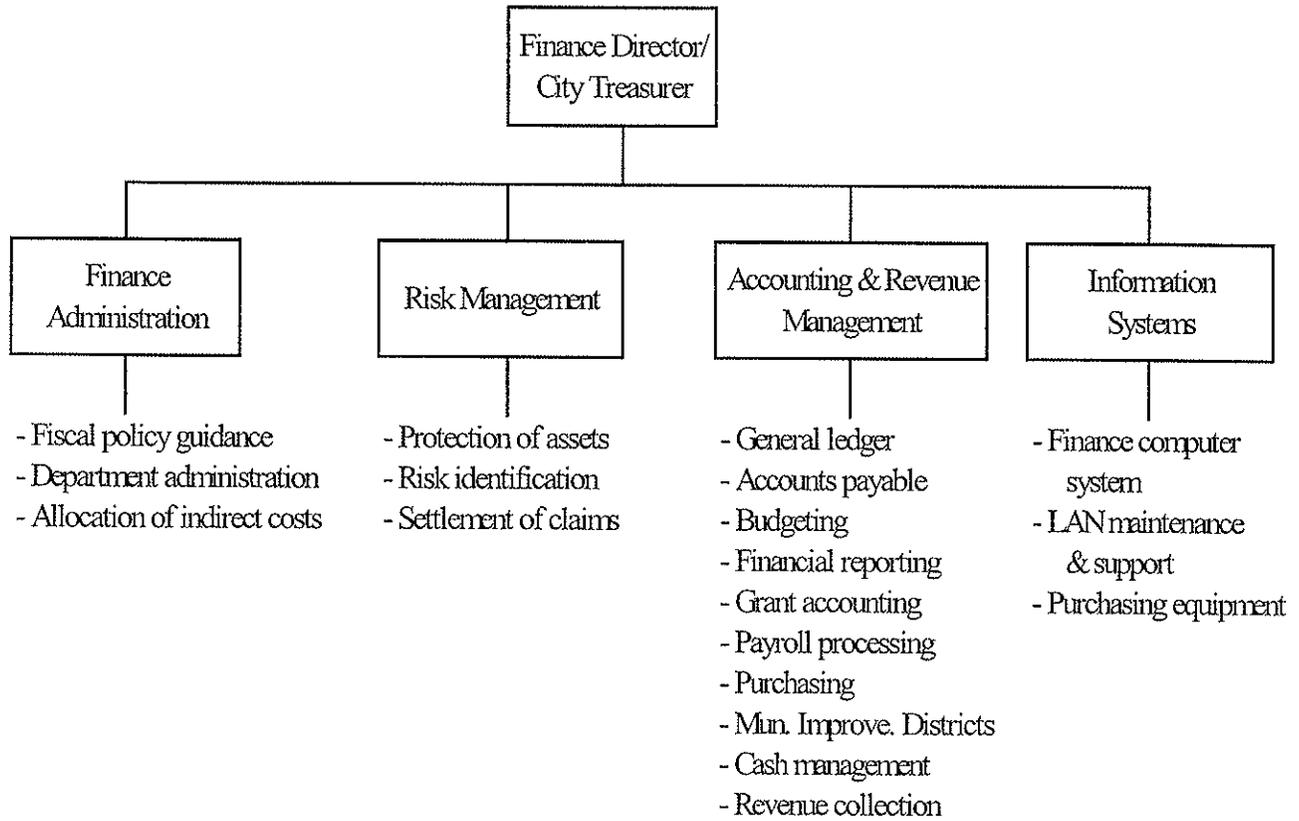
APPOINTED OFFICIALS AND DEPARTMENT DIRECTORS

Barry J. Johnson	City Manager
Chief David Ott	Interim Assistant City Manager/Director of Public Safety
James P. Lough	Interim City Attorney
Steve Apple	Director of Community Development
Gavin Cohen	Director of Finance/City Treasurer
Chandra Collure	Director of Public Works/City Engineer
Janice Breitenfeld	City Clerk

CITY OF SOLANA BEACH
 CITY GOVERNMENT
 ORGANIZATIONAL CHART
 FISCAL YEAR 2004/2005



CITY OF SOLANA BEACH
FINANCE DEPARTMENT
ORGANIZATIONAL CHART
FISCAL YEAR 2004/2005



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, 2004

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



Nancy L. Zielke

President

Jeffrey R. Emer

Executive Director

FINANCIAL SECTION



California Society of Municipal Finance Officers

Certificate of Award

Outstanding Financial Reporting 2003-04

Presented to the

City of Solana Beach

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

February 24, 2005

William A. Thomas

Bill Thomas, Chair
Professional & Technical Standards Committee

Dedicated to Excellence in Municipal Financial Management



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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, 2005, 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, 2005, 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 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 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.

Honorable Mayor and City Council
City of Solana Beach, California
Page Two

In accordance with *Government Auditing Standards*, we have also issued a report dated September 21, 2005 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.

Conrad and Associate, L.L.P.

September 21, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS



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, 2005. 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 \$543,035 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 \$876.
- Governmental net assets were \$522,682.
- The total revenues from all sources were \$18,115.
- The total cost of all City programs was \$17,239.
- The General Fund reported a deficiency of revenues under expenditures and other financing uses of \$(385).
- Actual resources received in the General Fund exceeded final budget by \$362 while actual expenditures were \$520 less than final budget before other financing uses.
- At the end of the fiscal year, unreserved fund balance for the General Fund was \$1,297 or 12% 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 accurately assess 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 to be 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	
	2005	2004 <i>(as restated)</i>	2005	2004 <i>(as restated)</i>	2005	2004 <i>(as restated)</i>
Assets:						
Current and other assets	\$ 16,670	\$ 17,729	\$ 25,744	\$ 25,558	\$ 42,414	\$ 43,287
Capital assets, net	511,814	510,243	4,258	4,108	516,072	514,351
Total assets	528,484	527,972	30,002	29,666	558,486	557,638
Liabilities:						
Long-term debt outstanding	4,160	3,946	9,094	9,897	13,254	13,843
Other liabilities	1,642	1,325	555	311	2,197	1,636
Total liabilities	5,802	5,271	9,649	10,208	15,451	15,479
Net assets:						
Invested in capital assets, net of debt	509,151	507,357	4,258	4,109	513,409	511,466
Restricted	2,221	3,699	851	1,657	3,072	5,356
Unrestricted	11,310	11,645	15,244	13,692	26,554	25,337
Total net assets	<u>\$ 522,682</u>	<u>\$ 522,701</u>	<u>\$ 20,353</u>	<u>\$ 19,458</u>	<u>\$ 543,035</u>	<u>\$ 542,159</u>

The City's combined net assets for the fiscal year ended June 30, 2005 were \$543,035. 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 decreased from \$522,701 to \$522,682. The following is an explanation of the governmental activity changes between fiscal years as shown in Table 1:

- Current and other assets decreased \$1,059 or 6.0% principally due to decreased cash holdings and receivables from other governmental agencies.
- Capital assets increased \$1,571 (net of \$24,071 depreciation and disposition) as detailed in Table 4. During fiscal year 2004-05, portions of the Coastal Rail Trail project were completed. The Trail is a 2-mile stretch of land between Highway 101 and the railroad tracks that is being developed into a beautifully native landscaped walk/bike pathway inclusive of art nodes and observation decks. In addition, the Fire Department acquired a new fire engine (triple combination pumper).
- Governmental long-term debt increased \$214 due to an increase in claims payable and deposits payable. See Table 5 for additional detail.
- Other liabilities increased \$317 primarily due to accounts payable relating to major projects.
- Invested in capital assets net of debt increased \$1,794 from capital asset additions.
- Restricted net assets decreased \$1,478 primarily because the City finished a significant portion of the Coastal Rail Trail and the Rosa Street pedestrian/bicycle bridge, and other projects that were ongoing from the previous fiscal year.
- 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 \$11,645 at June 30, 2004 to \$11,310 at the end of this year. This net decrease of \$335 is due principally to the costs associated with the decision to reorganize the city attorney's office from an in-house attorney to outside counsel.

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)

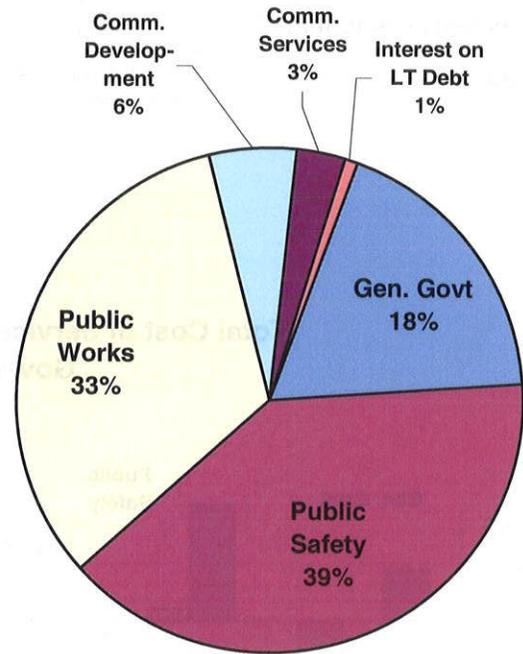
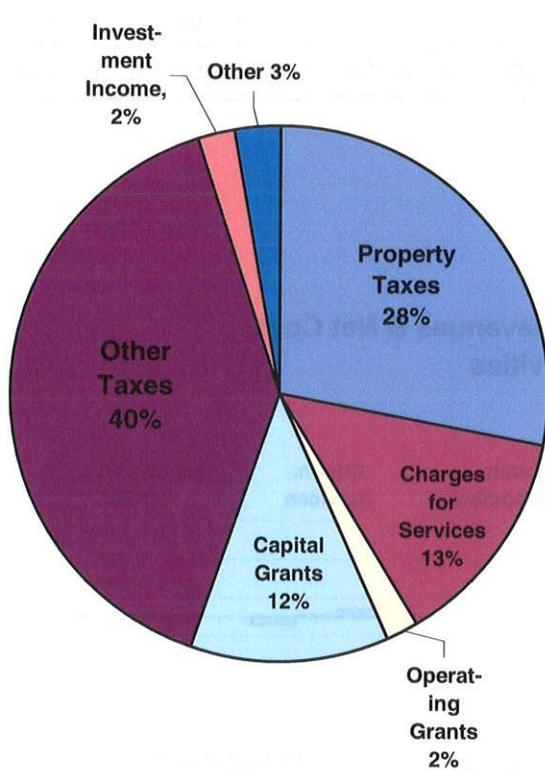
	Governmental Activities		Business Activities		Total	
	2005	2004 (as restated)	2005	2004 (as restated)	2005	2004 (as restated)
Revenues:						
Program revenues:						
Charges for services	\$ 1,946	\$ 1,625	\$ 3,530	\$ 3,560	\$ 5,476	\$ 5,185
Operating grants and contributions	258	256			258	256
Capital grants and contributions	1,751	2,913			1,751	2,913
General revenues:						
Property taxes	4,031	3,956			4,031	3,956
Other taxes	5,723	4,971			5,723	4,971
Other	712	657	164	98	876	755
Total revenues	14,421	14,378	3,694	3,658	18,115	18,036
Expenses:						
General government	2,658	1,870			2,658	1,870
Public safety	5,700	5,426			5,700	5,426
Public works	4,725	4,100			4,725	4,100
Community development	805	609			805	609
Community services	414	273			414	273
Interest on long-term debt	138	148			138	148
Sanitation			2,799	2,323	2,799	2,323
Total expenses	14,440	12,426	2,799	2,323	17,239	14,749
Increase/(decrease) in net assets	(19)	1,952	895	1,335	876	3,287
Net assets - 7/1/04	522,701	520,749	19,458	18,123	542,159	538,872
Net assets - 6/30/05	\$ 522,682	\$ 522,701	\$ 20,353	\$ 19,458	\$ 543,035	\$ 542,159

**Fiscal Year 2005
Governmental Activities**

(Graphic representation of Table 2 in percentages)

Sources of Revenue

Program Expenses



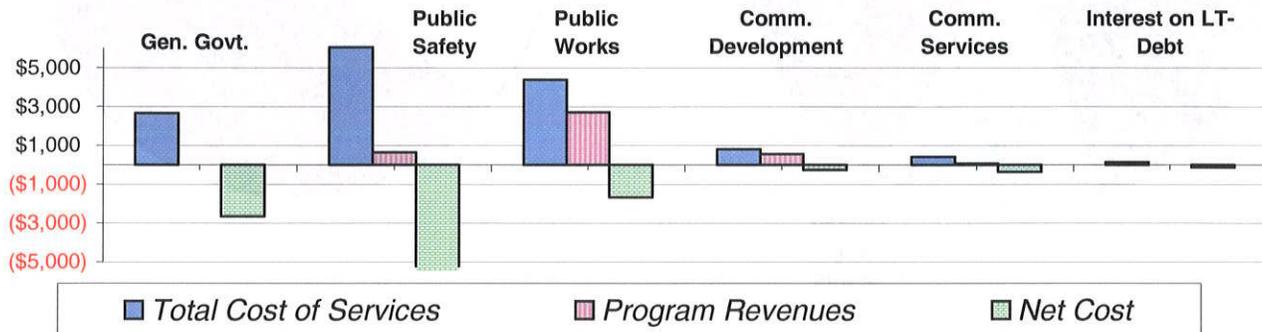
Net Cost of Governmental Activities

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	
	2005	2004	2005	2004	2005	2004
General government	\$ 2,658	\$ 1,870	\$ -	\$ -	\$ (2,658)	\$ (1,870)
Public safety	5,700	5,426	639	613	(5,061)	(4,813)
Public works	4,725	4,100	2,708	3,720	(2,017)	(380)
Community development	805	609	550	402	(255)	(207)
Community services	414	273	58	59	(356)	(214)
Interest on long-term debt	138	148	-	-	(138)	(148)
Totals	\$ 14,440	\$ 12,426	\$ 3,955	\$ 4,794	\$ (10,485)	\$ (7,632)

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



Total resources available during the year to finance governmental operations were \$537,122 consisting of net assets (restated) at July 1, 2004 of \$522,701, program revenues of \$3,955, and general revenues of \$10,466. Total governmental activities during the year were \$14,440; thus net assets decreased by \$19 to \$522,682.

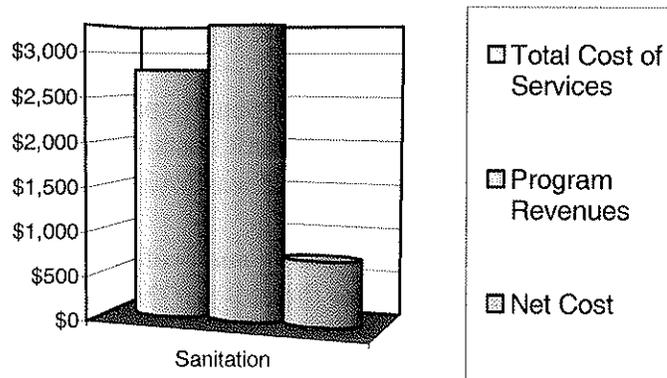
Business Type Activities

Net assets of the Proprietary Fund (Business Type activities) at June 30, 2005, as reflected in Table 1 were \$20,353. As shown in Table 3, amounts paid by users of the system were \$3,530 while the cost of providing all Proprietary (Business Type) activities this year was \$2,799 resulting in a gain of \$731. Net assets increased by \$895 or 4.6%, 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	
	2005	2004	2005	2004	2005	2004
Sanitation	\$ 2,799	\$ 2,323	\$ 3,530	\$ 3,560	\$ 731	\$ 1,237

Fiscal Year 2005
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 \$520 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 \$362 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:

- \$385 for additional outside counsel and the cost of reorganizing the city attorney's office from an in-house attorney to outside counsel,
- \$41 for costs to cover the Finance Director and City Clerk vacancies,
- \$35 for start up costs for the red light camera enforcement program,
- \$30 for an assessment engineer for the utility undergrounding projects,
- \$76 toward various consulting services relating to current and future capital projects, and
- \$251 toward professional services relating to street maintenance and traffic safety.

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

- Legal services: greater than anticipated costs were incurred for the changeover in the city attorney's office from an in-house attorney to outside counsel.
- Information systems: savings occurred from budgeted equipment, training, and professional services being unspent.
- Support services: actual damage claims paid were significantly lower than budgeted.
- Junior lifeguard: as part of the City bringing the junior lifeguard program in-house, anticipated expense in special department supplies, vehicle maintenance, equipment purchases and travel/meetings were not incurred.
- Code and parking enforcement: pass-through penalty payments to the County of San Diego and State of California, retirement, and health benefit costs were lower anticipated.
- Street and other: professional service expense was lower than budgeted in street maintenance, traffic safety and environmental services.
- Building Services: building permit processing and professional services for private development increased significantly near the close of the fiscal year.

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. The City valued and recorded land rights-of-way in the amount of \$469,867 during fiscal year 2005 which was previously excluded from capital assets. 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, 2005, net capital assets of the governmental activities totaled \$511,814 and the net capital assets of the business-type activities totaled \$4,258. 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 \$20,518 through fiscal 2009-10. Over the next five years, funding will come from current fund balances, projected revenues and the newly formed Redevelopment Agency. Significant projects are: Cliff Street Pedestrian Bridge, the Fletcher Cove Master Plan Implementation, and the Interstate 5 and Lomas Santa Fe Interchange.

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

	Governmental Activities		Business Activities		Total	
	2005	2004 (as restated)	2005	2004 (as restated)	2005	2004 (as restated)
Land	\$ 473,451	\$ 473,451	\$ 12	\$ 12	\$ 473,463	\$ 473,463
Buildings & Improvements	8,632	4,097	3,756	3,917	12,388	8,014
Equipment & Vehicles	851	554	2	4	853	558
Infrastructure	27,482	29,151	-	-	27,482	29,151
Work in Progress	1,398	2,990	488	175	1,886	3,165
	<u>\$ 511,814</u>	<u>\$ 510,243</u>	<u>\$ 4,258</u>	<u>\$ 4,108</u>	<u>\$ 516,072</u>	<u>\$ 514,351</u>

Debt

At year-end, the City had \$4,160 in governmental type debt, and \$9,094 in proprietary debt (including premium on debt issuance). The debt is a liability of the government and amounts to \$989.11 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	
	2005	2004	2005	2004	2005	2004
Lease Revenue						
Bonds	\$ 2,915	\$ 3,100	-	-	\$ 2,915	\$ 3,100
Loans Payable	-	-	\$ 9,025	\$ 9,882	9,025	9,882
Capital Leases Payable	-	39	-	-	-	39
Compensated Absences	258	273	16	15	274	288
Claims Payable	167	11	53	-	220	11
Deposits Payable	820	523	-	-	820	523
	<u>\$ 4,160</u>	<u>\$ 3,946</u>	<u>\$ 9,094</u>	<u>\$ 9,897</u>	<u>\$ 13,254</u>	<u>\$ 13,843</u>

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

In considering the City Budget for fiscal year 2005-2006, 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 5.6%. The CIP budget was set to be \$8,302 for the upcoming year. Property Tax and Sales Tax Revenues were estimated to grow approximately 7.7% and 9.8% 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>.

GOVERNMENT-WIDE FINANCIAL
STATEMENTS



CITY OF SOLANA BEACH
Statement of Net Assets
June 30, 2005

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets			
Cash and investments (Note 2)	\$ 15,535,379	5,962,887	21,498,266
Receivables:			
Accounts	19,396	298,792	318,188
Taxes	438,918	-	438,918
Interest	101,310	48,099	149,409
Due from other governments	322,693	-	322,693
Restricted cash with fiscal agent (Note 2)	251,715	839,363	1,091,078
Long term receivable	-	46,535	46,535
Deferred debt issuance cost	-	731,469	731,469
Investment in joint venture (including unamortized premium of \$260,838) (Note 8)	-	17,816,811	17,816,811
Capital assets (Note 5):		-	
Non-depreciable capital assets	474,849,238	500,117	475,349,355
Depreciable capital assets	61,035,839	6,998,620	68,034,459
Less: Accumulated depreciation	<u>(24,070,826)</u>	<u>(3,240,355)</u>	<u>(27,311,181)</u>
Total assets	<u>528,483,662</u>	<u>30,002,338</u>	<u>558,486,000</u>
Liabilities			
Accounts payable	1,368,898	40,636	1,409,534
Accrued salaries and benefits	97,556	3,260	100,816
Accrued interest payable	11,284	129,633	140,917
Unearned revenue	164,571	-	164,571
Premium on debt issuance	-	382,127	382,127
Noncurrent liabilities (Note 6):			
Due within one year	679,795	461,297	1,141,092
Due in more than one year	<u>3,479,900</u>	<u>8,632,294</u>	<u>12,112,194</u>
Total liabilities	<u>5,802,004</u>	<u>9,649,247</u>	<u>15,451,251</u>
Net assets			
Invested in capital assets, net of accumulated depreciation and related debt	509,150,966	4,258,382	513,409,348
Restricted for:			
Community development	231,968		231,968
Public safety	75,117		75,117
Public works	1,913,957		1,913,957
Debt service		850,800	850,800
Unrestricted	<u>11,309,650</u>	<u>15,243,909</u>	<u>26,553,559</u>
Total net assets	<u>522,681,658</u>	<u>20,353,091</u>	<u>543,034,749</u>

See accompanying notes to basic financial statements.

CITY OF SOLANA BEACH
Statement of Activities
Year ended June 30, 2005

	<u>Program Revenues</u>				
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Contributions and Grants</u>	<u>Capital Contributions and Grants</u>	<u>Total Program Revenues</u>
Governmental activities:					
General government	\$ 2,657,830	-	-	-	-
Public safety	5,699,742	528,680	-	110,626	639,306
Public works	4,725,613	809,414	257,689	1,640,684	2,707,787
Community development	804,491	549,425	-	-	549,425
Community services	413,747	58,192	-	-	58,192
Interest on long-term debt	138,123	-	-	-	-
Total governmental activities	<u>14,439,546</u>	<u>1,945,711</u>	<u>257,689</u>	<u>1,751,310</u>	<u>3,954,710</u>
Business-type activities:					
Sanitation	2,798,884	3,530,427	-	-	3,530,427
Total business-type activities					
Total primary government	<u>\$ 17,238,430</u>	<u>5,476,138</u>	<u>257,689</u>	<u>1,751,310</u>	<u>7,485,137</u>

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, as restated (Note 15)

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
(2,657,830)	-	(2,657,830)
(5,060,436)	-	(5,060,436)
(2,017,826)	-	(2,017,826)
(255,066)	-	(255,066)
(355,555)	-	(355,555)
(138,123)	-	(138,123)
<u>(10,484,836)</u>	<u>-</u>	<u>(10,484,836)</u>
-	731,543	731,543
<u>(10,484,836)</u>	<u>731,543</u>	<u>(9,753,293)</u>
4,031,269	-	4,031,269
783,539	-	783,539
2,661,448	-	2,661,448
521,996	-	521,996
1,756,042	-	1,756,042
323,938	164,044	487,982
34,902	-	34,902
352,889	-	352,889
<u>10,466,023</u>	<u>164,044</u>	<u>10,630,067</u>
(18,813)	895,587	876,774
<u>522,700,471</u>	<u>19,457,504</u>	<u>542,157,975</u>
<u>\$ 522,681,658</u>	<u>20,353,091</u>	<u>543,034,749</u>

See accompanying notes to basic financial statements

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FUND FINANCIAL STATEMENTS



CITY OF SOLANA BEACH
Governmental Fund Types
Balance Sheet
June 30, 2005

Assets	General	Special	Other	Totals	
	Fund	Revenue TEA 21 /TEA	Governmental Funds	2005	2004
Cash and investments (Note 2)	\$10,442,615	-	5,092,764	15,535,379	16,151,562
Receivables:					
Accounts	13,450	400	5,546	19,396	145,860
Tax	403,134	-	35,784	438,918	608,442
Interest	69,302	-	32,008	101,310	54,367
Due from other governments	296,244	-	26,449	322,693	516,950
Restricted cash with fiscal agent (Note 2)	-	-	251,715	251,715	251,666
Due from other funds (Note 3)	1,247,919	-	-	1,247,919	878,762
Total assets	<u>\$12,472,664</u>	<u>400</u>	<u>5,444,266</u>	<u>17,917,330</u>	<u>18,607,609</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 863,093	55,182	450,623	1,368,898	922,654
Accrued liabilities	95,043	-	2,513	97,556	212,121
Deposits payable	819,998	-	-	819,998	522,726
Deferred revenue	-	-	152,533	152,533	633,417
Due to other funds (Note 3)	-	597,354	650,565	1,247,919	878,762
Total liabilities	<u>1,778,134</u>	<u>652,536</u>	<u>1,256,234</u>	<u>3,686,904</u>	<u>3,169,680</u>
Fund balances:					
Reserved for encumbrances	127,465	63,567	447,287	638,319	4,189,007
Reserved for debt service	-	-	251,715	251,715	251,666
Reserved for housing	-	-	341,698	341,698	435,267
Reserved for capital projects	-	-	101,141	101,141	101,141
Reserved for developer fees	416,897	-	-	416,897	375,179
Unreserved:					
Designated for:					
Specific projects and programs reported in:					
General fund	8,852,945	-	-	8,852,945	8,408,306
Special revenue funds	-	-	408,021	408,021	409,722
Undesignated, reported in:					
General fund	1,297,223	-	-	1,297,223	2,105,729
Special revenue funds	-	(715,703)	1,985,482	1,269,779	(1,157,648)
Capital projects funds	-	-	652,688	652,688	319,560
Total fund balances (deficit)	<u>10,694,530</u>	<u>(652,136)</u>	<u>4,188,032</u>	<u>14,230,426</u>	<u>15,437,929</u>
Total liabilities and fund balances	<u>\$12,472,664</u>	<u>400</u>	<u>5,444,266</u>	<u>17,917,330</u>	<u>18,607,609</u>

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, 2005

Fund balances of governmental funds	\$ 14,230,426
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	535,885,077
Accumulated depreciation	(24,070,826)
Long term debt and compensated absences that have not been included in the governmental fund activity.	
Lease revenue bonds payable	(2,915,000)
Claims payable	(166,813)
Compensated absences	(257,884)
Accrued interest payable for the current portion of interest due on Debt service has not been reported in the governmental funds.	(11,284)
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.	(12,038)
Net assets of governmental activities	\$ 522,681,658

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, 2005

	General Fund	Special Revenue	Other Governmental Funds	Totals	
		TEA 21 / TEA		2005	2004
Revenues:					
Taxes and assessments	\$ 8,545,931	-	722,821	9,268,752	10,462,543
Intergovernmental	1,415,906	1,022,692	1,462,848	3,901,446	2,187,223
Licenses and permits	305,807	-	-	305,807	266,716
Charges for services	404,523	-	16,510	421,033	379,462
Fines and forfeitures	336,224	-	-	336,224	175,062
Investment income	213,123	-	15,115	228,238	121,059
Uses of money and property	34,902	-	95,700	130,602	80,056
Other	416,023	-	6,005	422,028	360,489
Total revenues	11,672,439	1,022,692	2,318,999	15,014,130	14,032,610
Expenditures:					
Current:					
General government	2,599,981	-	2,466	2,602,447	1,945,506
Public safety	5,666,126	-	247,667	5,913,793	5,415,657
Public works	1,517,557	-	640,127	2,157,684	2,623,014
Community development	792,434	-	-	792,434	608,030
Community services	236,705	-	-	236,705	237,370
Capital outlay	-	808,490	3,346,374	4,154,864	1,890,368
Debt service (Note 6):					
Principal retirement	-	-	224,025	224,025	249,403
Interest	-	-	139,681	139,681	151,102
Total expenditures	10,812,803	808,490	4,600,340	16,221,633	13,120,450
Excess (deficiency) of revenues over (under) expenditures	859,636	214,202	(2,281,341)	(1,207,503)	912,160
Other financing sources (uses):					
Transfers in (Note 4)	2,195	-	1,246,722	1,248,917	706,947
Transfers out (Note 4)	(1,246,722)	-	(2,195)	(1,248,917)	(706,947)
Total other financing sources (uses)	(1,244,527)	-	1,244,527	-	-
Net change in fund balances	(384,891)	214,202	(1,036,814)	(1,207,503)	912,160
Fund balances (deficit), beginning of year	11,079,421	(866,338)	5,224,846	15,437,929	14,525,769
Fund balances (deficit), end of year	\$10,694,530	(652,136)	4,188,032	14,230,426	15,437,929

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, 2005

Net change in fund balances - total governmental funds \$(1,207,503)

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	3,923,659
Depreciation, net of accumulated depreciation disposals	(2,352,807)

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.	224,025
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Accrued interest for debt service. This is the net change in accrued interest for the current period.	1,558
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Compensated absences and claims payable expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	(139,708)
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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.	2,220
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Revenue collected this fiscal year was reported as deferred revenue in the governmental funds at the end of last fiscal year and deferred revenue was accordingly reduced this year by that amount.	<u>(470,257)</u>
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Change in net assets of governmental activities	<u><u>\$ (18,813)</u></u>
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See accompanying notes to basic financial statements.

CITY OF SOLANA BEACH
Proprietary Fund
Statement of Net Assets
June 30, 2005

Assets	Enterprise Fund-Sanitation	
	2005	2004
Current assets:		
Cash and investments (Note 2)	\$ 5,962,887	5,780,628
Restricted cash with fiscal agent (Note 2)	839,363	847,831
Receivables:		
Accounts	298,792	85,004
Interest	48,099	20,172
Due from joint venture	-	130,341
Total current assets	7,149,141	6,863,976
Noncurrent assets:		
Sewer fees receivable	46,535	62,046
Deferred debt issuance costs	731,469	780,234
Investment in joint venture (including unamortized premium of \$260,838)	17,816,811	17,851,570
Capital assets, net (Note 5)	4,258,382	4,131,745
Total noncurrent assets	22,853,197	22,825,595
Total assets	30,002,338	29,689,571
Liabilities		
Current liabilities:		
Accounts payable	40,636	168,240
Accrued salaries and benefits	3,260	9,473
Accrued interest payable	129,633	133,383
Loans payable (Note 6)	460,000	450,000
Compensated absences	1,297	2,369
Total current liabilities	634,826	763,465
Noncurrent liabilities:		
Compensated absences payable	14,269	12,439
Claims payable	53,025	-
Premium on debt issuance	382,127	407,602
Loan payable (Note 6)	8,565,000	9,025,000
Total noncurrent liabilities	9,014,421	9,445,041
Total liabilities	9,649,247	10,208,506
Net Assets		
Invested in capital assets, net of accumulated depreciation and related debt	4,258,382	4,979,576
Restricted for debt service	850,800	809,381
Unrestricted	15,243,909	13,692,108
Total net assets	\$20,353,091	19,481,065

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, 2005

	<u>Enterprise Fund - Sanitation</u>	
	<u>2005</u>	<u>2004</u>
Operating revenues:		
Charges for sales and services:		
Sewer service and connection fees	\$ 3,516,154	3,544,715
Other	14,273	15,006
Total operating revenues	<u>3,530,427</u>	<u>3,559,721</u>
Operating expenses:		
Cost of sales and services	1,765,678	1,574,508
Administration	187,833	173,923
Depreciation	163,315	146,455
Total operating expenses	<u>2,116,826</u>	<u>1,894,886</u>
Total operating income	<u>1,413,601</u>	<u>1,664,835</u>
Nonoperating revenues (expenses):		
Investment income	164,044	98,406
Interest expense	(370,925)	(317,421)
Amortization of premium	(10,945)	(10,945)
Share in joint venture net loss	(300,188)	(99,470)
Total nonoperating revenues (expenses)	<u>(518,014)</u>	<u>(329,430)</u>
Net change in net assets	<u>895,587</u>	<u>1,335,405</u>
Net assets, beginning of year	19,481,065	18,145,660
Prior period adjustment (Note 15)	(23,561)	-
Net assets, beginning as restated	<u>19,457,504</u>	<u>18,145,660</u>
Net assets, end of year	<u>\$ 20,353,091</u>	<u>\$ 19,481,065</u>

See accompanying notes to basic financial statements.

CITY OF SOLANA BEACH
Proprietary Fund
Statement of Cash Flows
Year ended June 30, 2005

	<u>Enterprise Fund -Sanitation</u>	
	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Cash received from customers and other governments	\$ 3,317,877	3,621,824
Cash payments to suppliers for goods and services	(1,709,916)	(2,118,083)
Cash payments to employees for services	(193,288)	(170,831)
Cash received for other operating activities	14,273	15,006
Net cash provided by operating activities	<u>1,428,946</u>	<u>1,347,916</u>
Cash flows from capital related and financing activities:		
Principal payments on long-term liabilities	(475,475)	(455,475)
Interest paid on long-term liabilities	(325,910)	(268,656)
Payments on issuance of debt	(468,711)	(203,822)
Purchase of capital assets	(126,637)	(331,926)
Net cash used for capital related and financing activities	<u>(1,396,733)</u>	<u>(1,259,879)</u>
Cash flows from investing activities-interest income	<u>136,117</u>	<u>101,760</u>
Net increase (decrease) in cash and cash equivalents	168,330	189,797
Cash and cash equivalents, beginning of year	<u>5,795,004</u>	<u>5,605,207</u>
Cash and cash equivalents, end of year	<u>\$ 5,963,334</u>	<u>5,795,004</u>
Reconciliation of cash equivalents to the statement of net assets		
Cash and investments reported on statement of net assets	5,962,887	5,780,628
Cash and investments with fiscal agent reported on statement of net assets	839,363	847,831
Less: Investments that do not qualify as cash equivalents	<u>(838,916)</u>	<u>(833,455)</u>
Cash and cash equivalents	<u>\$ 5,963,334</u>	<u>5,795,004</u>
Reconciliation of operating income to net cash used for operating activities:		
Operating income	\$ 1,413,601	1,664,835
Adjustments to reconcile operating income to net cash used for operating activities:		
Depreciation	163,315	146,455
(Increase) decrease in accounts receivable	(213,788)	61,597
(Increase) decrease in sewer fees receivable	15,511	15,512
(Increase) decrease in due from SEPA joint venture	130,341	(130,341)
Increase (decrease) in accounts payable and other liabilities	(80,792)	(413,234)
Increase (decrease) in compensated absences	758	3,092
Net provided by operating activities	<u>\$ 1,428,946</u>	<u>1,347,916</u>

Noncash investing, capital and financing activities:

During the year June 30, 2005, there were noncash investment activities of: \$300,188 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, 2005

Assets	Cedros Avenue Assessment District	
	2005	2004
Cash and investments	\$12,706	\$ 22,023
Interest receivable	58	64
Benefit fees receivable	-	2
Total assets	\$12,764	\$ 22,089
Liabilities		
Due to bondholders	\$12,764	\$ 22,089

See accompanying notes to basic financial statements.

NOTES TO THE FINANCIAL STATEMENTS



CITY OF SOLANA BEACH
NOTES TO BASIC FINANCIAL STATEMENTS

Year ended June 30, 2005

(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 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, and is a nonprofit public benefit corporation duly organized and existing under the Nonprofit Public Benefit Corporation Law for the purpose of benefiting and carrying out the purposes of the City of Solana Beach, by providing for the planning, development, acquisition, construction, improvement, extension, repair, renovation and/or financing of public buildings, works, projects, facilities, furnishings and equipment for the benefit or use of the City.

CITY OF SOLANA BEACH
NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

(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.

CITY OF SOLANA BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

(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 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.

CITY OF SOLANA BEACH
NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

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

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

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

CITY OF SOLANA BEACH
NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

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

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

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.

CITY OF SOLANA BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

(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.

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

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 Fund. This fund is used to account for the Cedros Avenue Assessment District for which the City acts as an agent for debt service activity.

CITY OF SOLANA BEACH
 NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

(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 \$14,230,426 differs from “net assets” of governmental activities \$522,681,658 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 cost 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	\$535,885,077
Accumulated depreciation	<u>(24,070,826)</u>
Total capital assets, net	<u>\$511,814,251</u>

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.

Lease revenue bonds payable	\$2,915,000
Claims payable	166,813
Compensated absences	<u>257,884</u>
Total long-term liabilities	<u>\$3,339,697</u>

CITY OF SOLANA BEACH

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

(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	\$15,535,379	-	-	-
Receivables:				
Accounts	19,396	-	-	-
Tax	438,918	-	-	-
Interest	101,310	-	-	-
Due from other governments	322,693	-	-	-
Restricted cash with fiscal agent	251,715	-	-	-
Due from other funds	1,247,919	-	-	-
Capital assets	-	535,885,077	-	-
Less: Accumulated depreciation	-	-	(24,070,826)	-
Total assets	<u>\$17,917,330</u>	<u>535,885,077</u>	<u>(24,070,826)</u>	<u>-</u>
Liabilities and Fund Balances/Net Assets				
Liabilities:				
Accounts payable	\$ 1,368,898	-	-	-
Accrued salaries and benefits	97,556	-	-	-
Accrued interest payable	-	-	-	-
Deposits payable	819,998	-	-	-
Deferred revenue	152,533	-	-	-
Due to other funds	1,247,919	-	-	-
Long-term liabilities	-	-	-	2,915,000
Total liabilities	<u>3,686,904</u>	<u>-</u>	<u>-</u>	<u>2,915,000</u>
Fund balances/net assets	14,230,426	535,885,077	(24,070,826)	(2,915,000)
Total liabilities and and fund balances/net assets	<u>\$17,917,330</u>	<u>535,885,077</u>	<u>(24,070,826)</u>	<u>-</u>

<u>Interest Payable</u>	<u>Claims Payable</u>	<u>Compensated Absences</u>	<u>Certain Revenue</u>	<u>Reclassifications and Eliminations</u>	<u>Statement of Net Assets</u>
-	-	-	-	-	15,535,379
-	-	-	-	-	19,396
-	-	-	-	-	438,918
-	-	-	-	-	101,310
-	-	-	-	-	322,693
-	-	-	-	-	251,715
-	-	-	-	(1,247,919)	-
-	-	-	-	-	535,885,077
-	-	-	-	-	<u>(24,070,826)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,247,919)</u>	<u>528,483,662</u>
-	-	-	-	-	1,368,898
-	-	-	-	-	97,556
11,284	-	-	-	-	11,284
-	-	-	-	-	819,998
-	-	-	12,038	-	164,571
-	-	-	-	(1,247,919)	-
-	166,813	257,884	-	-	<u>3,339,697</u>
<u>11,284</u>	<u>166,813</u>	<u>257,884</u>	<u>12,038</u>	<u>(1,247,919)</u>	<u>5,802,004</u>
<u>(11,284)</u>	<u>(166,813)</u>	<u>(257,884)</u>	<u>(12,038)</u>	<u>-</u>	<u>522,681,658</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,247,919)</u>	<u>528,483,662</u>

CITY OF SOLANA BEACH
NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

(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	<u>\$11,284</u>
------------------------	-----------------

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	<u>\$12,038</u>
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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.

CITY OF SOLANA BEACH
 NOTES TO BASIC FINANCIAL STATEMENTS
 (Continued)

(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 \$(1,207,503) differs from the “change in net assets” for governmental activities \$(18,813) 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	\$3,923,659
Depreciation expenses, net of disposals	<u>(2,352,807)</u>
Difference	<u>\$1,570,852</u>

CITY OF SOLANA BEACH

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

(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	\$ 9,268,752	-	-	-
Intergovernmental	3,901,446	-	-	-
Licenses and permits	305,807	-	-	-
Charges for services	421,033	-	-	-
Fines and forfeitures	336,224	-	-	-
Investment income	228,238	-	-	-
Uses of money and property	130,602	-	-	-
Other	422,028	-	-	-
Total revenues	15,014,130	-	-	-
Expenditures:				
Current:				
General government	\$ 2,602,447	(56,880)	97,915	-
Public safety	5,913,793	(380,159)	166,108	-
Public works	2,157,684	604,362	1,963,567	-
Community development	792,434	10,606	1,451	-
Community services	236,705	-	177,042	-
Capital outlay	4,154,864	(4,101,588)	(53,276)	-
Debt service:				
Principal retirement	224,025	-	-	(224,025)
Interest	139,681	-	-	-
Total expenses	16,221,633	(3,923,659)	2,352,807	(224,025)
Other financing sources (uses):				
Transfers in	1,248,917	-	-	-
Transfers out	(1,248,917)	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances/net assets	(1,207,503)	3,923,659	(2,352,807)	224,025
Fund balances/net assets beginning of year, as restated	15,437,929	531,961,418	(21,718,019)	(3,139,025)
Fund balances/net assets, end of year	\$ 14,230,426	535,885,077	(24,070,826)	(2,915,000)

<u>Accrued Interest</u>	<u>Claims Payable</u>	<u>Compensated Absences</u>	<u>Certain Revenue</u>	<u>Reclassifications and Eliminations</u>	<u>Statement of Activities</u>
-	-	-	-	-	9,268,752
-	-	-	(470,257)	-	3,431,189
-	-	-	2,220	-	308,027
-	-	-	-	(125,360)	295,673
-	-	-	-	-	336,224
-	-	-	-	-	228,238
-	-	-	-	-	130,602
-	-	-	-	-	422,028
<u>-</u>	<u>-</u>	<u>-</u>	<u>(468,037)</u>	<u>(125,360)</u>	<u>14,420,733</u>
-	155,319	(15,611)	-	(125,360)	2,657,830
-	-	-	-	-	5,699,742
-	-	-	-	-	4,725,613
-	-	-	-	-	804,491
-	-	-	-	-	413,747
-	-	-	-	-	-
(1,558)	-	-	-	-	-
<u>(1,558)</u>	<u>155,319</u>	<u>(15,611)</u>	<u>-</u>	<u>(125,360)</u>	<u>14,439,546</u>
-	-	-	-	(1,248,917)	-
-	-	-	-	1,248,917	-
-	-	-	-	-	-
1,558	(155,319)	15,611	(468,037)	-	(18,813)
<u>(12,842)</u>	<u>(11,494)</u>	<u>(273,495)</u>	<u>455,999</u>	<u>-</u>	<u>522,700,471</u>
<u>(11,284)</u>	<u>(166,813)</u>	<u>(257,884)</u>	<u>(12,038)</u>	<u>-</u>	<u>522,681,658</u>

CITY OF SOLANA BEACH
NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

(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

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	\$(15,611)
Net change in claims payable	155,319

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.

Lease revenue bonds principle payment made	<u>\$224,025</u>
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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	<u>\$1,558</u>
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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	<u>\$2,220</u>
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CITY OF SOLANA BEACH
NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

(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)

Revenue collected this fiscal year was reported as deferred revenue in the governmental funds at the end of last fiscal year and deferred revenue is accordingly reduced this year by that amount.

Net change in other deferred revenue	<u>\$(470,257)</u>
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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.

CITY OF SOLANA BEACH
NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

(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, 2005, cash and cash equivalents reported in the Sanitation Enterprise Fund of \$5,963,334 consisted of the California Local Agency Investment Fund \$5,956,303; cash and investments with fiscal agent \$447; and pooled deposits in the City's cash management pool \$20,000.

(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

CITY OF SOLANA BEACH
 NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

(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.

(2) Cash and Investments

Cash and investments at June 30, 2005 are reported as follows in the financial statements:

Statement of Net Assets:	
Cash and investments	\$21,498,266
Restricted cash and investments with fiscal agent	1,091,078
Statement of Fiduciary Net Assets:	
Cash and investments	<u>12,706</u>
	<u>\$22,602,050</u>

CITY OF SOLANA BEACH
NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

(2) Cash and Investments, (Continued)

Cash and investments at June 30, 2005 consisted of the following:

Imprest cash on hand	\$ 672
Demand deposits held by City	366,324
Investments held by City:	
Local Agency Investment Fund	21,143,076
Investments held by fiscal agent:	
Money market fund	5,600
Federal Agency Securities	<u>1,086,378</u>
Total cash and investments	<u>\$22,602,050</u>

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.

<u>Investment Types Authorized by State Law</u>	<u>Authorized By Investment Policy</u>	<u>*Maximum Maturity</u>	<u>*Maximum Percentage Of Portfolio</u>	<u>*Maximum Investment in One Issuer</u>
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

CITY OF SOLANA BEACH
 NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

(2) Cash and Investments, (Continued)

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

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

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.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	None	None	None
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.

CITY OF SOLANA BEACH
NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

(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):

<u>Investment Type</u>		<u>Remaining Maturity (in Years)</u>			
		<u>1 Year Or less</u>	<u>1 to 2 Years</u>	<u>2 to 3 Years</u>	<u>3 to 5 Years</u>
Held by City:					
LAIF	\$ 21,143,076	21,143,076	-	-	-
Held by Fiscal Agent:					
Money market funds	5,600	5,600	-	-	-
Federal agency	<u>1,086,378</u>	<u>1,086,378</u>	-	-	-
Total	<u>\$ 22,235,054</u>	<u>22,235,054</u>	<u>-</u>	<u>-</u>	<u>-</u>

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.

<u>Investment Type</u>		<u>Minimum Legal Rating</u>	<u>Ratings as of Year End</u>			<u>Not Rated</u>
			<u>AAA</u>	<u>AA</u>	<u>A</u>	
Held by City:						
LAIF	\$21,143,076	N/A				21,143,076
Held by fiscal agent:						
Money market funds	5,600	N/A				5,600
Federal agency	<u>1,086,378</u>	N/A	-	-	-	<u>1,086,378</u>
Total	<u>\$ 22,235,054</u>		<u>-</u>	<u>-</u>	<u>-</u>	<u>22,235,054</u>

CITY OF SOLANA BEACH
NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

(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, 2005, 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.

CITY OF SOLANA BEACH
NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

(3) Interfund Balances

Interfund balances at June 30, 2005 consisted of the following:

	<u>TEA 21/ TEA</u>	Due from: <u>Nonmajor Funds</u>	<u>Total</u>
Due To:			
General Fund	<u>\$597,354</u>	<u>650,565</u>	<u>1,247,919</u>

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, 2005 consisted of the following:

	<u>General Fund</u>	Transfers In: <u>Nonmajor Funds</u>	<u>Total</u>
Transfers Out:			
General Fund	-	1,246,722	1,246,722
Nonmajor Funds	<u>\$2,195</u>	-	<u>2,195</u>
Total	<u>\$2,195</u>	<u>1,246,722</u>	<u>1,248,917</u>

The most significant interfund transfer was from the General fund to the Debt Service Fund in order to provide available funds for interest and principal payments on the City's long-term debt. During the fiscal year ended June 30, 2005, there were no significant interfund transfers that were not expected, budgeted for, unusual nor of a non-routine nature.

CITY OF SOLANA BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

There were no significant construction commitments at June 30, 2005.

(6) Long-term Liabilities

Long-term liability activity for the year ended June 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
Governmental Activities:					
Lease revenue bonds:					
ABAG	\$3,100,000	-	185,000	2,915,000	190,000
Capital lease payable:					
Distillery Real Estate	39,025	-	39,025	-	-
Other liabilities:					
Compensated absences	273,495	172,903	188,514	257,884	21,490
Claims payable	11,494	155,319	-	166,813	9,106
Deposits payable	522,726	586,672	289,400	819,998	459,199
Total other liabilities	<u>807,715</u>	<u>914,894</u>	<u>477,914</u>	<u>1,244,695</u>	<u>489,795</u>
Total governmental activities	<u>3,946,740</u>	<u>914,894</u>	<u>701,939</u>	<u>4,159,695</u>	<u>679,795</u>
Business-type Activities:					
Loans payable:					
Sanitation - 2003	9,475,000	-	450,000	9,025,000	460,000
Other liabilities:					
Compensated absences	14,808	7,476	6,718	15,566	1,297
Claims payable	-	53,025	-	53,025	-
Total other liabilities	<u>14,808</u>	<u>60,501</u>	<u>6,718</u>	<u>68,591</u>	<u>1,297</u>
Total business-type activities	<u>9,489,808</u>	<u>60,501</u>	<u>456,718</u>	<u>9,093,591</u>	<u>461,297</u>
Total	<u>\$13,436,548</u>	<u>975,395</u>	<u>1,158,657</u>	<u>13,253,286</u>	<u>1,141,092</u>

CITY OF SOLANA BEACH
NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

(6) Long-term Liabilities, (Continued)

Balance
June 30, 2005

Governmental Activities:

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.

\$2,915,000

Lease Payable:

In July 1994, the City entered into a lease purchase agreement to finance the acquisition of land valued at its gross amount of \$585,834. The lease in the amount of \$585,834 qualifies as a capital lease and has been recorded at the present value of the future minimum lease payments at the date of the inception of the lease. The lease calls for semi-annual payments of \$40,293 including interest at 6.5% beginning July 15, 1994 and ending July 15, 2004.

CITY OF SOLANA BEACH
 NOTES TO BASIC FINANCIAL STATEMENTS
 (Continued)

(6) Long-term Liabilities, (Continued)

The lease purchase agreement was paid in full this fiscal year and there are no further lease payments due. 0

Compensated Absences

The City's policies relating to compensated absences are described in Note 1. The following liability at June 30, 2005 is expected to be paid in future years from future resources. Compensated absences has been typically liquidated from the General Fund. 257,884

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 9). Claims payable has been typically liquidated from the General Fund. 166,813

Deposits Payable

Deposits payable has been typically liquidated from the General Fund. 819,998

Total long-term liabilities - governmental activities \$4,159,695

CITY OF SOLANA BEACH
 NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

(6) Long-term Liabilities, (Continued)

Business-Type Activities:

Loan Payable - San Elijo Joint Powers Authority:

Balance
June 30, 2005

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.

\$9,025,000

Compensated Absences

The City's policies relating to compensated absences are described in Note 1. The following liability at June 30, 2005 is expected to be paid from future years from future resources.

15,566

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 9).

53,025

Total long-term liabilities – business-type activities

\$9,093,591

CITY OF SOLANA BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

(6) Long-term Liabilities, (Continued)

Annual Amortization Requirements of Long-Term Liabilities

The annual requirements to amortize loan revenue bonds payable as of June 30, 2005 are as follows:

Governmental Activities:
Lease Revenue Bonds Payable:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 190,000	131,606	321,606
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
2011-2015	640,000	371,713	1,011,713
2016-2020	625,000	233,147	858,147
2021-2024	<u>610,000</u>	<u>63,000</u>	<u>673,000</u>
	<u>\$2,915,000</u>	<u>1,237,615</u>	<u>4,152,615</u>

Business-type Activities:
Sanitation Loan Payable:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 460,000	388,900	848,900
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
2011-2015	2,915,000	1,335,550	4,250,550
2016-2020	<u>3,680,000</u>	<u>570,000</u>	<u>4,250,000</u>
	<u>\$9,025,000</u>	<u>3,722,200</u>	<u>12,747,200</u>

CITY OF SOLANA BEACH
NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

(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, 2004 to June 30, 2005 has been determined by an actuarial valuation of the plan as of June 30, 2002. 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, 2005, this contribution rate would be multiplied by the payroll of covered employees that was actually paid during the period July 1, 2003 to June 30, 2004.

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

CITY OF SOLANA BEACH
NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

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

	<u>Miscellaneous</u>	<u>Safety and Marine</u>
Valuation Date:	June 30, 2002	June 30, 2002
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:	22 Years as of the valuation date	17 Years as of the valuation date for Safety; 22 years for Marine
Asset Valuation Method:	3 Year smoothed market	3 Year smoothed market
Actuarial Assumptions:		
Investment Rate of Return	8.25% (net of administrative expenses)	8.25% (net of administrative expenses)
Projected Salary Increases	3.75% to 14.20% depending on age, service, and type of employment	4.27% to 11.59% depending on age, service, and type of employment
Inflation	3.50%	3.50%
Payroll Growth	3.75%	3.75%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.50% and an annual production growth of 0.25%.	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.50% 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, 2022. For the safety plan, the City was overfunded for the year ended June 30, 2031. Amortization periods are not determined for overfunded plans.

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.

CITY OF SOLANA BEACH
NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

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

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

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/02 Misc.	\$128	100%	-
6/30/02 Fire	174	100%	-
6/30/02 Marine	<u>19</u>	100%	<u>-</u>
	<u>\$321</u>		<u>-</u>
6/30/03 Misc.	\$179	100%	-
6/30/03 Fire	195	100%	-
6/30/03 Marine	<u>19</u>	100%	<u>-</u>
	<u>\$393</u>		<u>-</u>
6/30/04 Misc.	\$211	100%	-
6/30/04 Fire	277	100%	-
6/30/04 Marine	<u>38</u>	100%	<u>-</u>
	<u>\$526</u>		<u>-</u>

CITY OF SOLANA BEACH
NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

(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]
6/30/01:						
Misc.	\$ 3,749	\$ 2,990	\$ (759)	125.4%	\$1,605	(47.3%)
Fire	7,912	7,372	(540)	107.3%	1,174	(46.0%)
Marine	<u>1,231</u>	<u>1,049</u>	<u>(182)</u>	<u>117.3%</u>	<u>194</u>	<u>(93.6%)</u>
Total	<u>\$12,892</u>	<u>\$11,411</u>	<u>\$(1,481)</u>	<u>112.9%</u>	<u>\$2,973</u>	<u>(49.8%)</u>
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	<u>1,164</u>	<u>1,132</u>	<u>(32)</u>	<u>102.8%</u>	<u>205</u>	<u>(15.6%)</u>
Total	<u>\$12,507</u>	<u>\$13,397</u>	<u>\$ 890</u>	<u>93.4%</u>	<u>\$3,265</u>	<u>27.3%</u>
6/30/00:						
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	<u>1,183</u>	<u>1,372</u>	<u>189</u>	<u>86.2%</u>	<u>198</u>	<u>95.4%</u>
Total	<u>\$13,089</u>	<u>\$15,416</u>	<u>\$2,327</u>	<u>84.9%</u>	<u>\$3,564</u>	<u>65.3%</u>

CITY OF SOLANA BEACH
 NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

(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, 2005 is as follows:

Operating revenues	\$ 4,902,848
Operating expenses	(5,153,324)
Non-operating revenues (net of expenses)	(159,868)
Capital grants	<u>552,745</u>
 Net change in net assets	 <u>\$ 142,401</u>
 Total assets	 <u>\$66,010,518</u>
 Total liabilities	 <u>\$30,898,575</u>
 Fund equity:	
Net assets - total fund equity	<u>\$35,111,943</u>

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.

CITY OF SOLANA BEACH
NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

(5) Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

Governmental Activities:

<u>Description</u>	<u>Restated Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Non-depreciable:				
Land (1)	\$473,451,238	-	-	473,451,238
Infrastructure construction in progress	2,990,429	3,395,817	4,988,246	1,398,000
Depreciable:				
Buildings	4,869,328	565,120	-	5,434,448
Improvements	940,722	4,251,276	-	5,191,998
Equipment	1,207,949	141,438	53,276	1,296,111
Vehicles	1,045,941	347,330	-	1,393,271
Infrastructure	<u>47,455,811</u>	<u>264,200</u>	<u>-</u>	<u>47,720,011</u>
Totals at historical cost	<u>531,961,418</u>	<u>8,965,181</u>	<u>5,041,522</u>	<u>535,885,077</u>
Less accumulated depreciation for:				
Buildings	1,269,149	109,143	-	1,378,292
Improvements	443,978	172,681	-	616,659
Equipment	964,147	113,812	53,276	1,024,683
Vehicles	736,225	76,975	-	813,200
Infrastructure	<u>18,304,520</u>	<u>1,933,472</u>	<u>-</u>	<u>20,237,992</u>
Total accumulated depreciation	<u>21,718,019</u>	<u>2,406,083</u>	<u>53,276</u>	<u>24,070,826</u>
Total capital assets, net	<u>\$510,243,399</u>	<u>6,559,098</u>	<u>4,988,246</u>	<u>511,814,251</u>

- (1) The City valued and recorded land rights-of-way in the amount of \$469,866,852 during fiscal year 2005 which was previously excluded from capital assets. 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.

CITY OF SOLANA BEACH
NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

(5) Capital Assets, (Continued)

Business-type Activities:

<u>Description</u>	<u>Restated Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Non-depreciable:				
Land	\$ 11,845	-	-	11,845
Construction in progress	174,759	313,513	-	488,272
Depreciable:				
Building and improvements	6,492,303	-	-	6,492,303
Equipment	<u>506,317</u>	<u>-</u>	<u>-</u>	<u>506,317</u>
Totals at historical cost	<u>7,185,224</u>	<u>313,513</u>	<u>-</u>	<u>7,498,737</u>
Less accumulated depreciation for:				
Building and improvements(2)	2,574,978	161,372	-	2,736,350
Equipment	<u>502,062</u>	<u>1,943</u>	<u>-</u>	<u>504,005</u>
Total accumulated depreciation	<u>3,077,040</u>	<u>163,315</u>	<u>-</u>	<u>3,240,355</u>
Total capital assets, net	<u>\$4,108,184</u>	<u>150,198</u>	<u>-</u>	<u>4,258,382</u>

(2) The beginning balance for accumulated depreciation was restated by \$23,561 in additional depreciation for improvements.

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

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
General Government	\$ 97,915	-
Public Safety	166,108	-
Public Works	1,963,567	-
Community Development	1,451	-
Community Services	177,042	-
Sanitation	<u>-</u>	<u>163,315</u>
Total	<u>\$2,406,083</u>	<u>163,315</u>

CITY OF SOLANA BEACH
NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

(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, 2005 is as follows:

June 30, 2004 Balance	\$17,579,787
Add: Unamortized premium	<u>271,783</u>
	17,851,570
FYE June 30, 2005 Activity:	
Increase (decrease) in investment in joint venture	(23,814)
Less: Amortization of premium	<u>(10,945)</u>
Total Investment at June 30, 2005	<u>\$17,816,811</u>

At June 30, 2005 the SEJPA had \$16,925,000 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.

CITY OF SOLANA BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

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

	<u>Fiscal Year 2004-05</u>
Revenues:	
Operating revenues – service charges and connection fees	\$3,516,154
Other operating	14,273
Non-operating revenues	<u>164,044</u>
Gross revenues	3,694,471
Less: Operations, non-operations and maintenance expenses	<u>2,798,884</u>
Net income	895,587
Add back:	
Interest expense (accrual method of accounting)	370,925
Depreciation and amortization	163,315
Amortization of bond issuance costs	48,765
Amortization of investment in JPA	<u>10,945</u>
Net revenues available for debt service	1,489,537
Debt service:	
2003 Revenue bonds:	
Interest charges	370,925
Principal repayment	<u>450,000</u>
Total debt service	820,925
Coverage by net revenues available for debt service	1.81

(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.

CITY OF SOLANA BEACH
NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

(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). The City has no knowledge of any material liability in excess of insurance coverage for known suits or claims.

The following represents changes in the claims liability for the two years ended June 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Unpaid claim liabilities, beginning of year	\$ 11,494	21,697
Incurred claims and claims adjustment	155,319	8,010
Net decrease in provision for insured events in prior fiscal years	<u> -</u>	<u>(18,213)</u>
Unpaid claim liabilities, end of year	<u>\$166,813</u>	<u>11,494</u>

CITY OF SOLANA BEACH
 NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

(10) Risk Management, (Continued)

There was no significant reduction in insurance coverage by major categories of risk from fiscal year 2003-2004 to fiscal year 2004-2005. Furthermore, there was no settlement that exceeded the insurance coverage for the past three fiscal years.

(11) Other Required Disclosures

Expenditures in Excess of Appropriations

The following departments reported expenditures in excess of appropriations:

	<u>Appropriations</u>	<u>Expenditures</u>	Variance Favorable (Unfavorable)
General Fund Department:			
General Government-Legal Services	\$629,600	690,779	(61,179)
Community Development-Building Services	243,900	299,544	(55,644)

Deficit Fund Balances

The following Special Revenue funds reported a deficit fund balance at June 30, 2005:

SEEG	\$132,357
Proposition A	33,023
CDBG	128,955
CALTRANS	354,958
TEA 21 and TEA	652,136
Miscellaneous Grant	99,008

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

CITY OF SOLANA BEACH
 NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

(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:

	<u>Equipment</u>
2006	2,460
2007	1,230
	<u>\$3,690</u>

(13) 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, 2005 were approximately \$12,700.

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.

CITY OF SOLANA BEACH
 NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

(14) Reserves and Designations for Fund Equity, (Continued)

Reserved for developer fees – Amounts reserved for developer fees represent amounts from various developers which 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.

(15) Prior Period Adjustments

The City had prior-period adjustments to the following proprietary fund, and governmental and business-type activities:

	<u>Proprietary Fund</u>	<u>Enterprise Fund- Sanitation</u>
Net assets at June 30, 2004 as previously reported		\$19,481,065
Capital assets as restated (See Note 5)		<u>(23,561)</u>
Net assets, beginning as restated		<u>\$19,457,504</u>

Statement of Activities

	<u>Governmental Activities</u>	<u>Business-type Activity</u>
Net assets at June 30, 2004 as previously reported	\$ 52,833,619	\$19,481,065
Capital assets as restated (See Note 5)	<u>469,866,852</u>	<u>(23,561)</u>
Net assets, beginning as restated	<u>\$522,700,471</u>	<u>\$19,457,504</u>

REQUIRED SUPPLEMENTARY
INFORMATION



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. 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 major fund department:

	<u>Appropriations</u>	<u>Expenditures</u>	Variance Favorable (Unfavorable)
General Fund Department:			
General Government-Legal Services	\$629,600	690,779	(61,179)
Community Development-Building Services	\$243,900	299,544	(55,644)

CITY OF SOLANA BEACH
General Fund
Budgetary Comparison Schedule
Year ended June 30, 2005

	2005			2004	
	Adopted Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Actual
Revenues:					
Taxes and assessments:					
Property	\$ 3,913,600	4,013,600	3,869,983	(143,617)	3,763,953
Sales	2,584,400	2,667,000	2,661,448	(5,552)	2,691,127
Franchise and other	1,779,600	1,959,600	2,014,500	54,900	1,789,582
Intergovernmental	860,100	1,189,500	1,415,906	226,406	1,016,450
Licenses and permits	200,500	260,500	305,807	45,307	266,716
Charges for services	321,200	354,600	404,523	49,923	364,979
Fines and forfeitures	255,000	289,000	336,224	47,224	175,062
Investment income	147,000	158,100	213,123	55,023	111,747
Revenues from use of money and property	32,000	42,000	34,902	(7,098)	30,653
Other	396,300	376,300	416,023	39,723	280,304
Total revenues	10,489,700	11,310,200	11,672,439	362,239	10,490,573
Expenditures:					
General government:					
City council	180,900	202,650	184,237	18,413	177,809
City clerk	234,400	248,510	236,180	12,330	228,391
Legal services	244,600	629,600	690,779	(61,179)	194,837
Manager	352,300	342,300	310,715	31,585	299,305
Finance	447,900	484,010	451,081	32,929	428,584
Personnel	194,500	205,696	191,313	14,383	186,535
Information systems	178,100	194,529	159,455	35,074	172,338
Support services	438,500	445,000	376,221	68,779	255,787
Total general government	2,271,200	2,752,295	2,599,981	152,314	1,943,586
Public safety:					
Junior lifeguard	109,900	109,900	58,370	51,530	20,800
Marine safety	479,200	479,200	477,173	2,027	624,655
Law enforcement	2,083,500	2,083,500	2,081,200	2,300	1,945,363
Code & parking enforcement	188,500	142,600	96,673	45,927	147,492
Fire	2,802,500	2,891,390	2,810,588	80,802	2,302,876
Animal regulation	66,700	66,700	62,440	4,260	54,852
Civil defense	21,000	30,724	21,336	9,388	36,730
Environmental services	64,100	64,836	58,346	6,490	91,333
Total public safety	5,815,400	5,868,850	5,666,126	202,724	5,224,101

CITY OF SOLANA BEACH
General Fund
Budgetary Comparison Schedule
Year ended June 30, 2005
(Continued)

	2005			Variance with Final Budget Positive (Negative)	2004
	Adopted Budget	Final Budget	Actual		Actual
Public works:					
Street and other	776,200	1,131,953	983,837	148,116	731,485
Public facility	121,400	144,200	138,269	5,931	127,993
Engineering	351,500	413,600	395,451	18,149	387,243
Total public works	1,249,100	1,689,753	1,517,557	172,196	1,246,721
Community development:					
Planning	459,900	511,100	492,890	18,210	397,700
Building services	203,900	243,900	299,544	(55,644)	210,330
Total community development	663,800	755,000	792,434	(37,434)	608,030
Community services:					
Community services	156,100	159,226	132,517	26,709	131,778
Recreation programs	107,600	107,600	104,188	3,412	105,592
Total community services	263,700	266,826	236,705	30,121	237,370
Total expenditures	10,263,200	11,332,724	10,812,803	519,921	9,259,808
Excess (deficiency) of revenues over expenditures	226,500	(22,524)	859,636	882,160	1,230,765
Other financing sources (uses):					
Transfers in		17,500	2,195	(15,305)	-
Transfers out	(1,076,200)	(1,256,200)	(1,246,722)	9,478	(706,947)
Net change in fund balance	(849,700)	(1,261,224)	(384,891)	876,333	523,818
Fund balance, July 1	11,079,421	11,079,421	11,079,421	-	10,555,603
Fund balance, June 30	<u>\$10,229,721</u>	<u>9,818,197</u>	<u>10,694,530</u>	<u>876,333</u>	<u>11,079,421</u>

CITY OF SOLANA BEACH
TEA 21 and TEA Special Revenue Funds
Budgetary Comparison Schedule
Year ended June 30, 2005

	2005			Variance with Final Budget Positive (Negative)	2004
	Adopted Budget	Final Budget	Actual		Actual
Revenues:					
Intergovernmental	\$ 277,800	1,199,200	1,022,692	(176,508)	423,571
Expenditures:					
Capital outlay	277,800	1,220,053	808,490	411,563	1,005,061
Net change in fund balance	-	(20,853)	214,202	235,055	(581,490)
Fund balance, July 1	(866,338)	(866,338)	(866,338)	-	(284,848)
Fund balance, June 30	<u>\$ (866,338)</u>	<u>(887,191)</u>	<u>(652,136)</u>	<u>235,055</u>	<u>(866,338)</u>

SUPPLEMENTARY SCHEDULES



CITY OF SOLANA BEACH
Non-Major Funds
Combining Balance Sheet
June 30, 2005

Assets	Special Revenue <u>Funds</u>	Debt Service <u>Fund</u>	Capital Projects <u>Fund</u>	<u>Totals</u>	
				<u>2005</u>	<u>2004</u>
Cash and investments	\$3,896,453		1,196,311	5,092,764	5,546,947
Receivables:					
Accounts	5,546			5,546	-
Tax	35,784			35,784	35,588
Interest	27,228		4,780	32,008	15,391
Due from other governments	26,449			26,449	8,657
Restricted cash with fiscal agent		251,715		251,715	251,666
Total assets	<u>\$3,991,460</u>	<u>251,715</u>	<u>1,201,091</u>	<u>5,444,266</u>	<u>5,858,249</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 312,671		137,952	450,623	416,068
Accrued liabilities	2,513			2,513	5,998
Deferred revenue	152,533			152,533	163,160
Due to other funds	650,565			650,565	48,177
Total liabilities	<u>1,118,282</u>	<u>-</u>	<u>137,952</u>	<u>1,256,234</u>	<u>633,403</u>
Fund balances:					
Reserved for encumbrances	137,977		309,310	447,287	3,001,020
Reserved for debt service		251,715		251,715	251,666
Reserved for housing	341,698			341,698	435,267
Reserved for capital projects			101,141	101,141	101,141
Unreserved:					
Designated for specific projects and programs reported in:					
Special revenue funds	408,021			408,021	409,722
Undesignated, reported in:					
Special revenue funds	1,985,482			1,985,482	706,470
Capital projects fund			652,688	652,688	319,560
Total fund balances	<u>2,873,178</u>	<u>251,715</u>	<u>1,063,139</u>	<u>4,188,032</u>	<u>5,224,846</u>
Total liabilities and fund balances	<u>\$3,991,460</u>	<u>251,715</u>	<u>1,201,091</u>	<u>5,444,266</u>	<u>5,858,249</u>

CITY OF SOLANA BEACH
Non-Major Funds
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
Year Ended June 30, 2005

	Special	Debt	Capital	Totals	
	Revenue Funds	Service Fund	Project Fund	2005	2004
Revenues:					
Taxes and assessments	\$ 722,821			722,821	2,217,881
Intergovernmental	1,462,848			1,462,848	747,202
Charges for services	16,510			16,510	14,483
Investment income			15,115	15,115	9,312
Uses of money and property	83,801	11,899		95,700	49,403
Other			6,005	6,005	80,185
Total revenues	2,285,980	11,899	21,120	2,318,999	3,118,466
Expenditures:					
Current:					
General government		2,466		2,466	1,920
Public safety	247,667			247,667	191,556
Public works	640,127			640,127	1,376,293
Capital outlay	2,617,472		728,902	3,346,374	885,307
Debt service:					
Principal retirement		224,025		224,025	249,403
Interest		139,681		139,681	151,102
Total expenditures	3,505,266	366,172	728,902	4,600,340	2,855,581
Excess (deficiency) of revenues over (under) expenditures	(1,219,286)	(354,273)	(707,782)	(2,281,341)	262,885
Other financing sources:					
Transfers in		354,322	892,400	1,246,722	706,947
Transfers out	(2,195)			(2,195)	
Net change in fund balances	(1,221,481)	49	184,618	(1,036,814)	969,832
Fund balances, July 1	4,094,659	251,666	878,521	5,224,846	4,255,014
Fund balances, June 30	\$ 2,873,178	251,715	1,063,139	4,188,032	5,224,846

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.

CLEEP Fund – The CLEEP Fund accounts for allocations from the State of California paid from the California Law Enforcement Equipment Program. The allocation is to be used for law enforcement equipment only.

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.

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

NON-MAJOR SPECIAL REVENUE FUNDS, (CONTINUED)

CALTRANS Fund – These monies are derived from Congestion Mitigation and Air Quality funds. CALTRANS is responsible for distributing these funds as well as Intermodal 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.

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.

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CITY OF SOLANA BEACH
Non-Major Special Revenue Funds
Combining Balance Sheet
June 30, 2005

Assets	Gas Tax	Municipal Improvement Districts	SEEG	Lighting District	TRANSNET
Cash and investments	\$ 183,855	434,574		724,805	1,686,351
Accounts receivable					
Taxes receivable	24,813	5,360		5,611	
Interest receivable	593	3,169		5,249	10,023
Due from other governmental agencies					
Total assets	\$ 209,261	443,103	-	735,665	1,696,374
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 1,665	33,520		20,229	22,072
Accrued liabilities		771		1,742	
Deferred revenue					
Due to other funds			132,357		
Total liabilities	1,665	34,291	132,357	21,971	22,072
Fund balances (deficit):					
Reserved for encumbrances	2,815	791	693	31,345	12,051
Reserved for low and moderate income housing					
Unreserved; designated for specific projects and programs		408,021			
Unreserved; undesignated	204,781		(133,050)	682,349	1,662,251
Total fund balances (deficit)	207,596	408,812	(132,357)	713,694	1,674,302
Total liabilities and fund balances	\$ 209,261	443,103	-	735,665	1,696,374

Proposition A	CLEEP Grant	COPS	Fire Mitigation	Transportation Development Act	CDBG	CALTRANS
		152,350	74,548	247,640		5,546
		359	569	4,202		
					26,449	
<u>-</u>	<u>-</u>	<u>152,709</u>	<u>75,117</u>	<u>251,842</u>	<u>26,449</u>	<u>5,546</u>
		176		70,807	129,731	
		152,533				
<u>33,023</u>					<u>25,673</u>	<u>360,504</u>
<u>33,023</u>	<u>-</u>	<u>152,709</u>	<u>-</u>	<u>70,807</u>	<u>155,404</u>	<u>360,504</u>
3,265				67,792		
<u>(36,288)</u>	<u>-</u>	<u>-</u>	<u>75,117</u>	<u>113,243</u>	<u>(128,955)</u>	<u>(354,958)</u>
<u>(33,023)</u>	<u>-</u>	<u>-</u>	<u>75,117</u>	<u>181,035</u>	<u>(128,955)</u>	<u>(354,958)</u>
<u>-</u>	<u>-</u>	<u>152,709</u>	<u>75,117</u>	<u>251,842</u>	<u>26,449</u>	<u>5,546</u>

(continued)

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

Assets	Dept. of	Miscellaneous	Housing	Totals	
	Boating & Waterways	Grants Fund		Fund	2005
Cash and investments	\$		392,330	3,896,453	4,640,451
Accounts receivable				5,546	
Taxes receivable				35,784	35,588
Interest receivable			3,064	27,228	12,857
Due from other governmental agencies				26,449	8,657
Total assets	\$ -	-	395,394	3,991,460	4,697,553
Liabilities and Fund Balances					
Liabilities:					
Accounts payable			34,471	312,671	385,559
Accrued liabilities				2,513	5,998
Deferred revenue				152,533	48,177
Due to other funds		99,008		650,565	163,160
Total liabilities	-	99,008	34,471	1,118,282	602,894
Fund balances (deficit):					
Reserved for encumbrances			19,225	137,977	2,543,200
Reserved for low and moderate income housing			341,698	341,698	435,267
Unreserved; designated for specific projects and programs				408,021	409,722
Unreserved; undesignated	-	(99,008)		1,985,482	706,470
Total fund balances (deficit)	-	(99,008)	360,923	2,873,178	4,094,659
Total liabilities and fund balances	\$ -	-	395,394	3,991,460	4,697,553

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CITY OF SOLANA BEACH
Non-Major Special Revenue Funds
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
Year ended June 30, 2005

	Gas Tax	Municipal Improvement Districts	SEEG	Lighting District	TRANSNET
Revenues:					
Taxes and assessments	\$	384,984		337,837	
Intergovernmental	257,689	2,995	116,950	3,289	618,454
Charges for services					
Use of money and property	1,863	8,785		17,427	24,051
Total revenues	<u>259,552</u>	<u>396,764</u>	<u>116,950</u>	<u>358,553</u>	<u>642,505</u>
Expenditures:					
Current:					
Public safety					
Public works		402,391		237,736	
Capital outlay	280,627		249,307	355,877	37,577
Total expenditures	<u>280,627</u>	<u>402,391</u>	<u>249,307</u>	<u>593,613</u>	<u>37,577</u>
Excess (deficiency) of revenues over (under) expenditures	(21,075)	(5,627)	(132,357)	(235,060)	604,928
Other financing sources:					
Transfers in					
Transfers out	-	-	-	-	-
Net change in fund balances	(21,075)	(5,627)	(132,357)	(235,060)	604,928
Fund balances (deficit), July 1	<u>228,671</u>	<u>414,439</u>	<u>-</u>	<u>948,754</u>	<u>1,069,374</u>
Fund balances (deficit), June 30	<u>\$ 207,596</u>	<u>408,812</u>	<u>(132,357)</u>	<u>713,694</u>	<u>1,674,302</u>

<u>Proposition A</u>	<u>CLEEP Grant</u>	<u>COPS</u>	<u>Fire Mitigation</u>	<u>Transportation Development Act</u>	<u>CDBG</u>	<u>CALTRANS</u>
		110,626			26,449	8,159
<u>2,010</u>		<u>1,889</u>	<u>16,510 1,641</u>	<u>15,257</u>		<u>140</u>
<u>2,010</u>	<u>-</u>	<u>112,515</u>	<u>18,151</u>	<u>15,257</u>	<u>26,449</u>	<u>8,299</u>
		112,515	18,248			
<u>205,432</u>				<u>536,947</u>	<u>151,799</u>	<u>356,099</u>
<u>205,432</u>	<u>-</u>	<u>112,515</u>	<u>18,248</u>	<u>536,947</u>	<u>151,799</u>	<u>356,099</u>
(203,422)	-	-	(97)	(521,690)	(125,350)	(347,800)
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(203,422)	-	-	(97)	(521,690)	(125,350)	(347,800)
<u>170,399</u>	<u>-</u>	<u>-</u>	<u>75,214</u>	<u>702,725</u>	<u>(3,605)</u>	<u>(7,158)</u>
<u>(33,023)</u>	<u>-</u>	<u>-</u>	<u>75,117</u>	<u>181,035</u>	<u>(128,955)</u>	<u>(354,958)</u>

(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	Housing Fund	Totals	
				2005	2004
Revenues:					
Taxes and assessments				722,821	2,217,881
Intergovernmental		318,237		1,462,848	747,202
Charges for services				16,510	14,483
Use of money and property	894		9,844	83,801	38,252
Total revenues	894	318,237	9,844	2,285,980	3,017,818
Expenditures:					
Current:					
Public safety	116,904			247,667	191,556
Public works				640,127	1,376,293
Capital outlay		340,394	103,413	2,617,472	516,803
Total expenditures	116,904	340,394	103,413	3,505,266	2,084,652
Excess (deficiency) of revenues over (under) expenditures	(116,010)	(22,157)	(93,569)	(1,219,286)	933,166
Other financing sources:					
Transfers in					70,710
Transfers out	(2,195)	-	-	(2,195)	-
Net change in fund balances	(118,205)	(22,157)	(93,569)	(1,221,481)	1,003,876
Fund balances (deficit), July 1	118,205	(76,851)	454,492	4,094,659	3,090,783
Fund Balances (deficit), June 30	\$ -	(99,008)	360,923	2,873,178	4,094,659

**CITY OF SOLANA BEACH
Gas Tax Special Revenue Fund
Budgetary Comparison Schedule
Year ended June 30, 2005**

	2005			Variance with Final Budget Positive (Negative)	2004
	Adopted Budget	Final Budget	Actual		Actual
Revenues:					
Intergovernmental	\$263,600	248,200	257,689	9,489	255,956
Use of money and property	3,000	3,000	1,863	(1,137)	2,204
Total revenues	266,600	251,200	259,552	8,352	258,160
Expenditures:					
Current:					
Capital outlay	275,000	563,135	280,627	282,508	212,445
Net change in fund balance	(8,400)	(311,935)	(21,075)	290,860	45,715
Fund balance, July 1	228,671	228,671	228,671	-	182,956
Fund balance (deficit), June 30	\$220,271	(83,264)	207,596	290,860	228,671

CITY OF SOLANA BEACH
Municipal Improvement Districts Special Revenue Fund
Budgetary Comparison Schedule
Year ended June 30, 2005

	2005			Variance with Final Budget Positive (Negative)	2004
	Adopted Budget	Final Budget	Actual		Actual
Revenues:					
Taxes and assessments	\$346,400	346,400	384,984	38,584	368,602
Intergovernmental	3,000	3,000	2,995	(5)	3,064
Use of money and property	6,100	6,100	8,785	2,685	4,560
Total revenues	355,500	355,500	396,764	41,264	376,226
Expenditures:					
Current:					
Public works	450,900	467,600	402,391	65,209	404,539
Net change in fund balance	(95,400)	(112,100)	(5,627)	106,473	(28,313)
Fund balance, July 1	414,439	414,439	414,439	-	442,752
Fund balance, June 30	<u>\$319,039</u>	<u>302,339</u>	<u>408,812</u>	<u>106,473</u>	<u>414,439</u>

**CITY OF SOLANA BEACH
SEEG Special Revenue Fund
Budgetary Comparison Schedule
Year ended June 30, 2005**

	2005			Variance with Final Budget Positive (Negative)	2004
	Adopted Budget	Final Budget	Actual		Actual
Revenues:					
Intergovernmental	\$ -	250,000	116,950	(133,050)	-
Use of money and property	-	-	-	-	-
Total revenues	-	250,000	116,950	(133,050)	-
Expenditures:					
Current:					
Capital outlay	-	250,000	249,307	693	-
Net change in fund balance	-	-	(132,357)	(132,357)	-
Fund balance, July 1	-	-	-	-	-
Fund balance, June 30	\$ -	-	(132,357)	(132,357)	-

CITY OF SOLANA BEACH
Lighting District Special Revenue Fund
Budgetary Comparison Schedule
Year ended June 30, 2005

	2005			Variance with Final Budget Positive (Negative)	2004
	Adopted Budget	Final Budget	Actual		Actual
Revenues:					
Taxes and assessments	\$ 297,500	297,500	337,837	40,337	314,513
Intergovernmental	3,200	3,200	3,289	89	3,332
Use of money and property	20,000	20,000	17,427	(2,573)	13,278
Total revenues	320,700	320,700	358,553	37,853	331,123
Expenditures:					
Current:					
Public works	230,900	230,900	237,736	(6,836)	
Capital outlay	156,500	473,107	355,877	117,230	570,640
Total expenditures	387,400	704,007	593,613	110,394	570,640
Net change in fund balance	(66,700)	(383,307)	(235,060)	148,247	(239,517)
Fund balance, July 1	948,754	948,754	948,754	-	1,188,271
Fund balance, June 30	<u>\$ 882,054</u>	<u>565,447</u>	<u>713,694</u>	<u>148,247</u>	<u>948,754</u>

CITY OF SOLANA BEACH
TRANSNET Special Revenue Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2005

	2005			Variance with Final Budget Positive (Negative)	2004
	Adopted Budget	Final Budget	Actual		Actual
Revenues:					
Intergovernmental	\$ 400,000	618,500	618,454	(46)	200,849
Use of money and property	13,000	13,000	24,051	11,051	10,880
Total revenues	<u>413,000</u>	<u>631,500</u>	<u>642,505</u>	<u>11,005</u>	<u>211,729</u>
Expenditures:					
Current:					
Capital outlay	<u>1,054,700</u>	<u>1,191,479</u>	<u>37,577</u>	<u>1,153,902</u>	<u>-</u>
Total expenditures	<u>1,054,700</u>	<u>1,191,479</u>	<u>37,577</u>	<u>1,153,902</u>	<u>-</u>
Net change in fund balance	(641,700)	(559,979)	604,928	1,164,907	211,729
Fund balance, July 1	<u>1,069,374</u>	<u>1,069,374</u>	<u>1,069,374</u>	-	<u>857,645</u>
Fund balance, June 30	<u><u>\$ 427,674</u></u>	<u><u>509,395</u></u>	<u><u>1,674,302</u></u>	<u><u>1,164,907</u></u>	<u><u>1,069,374</u></u>

CITY OF SOLANA BEACH
Proposition A Special Revenue Fund
Budgetary Comparison Schedule
Year ended June 30, 2005

	2005			Variance with Final Budget Positive (Negative)	2004
	Adopted Budget	Final Budget	Actual		Actual
Revenues:					
Intergovernmental	\$ 500,000	-	-	-	539,957
Use of money and property	-	3,000	2,010	(990)	-
Total revenues	500,000	3,000	2,010	(990)	539,957
Expenditures:					
Current:					
Capital outlay	900,000	1,125,665	205,432	920,233	318,037
Net change in fund balance	(400,000)	(1,122,665)	(203,422)	919,243	221,920
Fund balance (deficit), July 1	170,399	170,399	170,399	-	(51,521)
Fund balance (deficit), June 30	<u>\$ (229,601)</u>	<u>(952,266)</u>	<u>(33,023)</u>	<u>919,243</u>	<u>170,399</u>

**CITY OF SOLANA BEACH
CLEEP Grant Special Revenue Fund
Budgetary Comparison Schedule
Year ended June 30, 2005**

	2005			Variance with Final Budget Positive (Negative)	2004
	Adopted Budget	Final Budget	Actual		Actual
Revenues:					
Intergovernmental	\$ -	-	-	-	-
Interest income	-	-	-	-	95
	-	-	-	-	95
Total revenues	-	-	-	-	95
Expenditures:					
Current:					
Public safety	-	-	-	-	16,702
	-	-	-	-	16,702
Net change in fund balance	-	-	-	-	(16,607)
Fund balance, July 1	-	-	-	-	16,607
Fund balance, June 30	\$ -	-	-	-	-

**CITY OF SOLANA BEACH
COPS Special Revenue Fund
Budgetary Comparison Schedule
Year Ended June 30, 2005**

	2005			Variance with Final Budget Positive (Negative)	2004
	Adopted Budget	Final Budget	Actual		Actual
Revenues:					
Intergovernmental	\$100,000	100,000	110,626	10,626	91,021
Use of money and property	1,500	1,500	1,889	389	737
Total revenues	101,500	101,500	112,515	11,015	91,758
Expenditures:					
Current:					
Public safety	114,000	114,000	112,515	1,485	91,758
Net change in fund balance	(12,500)	(12,500)	-	12,500	-
Fund balance, July 1	-	-	-	-	-
Fund balance, June 30	<u>\$ (12,500)</u>	<u>(12,500)</u>	<u>-</u>	<u>12,500</u>	<u>-</u>

CITY OF SOLANA BEACH
Fire Mitigation Fees Special Revenue Fund
Budgetary Comparison Schedule
Year Ended June 30, 2005

	2005			Variance with Final Budget Positive (Negative)	2004
	Adopted Budget	Final Budget	Actual		Actual
Revenues:					
Charges for services	\$ 12,500	12,500	16,510	4,010	14,483
Use of money and property	800	800	1,641	841	685
Total revenues	13,300	13,300	18,151	4,851	15,168
Expenditures:					
Current:					
Public safety	10,900	27,180	18,248	8,932	10,664
Excess (deficiency) of revenues over (under) expenditures	2,400	(13,880)	(97)	13,783	4,504
Other financing sources:					
Transfers in	-	-	-	-	70,710
Net change in fund balance	2,400	(13,880)	(97)	13,783	75,214
Fund balance, July 1	75,214	75,214	75,214	-	-
Fund balance, June 30	\$ 77,614	61,334	75,117	13,783	75,214

CITY OF SOLANA BEACH
Transportation Development Act Special Revenue Fund
Budgetary Comparison Schedule
Year Ended June 30, 2005

	2005			Variance with Final Budget Positive (Negative)	2004
	Adopted Budget	Final Budget	Actual		Actual
Revenues:					
Intergovernmental	\$ -	-	-	-	703,248
Use of money and property	-	4,000	15,257	11,257	-
Total revenues	-	4,000	15,257	11,257	703,248
Expenditures:					
Current:					
Capital outlay	-	703,247	536,947	166,300	1,117
Net change in fund balance	-	(699,247)	(521,690)	177,557	702,131
Fund balance, July 1	702,725	702,725	702,725	-	594
Fund balance, June 30	<u>\$702,725</u>	<u>3,478</u>	<u>181,035</u>	<u>177,557</u>	<u>702,725</u>

**CITY OF SOLANA BEACH
CDBG Special Revenue Fund
Budgetary Comparison Schedule
Year ended June 30, 2005**

	2005			Variance with Final Budget Positive (Negative)	2004
	Adopted Budget	Final Budget	Actual		Actual
Revenues:					
Intergovernmental	\$126,500	126,500	26,449	(100,051)	3,111
Expenditures:					
Current:					
Capital outlay	<u>126,500</u>	<u>160,075</u>	<u>151,799</u>	<u>8,276</u>	<u>2,903</u>
Net change in fund balance	-	(33,575)	(125,350)	(91,775)	208
Fund balance (deficit), July 1	<u>(3,605)</u>	<u>(3,605)</u>	<u>(3,605)</u>	<u>-</u>	<u>(3,813)</u>
Fund balance (deficit), June 30	<u>\$ (3,605)</u>	<u>(37,180)</u>	<u>(128,955)</u>	<u>(91,775)</u>	<u>(3,605)</u>

**CITY OF SOLANA BEACH
CALTRANS Special Revenue Fund
Budgetary Comparison Schedule
Year ended June 30, 2005**

	2005			Variance with Final Budget Positive (Negative)	2004
	Adopted Budget	Final Budget	Actual		Actual
Revenues:					
Intergovernmental	\$ 30,000	394,100	8,159	(385,941)	183,930
Use of Money & Property	-	-	140	140	-
Total revenues	30,000	394,100	8,299	(385,801)	183,930
Expenditures:					
Current:					
Capital outlay	30,000	386,000	356,099	29,901	185,199
Net change in fund balance	-	8,100	(347,800)	(355,900)	(1,269)
Fund balance (deficit), July 1	(7,158)	(7,158)	(7,158)	-	(5,889)
Fund balance (deficit), June 30	<u>\$ (7,158)</u>	<u>942</u>	<u>(354,958)</u>	<u>(355,900)</u>	<u>(7,158)</u>

CITY OF SOLANA BEACH
Dept. of Boating & Waterways Special Revenue Fund
Budgetary Comparison Schedule
Year ended June 30, 2005

	2005			Variance with Final Budget Positive (Negative)	2004
	Adopted Budget	Final Budget	Actual		Actual
Revenues:					
Intergovernmental				-	200,000
Use of money and property	400	400	894	494	909
Total revenues	400	400	894	494	200,909
Expenditures:					
Current:					
Public safety	-	117,000	116,904	96	83,096
Excess (deficiency) of revenues over (under) expenditures	400	(116,600)	(116,010)	590	117,813
Other financing uses:					
Transfers out	-	(2,500)	(2,195)	305	-
Net change in fund balance	400	(119,100)	(118,205)	895	117,813
Fund balance, July 1	118,205	118,205	118,205	-	392
Fund balance, June 30	<u>\$118,605</u>	<u>(895)</u>	<u>-</u>	<u>895</u>	<u>118,205</u>

CITY OF SOLANA BEACH
Miscellaneous Grants Special Revenue Fund
Budgetary Comparison Schedule
Year ended June 30, 2005

	2005			Variance with Final Budget Positive (Negative)	2004
	Adopted Budget	Final Budget	Actual		Actual
Revenues:					
Intergovernmental	\$ -	417,000	318,237	(98,763)	97,500
Use of money and property	-	-	-	-	17
Total revenues	-	417,000	318,237	(98,763)	97,517
Expenditures:					
Current:					
Capital outlay	-	340,394	340,394	-	187,552
Net change in fund balance	-	76,606	(22,157)	(98,763)	(90,035)
Fund balance, July 1	(76,851)	(76,851)	(76,851)	-	13,184
Fund balance (deficit), June 30	<u>\$ (76,851)</u>	<u>(245)</u>	<u>(99,008)</u>	<u>(98,763)</u>	<u>(76,851)</u>

CITY OF SOLANA BEACH
Housing Special Revenue Fund
Budgetary Comparison Schedule
Year ended June 30, 2005

	2005			Variance with Final Budget Positive (Negative)	2004
	Adopted Budget	Final Budget	Actual		Actual
Revenues:					
Use of money and property	\$ 7,000	7,000	9,844	2,844	4,887
Expenditures:					
Current:					
Capital outlay	104,000	123,225	103,413	19,812	-
Net change in fund balance	(97,000)	(116,225)	(93,569)	22,656	4,887
Fund balance, July 1	454,492	454,492	454,492	-	449,605
Fund balance, June 30	\$357,492	338,267	360,923	-	454,492

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NON-MAJOR DEBT SERVICE FUND

The following Debt Service fund has 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.

CITY OF SOLANA BEACH
Debt Service Fund
Balance Sheet
June 30, 2005

	<u>2005</u>	<u>2004</u>
Assets		
Cash and investments with fiscal agents	<u>\$251,715</u>	<u>251,666</u>
Total assets	<u><u>\$251,715</u></u>	<u><u>251,666</u></u>
Fund balance		
Fund balance:		
Reserved for debt service	<u>\$251,715</u>	<u>251,666</u>
Total fund balance	<u><u>\$251,715</u></u>	<u><u>251,666</u></u>

CITY OF SOLANA BEACH
Debt Service Fund
Budgetary Comparison Schedule
Year ended June 30, 2005

	2005			Variance with Final Budget Positive (Negative)	2004
	Adopted Budget	Final Budget	Actual		Actual
Revenues:					
Use of money and property	\$ 10,000	10,000	11,899	1,899	11,151
Expenditures:					
Current:					
General government	5,000	5,000	2,466	2,534	1,920
Debt service:					
Principal	224,100	224,100	224,025	75	249,403
Interest	139,700	139,700	139,681	19	151,102
Total expenditures	368,800	368,800	366,172	2,628	402,425
(Deficiency) of revenues over (under) expenditures	(358,800)	(358,800)	(354,273)	4,527	(391,274)
Other financing sources:					
Transfers in	363,800	363,800	354,322	(9,478)	391,237
Net change in fund balance	5,000	5,000	49	(4,951)	(37)
Fund balance, July 1	251,666	251,666	251,666	-	251,703
Fund balance, June 30	<u>\$256,666</u>	<u>256,666</u>	<u>251,715</u>	<u>(4,951)</u>	<u>251,666</u>

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NON-MAJOR CAPITAL PROJECTS FUND

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.

CITY OF SOLANA BEACH
City Capital Projects Fund
Balance Sheet
June 30, 2005

	<u>2005</u>	<u>2004</u>
Assets		
Cash and investments	\$1,196,311	906,496
Interest receivable	<u>4,780</u>	<u>2,534</u>
Total assets	<u>\$1,201,091</u>	<u>909,030</u>
Liabilities and fund balances		
Liabilities:		
Accounts payable	<u>\$ 137,952</u>	<u>30,509</u>
Fund balances:		
Reserved for encumbrances	309,310	457,820
Reserved for capital projects	101,141	101,141
Unreserved; undesignated	<u>652,688</u>	<u>319,560</u>
Total fund balances	<u>1,063,139</u>	<u>878,521</u>
Total liabilities and fund balances	<u>\$1,201,091</u>	<u>\$909,030</u>

CITY OF SOLANA BEACH
City Capital Projects Fund
Budgetary Comparison Schedule
Year ended June 30, 2005

	2005			Variance with Final Budget Positive (Negative)	2004
	Adopted Budget	Final Budget	Actual		Actual
Revenues:					
Investment income	\$ 20,000	20,000	15,115	(4,885)	9,312
Other	-	-	6,005	6,005	80,185
Total revenues	20,000	20,000	21,120	1,120	89,497
Expenditures:					
Capital outlay	712,400	1,440,037	728,902	711,135	368,504
(Deficiency) of revenues over (under) expenditures	(692,400)	(1,420,037)	(707,782)	712,255	(279,007)
Other financing sources :					
Transfers in	712,400	892,400	892,400	-	245,000
Net change in fund balance	20,000	(527,637)	184,618	712,255	(34,007)
Fund balance, July 1	878,521	878,521	878,521	-	912,528
Fund balance (deficit), June 30	<u>\$898,521</u>	<u>350,884</u>	<u>1,063,139</u>	<u>712,255</u>	<u>878,521</u>

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AGENCY FUND

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.

CITY OF SOLANA BEACH
Agency Fund
Combining Statement of Changes in Assets and Liabilities
Year ended June 30, 2005

<u>Cedros Avenue</u> <u>Assessment District</u>	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2005</u>
Assets:				
Cash and investments	\$ 22,023	16,651	(25,968)	12,706
Interest receivable	64	58	(64)	58
Benefit fees receivable	2	-	(2)	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 22,089</u>	<u>16,709</u>	<u>(26,034)</u>	<u>12,764</u>
Liabilities:				
Due to bondholders	<u>\$ 22,089</u>	<u>16,643</u>	<u>(25,968)</u>	<u>12,764</u>

STATISTICAL SECTION



STATISTICAL SECTION

CITY OF SOLANA BEACH
 General Governmental Expenditures by Function ⁽¹⁾
 Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>General Government</u>	<u>Public Safety</u>	<u>Public Works</u>	<u>Community Development</u>
1996	1,122,529	3,423,212	1,242,182	383,757
1997	1,053,947	3,597,482	1,234,960	385,779
1998	1,038,213	3,905,318	1,144,372	432,496
1999	1,778,301	4,068,137	1,340,792	599,563
2000	2,437,326	4,224,073	1,698,644	546,481
2001	1,512,452	4,609,936	1,700,920	564,946
2002	1,688,071	5,136,548	1,791,232	506,128
2003	1,701,717	5,267,668	2,000,241	668,761
2004	1,945,506	5,415,657	2,623,014	608,030
2005	2,599,981	5,913,793	2,157,684	792,434

⁽¹⁾ Includes all governmental fund types.

Source: City Finance Department

TABLE 1

<u>Community Services</u>	<u>Tax Increment Distributions</u>	<u>Capital Outlay</u>	<u>Debt Service</u>	<u>Total</u>
157,986	72,194	862,078	702,698	7,966,636
152,639	69,288	500,009	484,624	7,478,728
152,813	105,968	418,638	504,578	7,702,396
185,408	191,696	1,845,683	669,477	10,679,057
214,717	178,247	1,820,835	480,811	11,601,134
249,388	-	3,501,231	449,977	12,588,850
265,949	-	1,705,515	516,135	11,609,578
319,170	-	1,303,763	444,075	11,705,395
237,370	-	1,890,368	400,505	13,120,450
263,705		4,154,864	363,706	16,246,167

CITY OF SOLANA BEACH
 General Governmental Revenues by Source ⁽¹⁾
 Last Ten Fiscal Years

Fiscal Year	Taxes and Assessments	Intergovernmental	Licenses and Permits	Charges for Services
1996	5,321,870	1,568,973	125,739	261,648
1997	5,502,501	2,384,549	169,750	340,087
1998	6,010,772	1,101,260	250,151	474,766
1999	6,453,274	2,115,603	320,358	582,481
2000	7,314,748	3,123,584	215,296	636,726
2001	7,578,201	2,205,671	208,409	443,664
2002	7,755,941	3,020,055	183,706	319,340
2003	8,265,139	2,699,782	246,346	440,699
2004	10,462,543	2,187,223	266,716	379,462
2005	9,268,752	3,901,446	305,807	421,033

CITY OF SOLANA BEACH
 General Fund Tax Revenue by Source
 Last Ten Fiscal Years

Fiscal Year	Property Tax	Property Transfer Tax	Sales Tax	Motor Vehicle Tax
1996	2,226,569	59,358	1,477,740	526,821
1997	2,291,380	73,322	1,504,701	564,183
1998	2,418,825	98,895	1,753,847	601,662
1999	2,572,831	133,359	1,881,215	649,795
2000	2,746,604	114,619	2,165,840	717,195
2001	3,074,571	108,424	2,313,278	720,145
2002	3,186,782	107,222	2,185,532	752,600
2003	3,502,196	144,084	2,482,421	816,690
2004	3,763,953	192,219	2,691,127	630,270
2005	3,869,983	161,284	2,661,448	1,155,972

⁽¹⁾ Includes all governmental fund types.

Source: City Finance Department

TABLE 2

<u>Fines and Forfeitures</u>	<u>Revenues From Use of Money and Property</u>	<u>Other</u>	<u>Total</u>
116,788	366,566	141,846	7,903,430
128,922	472,506	462,983	9,461,298
125,777	625,253	282,624	8,870,603
168,282	697,659	773,654	11,111,311
169,368	735,244	478,759	12,673,725
206,470	934,174	463,257	12,039,846
255,534	512,103	467,273	12,513,952
160,572	341,484	637,904	12,791,926
175,062	201,115	360,489	14,032,610
336,224	358,840	422,028	15,014,130

TABLE 2A

<u>Transient Occupancy Tax</u>	<u>Total</u>
240,195	4,530,683
256,571	4,690,157
356,424	5,229,653
383,938	5,621,138
428,318	6,172,576
598,137	6,814,555
536,272	6,768,408
515,588	7,460,979
561,429	7,838,998
783,538	8,632,225

CITY OF SOLANA BEACH
Property Tax Levies and Collections
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Current Year Tax Levy</u>	<u>Current Tax Collections</u>	<u>Percent of Current Taxes Collected</u>	<u>Delinquent Tax Receivable</u>	<u>Delinquent Tax Collections</u>
1996	2,403,492	2,342,649	97	237,434	96,652
1997	2,476,674	2,421,005	98	220,508	89,176
1998	3,083,478	3,027,453	98	229,928	118,580
1999	3,204,457	3,150,016	98	180,929	90,799
2000	3,462,536	3,400,773	98	156,003	75,399
2001	3,753,666	3,691,387	98	154,680	80,799
2002	4,002,562	3,941,924	98	146,708	83,602
2003	4,203,037	4,144,738	99	135,270	76,910
2004	4,454,612	4,398,480	99	125,819	77,196
2005	4,630,963 (1)	4,584,653	99	131,144	49,173

Source: County of San Diego, Auditor and Controller's Office and City Finance Department
(1) City Finance Department Estimates including Educational Revenue Augmentation Fund (ERAF) Shift

TABLE 3

<u>Total Tax Collections</u>	<u>Ratio of Total Tax Collections to Total Tax Levy</u>	<u>Outstanding Delinquent Taxes</u>	<u>Ratio of Delinquent Taxes to Total Tax Levy</u>
2,439,301	91	201,625	11
2,510,181	90	131,332	8
2,402,357	76	111,348	7
2,439,301	93	90,130	5
2,510,181	90	80,604	4
3,146,303	89	73,881	4
3,240,815	97	63,106	4
3,476,172	97	58,360	3
4,475,676	98	48,623	3
4,633,826	98	81,971	3

CITY OF SOLANA BEACH
Assessed and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years

TABLE 4

Fiscal Year	Assessed Value ⁽¹⁾			Percent Change From Previous Year
	Real Property	Personal Property	Total	
1996	1,361,474,289	24,363,067	1,385,837,356	1.36 %
1997	1,400,924,591	23,532,264	1,424,456,855	2.79 %
1998	1,434,604,034	22,774,295	1,457,378,329	2.31 %
1999	1,513,697,239	24,119,436	1,537,816,675	5.52 %
2000	1,811,497,395	28,960,692	1,840,458,087	19.68 %
2001	1,809,972,125	28,599,652	1,838,571,777	-1.10 %
2002	1,964,073,152	28,368,754	1,992,441,906	8.37 %
2003	2,086,527,695	21,864,674	2,108,392,369	5.82 %
2004	2,221,946,459	26,874,382	2,248,820,841	6.66 %
2005	2,419,412,695	33,231,672	2,452,644,367	9.06 %

⁽¹⁾ The County of San Diego does not compile Estimated Actual Valuations. Therefore, only the Assessed Value is presented.

Source: San Diego County Auditor and Controller

CITY OF SOLANA BEACH
Property Tax Rates - Direct and Overlapping Governments
(Per \$100 of Assessed Value)
Last Ten Fiscal Years

TABLE 5

<u>Fiscal Year</u>	<u>City</u>	<u>County</u>	<u>School District</u>	<u>Other District</u>	<u>Total</u>
1996	0.1608	0.1467	0.6516	0.0430	1.0021
1997	0.1608	0.1467	0.6516	0.0430	1.0021
1998	0.1602	0.1464	0.6525	0.0430	1.0021
1999	0.1602	0.1464	0.6514	0.0440	1.0021
2000	0.1602	0.1464	0.6513	0.0422	1.0020
2001	0.1602	0.1464	0.6513	0.0406	1.0001
2002	0.1602	0.1464	0.6513	0.0406	0.9984
2003	0.1602	0.1464	0.6513	0.0392	0.9970
2004	0.1602	0.1464	0.6513	0.0380	0.9958
2005	0.1600	0.0131	0.5207	0.1883 (1)	1.0000

Source: County of San Diego Auditor and Controller's Office

(1) Includes Educational Revenue Augmentation Fund Levy of 0.126

CITY OF SOLANA BEACH
Principal Taxpayers
June 30, 2005

TABLE 6

	2005 Assessed Valuation	Percentage of Total Assessed Valuation
Solana Beach Towne Centre LLC	\$ 27,859,814	12.96 %
Pacific Solana Beach Holdings Ltd.	26,203,348	12.19
Sanyo Foods Corp of America	25,671,744	11.94
Fenton Solana Highlands LLC	24,766,905	11.52
ERP Operating LTD Partnership	15,938,586	7.41
La Vida Del Mar Associates	14,066,266	6.54
Urschel Laboratories Inc.	11,575,960	5.38
Price Enterprises	11,258,866	5.24
Generation Venture Fund IV LLC	10,645,783	4.95
Del Mar Investors Limited Partnership	9,923,769	4.61
Solana Beach Corporate Centre LLC	9,040,528	4.20
Pacifica Solana LLC	7,759,347	3.61
Generation Properties Limited Partnership	7,185,922	3.34
Ozawa Farms Inc.	7,000,000	3.26
530 Lomas Santa Fe LLC	6,140,097	2.86
	<u>\$ 215,036,935</u>	<u>100.00 %</u>

Source: County of San Diego Auditor and Controller

CITY OF SOLANA BEACH
Computation of Legal Debt Margin
June 30, 2005

TABLE 7

	<u>2005</u>
Total Valuation ⁽¹⁾	<u>\$ 613,161,092</u>
Debt Limit - 15 percent of total valuation	\$ 91,974,164
Amount of Debt Applicable to Debt Limit	<u>-</u>
Legal Debt Margin	<u>\$ 91,974,164</u>

⁽¹⁾ 25% of the assessed valuation

CITY OF SOLANA BEACH
 Computation of Direct and Overlapping Bonded Debt
 June 30, 2005

TABLE 8

2004-05 Assessed Valuation: \$2,452,644,367

<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 6/30/05</u>
Metropolitan Water District	0.185 %	\$ 775,872
San Dieguito Union High School Dist. Community Facilities Dist. No.	3.274	586,296
San Dieguito Union High School Dist. Combined Community Facilitie	1.256	608,238
Olivenhain Municipal Water District, Assessment District No. 96-1	0.711	<u>140,814</u>
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		<u>\$2,111,220</u>

DIRECT AND OVERLAPPING LEASE OBLIGATION DEBT:

San Diego County General Fund Obligations	0.971 %	4,504,242
San Diego County Pension Obligation Bonds	0.971	12,159,279
San Diego County Superintendent of Schools General Fund Obligations	0.971	124,506
MiraCosta Community College District Certificates of Participation	4.590	229,730
Solana Beach School District Certificates of Participation	26.923	314,999
City of Solana Beach Certificates ABAG Revenue Lease Bonds	100.000	<u>2,915,000</u>
TOTAL DIRECT AND OVERLAPPING LEASE OBLIGATION DEBT		<u>20,247,756</u>

COMBINED TOTAL DEBT **\$ 22,358,976** ⁽¹⁾

Ratios to Assessed Valuation:

Direct Debt (\$2,915,000)	0.12
Total Overlapping Tax and Assessment Debt	0.09
Combined Total Debt	0.91

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/05 \$0

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

Source: California Municipal Statistics, Inc.

CITY OF SOLANA BEACH
Demographic Statistics
Last Ten Fiscal Years

TABLE 9

<u>Fiscal Year</u>	<u>Population</u>	<u>Median Age</u>	<u>School Enrollment</u>	<u>Unemployment Rate</u>
1996	13,550	32.2	1,813	6.0
1997	13,677	32.7	1,874	5.4
1998	13,945	32.9	1,972	4.2
1999	14,152	33.2	1,977	3.5
2000	14,350	40.6	1,977	2.7
2001	12,979	41.6	2,703	2.7
2002	13,280	41.7	2,706	2.5
2003	13,329	41.6	2,700	2.8
2004	13,392	41.6	2,700	2.3
2005	13,400 ⁽¹⁾	41.6 ⁽²⁾	2,700 ⁽³⁾	2.3 ⁽⁴⁾

⁽¹⁾ Source: Table E-1- City County Population with Annual Percent Change
January 1, 2004 and 2005 (FY 2003-04 revised)
provided by, The State of California Department of Finance

⁽²⁾ Source: Census 2000 Population and Housing Characteristics City of Solana Beach
provided by, San Diego Association of Governments

⁽³⁾ Source: Solana Beach School District *General Information*, (number is approximate)
<<http://cart.sandag.org/dw/default.asp?g=5&gs=17&grp=c20&o=d&go=Get+My+Data&l=1>>
<<http://www.sbsd.k12.ca.us/sbsd/district/district.html>>

⁽⁴⁾ Source: Labor Force Data for Sub-County Areas (Data not seasonally adjusted)
2002 Benchmark. Provided by, State of California Employment Development, Labor
Market Information Division
<<http://www.calmis.cahwnet.gov/file/lfmonth/SANDISUB.TXT>>

Source: City Finance Department

CITY OF SOLANA BEACH
Property Value, Construction and Bank Deposits
Last Ten Fiscal Years

Fiscal Year	Property Value ⁽¹⁾			
	Commercial	Property Value Residential	Exemption	Total
1996	205,213,918	1,192,512,501	(36,252,130)	1,361,474,289
1997	218,126,120	1,219,029,552	(36,231,081)	1,400,924,591
1998	223,364,390	1,249,814,380	(38,574,736)	1,434,604,034
1999	238,606,832	1,313,726,746	(38,636,339)	1,513,697,239
2000	275,492,318	1,570,838,213	(44,149,184)	1,802,181,347
2001	300,490,281	1,699,239,328	(44,149,184)	1,955,580,425
2002	315,227,589	1,807,567,170	(46,965,815)	2,075,828,944
2003	325,382,906	1,935,531,904	(47,962,500)	2,212,952,310
2004	345,739,311	2,098,945,699	(53,104,616)	2,391,580,394
2005	398,842,904	2,087,364,256	(33,562,793)	2,452,644,367

⁽¹⁾ Estimated assessed value from Table 4.

⁽²⁾ Bank of America Statements October 1994 - January 2002
Union Bank of California Statements December 2001 - June 2005

⁽³⁾ This is a corrected amount from fiscal year 2001/2002 CAFR

Source: City Building Services Department

TABLE 10

Commercial Construction			Residential Construction			Bank Deposits ⁽²⁾
Number of Units	Value	Percent Change	Number of Units	Value	Percent Change	
1	54,000	461.51%	1	237,674	-92.78%	19,961,724
6	4,645,066	8501.97%	6	1,451,093	510.54%	24,124,453
2	1,638,000	-64.74%	26	7,474,807	415.12%	22,181,367
8	5,231,310	219.37%	34	9,183,267	22.86%	20,056,387
11	7,011,331	34.03%	13	4,478,661	-51.23%	24,569,555
11	2,880,748	-58.91%	13	3,429,557	-23.42%	24,630,927
1	131,135	-95.45%	14	4,233,061	23.43%	23,662,403
7	5,418,009	4031.63%	11	3,126,884	-26.13%	20,508,930
4	13,378,887	146.93%	17	4,437,895	41.93%	25,132,771
4	1,094,561	-91.82%	47	10,931,054	146.31%	18,550,547

CITY OF SOLANA BEACH
Miscellaneous Statistics
June 30, 2005

TABLE 11

Date of Incorporation	July 1, 1986
Form of Government	Council/Manager
Number of Employees (Including part-time seasonal and excluding Fire)	61
Facilities and Services:	
Miles of Streets	46
Number of Street Lights	748
Area in Square Miles	3.4
Culture and Recreation:	
Community Centers	2
Parks	1
Park Acreage	3
Beaches (miles)	1.3
Fire Protection:	
Number of Stations	1
Number of Fire Personnel and Officers	20
Number of Calls Answered	1,338
Number of Inspections Conducted	104
Number of Fire Hydrants	666
Police Protection:	
<p style="margin-left: 40px;">Deputy Sheriffs and Community Service Officers are provided through a contract with the San Diego County Sheriff's Department. Coverage is continuous 24 hours per day and 7 days per week.</p>	
Sewer System:	
City:	
Miles of Sanitary Sewers	37
Miles of Storm Sewers	3
Number of Pump Stations	3
Number of Service Connections (Equivalent Dwelling Units)	7,721
San Elijo Joint Powers Authority:	
Number of Treatment Plants	1
Daily Average Treatment in Gallons	2,990,000
Maximum Daily Capacity of Treatment Plant in Gallons	5,250,000

Source: Compiled by City Finance Department.