



CITY OF COSTA MESA, CALIFORNIA COMPREHENSIVE ANNUAL FINANCIAL REPORT



FISCAL YEAR ENDED
JUNE 30, 2007



Costa Mesa City Hall
(view of front entrance)



Fire crews with apparatus responding to structure fire.



Balearic Community Center (BCC)
Facility



Public Service crews finishing concrete work



Neighborhood Community Center (NCC)
Facility



Downtown Recreation Center (DRC)
Facility



Ketchum-Libolt Park



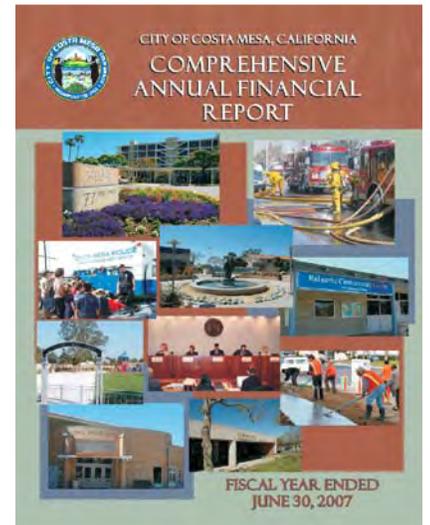
Police SWAT Team and an equipment display at the Youth Expo



Downtown Center / Circle of Service
Mother & Child Fountain



Costa Mesa City Council in session



CITY OF COSTA MESA, CALIFORNIA
Comprehensive Annual Financial Report
For the fiscal year ended June 30, 2007

Prepared by: Finance Department
Marc Puckett, Finance Director

CITY OF COSTA MESA, CALIFORNIA
Comprehensive Annual Financial Report
For the fiscal year ended June 30, 2007

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY SECTION:	
Letter of Transmittal	i
List of Principal Officials	xi
Organizational Chart	xii
GFOA Certificate of Achievement for Excellence in Financial Reporting	xiii
FINANCIAL SECTION:	
Independent Auditors' Report	1
Management's Discussion and Analysis (Required Supplementary Information)	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	14
Statement of Activities	15
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	18
Reconciliation of the Balance Sheet to the Statement of Net Assets	20
Statement of Revenues, Expenditures and Changes in Fund Balances	22
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	24
Proprietary Funds:	
Statement of Net Assets	26
Statement of Revenues, Expenses and Changes in Net Assets	27
Statement of Cash Flows	28
Fiduciary Funds:	
Statement of Fiduciary Assets and Liabilities	29
Notes to the Basic Financial Statements	31

CITY OF COSTA MESA, CALIFORNIA
 Comprehensive Annual Financial Report
 For the fiscal year ended June 30, 2007

TABLE OF CONTENTS, (CONTINUED)

	<u>Page</u>
Required Supplementary Information:	
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual:	
General Fund	68
Low and Moderate Income Housing Special Revenue Fund	70
Notes to Required Supplementary Information	71
Supplementary Schedules:	
Nonmajor Governmental Funds:	
Combining Balance Sheet	73
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	74
Nonmajor Special Revenue Funds:	
Combining Balance Sheet	76
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	78
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual:	
Special Gas Tax Fund	80
Proposition 172 Fund	81
Air Quality Improvement Fund	82
HOME Program Fund	83
Community Development Fund	84
Park Development Fees Fund	85
Drainage Fees Fund	86
Supplemental Law Enforcement Services Fund	87
Traffic Impact Fees Fund	88
Rental Rehabilitation Program Fund	89
Narcotics Forfeiture Fund	90
Fire System Development Fees Fund	91
Local Law Enforcement Block Grant Fund	92
Office of Traffic Safety Fund	93
Major and Nonmajor Debt Service Funds:	
Comparative Balance Sheet – Nonmajor Debt Service	96
Comparative Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Debt Service	97
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual:	
Redevelopment Agency Debt Service Fund	98

CITY OF COSTA MESA, CALIFORNIA
 Comprehensive Annual Financial Report
 For the fiscal year ended June 30, 2007

TABLE OF CONTENTS, (CONTINUED)

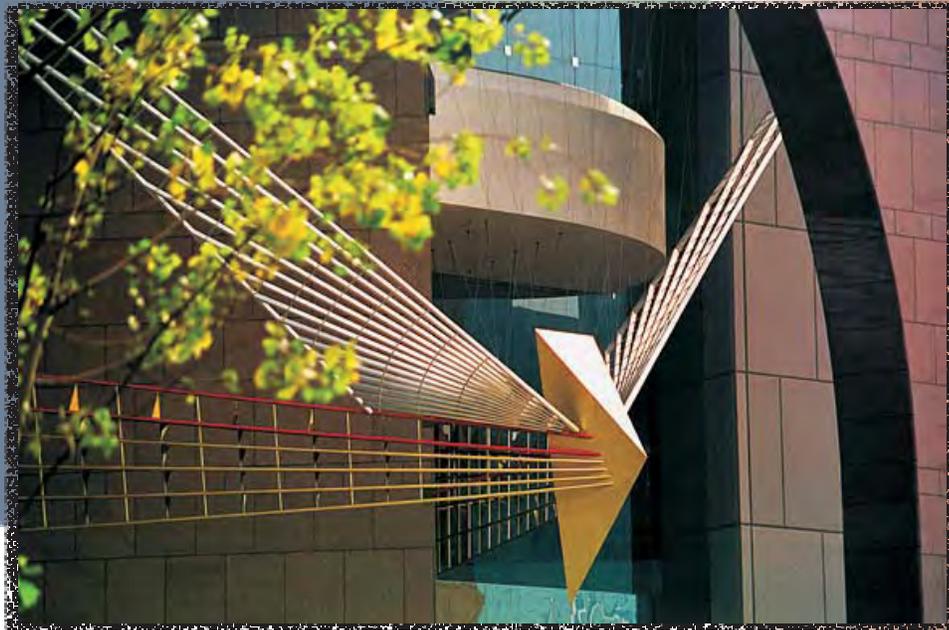
		<u>Page</u>
Major and Nonmajor Capital Projects Funds:		
Combining Balance Sheet		100
Combining Statement of Revenues, Expenditures and Changes in Fund Balances		101
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual:		
Capital Improvements Fund		102
Measure “M” Construction Fund		103
Redevelopment Projects Fund		104
Internal Service Funds:		
Combining Statement of Net Assets		106
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets		107
Combining Statement of Cash Flows		108
Agency Funds:		
Combining Statement of Fiduciary Assets and Liabilities		110
Combining Statement of Changes in Fiduciary Assets and Liabilities		111
STATISTICAL SECTION:	<u>Table</u>	
Net Assets by Component – Last Six Fiscal Years	1	114
Change in Net Assets – Last Six Fiscal Years	2	115
Fund Balances of Governmental Funds – Last Six Fiscal Years	3	116
Changes in Fund Balance of Governmental Funds – Last Ten Fiscal Years	4	117
Tax Revenues by Source, Governmental Funds – Last Ten Fiscal Years	5	118
Taxable Sales by Category – Last Ten Fiscal Years	6	119
Principal Sales Tax Remitters by Category – Current Year and Nine Years Ago	7	120
Direct and Overlapping Sales Tax Rates – Last Ten Fiscal Years	8	121
Property Tax Levies and Collections-General Fund – Last Ten Fiscal Years	9	122
Assessed Value and Estimated Actual Value of Taxable Property – Last Ten Fiscal Years	10	123

CITY OF COSTA MESA, CALIFORNIA
Comprehensive Annual Financial Report
For the fiscal year ended June 30, 2007

TABLE OF CONTENTS, (CONTINUED)

	<u>Table</u>	<u>Page</u>
Direct and Overlapping Property Tax Rates – Last Ten Fiscal Years	11	124
Principal Property Taxpayers – Current Year and Nine Years Ago	12	125
Ratio of General Bonded Debt Outstanding and Legal Debt Margin – Last Ten Fiscal Years	13	126
Ratio of Outstanding Debt by Type - Last Ten Fiscal Years	14	127
Direct and Overlapping Governmental Activities Debt	15	128
Demographic and Economic Statistics – Last Ten Calendar Years	16	129
Principal Employers - Current Year and Nine Years Ago	17	130
Operating Indicators by Function/Program – Last Ten Fiscal Years	18	131
Full Time Equivalent City Government Employees by Function/Program – Last Ten Fiscal Years	19	132
Capital Asset Statistics by Function/Program – Last Ten Fiscal Years	20	133

INTRODUCTORY SECTION



COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2007



CITY OF COSTA MESA

77 FAIR DRIVE, P.O. BOX 1200, COSTA MESA, CA 92628-1200

FROM THE OFFICE OF THE DIRECTOR OF FINANCE—CITY TREASURER

December 12, 2007

Honorable Mayor, Councilmembers, and City Manager:

The Comprehensive Annual Financial Report (CAFR) of the City of Costa Mesa for the fiscal year ended June 30, 2007, is hereby submitted. These statements have been prepared in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by an independent public accounting firm of licensed certified public accountants.

The report consists of management's representations concerning the finances of the City of Costa Mesa. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with management. To provide a reasonable basis for making these representations, management has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement.

As management, we assert that, to the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds and component units of the City of Costa Mesa. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The City of Costa Mesa's financial statements for the year ended June 30, 2007, have been audited by Mayer Hoffman McCann P.C. (formerly Conrad and Associates), an independent public accounting firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the City's financial statements for the fiscal year ended June 30, 2007, are free of material misstatement. In addition to meeting the requirements set forth in the Government Code, the audit was also designed to meet the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. The independent audit involves examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the

audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Costa Mesa's financial statements for the fiscal year ended June 30, 2007, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

In addition to meeting the requirements set forth in the Government Code, the audit was also designed to meet the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America; and United States Office of Management and Budget's (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The independent audit of the financial statements of the City of Costa Mesa was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The City of Costa Mesa is required to have an annual single audit performed in conformity with the provisions of the OMB's Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Information related to this single audit, including a schedule of federal financial assistance, the independent auditors' reports on internal controls and compliance with applicable laws and regulations, and a schedule of findings and recommendations are included in a separately issued single audit report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Costa Mesa's MD&A can be found immediately following the report of the independent auditors.

THE FINANCIAL REPORTING ENTITY

The financial reporting entity (the City of Costa Mesa) includes all the funds of the City of Costa Mesa as well as all of its component units. Component units are legally separate entities for which the City is fully accountable.

All of the City's component units are considered to be blended component units. Blended component units, although legal separate entities, are, in substance, part of the City's operations and so data from these units are reported with the interfund data of the City. Accordingly, the Costa Mesa Redevelopment Agency and the Costa Mesa Public Financing Authority have been reported as debt service and capital projects funds, as appropriate.

PROFILE OF THE GOVERNMENT

The City of Costa Mesa, incorporated in 1953, has an estimated population of 113,440 and has a land area of 16.8 square miles. It is located in the southern coastal area of Orange County, California, and is bordered by the cities of Santa Ana, Newport Beach, Huntington Beach, Fountain Valley, and Irvine. The City is approximately 35 miles southeast of Los Angeles and 85 miles northwest of San Diego. At its nearest point, the City is approximately 1.5 miles from the Pacific Ocean. The City is also home to the new world-renowned Henry and Renee Segerstrom Concert Hall, the Orange County Performing Arts Center and the Orange County Fairgrounds.

The City has operated under the council-manager form of government since incorporation. Policy making and legislative authority are vested in the City Council, which consists of a Mayor, Mayor Pro Tem, and a three-member Council. The City Council is responsible, among other things, for passing ordinances, adopting the budget, appointing members to commissions and committees, appointing the Treasurer, and hiring the City Manager and City Attorney. The City Manager is responsible for carrying out the policies and ordinances of the City Council, overseeing the day-to-day operations of the City and appointing the City's department heads. The City Council is elected at large on a non-partisan basis. Council members are elected to four-year staggered terms, with two or three Council members elected every two years.

The City is a “full service city” and provides a wide range of services. These services include: police and fire protection; animal control; emergency medical aid; building safety regulation and inspection; street lighting; land use planning and zoning; housing and community development; maintenance and improvement of streets and related structures; traffic safety, maintenance and improvement; and a full range of recreational and cultural programs.

A “full-service city” is defined as a city that is financially responsible for the full set of basic tax-dependent municipal services within its jurisdiction including police, fire, park & recreation, streets and land-use planning.

BUDGETARY CONTROLS

The City of Costa Mesa maintains budgetary controls, the objective of which is to ensure compliance with legal provisions embodied in the annual budget approved by the City Council. Annual budgets are legally adopted for all governmental funds on a basis consistent with generally accepted accounting principles, except for certain special revenue and debt service funds for which annual budgets were not adopted.

Budgetary control for management purposes is maintained as authorized by Council at the department functional level within individual funds. The City also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. All estimated purchase amounts are encumbered prior to the release of purchase orders to vendors. At fiscal year end, all operating budget appropriations lapse. Open encumbrances are reported as reservations of fund balances at June 30, 2007. 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 of the City's operations.

The City Manager submits the budget to the City Council, who adopts it prior to the beginning of the fiscal year. Public hearings are conducted prior to budget adoption. Supplemental appropriations, when required during the fiscal year, are also approved by the City Council. Intra-functional budgetary amendments are approved by the City Manager.

The City of Costa Mesa has continued to be proactive in its budget approach during the 2006-2007 fiscal year. In December 2006, budget preparation began for the 2007-2008 fiscal year. Based on previous City Council direction, departments were instructed to prepare responsible budgets with no bottom-line increases except as otherwise may be required to fund contractually-agreed to cost increases. Additionally, the 2007-2008 fiscal year budget maintains all services at current levels of service delivery, does not anticipate use of the \$14.125 million General Fund operating reserve, and continues to provide a strong Public Safety field presence.

In March 2007, budget hearings were held with department management to review the submitted departmental budget requests, and any supplemental proposals for additional appropriations. The City Manager, together with Finance department staff, reviewed each department's budget request to ensure compliance with City Council direction and the City Manager's budget directives to curtail non-essential spending. As a result, the General Fund budget has been balanced in accordance with criteria established by the City Council and the City Manager.

ECONOMIC CONDITION AND OUTLOOK

The City has continued to benefit from significant growth in the local economy that has been underpinned by strong improvement in retail sales activity. The local economy is primarily based on retail commercial business and light manufacturing of electronics, pharmaceuticals, and plastics. The South Coast Plaza Shopping Center, comprised of South Coast Plaza and Crystal Court, is the single largest commercial activity center in the City. The volume of sales generated by South Coast Plaza, on the strength of 322 stores, secures its place as the highest volume regional shopping center in the nation. This area of the City is increasingly becoming a center of commerce for the region as a result of the new development and redevelopment now occurring. The City expects that new development now under construction or planned will increase total revenues by as much as \$2.8 million per year. Sales tax and property tax revenue generated from the Shopping Center comprise approximately 37% of the City's total tax revenues. Also, total sales tax revenues for the City are expected to increase by an average of 5% per year for the next five years and total property tax revenues are projected to increase at a rate of 6% - 10% for the next five years.

The City of Costa Mesa has continually been burdened by the financial pressures and impacts imposed by Federal, State, and County governments. Since the early 1980's, these governmental units have passed on to municipalities a myriad of un-funded mandates or service/regulatory requirements and also, have eliminated or redistributed significant sources of revenue. During this period, the City has been forced to absorb in excess of \$62 million in cumulative financial impacts from Federal, State, and County governments in the form of un-funded mandates and decreased subvention revenues.

MAJOR (AND FUTURE) DEVELOPMENT INITIATIVES

1901 Newport Plaza – 145 townhomes and flats are under construction to the rear of the existing office building at the northwest corner of Newport Boulevard and 19th Street. The four-story residential project is within the Redevelopment Project Area and will include 12 affordable units for low to moderate income persons. Phase 1 of the development includes a five-level parking structure and 32 town homes. Construction began in 2006 and is expected to be completed in early 2008.

South Coast Home Furnishings Center – Construction of a 312,500 square feet home furnishings center located on the south side of South Coast Drive, just west of Hyland Avenue, prominently located adjacent to the I-405 freeway, was completed in early 2007.

The Enclave Apartment Community – This 890 unit apartment community, located at Anton Boulevard and Sakioka Drive, is intended to complement the South Coast Plaza Town Center area. The target market is young, single or married, entry-level professionals. Amenities will include a theater, fitness center, business/conference center, clubrooms, swimming pools, heated spas, outdoor fireplaces, and barbeque areas. Construction is expected to be completed in the fall of 2008.

High-Rise Office and Residential Condominium Projects in North Costa Mesa – City Council has approved plans submitted by the property owners in Two Town Center, South Coast Metro Center, and The Lakes to allow for the construction of several high-rise office, retail and residential condominium projects. Approximately 1,500 condominium units are being proposed at varied locations in the City's Cultural Arts Center. The architecturally-significant high-rise buildings are intended to complement the surrounding office, retail, restaurants, and cultural arts uses. The first two towers are expected to break ground in the spring of 2008.

DEBT ADMINISTRATION

The City accounts for general debt service in four different funds. Sources of revenues for retirement of outstanding bonded indebtedness include general property and sales taxes as well as tax increment financing authority captured tax revenues.

In March, the City's issuer credit ratings were upgraded by both Standard and Poor's Corporation and Moody's Investor Services. The Standard and Poor's issuer credit rating was upgraded from AA- to AA and the Moody's Investor Services issuer credit rating was upgraded from AA3 to AA2 on the City's general obligation bond issues. In addition, Moody's upgraded the City's credit rating on its outstanding 1998 Revenue Bonds from A1 to Aa3. Briefly defined, these ratings are given to bonds which are determined to be of high investment quality by all standards.

At year-end, the City has a number of debt issues outstanding. These issues include the Public Finance Authority (PFA) 2003 Refunding Certificates of Participation (\$11.9 million outstanding), the PFA 1998 Refunding Revenue Bonds (\$6.7 million outstanding), the 2003 Redevelopment Agency Tax Allocation Refunding Bonds (\$6.1 million outstanding), the PFA 2006 Lease Revenue Refunding Bonds (\$2.4 million outstanding), the PFA 2007 Certificates of Participation issued for construction of the police facility expansion (\$30 million outstanding), and \$5.4 million of capitalized lease obligations. Long-term liabilities had a net increase of \$26.2 million in total due to the new Certificates of Participation issued, which includes a reduction of \$3.6 million as the result of the payment of normally scheduled principal maturities on bonds and lease obligations.

The City continuously reviews existing debt for refunding possibilities to lower total debt service requirements. Further, the City is considering funding a non-bond fund for the purpose of funding projects for which debt may have otherwise been issued. The City also has adopted a comprehensive set of debt policies covering all aspects of debt issuance in order to consolidate information for debt obligations and maintain or improve its good credit standing. These policies are reviewed annually and updated as is appropriate.

CASH MANAGEMENT

The City invests its pooled idle cash investments utilizing the standard of care known as the “prudent man standard” which states, in part, that investments will be invested using the judgment and due care, under circumstances then prevailing, which persons of prudence, discretion and intelligence would exercise in the management of their own affairs, not for speculation but for investment, considering the probable safety of their capital as well as the probable income to be derived.

The City's cash management system is designed to monitor cash balances, forecast revenues and expenditures accurately, and to invest idle funds to the fullest extent possible. The City attempts to obtain the highest available investment yields consistent with the criteria established and outlined in the City's investment policy. This policy is reviewed and approved annually by the City Council. During 1995-96, an Investment Oversight Committee was formed by the City Council to review the City's Investment Policy, and make recommendations to the City Council. Some of the instruments in which the City may invest are securities of the U.S. Government or its agencies, certificates of deposit, banker's acceptances, medium term corporate notes, commercial paper, the State of California's Local Agency Investment Fund, the Orange County Treasurer's Pool, and demand deposit accounts. The weighted-average investment rate of return earned on the City's investment portfolio as of June 30, 2007, was 4.43%. The City's cash position remained healthy throughout the year. Cash and investments represented approximately 35.5% of the City's total assets as of June 30, 2007.

RISK MANAGEMENT

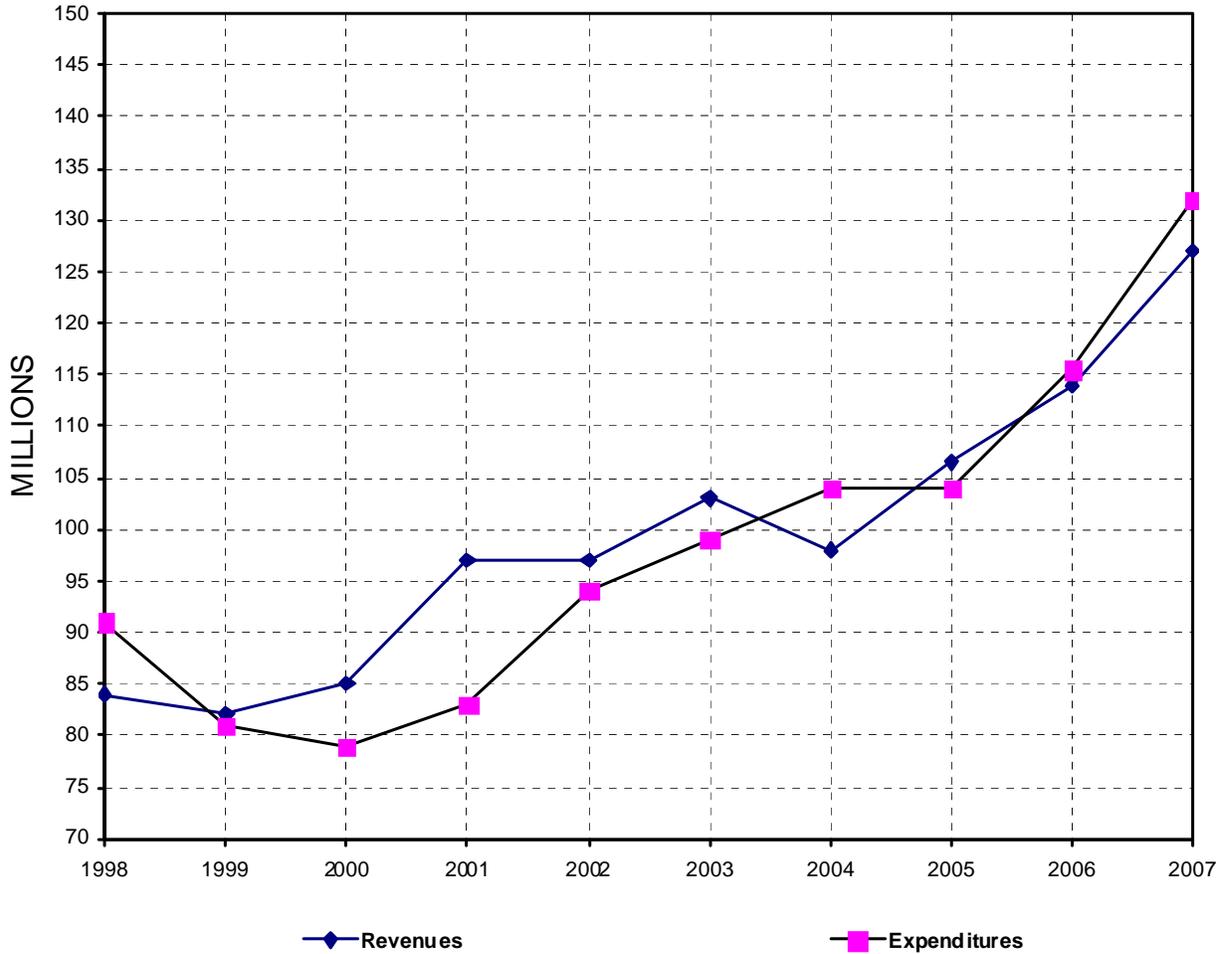
The City of Costa Mesa has an aggressive risk management program designed to reduce the City's operational cost of risk to the lowest level possible. This program involves the making and carrying out of decisions that will minimize the adverse effects of accidental losses in the City. The program includes: 1) identifying loss exposures, 2) examining alternative techniques for handling these exposures, 3) selecting and implementing the chosen technique, and 4) monitoring the results to ensure program effectiveness. Some of the techniques chosen by the City include self-funding of small losses, purchasing insurance and reinsurance for large property and casualty exposures, and implementing an active safety and loss control program. The Risk Management Division is located within the Administrative Services Department and is responsible for workers' compensation; general, automobile and aviation liability; real and personal property asset protection; and industrial safety and loss control.

Self-insured programs with responsible loss retention levels are utilized for workers' compensation and automobile/general liability exposures. Commercial excess insurance or excess coverage provided through pooling arrangements with other municipalities have been procured for loss exposure above the retention levels and through catastrophic limits. Real and personal property and aviation liability exposures are protected by comprehensive policies of commercial insurance.

Liabilities for self-insured losses are fully funded when incurred. Funding levels for accrued liabilities are verified for adequacy by periodic internal and external actuarial reviews.

CITY OF COSTA MESA

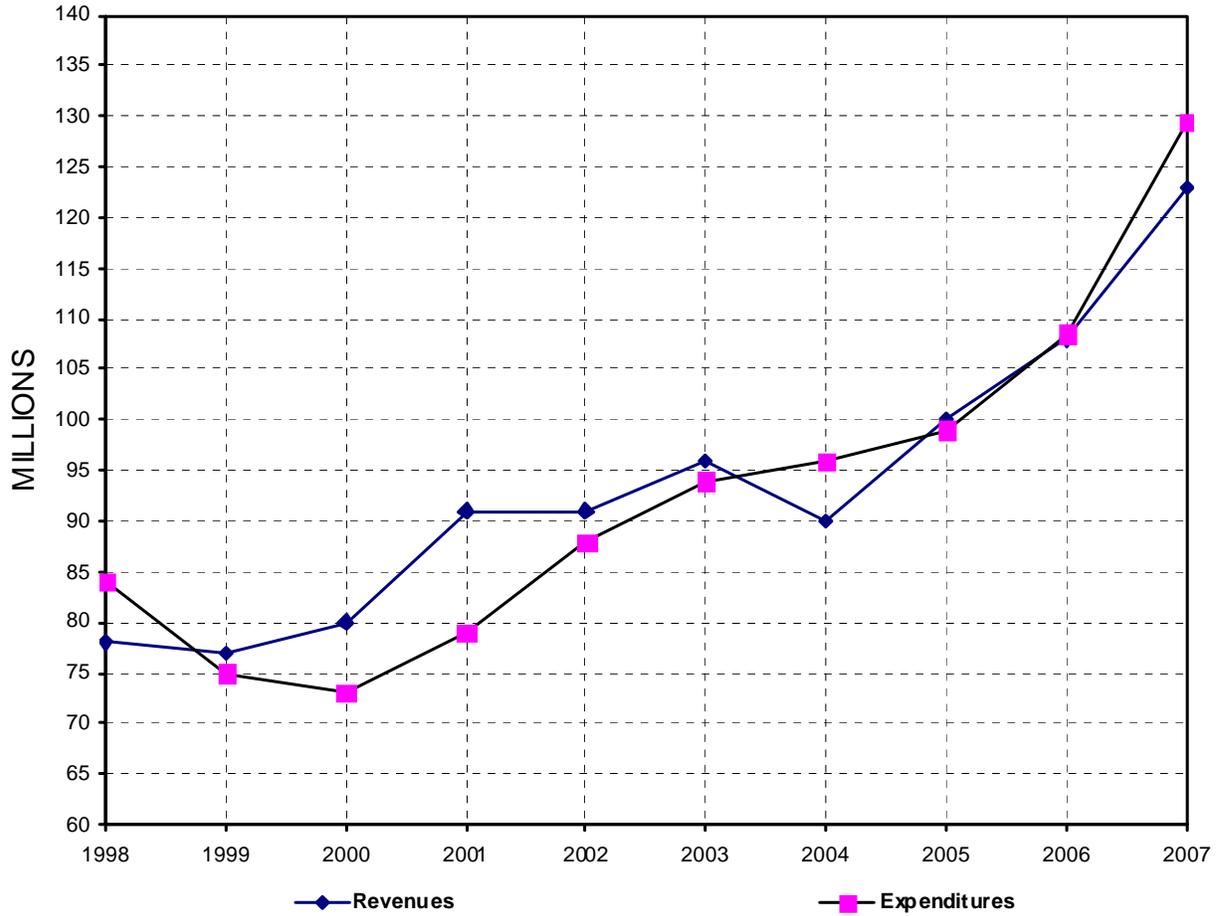
Revenue and Expenditures – All Governmental Funds Combined Reporting Entity For the Last Ten Fiscal Years



The graph above illustrates the revenue and expenditures for the last ten fiscal years of the combined reporting entity which includes the City of Costa Mesa, the Costa Mesa Redevelopment Agency, and the Costa Mesa Public Finance Authority. The data presented includes all governmental fund types: general, special revenue, debt service, and capital projects funds.

CITY OF COSTA MESA

Revenue and Expenditures – All Governmental Funds Excluding Component Units For the Last Ten Fiscal Years



The graph above illustrates the revenue and expenditures of the City of Costa Mesa, excluding its component units, for the last ten fiscal years. The data presented includes all governmental fund types: general, special revenue, debt service, and capital projects funds.

INDEPENDENT AUDIT

The Government Code of the State of California requires general law cities, such as the City of Costa Mesa, to be audited annually by independent certified public accountants. The independent accounting firm of Mayer Hoffman McCann P.C., was selected by the City Council in fiscal year 2003-2004 to continue to conduct the City's annual audit. Mayer Hoffman McCann (formerly Conrad and Associates) has continuously performed the City's audit since they were first selected by the City Council in fiscal year 1990-91.

In addition to meeting the requirements set forth in the Government Code, the audit was also designed to meet the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. The independent auditors' report on the general purpose financial statements, and combining and individual statements and schedules is included in the Financial Section of this CAFR. The independent auditors' reports related specifically to the single audit are provided in a separate report.

FINANCIAL REPORTING AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) has awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Costa Mesa for its CAFR for the fiscal year ended June 30, 2006. This was the twenty-eighth consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement for Excellence in Financial Reporting, the City published an easily readable and efficiently organized CAFR whose contents conformed to program standards. Such 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 that our current report continues to conform to the Certificate of Achievement program requirements and are submitting it to the GFOA to determine its eligibility for the Certificate.

ACKNOWLEDGEMENTS

Special recognition is extended to the entire Finance Department staff for the continued, dedicated, and efficient services that they provide daily to all City departments. Special appreciation is also extended specifically to the Accounting division staff that contributed to and participated in the coordination and preparation of this Comprehensive Annual Financial Report. In addition, our deepest appreciation is also extended to the Central Services Division staff for their assistance in the design of the cover of this report and printing of this document. Further, thanks are also extended to our independent auditors, Mayer Hoffman McCann P.C. for their expertise and advice.

Members of the City Council have continued to express their interest and support to the Finance Department in the planning of responsible and proactive financial operations for the City. Through the team effort of its City Council, City Manager, Department Directors, and employees, the City will continue the high level of service currently provided to the citizens of our community. Due to the consistent policies of the City Council and each employee's commitment to maintain superior service level standards, the City of Costa Mesa has been able to maintain a sound financial base from which to operate.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Marc R. Puckett". The signature is fluid and cursive, with a large initial "M" and "P".

MARC R. PUCKETT

Director of Finance/

City Treasurer



City of Costa Mesa List of Principal Officials

June 30, 2007

Mayor

Allan R. Mansoor

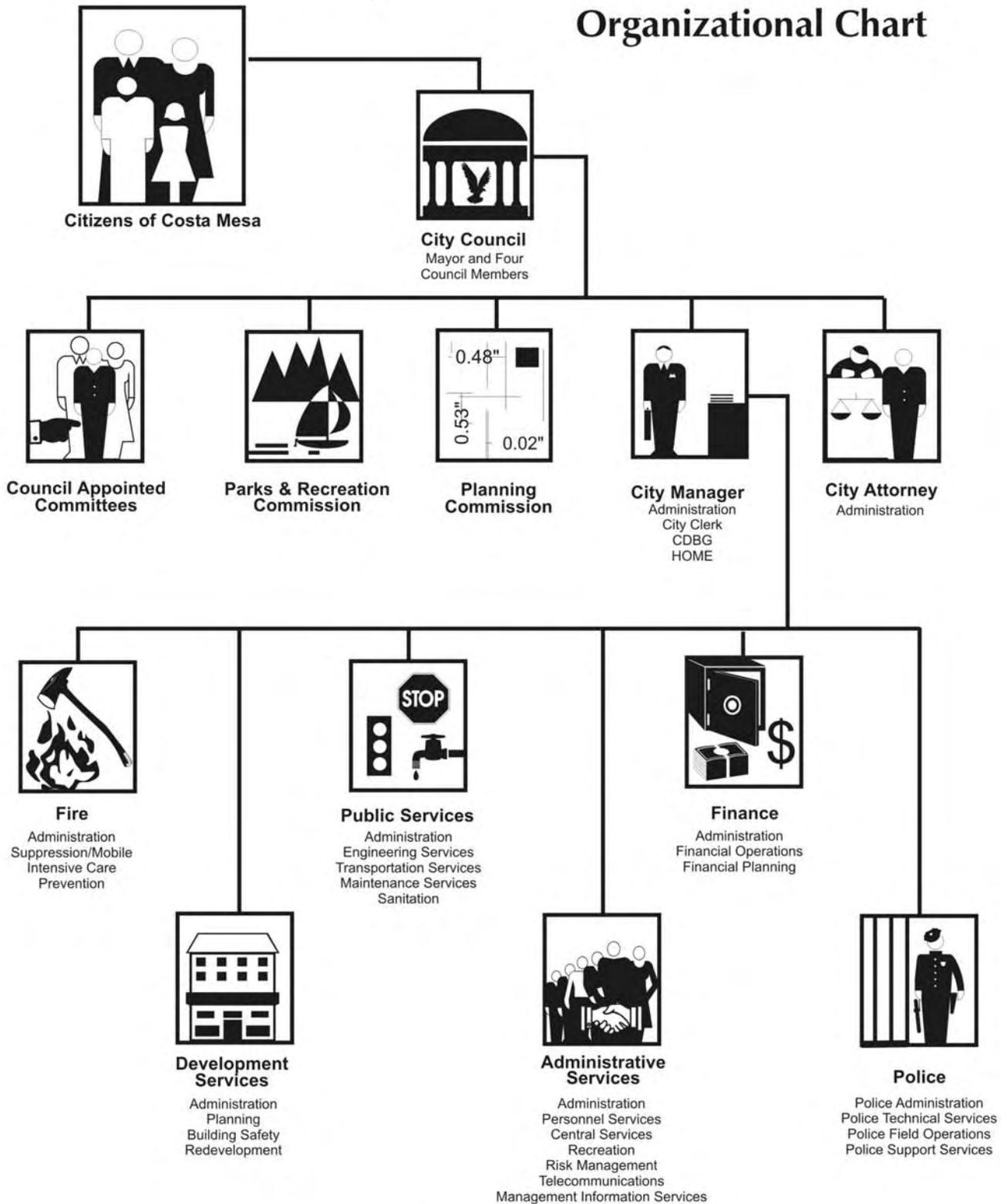
City Council

Linda W. Dixon
 Katrina A. Foley
 Eric R. Bever
 Wendy B. Leece

City Manager-----	Allan L. Roeder
Assistant City Manager-----	Thomas R. Hatch
City Attorney (Contract)-----	Kimberly Hall Barlow
Director of Administrative Services-----	Steven N. Mandoki
Director of Development Services-----	Donald D. Lamm
Director of Finance-----	Marc R. Puckett
Director of Public Works-----	William J. Morris
Fire Chief-----	Michael F. Morgan
Police Chief-----	Christopher Shawkey

City of Costa Mesa, California

Organizational Chart



Visit our Web site at www.ci.costa-mesa.ca.us

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Costa Mesa
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

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

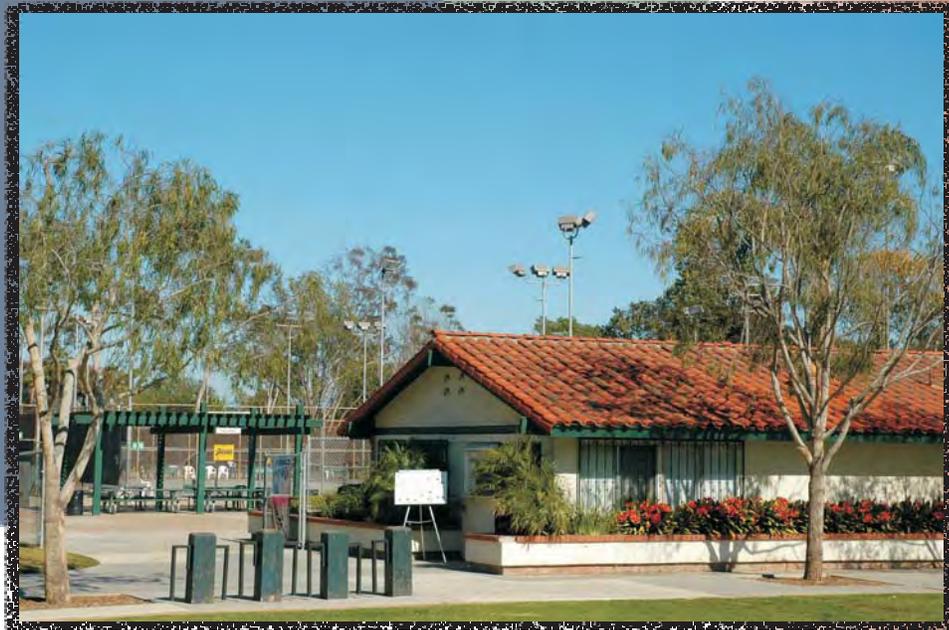


President

Executive Director



FINANCIAL SECTION



COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2007



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

City Council
City of Costa Mesa, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Costa Mesa, California, as of and for the year ended June 30, 2007, 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 Costa Mesa, California. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the City's basic financial statements for the year ended June 30, 2006 and, in our report dated September 28, 2006, we expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Costa Mesa, California, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, of the City of Costa Mesa, 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* is not a required part of the basic financial statements but is 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 Costa Mesa's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, individual nonmajor fund financial schedules and statistical tables listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and individual nonmajor and certain major fund financial schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 6, 2007 on our consideration of the City of Costa Mesa's internal control over financial reporting and on 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.

Mayor Hoffman McCann P.C.

Irvine, California
November 6, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS



COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Costa Mesa, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Costa Mesa for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i-x of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

- The assets of the City of Costa Mesa primary government exceeded its liabilities at the close of fiscal year 2007 by \$325,506,283 (*net assets*). Of this amount, \$62,778,909 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$13,926,417 from the prior fiscal year total of \$311,579,866.
- As of the close of fiscal year 2007, the City of Costa Mesa's governmental funds reported combined ending fund balances of \$124,513,969, an increase of \$25,835,372 in comparison with the prior year. Of this total amount, \$79,808,874, is *available for spending* at the government's discretion (*unreserved fund balance*).
- At the end of 2007, unreserved fund balance for the general fund was \$55,057,757 or 54.26 percent of total general fund expenditures and other financing uses of \$101,462,077.
- The City of Costa Mesa's total debt had a net increase of \$26,180,857 or 51.32 percent during fiscal year 2007. This increase was attributable to the issuance of Certificates of Participation in the amount of \$29,960,000 to construct an expansion of the Police Headquarters facility.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Costa Mesa's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City of Costa Mesa's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Costa Mesa is improving or deteriorating.

The *statement of activities* presents information to show how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues

and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Costa Mesa that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Costa Mesa include general government, public safety, community programs, public services, redevelopment and interest on long-term debt. The City of Costa Mesa has no business-type activities or discretely presented component units.

The basic government-wide financial statements can be found on pages 14-15 of this report.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Costa Mesa, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Costa Mesa can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Costa Mesa maintains twenty-five individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund and the Redevelopment Agency Debt Service Fund, both of which are considered to be major funds. Data from the other twenty-three governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City of Costa Mesa adopts an annual appropriated budget for its General Fund and Special Revenue Funds. A budgetary comparison statement has been provided for the General Fund and Special Revenue Funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 18-21 of this report.

Proprietary Funds

The City of Costa Mesa maintains one type of proprietary fund, an *internal service* fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City of Costa Mesa's various functions. The City of Costa Mesa uses internal service funds to account for its equipment replacement, workers' compensation, and general liability functions. Because each of these functions predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Equipment Replacement Fund and the Self Insurance – Worker's Compensation/ General Liability/ Unemployment Funds, each of which are considered to be non-major funds of the City of Costa Mesa. Each of the internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for these non-major internal service funds is provided in the form of *combining statements* elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 22-24 of this report.

Fiduciary funds.

Fiduciary funds are used to account for resources held for the benefits of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City of Costa Mesa's own programs and services. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 25 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 27-61 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City of Costa Mesa. Required supplementary information can be found on pages 64-67 of this report.

The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 69-112 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Costa Mesa, assets exceeded liabilities by \$325,506,283 at the close of the fiscal year ended June 30, 2007.

Sixty-eight percent of the City of Costa Mesa's total net assets reflect its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City of Costa Mesa uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Costa Mesa's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Costa Mesa's Net Assets

	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
Current and other assets	\$166,114,429	\$137,569,930
Capital assets	<u>248,383,447</u>	<u>233,669,316</u>
Total Assets	<u>414,497,876</u>	<u>371,239,246</u>
Long-term debt outstanding	77,196,958	51,016,101
Other liabilities	<u>11,794,635</u>	<u>8,643,279</u>
Total Liabilities	<u>88,991,593</u>	<u>59,659,380</u>
Net assets:		
Invested in capital assets, net of debt	223,882,753	207,142,027
Restricted	38,844,621	38,374,665
Unrestricted	<u>62,778,909</u>	<u>66,063,174</u>
Total net Assets	<u>\$325,506,283</u>	<u>\$311,579,866</u>

At the end of the 2007 fiscal year, the City of Costa Mesa is able to report positive balances in all three categories of net assets for the government as a whole, as well as for its separate governmental activities. During the 2007 fiscal year, the City's total net assets increased by \$13,926,417 from the prior fiscal year total of \$311,579,866.

City of Costa Mesa's Changes in Net Assets

	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
Revenues:		
Program Revenues:		
Charges for services	\$14,846,256	\$11,976,700
Operating contributions and grants	11,459,481	11,709,774
Capital contributions and grants	6,506,495	4,511,691
General revenues:		
Taxes:		
Property taxes, levied for general purpose	22,921,884	19,752,336
Sales taxes	46,489,599	46,049,080
Transient occupancy tax	5,959,566	5,465,320
Franchise taxes	3,911,800	3,674,652
Business license tax	897,608	912,324
Other taxes	-	-
Other intergovernmental	8,687,055	8,108,852
Investment earnings	7,433,407	3,082,011
Miscellaneous revenues	<u>89,249</u>	<u>210,302</u>
Total revenues	<u>129,202,390</u>	<u>115,453,042</u>
Expenses:		
General government	28,246,216	21,823,044
Public safety	52,299,944	58,123,794
Community Programs	5,945,293	3,770,475
Public Services	24,479,949	19,371,276
Redevelopment	885,005	2,509,671
Interest on long-term debt	<u>3,419,566</u>	<u>2,502,868</u>
Total expenses	<u>115,275,973</u>	<u>108,101,128</u>
Change in net assets	13,926,417	7,351,914
Net assets at beginning of year	<u>311,579,866</u>	<u>304,227,952</u>
Net assets at end of year	<u>\$325,506,283</u>	<u>\$311,579,866</u>

Governmental Activities

Governmental activities increased the City of Costa Mesa's net assets by \$13,926,417, which accounted for 100.00 percent of the total increase in the net assets. Key elements of this increase are as follows:

- Property and sales tax revenues increased by \$3,610,067 or 5.49% from fiscal year 2006. This change was due primarily to a 16% increase in property tax collections of \$3,169,548 as a result of growth in the taxable assessed value of property in the City, additions to the property tax base as a result of new construction activity, and a change in the subvention formula for distribution of property taxes between the state, county, and city governments. Sales tax collections also increased by \$440,519 due to inflationary price increases on consumer products and increased consumer spending.
- Franchise tax revenues increased by \$237,148 or 6.45% from fiscal year 2006. This increase resulted from normal inflationary increases in gross sales of cable and solid waste hauling services which the franchise fee is based upon. Also, transient occupancy tax revenue increased by \$494,246 or 9.0% from the prior fiscal year. This change is a result of higher occupancy and room rates at major hotels within the City due to increased tourist travel.
- The City's governmental expenses for public safety in fiscal year 2007 decreased by 10.0% or \$5,823,850 from the prior fiscal year. This decrease resulted primarily from one-time expenditures related to a major software and hardware system replacement project in 2006 and increased attrition savings. Public Services expenses increased by \$5,108,673 or 26.4% from the prior fiscal year. This increase was due primarily to additional roadway improvement projects during the fiscal year, and wage and benefit cost increases.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City of Costa Mesa uses fund accounting to ensure and demonstrate compliance with professional standards promulgated by oversight agencies and also due to finance-related legal requirements.

Government Funds

The focus of the City of Costa Mesa's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Costa Mesa's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the 2007 fiscal year, the City of Costa Mesa's governmental funds reported combined ending fund balances of \$124,513,969, an increase of \$25,835,372 in comparison with the prior fiscal year. Of this total amount, \$44,705,095 represents *reserved* fund balance to indicate that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior period, 2) to pay debt service, or 3) fund balance reserved for non-current assets, such as notes receivable, prepaid and other assets, advances to other funds, and property held for resale. Reserved fund balance represents funds that are legally restricted by outside parties for a specific purpose. The remainder of fund balance constitutes *unreserved fund balance*, which is available for spending. Unreserved fund balance also includes *designations of fund balance* which represent management plans that are subject to change.

The general fund is the chief operating fund of the City of Costa Mesa. At the end of the fiscal year, unreserved fund balance of the general fund was \$55,057,757, while total fund balance amounted to \$73,384,067. The fund balance of the City of Costa Mesa's general fund increased by \$2,446,899 during fiscal year 2007. Key factors in this change are as follows:

- Property tax revenues increased by \$2,474,848 or 14.6% over the prior fiscal year. This increase resulted primarily from increases in the taxable assessed value of property in the City, additions to the property tax base as a result of new construction activity, and a change in the subvention formula for distribution of property taxes between the state, county, and city governments.
- Revenues from investment income increased by \$3,410,492 or 325.6% over the prior fiscal year. This increase was a result of increased investment earnings due to higher interest rates and market value adjustments of the investment portfolio at year end.
- Sales tax, the General Fund's largest single source of revenue, increased by \$524,989 or 1.2% over the prior fiscal year. This increase was primarily a result of inflationary price increases and retail sales growth in the local economy.
- Transient occupancy tax revenues increased by \$494,236 or 9.0% over the prior fiscal year. This change is a result of higher occupancy and room rates at major hotels within the City due to increased tourist travel.
- Expenditures for facilities and equipment maintenance increased by 13.7% or \$1,250,070 from the prior fiscal year. This increase was a result of expenditures for maintenance of City facilities and the purchase fleet vehicles.
- Expenditures for Protection of Persons and Property increased by 3.9% or \$2,254,763 from the prior fiscal year. This increase resulted primarily from wage and benefit cost increases.

The Redevelopment Agency Debt Service Fund has an accumulated fund deficit of \$10,998,558. The deficit exists since GAAP requires the debt service funds to record advances from other funds as a liability. At June 30, 2007, the balance in advances from other funds is \$12,773,409. The fund deficit decreased during the fiscal year by the amount of \$781,671.

Proprietary Funds

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

The City utilizes internal service funds which are a propriety fund type. Unrestricted net assets of the Internal Service Funds at the end of the year amounted to \$9,301,117. The growth in total net assets for the fiscal year amounted to \$1,016,764.

GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the appropriations in the original budget and the final amended budget amounted to \$4,461,430. All budget adjustments were properly approved. The majority of the appropriation increases can be briefly summarized as follows:

- Personnel costs increased by over \$2.1 million due to contractually agreed-to compensation increases effective for all four employee groups.

In addition to the aforementioned appropriation increases, over \$34.8 million in appropriation increases was added to the original budget due to prior year carryforwards for city-wide capital improvement projects previously approved by Council.

Variances between the final budgeted and actual expenditures in the general fund amounted to \$3,995,670. The significant budgetary variances can be briefly summarized as follows:

- Police protection expenditures had a favorable variance of \$1,140,484 due to attrition savings in excess of anticipated attrition savings.
- Interest and fiscal charges had a favorable variance of \$786,140 due to a modification of the repayment schedule prior to issuance for the 2007 Certificates of Participation issued to construct the Police facility expansion.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its governmental activities (the City has no business-type activities or discretely presented component units) as of June 30, 2007, amounts to \$248,383,447 net of accumulated depreciation. This investment in capital assets includes land, building improvements and structures, machinery and equipment, park systems and facilities, median improvements, roads, highways, storm drains and bridges. The City's investment in capital assets for the current fiscal year increased by 6.3% or \$14,714,131 over the prior fiscal year.

Major capital asset events during the 2007 fiscal year included a variety of street construction projects Citywide. Some of the major street projects this fiscal year included:

- Resurfacing and/or rehabilitation of concrete streets and walkways.
- Resurfacing, crack seal and/or slurry seal of asphalt streets.
- Alley-way improvements.
- Traffic mitigation improvements.
- Preventive maintenance of curbs, gutters and storm drains.

During the fiscal year, capital assets not being depreciated increased by \$12,285,641 and capital assets being depreciated increased by \$7,787,516. Construction in progress as of the fiscal year end totaled \$11,868,021 and included the following:

<u>Construction Project</u>	<u>Project #</u>	<u>Total Budget</u>	<u>Spent to date</u>	<u>Remaining commitment</u>
Northbound Newport Blvd street improvements	300075	\$ 592,509	449,250	143,259
I-405/Fairview Road interchange improvements	300084	2,035,932	509,238	1,526,694
Police Facility remodel and expansion	200018	18,229,252	8,622,752	9,606,500
Theater and Art District street improvements	300122	2,748,728	2,528,059	220,669
Santa Ana/17 th Street intersection improvements	300083	915,183	808,268	106,915
Orange/17 th Street intersection improvements	300082	<u>1,032,937</u>	<u>768,953</u>	<u>263,984</u>
Total		<u>\$25,554,541</u>	<u>13,686,520</u>	<u>11,868,021</u>

**City of Costa Mesa's Capital Assets at Year-End
(Net of Depreciation)**

	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
Land	\$32,515,441	\$28,949,103
Land rights related to streets	29,291,575	29,291,575
Construction in progress	25,255,312	16,536,009
Building improvements and structures	11,895,952	11,487,519
Machinery and equipment	12,103,378	12,026,788
Park System	3,505,742	3,541,686
Infrastructure- roads	109,546,969	105,358,660
Infrastructure- storm drains	<u>24,269,078</u>	<u>26,477,976</u>
Totals	<u>\$248,383,447</u>	<u>\$233,669,316</u>

Additional information on the City of Costa Mesa's capital assets can be found in note 6 on pages 49-50 of this report.

Long-Term Debt

At year-end, the City has a number of debt issues outstanding. These issues include the Public Finance Authority (PFA) 2003 Refunding Certificates of Participation (\$11.9 million outstanding), the PFA 1998 Refunding Revenue Bonds (\$6.7 million outstanding), the 2003 Redevelopment Agency Tax Allocation Refunding Bonds (\$6.1 million outstanding), the PFA 2006 Lease Revenue Refunding Bonds (\$2.4 million outstanding), the PFA 2007 Certificates of Participation issued for construction of the police facility expansion (\$30 million outstanding), and \$5.4 million of capitalized lease obligations. Long-term liabilities had a net increase of \$26.2 million in total due to the new Certificates of Participation issued, which includes a reduction of \$3.6 million as the result of the payment of normally scheduled principal maturities on bonds and lease obligations.

City of Costa Mesa's Outstanding Debt

	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
Bonds payable	\$ 57,000,000	\$29,260,000
Other liabilities	14,828,309	15,030,565
Capitalized lease obligations	<u>5,368,649</u>	<u>6,725,536</u>
Totals	<u>\$77,196,958</u>	<u>\$51,016,101</u>

Additional information on the City of Costa Mesa's long-term debt can be found in notes 7 through 11 on pages 51-58 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The unemployment rate for the County of Orange was estimated at 3.9 percent as of June 30, 2007, which is an increase from the rate of 3.7 percent a year ago. This compares favorably to the state's average unemployment rate of 5.2 percent and the national average rate of 4.5 percent as of June 30.
- The property values in Costa Mesa increased by 10.9% overall from the prior fiscal year. Property values in Costa Mesa are projected to increase between 6-10% for the next several years.
- The occupancy rate of the City's central business district has remained at 94 percent for the past three years.
- Inflationary trends in the region compare favorably to national indices.

All of these factors were considered in preparing the City of Costa Mesa's operating and capital improvement budget for the 2008 fiscal year.

During the 2007 fiscal year, the unreserved fund balance in the General Fund decreased by \$1.14 million. The fiscal year 2008 operating and capital improvement budget assumed an operating deficit for the General Fund in the amount of \$4,596,624. Due to signs of continued growth in the local economy, it is anticipated that the net effect on General Fund fund balance will be less than anticipated assuming no adverse impacts to the City's revenue base and no unanticipated expenses during the 2008 fiscal year.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the City of Costa Mesa's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the office of the Director of Finance, City of Costa Mesa, P.O. Box 1200, 77 Fair Drive, Costa Mesa, California, 92628-1200.

GOVERNMENT-WIDE FINANCIAL STATEMENTS



COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2007

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Assets and the Statement of Activities report information about the City as a whole and its' activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Statement of Net Assets

The *statement of net assets* presents information on all of the City of Costa Mesa's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Costa Mesa is improving or deteriorating.

Statement of Activities

The *statement of activities* presents information to show how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

CITY OF COSTA MESA, CALIFORNIA

Statement of Net Assets

June 30, 2007

(With Comparative Data for Prior Year)

	Governmental Activities	
	2007	2006
Assets:		
Cash and investments (note 2)	\$ 107,612,148	102,925,785
Cash and investments with fiscal agent (note 2)	33,601,788	9,458,247
Due from other governments	9,124,077	12,275,052
Accounts receivable	2,712,732	475,162
Interest receivable	2,293,932	2,088,957
Loans receivable	6,377,292	6,086,695
Rent receivable	1,317,194	1,275,303
Loan deposits	490,120	511,308
Inventories	136,246	140,807
Prepaid items	34,155	84,904
Investment in joint venture (note 19)	2,414,745	2,247,710
Capital assets (note 6):		
Land	32,515,441	28,949,103
Land rights related to streets	29,291,575	29,291,575
Construction in progress	25,255,312	16,536,009
Other capital assets, net of accumulated depreciation	161,321,119	158,892,629
Total assets	<u>414,497,876</u>	<u>371,239,246</u>
Liabilities:		
Accounts payable	4,450,730	2,082,898
Accrued liabilities	981,081	899,615
Accrued interest payable	608,828	278,618
Retentions payable	1,335,857	1,179,651
Unearned revenue	1,073,480	901,063
Deposits payable	3,344,659	3,301,434
Long-term liabilities:		
Portion due within one year:		
Claims payable (notes 7, 9 and 17)	2,337,627	2,386,928
Bonds payable (notes 7 and 8)	3,155,000	2,220,000
Capital leases payable (notes 7 and 10)	1,354,139	1,356,887
Employee leave benefits payable (notes 7 and 9)	1,200,000	1,400,000
Portion due beyond one year:		
Claims payable (notes 7, 9 and 17)	6,241,442	6,620,193
Bonds payable (notes 7 and 8)	53,845,000	27,040,000
Capital leases payable (notes 7 and 10)	4,014,510	5,368,649
Employee leave benefits payable (notes 7 and 9)	5,049,240	4,623,444
Total liabilities	<u>88,991,593</u>	<u>59,659,380</u>
Net assets:		
Invested in capital assets, net of related debt	223,882,753	207,142,027
Restricted for:		
Protection of persons and property	747,564	1,481,296
Community programs	10,166,878	2,649,931
Public services	19,186,443	27,895,363
Redevelopment	8,743,736	6,348,075
Unrestricted	62,778,909	66,063,174
Total net assets	<u>\$ 325,506,283</u>	<u>311,579,866</u>

See accompanying notes to the basic financial statements.

CITY OF COSTA MESA, CALIFORNIA

Statement of Activities

For the fiscal year ended June 30, 2007

(With Comparative Data for Prior Year)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	2007	2006
Governmental activities:						
General government	\$ 28,246,216	-	-	-	(28,246,216)	(21,823,044)
Protection of persons and property	52,299,944	3,742,586	2,953,390	-	(45,603,968)	(52,913,955)
Community programs	5,945,293	5,423,255	3,144,190	-	2,622,152	5,945,113
Public services	24,479,949	5,680,415	5,361,901	6,506,495	(6,931,138)	(6,098,538)
Redevelopment	885,005	-	-	-	(885,005)	(2,509,671)
Interest on long-term debt	3,419,566	-	-	-	(3,419,566)	(2,502,868)
Total governmental activities	\$ 115,275,973	14,846,256	11,459,481	6,506,495	(82,463,741)	(79,902,963)
General revenues:						
Taxes:						
					22,921,884	19,752,336
					46,489,599	46,049,080
					5,959,556	5,465,320
					3,911,800	3,674,652
					897,608	912,324
					8,687,055	8,108,852
					7,433,407	3,082,011
					89,249	210,302
					<u>96,390,158</u>	<u>87,254,877</u>
					13,926,417	7,351,914
					<u>311,579,866</u>	<u>304,227,952</u>
					<u>\$ 325,506,283</u>	<u>311,579,866</u>

See accompanying notes to basic financial statements.



FUND FINANCIAL STATEMENTS



COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2007

GOVERNMENTAL FUNDS

Major Governmental Funds

GENERAL FUND

The General Fund must be classified as a major fund in the accompanying fund financial statements and is used to account for all of the general revenues of the City not specifically levied or collected for some special purpose, and for the expenditures related to the rendering of general services by the City. The General Fund is used to account for all resources not required to be accounted for in another fund.

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for the revenues derived from specific sources which are required by law or administrative action to be accounted for in a separate fund. The following has been classified as a major fund in the accompanying fund financial statements:

Low and Moderate Income Housing Fund

Established per Section 33334.3 of the Health and Safety Code to account for 20% of tax increment received by the Costa Mesa Redevelopment Agency which is to be expended for the purpose of increasing, improving, and preserving the low- and moderate-income housing available at affordable housing costs to persons and families of low or moderate income and to very low income households.

DEBT SERVICE FUNDS

Debt Service Funds are used to account for the accumulated or resources for, and payment of, general long-term debt. The following has been classified as a major fund in the accompanying fund financial statements:

Redevelopment Debt Service Fund

This fund accounts for the accumulation of monies for payment of the 2003 Tax Allocation Refunding Bonds, the promissory note due upon demand to the City of Costa Mesa and other developer loans. All tax increments received are placed in this fund and are used to retire debt (bonded or loans) in accordance with the Health and Safety Code.

CAPITAL PROJECTS FUNDS

Capital Projects Funds are established to account for financial resources segregated for the acquisition and construction of major capital facilities (other than those financed by proprietary funds). The following funds have been classified as nonmajor funds in the accompanying fund financial statements:

Capital Improvements Fund

Established to account for the construction of capital facilities financed by the City's General Fund.

Nonmajor Governmental Funds

Nonmajor governmental funds constitute all other governmental funds whose assets, liabilities, revenues or expenditures do not exceed 10% of the governmental funds total. These funds include thirteen Special Revenue Funds, two Debt Service Funds and all four Capital Projects Funds.

CITY OF COSTA MESA, CALIFORNIA

Governmental Funds

Balance Sheet

June 30, 2007

(With Comparative Data for Prior Year)

	<u>General</u>	<u>Special Revenue Low and Mod Income Housing</u>	<u>Debt Service Redevelopment Agency</u>	<u>Capital Projects Capital Improvements</u>
<u>Assets</u>				
Cash and investments	\$ 51,130,271	1,677,083	2,304,910	-
Cash and investments with fiscal agent	1,364,641	-	711,982	25,810,502
Due from other governments	8,523,858	32,342	24,169	-
Accounts receivable	925,627	-	-	-
Interest receivable	1,592,895	16,679	25,233	44,469
Loans receivable	-	4,308,969	-	56,000
Rent receivable	254,169	-	-	-
Due from other funds (note 3)	621,197	-	15,000	-
Loan deposits	-	-	-	-
Advances to other funds (note 4)	15,472,268	736,429	-	-
Inventories	33,944	-	-	-
Prepaid items	29,751	904	3,500	-
	<u>\$ 79,948,621</u>	<u>6,772,406</u>	<u>3,084,794</u>	<u>25,910,971</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ 1,574,208	8,374	980,040	2,045,602
Accrued liabilities	771,544	-	-	-
Retentions payable	1,015	-	-	630,172
Deposits payable	3,344,659	-	-	-
Due to other funds (note 3)	15,000	85,629	329,903	85,389
Advances from other funds (note 4)	-	-	12,773,409	-
Deferred revenue	858,128	4,308,969	-	1,026,548
	<u>6,564,554</u>	<u>4,402,972</u>	<u>14,083,352</u>	<u>3,787,711</u>
Fund balances (note 12):				
Reserved for:				
Encumbrances	790,347	-	-	13,920,080
Prepaid items	29,751	904	3,500	-
Inventories	33,944	-	-	-
Advances to other funds	15,472,268	736,429	-	-
Debt service	-	-	-	-
Self insurance	2,000,000	-	-	-
Unreserved, reported in:				
General fund	55,057,757	-	-	-
Special revenue funds	-	1,632,101	-	-
Debt service funds	-	-	(11,002,058)	-
Capital projects funds	-	-	-	8,203,180
	<u>73,384,067</u>	<u>2,369,434</u>	<u>(10,998,558)</u>	<u>22,123,260</u>
Total fund balances (deficit)	<u>\$ 79,948,621</u>	<u>6,772,406</u>	<u>3,084,794</u>	<u>25,910,971</u>
Total liabilities and fund balances	<u>\$ 79,948,621</u>	<u>6,772,406</u>	<u>3,084,794</u>	<u>25,910,971</u>

See accompanying notes to the basic financial statements.

Nonmajor Governmental Funds	Totals	
	2007	2006
34,754,249	89,866,513	85,052,374
5,714,663	33,601,788	9,458,247
543,708	9,124,077	12,275,052
1,722,324	2,647,951	475,162
1,390,990	3,070,266	2,887,324
2,012,323	6,377,292	6,086,695
1,063,025	1,317,194	1,275,303
4,620	640,817	794,750
490,120	490,120	511,308
181,545	16,390,242	13,146,597
-	33,944	29,312
-	34,155	37,347
<u>47,877,567</u>	<u>163,594,359</u>	<u>132,029,471</u>
600,522	5,208,746	2,930,698
200,059	971,603	890,108
704,670	1,335,857	1,179,651
-	3,344,659	3,301,434
120,159	636,080	747,193
3,616,833	16,390,242	13,146,597
4,999,558	11,193,203	11,155,193
<u>10,241,801</u>	<u>39,080,390</u>	<u>33,350,874</u>
4,037,846	18,748,273	6,859,045
-	34,155	37,347
-	33,944	29,312
181,545	16,390,242	13,146,597
7,498,481	7,498,481	5,233,230
-	2,000,000	2,000,000
-	55,057,757	56,192,948
18,993,051	20,625,152	18,233,112
-	(11,002,058)	(11,783,729)
6,924,843	15,128,023	8,730,735
<u>37,635,766</u>	<u>124,513,969</u>	<u>98,678,597</u>
<u>47,877,567</u>	<u>163,594,359</u>	<u>132,029,471</u>

CITY OF COSTA MESA, CALIFORNIA

Governmental Funds

Reconciliation of the Balance Sheet to the Statement of Net Assets

June 30, 2007

Fund balances of governmental funds \$ 124,513,969

Amounts reported for governmental activities in the Statement of Net Assets are different because:

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	491,810,433
Accumulated depreciation	(248,978,680)

Long-Term Debt Transactions

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. All liabilities (both current and long-term) are reported in the Statement of Net Assets:

Bonds payable	(57,000,000)
Capital leases payable	(5,368,649)
Employee benefits leave payable	(6,249,240)

Accrued Interest

Accrued liabilities in the Statement of Net Assets differ from the amount reported in governmental funds due to accrued interest on outstanding debt payable. (608,828)

Internal Service Funds

Internal Service Funds are used by management to charge the costs of certain activities to individual City funds. The assets and liabilities of the Internal Service Funds are included in governmental activities in the Statement of Net Assets because they primarily service governmental activities of the City. 14,852,810

Investment in Joint Venture

The City of Costa Mesa 50% interest in the unrestricted net assets of the joint venture with City of Newport Beach for the Airborne Law Enforcement program. 2,414,745

Deferred Revenue

Certain revenues that do not provide current financial resources are reported as deferred revenues in the funds. 10,119,723

Net assets of governmental activities \$ 325,506,283

See accompanying notes to the basic financial statements.



CITY OF COSTA MESA, CALIFORNIA

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

For the fiscal year ended June 30, 2007

(With Comparative Data for Prior Year)

	General	Special Revenue Low and Mod Income Housing	Debt Service Redevelopment Agency	Capital Projects Capital Improvements
Revenues:				
Taxes	\$ 75,821,817	701,897	2,807,587	-
Licenses and permits	2,874,124	-	-	-
Fines and forfeits	2,859,343	-	-	-
Intergovernmental	9,600,917	-	-	-
Charges for services	3,942,300	-	-	-
Rental	2,791,766	-	-	-
Investment income	4,458,067	78,285	144,942	522,260
Miscellaneous	458,703	43,301	15,000	73,811
Total revenues	102,807,037	823,483	2,967,529	596,071
Expenditures:				
Current:				
General government	25,850,760	-	-	-
Protection of persons and property	59,627,889	-	-	-
Community programs	4,975,921	-	-	-
Public services	6,246,354	-	-	11,165,509
Redevelopment	-	692,024	-	-
Debt service:				
Cost of issuance	-	-	-	593,136
Principal	1,304,900	-	460,000	-
Interest and fiscal charges	239,703	-	1,218,968	-
Total expenditures	98,245,527	692,024	1,678,968	11,758,645
Excess (deficiency) of revenues over (under) expenditures	4,561,510	131,459	1,288,561	(11,162,574)
Other financing sources (uses):				
Transfers in (note 5)	1,101,939	-	-	637,988
Transfers out (note 5)	(3,216,550)	-	(506,890)	(2,297,204)
Issuance of long-term debt	-	-	-	29,960,000
Bond premium	-	-	-	80,193
Payment to bond escrow agent	-	-	-	-
Total other financing sources (uses)	(2,114,611)	-	(506,890)	28,380,977
Net change in fund balances	2,446,899	131,459	781,671	17,218,403
Fund balances (deficit) at beginning of year	70,937,168	2,237,975	(11,780,229)	4,904,857
Fund balances (deficit) at end of year	\$ 73,384,067	2,369,434	(10,998,558)	22,123,260

See accompanying notes to the basic financial statements.

Nonmajor Governmental Funds	Totals	
	2007	2006
849,147	80,180,448	75,818,711
-	2,874,124	2,101,870
55,956	2,915,299	3,157,859
13,074,781	22,675,698	22,199,470
3,847,575	7,789,875	4,771,803
117,941	2,909,707	2,792,016
1,640,238	6,843,792	2,448,400
291,295	882,110	841,991
<u>19,876,933</u>	<u>127,071,053</u>	<u>114,132,120</u>
1,623,034	27,473,794	25,676,011
1,816,208	61,444,097	58,653,822
5,605,304	10,581,225	7,330,558
7,539,734	24,951,597	15,692,726
192,981	885,005	2,509,671
-	593,136	90,345
1,760,000	3,524,900	3,238,000
1,117,742	2,576,413	2,448,580
<u>19,655,003</u>	<u>132,030,167</u>	<u>115,639,713</u>
<u>221,930</u>	<u>(4,959,114)</u>	<u>(1,507,593)</u>
5,626,057	7,365,984	5,214,379
(591,047)	(6,611,691)	(4,627,108)
-	29,960,000	7,151,217
-	80,193	-
	-	(2,139,205)
<u>5,035,010</u>	<u>30,794,486</u>	<u>5,599,283</u>
5,256,940	25,835,372	4,091,690
<u>32,378,826</u>	<u>98,678,597</u>	<u>94,586,907</u>
<u>37,635,766</u>	<u>124,513,969</u>	<u>98,678,597</u>

CITY OF COSTA MESA, CALIFORNIA

Governmental Funds

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
to the Statement of Activities

For the fiscal year ended June 30, 2007

Net changes in fund balances - total governmental funds	\$25,835,372
Amounts reported for governmental activities in the Statement of Activities are different because:	
<u>Capital Related Items</u>	
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 expenses, whereas net assets decrease by the amount of depreciation expense charged for the year.	
Capital outlay	23,250,774
Depreciation expense	(8,948,190)
Loss on disposition	(321,812)
<u>Long-Term Debt Transactions</u>	
Some expense 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. Repayment of debt service is reported as an expenditure in governmental funds and, thus, has the effect of reducing fund balances 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.	
Net changes in employee benefits leave payable	(225,798)
Principal payments - bonds	2,220,000
Principal payments - capital leases	1,356,889
The following are items related to the issuance of the 2007 Certificates of Participation:	
Gross proceeds	(29,960,000)
<u>Accrued Interest</u>	
Recording of the current year change of accrued interest on outstanding debt payable.	(330,210)
<u>Internal Service Funds</u>	
Internal Service Funds are used by management to charge the costs of certain activities to individual City funds. The adjustments for Internal Service Funds “close” those funds by charging additional amounts to participating governmental activities to completely cover the Internal Service Funds’ costs for the year.	
	1,016,764
<u>Investment in Joint Venture</u>	
The current year change in the City's interest in the Airborne Law Enforcement operation with the City of Newport Beach.	
	167,035
<u>Deferred Revenue</u>	
Certain revenues that do not provide current financial resources are reported as deferred revenue in the funds.	
	(134,407)
Change in net assets of governmental activities	<u><u>\$13,926,417</u></u>

See accompanying notes to the basic financial statements.



CITY OF COSTA MESA, CALIFORNIA

Proprietary Funds

Statement of Net Assets

June 30, 2007

(With Comparative Data for Prior Year)

	<u>Governmental Activities - Internal Service Funds</u>	
	<u>2007</u>	<u>2006</u>
<u>Assets</u>		
Current assets:		
Cash and investments	\$ 17,745,635	17,873,411
Accounts receivable	64,781	-
Interest receivable	198,122	200,181
Inventories	102,302	111,495
	<u>18,110,840</u>	<u>18,185,087</u>
Capital assets:		
Motorized equipment	10,452,507	9,346,100
Other equipment	317,173	290,439
Accumulated depreciation	(5,217,987)	(4,818,204)
	<u>5,551,693</u>	<u>4,818,335</u>
Net capital assets		
	<u>23,662,533</u>	<u>23,003,422</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	216,439	150,748
Accrued liabilities	9,478	9,507
Due to other funds (note 3)	4,737	-
Claims payable	2,337,627	2,386,928
	<u>2,568,281</u>	<u>2,547,183</u>
Total current liabilities		
Long-term liabilities:		
Claims payable	6,241,442	6,620,193
	<u>6,241,442</u>	<u>6,620,193</u>
Total long-term liabilities		
	<u>8,809,723</u>	<u>9,167,376</u>
Total liabilities		
Net assets:		
Invested in capital assets	5,551,693	4,818,335
Unrestricted	9,301,117	9,017,711
	<u>14,852,810</u>	<u>13,836,046</u>
Total net assets		

See accompanying notes to the basic financial statements.

CITY OF COSTA MESA, CALIFORNIA

Proprietary Funds

Statement of Revenues, Expenses and Changes in Net Assets

For the fiscal year ended June 30, 2007

(With Comparative Data for Prior Year)

	Governmental Activities - Internal Service Funds	
	<u>2007</u>	<u>2006</u>
Operating revenues:		
Charges for services	\$ 6,336,219	6,410,223
Total operating revenues	<u>6,336,219</u>	<u>6,410,223</u>
Operating expenses:		
Allocated administrative costs	1,265,684	1,195,971
Depreciation	730,696	681,448
Fuel and repair parts	1,187,858	876,945
Claims and premiums	2,053,404	3,190,602
Total operating expenses	<u>5,237,642</u>	<u>5,944,966</u>
Operating income (loss)	<u>1,098,577</u>	<u>465,257</u>
Nonoperating revenues (expenses):		
Investment income	755,385	633,964
Loss on sale of equipment	(82,905)	(36,685)
Total nonoperating revenues (expenses)	<u>672,480</u>	<u>597,279</u>
Income (loss) before transfers	<u>1,771,057</u>	<u>1,062,536</u>
Transfers in (note 5)	3,152	-
Transfers out (note 5)	<u>(757,445)</u>	<u>(587,271)</u>
Total transfers	<u>(754,293)</u>	<u>(587,271)</u>
Change in net assets	1,016,764	475,265
Net assets at beginning of year	<u>13,836,046</u>	<u>13,360,781</u>
Net assets at end of year	<u>\$ 14,852,810</u>	<u>13,836,046</u>

See accompanying notes to the basic financial statements.

CITY OF COSTA MESA, CALIFORNIA

Proprietary Funds

Statement of Cash Flows

For the fiscal year ended June 30, 2007

(With Comparative Data for Prior Year)

	Governmental Activities - Internal Service Funds	
	2007	2006
Cash flows from operating activities:		
Cash received from customers and user departments	\$ 6,271,438	6,410,223
Cash payments to suppliers for goods and services	(3,950,635)	(4,018,343)
Cash payments to employees for services	(909,508)	(871,870)
Net cash provided by (used for) operating activities	<u>1,411,295</u>	<u>1,520,010</u>
Cash flows from noncapital financing activities:		
Cash received from other funds	7,889	-
Cash paid to other funds	(757,445)	(587,271)
Net cash provided by (used for) noncapital financing activities	<u>(749,556)</u>	<u>(587,271)</u>
Cash flows from capital and related financing activities:		
Cash received from disposal of assets	74,980	56,844
Acquisition of capital assets	(1,621,939)	(1,408,589)
Net cash provided by (used for) capital and related financing activities	<u>(1,546,959)</u>	<u>(1,351,745)</u>
Cash flows from investing activities:		
Investment income received	<u>757,444</u>	<u>587,272</u>
Net cash provided by (used for) investing activities	<u>757,444</u>	<u>587,272</u>
Net increase (decrease) in cash and cash equivalents	(127,776)	168,266
Cash and cash equivalents at beginning of year	<u>17,873,411</u>	<u>17,705,145</u>
Cash and cash equivalents at end of year	<u>\$ 17,745,635</u>	<u>17,873,411</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	\$ 1,098,577	465,257
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	730,696	681,448
(Increase) decrease in inventories	9,193	(56,859)
(Increase) decrease in accounts receivable	(64,781)	-
Increase (decrease) in accounts payable	65,691	(48,974)
Increase (decrease) in accrued liabilities	(29)	(8,820)
Increase (decrease) in claims payable	(428,052)	487,958
Net cash provided by (used for) operating activities	<u>\$ 1,411,295</u>	<u>1,520,010</u>

Non-cash investing, capital and financing activities:

During fiscal year 2006/2007, there were no significant non-cash investing, capital or financing activities.

See accompanying notes to the basic financial statements.

CITY OF COSTA MESA, CALIFORNIA
 Fiduciary Funds
 Statement of Fiduciary Assets and Liabilities
 June 30, 2007
 (With Comparative Data for Prior Year)

	Agency Funds	
	2007	2006
<u>Assets</u>		
Cash and investments (note 2)	\$ 5,974,870	4,255,551
Due from other governments	223,896	291,405
Accounts receivable	14,681	104,186
Interest receivable	34,902	18,137
Inventories	172,284	161,050
Prepaid items	4,313	110,535
	<u>\$ 6,424,946</u>	<u>4,940,864</u>
<u>Liabilities</u>		
Accounts payable	\$ 163,743	217,779
Deposits payable	3,884,616	2,964,079
Due to other governments	2,376,587	1,759,006
	<u>\$ 6,424,946</u>	<u>4,940,864</u>

See accompanying notes to the basic financial statements.



NOTES TO THE FINANCIAL STATEMENTS



COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2007

CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

Year ended June 30, 2007

(1) Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies of the City of Costa Mesa, California (City):

(a) Description of Reporting Entity

The City of Costa Mesa was incorporated on June 29, 1953 as a general law city under the Government Code of the State of California. The City operates under a Council-Manager form of government and the City Council is composed of five members. Among the services provided by the City are the following: public works, parks and recreation, planning, community development, fire, and law enforcement services.

As required by generally accepted accounting principles, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. The City is considered to be financially accountable for an organization if the City appoints a voting majority of that organization's governing body and the City is either able to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to or impose specific financial burdens on the City. The City is also considered to be financially accountable if an organization is fiscally dependent upon the City (i.e., it is unable to adopt its budget, levy taxes, set rates or charges, or issue bonded debt without approval from the City). In certain cases, other organizations are included as component units if the nature and significance of their relationship with the City are such that their exclusion would cause the City's financial statements to be misleading or incomplete.

All of the City's component units are considered to be blended component units. Blended component units, although legally separate entities, are, in substance, part of the City's operations and so data from these units are reported with the interfund data of the City. The following organizations are considered to be component units of the City:

Costa Mesa Redevelopment Agency

The Costa Mesa Redevelopment Agency (Agency) was established on January 17, 1972 pursuant to the State of California Health and Safety Code, Section 33000 entitled "Community Redevelopment Law". Its purpose is to prepare and carry out plans for improvement, rehabilitation and redevelopment of blighted areas within the territorial limits of the City of Costa Mesa. Even though it is legally separate, it is reported as if it were part of the City because the City Council also serves as the governing board of the Agency. Upon completion, separate financial statements of the Agency can be obtained at City Hall.

CITY OF COSTA MESA, CALIFORNIA
Notes to the Basic Financial Statements
(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(a) Description of Reporting Entity, (Continued)

Costa Mesa Public Financing Authority

The Costa Mesa Public Financing Authority (Authority) was established on August 20, 1990 for the purpose of financing public capital improvements. Even though it is legally separate, it is reported as if it were part of the City because the City Council also serves as the governing board of the Authority. Upon completion, separate financial statements of the Authority can be obtained at City Hall.

Costa Mesa Community Facilities District No. 91-1

The Costa Mesa Community Facilities District No. 91-1 (District) was incorporated for the purpose of acquiring certain public facilities. Even though it is legally separate, it is reported as if it were part of the City because the City Council also serves as the governing board of the District. Separate financial statements for the District are not prepared.

(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 the basic 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), as well as its discretely presented component units. The City of Costa Mesa has no business-type activities or discretely presented 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.

CITY OF COSTA MESA, CALIFORNIA
Notes to the Basic Financial Statements
(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

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

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 nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33.

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 expenditures. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as other financing sources. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as expenditures.

Franchise fees and business license charges have been reported as general revenue because the fees are based on gross receipts not charges for services.

Fund Financial Statements

The underlying account system of the City is organized and operated on the basis of separate funds. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts, recording resources, related liabilities, obligations, reserves and equities segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. 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 major funds individually and nonmajor funds in the aggregate for governmental funds. Proprietary statements include financial information for internal service funds. Fiduciary statements include financial information for Agency funds. Fiduciary funds of the City represent assets held by the City in a custodial capacity for other individuals or organizations.

CITY OF COSTA MESA, CALIFORNIA
Notes to the Basic Financial Statements
(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

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

Governmental Funds

In the fund financial statements, governmental funds are presented using the *modified accrual basis of accounting*. 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.

Sales taxes, property taxes, franchise taxes, motor vehicle 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 *availability* 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.

Noncurrent portions of long-term receivables due to governmental funds are reported on the balance sheet 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 COSTA MESA, CALIFORNIA
Notes to the Basic Financial Statements
(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

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

Recognition of governmental fund type revenue represented by non-current receivables are deferred until they become current receivables. Non-current portions of 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 internal service funds are proprietary funds. In the fund financial statements, proprietary funds are 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, proprietary funds are 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.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with principal activity of the fund. Exchange transactions are those in which each party receives and gives us essentially equal values. Nonoperating revenues, such as investment income, gain or loss on sale of equipment and miscellaneous revenues result from nonexchange transactions or ancillary activities. Operating expenses for the internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All expenses not meeting this definition are reported as nonoperating expenses. Amounts paid to acquire capital assets are capitalized as assets in the internal service fund financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as liabilities in the internal service fund financial statements, rather than as other financing sources. Amounts paid to reduce long-term indebtedness of the internal service fund are reported as reductions of the related liability, rather than as expenditures.

CITY OF COSTA MESA, CALIFORNIA
Notes to the Basic Financial Statements
(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

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

The City's agency funds are fiduciary funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

(c) Fund Classifications

The funds designated as major funds in the fund financial statements are determined by a mathematical calculation consistent with GASB Statement No. 34. The City reports the following major governmental funds:

General Fund – The General Fund is the general operating fund of the City. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. Expenditures of this fund include the general operating expenditures and other costs which are not paid through other funds.

Low and Moderate Income Housing Fund – This special revenue fund was established per Section 33334.3 of the Health and Safety Code to account for 20% of the tax increment received by the Costa Mesa Redevelopment Agency which is to be expended for the purpose of increasing, improving and preserving the low and moderate income housing available at affordable housing costs to persons and families of low or moderate income and very low income households.

Redevelopment Agency Fund – This debt service fund is used to account for the accumulation of monies for payment of the 2003 Tax Allocation Refunding Bonds, the promissory note due upon demand to the City of Costa Mesa and other developer loans. All tax increments received are placed in this fund and are used to retire debt (bonded or loans) in accordance with the Health and Safety Code.

Capital Improvements Fund – This capital projects fund is used to account for the construction of capital facilities financed by the City's General Fund.

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

Internal Service Funds – The internal service funds are used to finance and account for activities involved in rendering equipment replacement and self-insurance services to departments within the City. Costs of materials and services used are accumulated in these funds and charged to the user departments as such goods are delivered or services rendered.

Agency Funds – The Agency Funds are used to account for assets held by the City in a fiduciary capacity for individuals, government entities, and others. Such funds are operated by carrying out the specifications of trust indentures, statutes, ordinances, or other governing regulations.

CITY OF COSTA MESA, CALIFORNIA
Notes to the Basic Financial Statements
(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(d) Cash and Investments

Investments are reported in the accompanying balance sheet at fair value, except for nonparticipating certificates of deposit and investment contracts that are reported at cost because they 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* includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation, maturity, or sale of investments.

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

(e) Cash Equivalents

For purposes of the statement of cash flows, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Cash equivalents also represent the proprietary fund's share in the cash and investment pool of the City of Costa Mesa.

(f) Advances to Other Funds

Long-term interfund advances are recorded as a receivable and as reserved fund balance by the advancing governmental fund and as a liability in the receiving fund.

(g) Inventories

Inventories of materials and supplies are carried at cost on an average cost basis. The City uses the consumption method of accounting for inventories.

(h) Prepays

The City uses the consumption method to record prepaid items.

CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(i) Capital Assets

Capital assets (including infrastructure) are recorded at historical cost at the time of purchase. Assets acquired from gifts or contributions are recorded at fair market value on the date received. Generally, capital asset purchases in excess of \$5,000 are capitalized if they have an expected useful life of two years or more.

Capital assets include public domain (infrastructure) capital assets consisting of certain improvements including roads, streets, sidewalks, medians, sewers and storm drains. Public domain assets acquired prior to 1980 have been included in the accompanying financial statements. 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 proprietary funds. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective Statement of Net Assets. The ranges of lives used for computing depreciation for each capital asset class are as follows:

Landscaping and sprinkler improvements	35-40 years
Underground lines and storm drains	50-100 years
Buildings and structures	10-20 years
Automotive and other equipment	2-20 years
Office furniture	5-20 years
Office machines	3-20 years
Other equipment	5-60 years
Infrastructure – roads	5-50 years
Infrastructure – storm drain	50-100 years

CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(j) Employee Leave Benefits

Regular full-time City employees earn from 92 to 263.2 hours of vacation a year, depending upon their length of employment. Employees can carry forward vacation hours in excess of twice that earned in a calendar year upon approval of the department head as authorized by the City Manager. Upon termination, permanent employees are entitled to receive compensation at their current rate for all unused vacation up to and including the date of termination.

Employees having a regular or probationary appointment accrue sick leave credit at the rate of 20% of the standard average work week for each full month of continuous service. Employees may accumulate up to a maximum of 480 hours of sick leave credit in a primary sick leave bank. Upon reaching the maximum, the bi-weekly benefit of 3.69 hours is distributed as follows at the employee's option at 1/2 of the benefit: a) converted for credit at the current rate of pay toward payment of the individual's post-retirement medical funding plan; or b) paid at employee's current hourly base rate of pay; or c) converted into vacation hours. The remaining 1/2 benefit is placed in a secondary sick leave bank which may be used only in the event of a verified non-industrial disability which resulted in an absence of 60 consecutive calendar days. An amount of sick leave equal to the hours used from the primary bank for the said disability may be transferred from the secondary bank to the primary bank provided the transfer does not result in the primary bank having in excess of 480 hours. Upon either separation from the City with a minimum of 20 years continuous service or eligibility for retirement benefits, the employees receive pay at their current hourly rate for 1/2 of the sick leave in their primary bank.

In accordance with GASB Statement No. 16, a liability is recorded for unused vacation and similar compensatory leave balances since the employees' entitlement to these balances are attributable to services already rendered and it is probable that virtually all of these balances will be liquidated by either paid time off or payments upon termination or retirement.

Under GASB Statement No. 16, a liability is recorded for unused sick leave balances only to the extent that it is probable that the unused balances will result in termination payments. Other amounts of unused sick leave are excluded from the liability since their payment is contingent solely upon the occurrence of a future event (illness) which is outside the control of the City and the employee.

A current liability is accrued in the governmental funds for material leave benefits due on demand to governmental fund employees that have terminated prior to year end. All other amounts are only recorded in the government-wide financial statements. These non-current amounts will be recorded as fund expenditures in the year in which they are paid or become due on demand to terminated employees.

CITY OF COSTA MESA, CALIFORNIA
Notes to the Basic Financial Statements
(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(k) Claims and Judgments

The City records a liability for litigation, judgments and claims when it is probable that an asset has been impaired or a liability has been incurred prior to year-end and the probable amount of loss (net of any insurance coverage) can be reasonably estimated. This liability is recorded in an internal service fund which accounts for the City's self-insurance activities.

(l) Prior Year Data

The information included in the accompanying financial statements for the prior year has been presented for comparison purposes only and does not represent a complete presentation in accordance with generally applied accounting principals.

Certain minor reclassifications of prior year data have been made in order to enhance their comparability with current year figures.

(m) Estimations

The preparation of financial statements in conformity with generally accepted accounting principals requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CITY OF COSTA MESA, CALIFORNIA
Notes to the Basic Financial Statements
(Continued)

(2) Cash and Investments

Cash and investments are reported as follows:

Statement of Net Assets:	
Cash and investments	\$ 107,612,148
Cash and investments with fiscal agent	33,601,788
Statement of Fiduciary Assets and Liabilities:	
Cash and investments	<u>5,974,870</u>
Total cash and investments	<u>\$ 147,188,806</u>

Cash and investments at June 30, 2007 consisted of the following:

Cash and deposits:	
Imprest cash on hand	\$ 11,175
Demand deposits	<u>1,725,814</u>
Total cash and deposits	<u>1,736,989</u>
Investments:	
Costa Mesa Community Facilities District Bonds	1,975,000
Federal agency securities	91,660,458
Money market mutual funds	33,785,177
State Treasurer's Investment Pool	<u>18,031,182</u>
Total investments	<u>145,451,817</u>
Total cash and investments	<u>\$ 147,188,806</u>

CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

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

The table below identifies the investment types that are authorized for the City of Costa Mesa by the California Government Code and the investment policies of the City of Costa Mesa and the Costa Mesa Redevelopment Agency. The table also identifies certain provisions of the California Government Code (or the City of Costa Mesa's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the City of Costa Mesa, rather than the general provisions of the California Government Code or the City of Costa Mesa's investment policy.

<u>Investment Types Authorized by State Law</u>	<u>Authorized by Investment Policy</u>	<u>Maximum Maturity*</u>	<u>Percentage of Portfolio*</u>	<u>Investment In One Issuer*</u>
Local Agency Bonds	No	5 years	None	None
U.S. Treasury Securities	Yes	5 years	None	None
Federal Agency Securities	Yes	5 years	None	60%
Banker's Acceptances	Yes	180 days	40%	10%
Commercial Paper	Yes	270 days	25%	10%
Negotiable Certificates of Deposit	Yes	5 years	30%	None
Repurchase Agreements	Yes	1 year	None	None
Reverse Repurchase Agreements	Yes	92 days	10% of base value	None
Medium-Term Notes	Yes	5 years	30%	None
Money Market Mutual Funds	Yes	N/A	20%	10%
Mortgage Pass-Through Securities	No	5 years	20%	None
County Pooled Investment Funds	Yes	N/A	35%	None
Local Agency Investment Fund	Yes	N/A	\$40 Million	None

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

CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

Investments Authorized by Debt Agreements

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Securities	None	None	40%
Federal Agency Securities	5 years	None	None
Banker's Acceptances	270 days	None	None
Commercial Paper	365 days	None	None
Money Market Mutual Funds	5 years	20%	10%
Investment Agreements	None	None	None
Interest-Bearing Time Deposits	30 days	None	None
Repurchase Agreements	270 days	None	None
Local Agency Investment Fund	None	\$40 million	None
State Obligations	None	None	None
Pre-refunded Municipal Obligations	None	None	None

CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates and 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 of Costa Mesa manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the City of Costa Mesa's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the City of Costa Mesa's investments by maturity:

<u>Investment Type</u>	<u>Total</u>	<u>Remaining Maturity (in Months)</u>			
		<u>12 Months Or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>	<u>More than 60 Months</u>
Federal Agency Securities	\$ 91,660,458	24,030,640	35,368,959	32,260,859	-
State Investment Pool (LAIF)	18,031,182	18,031,182	-	-	-
Money Market Mutual Funds	183,389	183,389	-	-	-
Held by bond Trustee:					
Costa Mesa Community Facilities District Bonds	1,975,000	-	165,000	305,000	1,505,000
Money Market Mutual Funds	<u>33,601,788</u>	<u>33,601,788</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$145,451,817</u>	<u>75,846,999</u>	<u>35,533,959</u>	<u>32,565,859</u>	<u>1,505,000</u>

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The City of Costa Mesa (including investments held by bond trustees) held no investments which were highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above).

CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

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 of Costa Mesa's investment policy, or debt agreements, and the actual rating as of year end for each investment type:

<u>Investment Type</u>	<u>Value</u>	<u>Minimum Legal Rating</u>	<u>Rating as of Year End</u>	
			<u>AAA</u>	<u>Not Rated</u>
Federal Agency Securities	\$91,660,458	N/A	91,660,458	-
State Investment Pool (LAIF)	18,031,182	N/A	-	18,031,182
Money Market Mutual Funds	183,389	AAA	183,389	-
Held by Bond Trustee:				
Costa Mesa Community Facilities District Bonds	1,975,000	N/A	-	1,975,000
Money Market Mutual Funds	<u>33,601,788</u>	A	<u>33,601,788</u>	<u>-</u>
Total	<u>\$145,451,817</u>		<u>125,445,635</u>	<u>20,006,182</u>

Concentration of Credit Risk

The investment policy of the City of Costa Mesa limits the amount that can be invested in any one Federal Agency issuer to 60%, which is beyond that stipulated by California Government Code. Investments in any one issuer (other than mutual funds and external investment pools) represent 5% or more of the total Costa Mesa's investments are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>	<u>% of Portfolio</u>
FFCB	Federal Agency Securities	\$ 8,747,062	6.01%
FHLMC	Federal Agency Securities	19,355,333	13.31%
FHLB	Federal Agency Securities	47,204,313	32.45%
FNMA	Federal Agency Securities	<u>16,353,750</u>	11.24%
		<u>\$91,660,458</u>	

CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

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 of Costa Mesa'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 the 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. On June 30, 2007, the collateral held by the City's depository, Bank of America, in the California Local Agency Collateral Pool stood at 102% of funds deposited, instead of the required 110%.

Investment in State Investment Pool

The City of Costa Mesa is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the City of Costa Mesa's investment in this pool is reported in the accompanying financial statements at amounts based upon the City of Costa Mesa'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 COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

(Continued)

(3) Due From and To Other Funds

Interfund receivable and payable balances at June 30, 2007 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$ 115,539
General Fund	Capital Improvements Fund	85,389
General Fund	Redevelopment Agency Fund	329,903
General Fund	Low and Moderate Housing Fund	85,629
General Fund	Internal Service Funds	<u>4,737</u>
	Subtotal	621,197
Redevelopment Agency	General Fund	15,000
Nonmajor Governmental Funds	Nonmajor Governmental Funds	<u>4,620</u>
Total		<u>\$ 640,817</u>

All receivables resulted from the recording of reimbursement of miscellaneous costs, which are expected to be reimbursed next year.

(4) Advances To and From Other Funds

Advances to and from other funds at June 30, 2007 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Redevelopment Agency Fund	\$11,855,435
General Fund	Nonmajor Governmental Funds	3,616,833
Nonmajor Governmental Funds	Redevelopment Agency Fund	181,545
Low and Moderate Housing Fund	Redevelopment Agency Fund	<u>736,429</u>
Total		<u>\$16,390,242</u>

The terms for the significant advances reflected above are as follows:

The \$11,855,435 advance from the General Fund to the Redevelopment Agency Fund represents a note between the General Fund and the Costa Mesa Redevelopment Agency. Interest is stated at a rate of 8%. Repayment of the note is not expected in the forthcoming year, but the advance is expected to be repaid.

The \$3,616,833 advance from the General Fund to the Park Development Fee Fund is for the purchase of land. The annual interest rate is 6%. The advance is expected to be repaid with future park development fees.

The \$181,545 advance from the Community Development Fund to the Redevelopment Agency Fund represents a loan to the Costa Mesa Redevelopment Agency which bears an interest rate of 3% and, likewise, is not expected to be repaid in the forthcoming year, but is expected to be repaid.

The \$736,429 advance payable from the Redevelopment Agency Fund is due to the Low and Moderate Income Housing Fund. The amount due to the Low and Moderate Income Housing Fund has no stipulated repayment terms and no stated interest rate. The advance is expected to be repaid with available tax increment.

CITY OF COSTA MESA, CALIFORNIA
Notes to the Basic Financial Statements
(Continued)

(5) Transfers In and Out

Transfers in and out for the year ended June 30, 2007 are as follows:

<u>Transfers out</u>	<u>Transfers In</u>	<u>Total</u>	
General Fund	Major Fund – Capital Improvement	\$ 479,108	(a)
General Fund	Nonmajor Governmental Funds	2,734,290	(b)
General Fund	Internal Service Funds	3,152	(c)
Major Fund – Capital Improvement	Nonmajor Governmental Funds	2,297,204	(d)
Nonmajor Governmental Funds	General Fund	344,494	(e)
Nonmajor Governmental Funds	Major Fund – Capital Improvement	158,880	(f)
Nonmajor Governmental Funds	Nonmajor Governmental Funds	87,673	(g)
Redevelopment Agency – Debt Service Fund	Nonmajor Governmental Funds	506,890	(h)
Internal Service Funds	General Fund	<u>757,445</u>	(i)
		<u>\$7,369,136</u>	

- (a) The General Fund transferred the following to the Capital Improvement Fund:
 1. \$435,000 to the Capital Improvement Fund for the concrete, shelter and backstop replacement at various parks;
 2. \$44,108 to the Capital Improvement Fund for various maintenance projects.
- (b) The General Fund transferred the following Nonmajor Governmental Funds:
 1. \$2,729,551 to the Financing Authority Debt Service Fund for the payment of debt service payments.
 2. \$4,739 to the Proposition 172 Public Safety Fund, HOME Fund, CDBG Fund and the Supplemental Law Enforcement Services Fund for eligible employee flexible benefits.
- (c) \$3,152 from the General Fund to the Internal Service Funds for eligible employee flexible benefits.
- (d) \$2,297,204 from the Capital Improvement Fund to the Nonmajor Governmental Funds for the 2007 Certificate of Participation reserve requirement.
- (e) The Nonmajor Governmental Funds transferred to the General Fund for the following:
 1. \$37,840 from the Proposition 172 Public Safety Fund for contribution for Paramedics Assignment Pay;
 2. \$200,000 from the Narcotics Forfeiture Fund for reimbursement of public safety expenditures;
 3. \$5,075 from the Financing Authority Debt Service Fund for the reimbursement of fiscal charges;
 4. \$100,000 from the Measure M Fund for reimbursement of the City Engineer’s salary and benefits;
 5. \$1,579 from the Parking District Fund for the transfer of investment earnings back to the General Fund.
- (f) \$158,880 from the Financing Authority Debt Service Fund to the Capital Improvement Fund due to a fund closure.
- (g) \$87,673 from the Redevelopment Projects Fund to the Community Development Block Grant for the revenue received from Costa Mesa Family Village.
- (h) \$506,890 from the Redevelopment Debt Service Fund to the Redevelopment Projects Fund for the reimbursement of expenditures.
- (i) \$757,445 from the Equipment Replacement and Self Insurance Funds (Internal Service) for the transfer of investment earnings back to the General Fund.

CITY OF COSTA MESA, CALIFORNIA
Notes to the Basic Financial Statements
(Continued)

(6) Capital Assets

A summary of changes in capital assets follows:

	<u>Balance at July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2007</u>
<u>Governmental Activities</u>				
Capital assets not being depreciated:				
Land	\$ 28,949,103	3,566,338	-	32,515,441
Land rights related to streets	29,291,575	-	-	29,291,575
Construction in progress	<u>16,536,009</u>	<u>17,529,284</u>	<u>(8,809,981)</u>	<u>25,255,312</u>
Total capital assets not being depreciated	<u>74,776,687</u>	<u>21,095,622</u>	<u>(8,809,981)</u>	<u>87,062,328</u>
Capital assets being depreciated:				
Building improvements and structures	33,532,987	702,379	(42,982)	34,192,384
Landscaping and sprinklers	9,480,240	6,845	(123,396)	9,363,689
Automotive equipment	11,648,773	1,614,483	(530,694)	12,732,562
Office furniture	500,843	76,776	(199,215)	378,404
Office machines	10,585,825	162,033	(721,782)	10,026,076
Other equipment	9,947,683	416,851	(2,041,487)	8,323,047
Park system	4,619,860	360,060	-	4,979,920
Infrastructure – roads	236,691,545	9,247,645	(1,140,000)	244,799,190
Infrastructure – storm drains	<u>90,666,656</u>	<u>-</u>	<u>-</u>	<u>90,666,656</u>
Total capital assets being depreciated	<u>407,674,412</u>	<u>12,587,072</u>	<u>(4,799,556)</u>	<u>415,461,928</u>
Less accumulated depreciation for:				
Building improvements and structure	(22,045,468)	(292,751)	41,787	(22,296,432)
Landscaping and sprinkler	(9,183,237)	(52,713)	118,504	(9,117,446)
Automotive equipment	(6,856,457)	(740,508)	384,132	(7,212,833)
Office furniture	(283,777)	(42,786)	130,749	(195,814)
Office machines	(6,171,389)	(339,331)	666,464	(5,844,256)
Other equipment	(7,344,713)	(597,318)	1,838,223	(6,103,808)
Park system	(1,375,177)	(345,244)	-	(1,720,421)
Infrastructure – roads	(131,332,885)	(5,059,336)	1,140,000	(135,252,221)
Infrastructure – storm drain	<u>(64,188,680)</u>	<u>(2,208,898)</u>	<u>-</u>	<u>(66,397,578)</u>
Total accumulated depreciation	<u>(248,781,783)</u>	<u>(9,678,885)</u>	<u>4,319,859</u>	<u>(254,140,809)</u>
Total capital assets being depreciated, net	<u>158,892,629</u>	<u>2,908,187</u>	<u>(479,697)</u>	<u>161,321,119</u>
Governmental activities capital assets, net	<u>\$233,669,316</u>	<u>24,003,809</u>	<u>(9,289,678)</u>	<u>248,383,447</u>

CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

(Continued)

(6) Capital Assets, (Continued)

Depreciation expense is charged to the following functions in the Statement of Activities for the year ended June 30, 2007:

General government	\$ 913,818
Protection of persons and property	410,811
Community programs	351,580
Public services	<u>7,271,981</u>
Total	<u>\$8,948,190</u>

The City has active construction projects as of June 30, 2007. The projects include the following:

<u>Construction Project</u>	<u>Project #</u>	<u>Total Budget</u>	<u>Spent to date</u>	<u>Remaining commitment</u>
Northbound Newport Blvd street improvements	300075	\$ 592,509	449,250	143,259
I-405/Fairview Road interchange improvements	300084	2,035,932	509,238	1,526,694
Police Facility remodel and expansion	200018	18,229,252	8,622,752	9,606,500
Theater and Art District street improvements	300122	2,748,728	2,528,059	220,669
Santa Ana/17 th Street intersection improvements	300083	915,183	808,268	106,915
Orange/17 th Street intersection improvements	300082	<u>1,032,937</u>	<u>768,953</u>	<u>263,984</u>
Total		<u>\$25,554,541</u>	<u>13,686,520</u>	<u>11,868,021</u>

CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

(Continued)

(7) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2007 is as follows:

	Balance at July 1, 2006	Additions	Reductions	Balance at June 30, 2007	Portion Due Within One Year	Portion Due Beyond One Year
<u>Governmental Activities</u>						
Bonds:						
Redevelopment Agency 2003 Tax Allocation Refunding Bonds	\$6,565,000	-	(460,000)	6,105,000	475,000	5,630,000
Public Financing Authority 2003 Refunding Certificate of Participation	12,730,000	-	(820,000)	11,910,000	835,000	11,075,000
Public Financing Authority 2006 Refunding Revenue Refunding Bonds	2,365,000	-	-	2,365,000	120,000	2,245,000
Public Financing Authority 2007 Certificate of Participation	-	29,960,000	-	29,960,000	745,000	29,215,000
Public Financing Authority 1998 Refunding Revenue Bonds	<u>7,600,000</u>	<u>-</u>	<u>(940,000)</u>	<u>6,660,000</u>	<u>980,000</u>	<u>5,680,000</u>
Total bonds payable	<u>29,260,000</u>	<u>29,960,000</u>	<u>(2,220,000)</u>	<u>57,000,000</u>	<u>3,155,000</u>	<u>53,845,000</u>
Other liabilities:						
Claims payable	9,007,121	2,069,924	(2,497,976)	8,579,069	2,337,627	6,241,442
Employee leave benefits payable	<u>6,023,444</u>	<u>1,355,079</u>	<u>(1,129,283)</u>	<u>6,249,240</u>	<u>1,200,000</u>	<u>5,049,240</u>
Total other liabilities	<u>15,030,565</u>	<u>3,425,003</u>	<u>(3,627,259)</u>	<u>14,828,309</u>	<u>3,537,627</u>	<u>11,290,682</u>
Capital leases:						
P.D. Computer System	1,792,145	-	(575,909)	1,216,236	597,121	619,115
HVAC System	415,653	-	(69,555)	346,098	72,117	273,981
OCE Copier Lease	7,155	-	(7,155)	-	-	-
Avaya Telephone Lease	44,832	-	(44,832)	-	-	-
Public Safety Hardware Lease	1,481,948	-	(247,705)	1,234,243	256,955	977,288
Tewinkle Park Athletic Field	<u>2,983,803</u>	<u>-</u>	<u>(411,731)</u>	<u>2,572,072</u>	<u>427,946</u>	<u>2,144,126</u>
Total capital leases payable	<u>6,725,536</u>	<u>-</u>	<u>(1,356,887)</u>	<u>5,368,649</u>	<u>1,354,139</u>	<u>4,014,510</u>
Total	<u>\$51,016,101</u>	<u>33,385,003</u>	<u>(7,204,146)</u>	<u>77,196,958</u>	<u>8,046,766</u>	<u>69,150,192</u>

CITY OF COSTA MESA, CALIFORNIA
Notes to the Basic Financial Statements
(Continued)

(8) Bonds Payable

Costa Mesa Redevelopment Agency Bonds

On October 1, 2003, the Costa Mesa Redevelopment Agency issued \$7,470,000 Tax Allocation Refunding Bonds to refund the \$9,955,000 Downtown Redevelopment Project 1993 Tax Allocation Refunding Bonds. The original bonds were issued to finance a portion of costs associated with implementing the Redevelopment Plan which included the refurbishment of the Downtown Redevelopment Project Area. The bonds issued consist of serial bonds maturing from 2004 to 2017 in semi-annual installments ranging from \$450,000 to \$670,000. Interest is payable on April 1 and October 1, commencing on April 1, 2004 at rates ranging from 2.0% to 5.0%. Bonds maturing on or after October 1, 2014 are subject to optional redemption, in whole or in part from among maturities as selected by the Agency on October 1, 2013. The bonds are secured by tax revenue.

The amount required for the bond reserve for the 2003 Tax Allocation Refunding Bonds is \$704,300. The City has \$711,899 on reserve with the fiscal agent at June 30, 2007. The principal balance outstanding at June 30, 2007 is \$6,105,000.

The annual debt service requirements for the Redevelopment Agency 2003 Tax Allocation Refunding Bonds as of June 30, 2007 are as follows:

Year Ending <u>June 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 475,000	222,763
2009	485,000	210,762
2010	495,000	197,275
2011	510,000	182,200
2012	525,000	165,362
2013	545,000	145,276
2014	565,000	123,075
2015	590,000	100,712
2016	610,000	77,450
2017	635,000	49,375
2018	<u>670,000</u>	<u>16,750</u>
Total	<u>\$6,105,000</u>	<u>1,491,000</u>

CITY OF COSTA MESA, CALIFORNIA
Notes to the Basic Financial Statements
(Continued)

(8) Bonds Payable, (Continued)

Costa Mesa Public Financing Authority Bonds

2007 Certificates of Participation

On January 18, 2007, the Costa Mesa Public Financing Authority issued \$29,960,000 of 2007 Certificates of Participation. The Certificates are to provide funding for the construction and equipping of certain improvements to the Civic Center complex particularly the expansion of the police facility. The Certificates mature from October 1, 2007 through October 1, 2026 in annual installments ranging from \$745,000 to \$2,180,000. Interest is payable semi-annually on April 1 and October 1 of each year, commencing on April 1, 2007 at a rate ranging from 3.75% to 4.30%.

There is a reserve requirement of \$2,297,204 on the 2007 Certificate of Participation. The City has \$2,321,825 on reserve with the fiscal agent at June 30, 2007. The principal balance outstanding at June 30, 2007 is \$29,960,000.

2006 Revenue Refunding Bonds

On June 1, 2006, Costa Mesa Public Financing Authority issued \$2,365,000 of Revenue Refunding Bonds, Series 2006A, to advance refund the outstanding portion of the \$3,225,000 of the 1991 Lease Revenue Bonds issued on November 1, 1991. The bonds were issued to provide monies to enable the Authority to acquire the City of Costa Mesa Community Facilities District 91-1 (Plaza Tower Public Improvements) 1991 Special Tax Bonds, issued under the Mello-Roos Community Facilities Act of 1982. The \$2,365,000 Revenue Refunding Bonds which consists of \$1,955,000 of serial bonds and \$410,000 of term bonds. The serial bonds mature from August 1, 2007 through August 1, 2019 in annual installments ranging from \$120,000 to \$190,000. The term bonds mature from August 1, 2020 through August 1, 2021 in annual installments ranging from \$200,000 to \$210,000. Interest is payable semi-annually on February 1 and August 1 of each year, commencing on February 1, 2007 at rates ranging from 3.85% to 5.10%.

There is a reserve requirement of \$236,500 on the 2006 Revenue Refunding Bonds. The City has \$246,895 on reserve with the fiscal agent at June 30, 2007. The principal balance outstanding at June 30, 2007 is \$2,365,000.

The bonds are secured by special tax levied within CFD 91-1 Plaza Tower Public Improvements. The special taxes are levied and collected for debt service on the bonds are required to be remitted to the fiscal agent for the bonds within ten days of receipt. For the County remitted taxes on December 26, 2006 and April 20, 2007, the City remitted payment 22 and 11 days later, respectively.

CITY OF COSTA MESA, CALIFORNIA
Notes to the Basic Financial Statements
(Continued)

(8) Bonds Payable, (Continued)

2003 Refunding Certificates of Participation

On October 1, 2003, the Costa Mesa Public Financing Authority issued a \$14,340,000 refunding Certificates of Participation (COP), Series 2003 to refund the \$18,970,000 Refunding Revenue Bonds, Series 1993A, to advanced refund \$640,000 of outstanding 1966 Bonds and \$16,430,000 of outstanding 1988 Lease Revenue Bonds. The 1966 Bonds were issued to finance construction of the Municipal Center and the 1988 Lease Revenue Bonds were issued to finance the acquisition of right-of-way property on Victoria Street. The certificates issued start maturing on 2004 to 2018 in semi-annual installments ranging from \$805,000 to \$1,210,000. Interest is payable on April 1 and October 1, commencing on April 1, 2004 at rates ranging from 2.0% to 4.2%. Certificates maturing on or after October 1, 2014 are subject to optional redemption, in whole or in part from among maturities as selected by the Authority on October 1, 2013. The certificates are subject to mandatory redemption on any date from the net proceeds deposited in the prepayment fund.

The amount required for the bond reserve for the 2003 Refunding Certificate of Participation is \$1,208,483. The City has \$1,286,987 on reserve with the fiscal agent at June 30, 2007. The principal balance outstanding at June 30, 2007 is \$11,910,000.

1998 Refunding Revenue Bonds

On May 1, 1998, the Costa Mesa Public Financing Authority issued \$13,715,000 of 1998 Refunding Revenue Bonds. The bonds mature serially from October 1, 1998 through October 1, 2012 in annual principal payments ranging from \$580,000 to \$1,250,000 and bear interest rates ranging from 4.00% to 5.00%. The bonds were issued in denominations of \$5,000. There is a reserve requirement of \$1,318,512 which is the maximum annual debt service requirement of the bond issue. At June 30, 2007, the City had \$1,326,791 on reserve with the fiscal agent. The principal balance outstanding on the bonds as on June 30, 2007 is \$6,660,000.

The 1990 Lease Revenue Bonds were issued in connection with the lease and leaseback of the Los Lagos and Mesa Linda Golf Courses (the "Project") currently owned by the City of Costa Mesa (the "City"). The Project will be leased by the City to the Authority, and the Authority will lease back the Project to the City. The Authority used the proceeds from the issuance of these 1998 Refunding Revenue Bonds to advance refund \$12,665,000 of the Authority's outstanding 1990 Lease Revenue Bonds.

CITY OF COSTA MESA, CALIFORNIA
Notes to the Basic Financial Statements
(Continued)

(8) Bonds Payable, (Continued)

Costa Mesa Public Financing Authority Bonds, (Continued)

The annual debt service requirements for the Public Financing Authority Bonds as of June 30, 2007 are as follows:

Year Ending June 30	Governmental Activities							
	<u>2006</u>		<u>2003</u>		<u>1998</u>		<u>2007</u>	
	<u>Refunding Revenue</u>		<u>Refunding Certificates</u>		<u>Refunding Revenue</u>		<u>Certificates</u>	
	<u>Principal</u>	<u>Interest</u>	<u>of Participation</u>	<u>of Participation</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 120,000	113,529	835,000	425,275	980,000	300,626	745,000	1,208,773
2009	135,000	103,590	855,000	407,306	1,030,000	253,364	750,000	1,179,800
2010	135,000	98,106	875,000	384,562	1,080,000	202,726	940,000	1,146,004
2011	125,000	92,634	900,000	357,937	1,130,000	149,402	1,170,000	1,103,804
2012	130,000	87,054	925,000	328,250	1,190,000	92,250	1,215,000	1,056,104
2013	140,000	81,011	960,000	295,863	1,250,000	31,250	1,265,000	1,006,504
2014	145,000	74,526	990,000	261,719	-	-	1,315,000	954,904
2015	150,000	67,666	1,025,000	223,275	-	-	1,365,000	901,304
2016	160,000	60,301	1,070,000	182,713	-	-	1,420,000	845,604
2017	165,000	52,439	1,110,000	140,450	-	-	1,480,000	787,604
2018	175,000	44,086	1,155,000	89,375	-	-	1,530,000	727,404
2019	185,000	35,130	1,210,000	30,250	-	-	1,590,000	665,004
2020	190,000	25,708	-	-	-	-	1,640,000	600,404
2021	200,000	15,810	-	-	-	-	1,710,000	533,404
2022	210,000	5,355	-	-	-	-	1,775,000	462,594
2023	-	-	-	-	-	-	1,850,000	387,829
2024	-	-	-	-	-	-	1,925,000	309,248
2025	-	-	-	-	-	-	2,005,000	226,216
2026	-	-	-	-	-	-	2,090,000	138,675
2027	-	-	-	-	-	-	2,180,000	46,870
Total	<u>\$2,365,000</u>	<u>956,945</u>	<u>11,910,000</u>	<u>3,126,975</u>	<u>6,660,000</u>	<u>1,029,618</u>	<u>29,960,000</u>	<u>14,288,053</u>

CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

(Continued)

(9) Other Liabilities

Employee Leave Balances Payable

The City's policies relating to compensated absences are described in Note 1. The following liability at June 30, 2007 is expected to be paid primarily by the general fund in future years.

\$ 6,249,240

Claims and Judgments

The City retains the risk of loss for general liability and workers' compensation claims as described in note 17. These amounts represent estimates of amounts to be paid for reported general liability and workers' compensation claims including incurred-but-not-reported claims based upon past experience, modified for current trends and information. While the ultimate amount of losses incurred through June 30, 2007, is dependent on future developments, based upon information from the City's attorneys, the City's claims administrators and others involved with the administration of the programs, City management believes the accrual is adequate to cover such losses. The estimated liability at June 30, 2007 for general liability amounted to \$3,513,765 and workers' compensation was \$5,065,304.

8,579,069

Total other liabilities

\$ 14,828,309

(10) Capital Leases Payable

On February 3, 2003, the City of Costa Mesa entered into a 6 year lease (lease no. 03-002-AF) in the amount of \$3,400,000 for the purpose of purchasing a computer system for the police department. The obligation is due in semi-annual principal and interest payments of \$318,057. Each payment includes interest at a rate of 3.65% annum on the unpaid balance. The last payment is to be made on April 25, 2009.

\$ 1,216,236

On July 16, 2001, the City of Costa Mesa entered into a 10-year \$675,000 lease agreement with the Municipal Finance Corporation to provide financing for installation, retrofit and maintenance of HVAC and lighting system and the various City facilities. The lease provides a purchase option. The obligation is due in semi-annual principal and interest payments of \$43,095. Interest is computed at a stated rate of 4.90%.

346,098

CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

(Continued)

(10) Capital Leases Payable, (Continued)

On December 6, 2005, the City of Costa Mesa entered into a 6-year lease (lease no. 05-102-AF) in the amount of \$1,602,436 for the purpose of purchasing hardware and software for phase II of the police department computer system replacement project. The obligation is due in semi-annual principal and interest payments of \$150,133. Each payment includes interest at a rate of 3.70% annum on the unpaid balance. The last payment is to be made on December 29, 2011.

1,234,243

On December 6, 2005, the City of Costa Mesa entered into a 7-year lease (lease no. 05-103-AF) in the amount of \$3,183,781 for the purpose of financing capital improvements of the Tewinkle Park Athletic Field Complex. The obligation is due in semi-annual principal and interest payments of \$262,062. Each payment includes interest at a rate of 3.95% annum on the unpaid balance. The last payment is to be made on December 29, 2012.

2,572,072

Total capital leases payable

\$5,368,649

The assets acquired through capital leases are as follows:

<u>Asset</u>	<u>Governmental Activities</u>
Park system	\$ 3,183,781
Equipment	<u>6,295,310</u>
Subtotal	9,479,091
Less: accumulated depreciation	<u>(2,213,841)</u>
Total	<u>\$ 7,265,250</u>

Amount of future minimum lease payments required for years ending June 30:

Year Ending June 30	<u>Governmental Activities</u>							
	<u>P.D. Computer Lease</u>		<u>HVAC System</u>		<u>Public Safety Hardware Lease</u>		<u>Tewinkle Park Atheltic Field</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 597,121	38,993	72,117	11,980	256,955	43,312	427,946	96,178
2009	619,115	16,998	74,774	9,324	266,550	33,717	444,798	79,326
2010	-	-	77,528	6,570	276,503	23,763	462,314	61,810
2011	-	-	80,383	3,714	286,829	13,438	480,520	43,604
2012	-	-	41,296	754	147,406	2,727	499,443	24,680
2013	-	-	-	-	-	-	<u>257,051</u>	<u>5,013</u>
Totals	<u>\$1,216,236</u>	<u>55,991</u>	<u>346,098</u>	<u>32,342</u>	<u>1,234,243</u>	<u>116,957</u>	<u>2,572,072</u>	<u>310,611</u>

CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

(Continued)

(11) Debt Without Government Commitment

The following issues of bonds and certificates of participation are not reflected in the Statement of Net Assets since they are obligations of private parties (with no government commitment) payable entirely from and secured by non-City resources as described in the bond resolutions and statements of the various issues:

On October 1, 1994, the Costa Mesa Redevelopment Agency issued \$3,500,000 of Variable Rate Demand Multi-Family Housing Revenue Bonds, 1994 Series A, to advance refund the 1984 Multi-Family Housing Revenue Bonds and to make a loan to the Costa Mesa Family Village (the Developer). The bonds were issued under and secured by an indenture of trust by and between the Agency and First Trust of California National Association as trustee. The Bonds were issued in denominations of \$100,000 and are due November 1, 2014. The outstanding balance at June 30, 2007 was \$3,200,000.

The City of Costa Mesa Community Facilities District No. 91-1, issued \$2,965,000 of District 91-1 Special Tax Bonds on November 1, 1991. All of the bonds were acquired by the Costa Mesa Public Financing Authority. The bonds mature from August 1, 1992 through August 1, 2021 in annual principal payments ranging from \$25,000 to \$265,000 and bear an interest rate of 8.30%. The bonds were issued to acquire certain improvements to the Anton/Bristol intersection, street improvements to Anton Boulevard and repay certain costs incurred by third parties with respect to the construction of the Metro Fire Station and the I-405 Access Study. The City is not liable for repayment of these bonds, but is only acting as an agent for the property owners in collecting the assessments, forwarding the collections to the bondholders, and initiating foreclosure proceedings. The outstanding balance at June 30, 2007 was \$2,050,000.

In May 1997, the City issued \$11,815,000 Certificates of Participation (1997 Public Parking Refunding Project), consisting of \$9,765,000 of serial bonds and \$2,050,000 of term bonds. The serial bonds mature from December 1, 1997 through December 1, 2012 in annual principal payments ranging from \$85,000 to \$940,000 and bear an interest rate of 4.50% to 5.75%. The term bonds mature on December 1, 2014 and bear an interest rate of 5.80%. The certificates were issued to advance refund the remaining portion of the \$14,000,000 certificates of participation issued by the City in December 1984. The 1984 certificates were issued to finance the acquisition and construction of a public parking project at the Orange County Performing Arts Center. Both of these certificates are payable only from the assets of the Center Tower Associates, a California general partnership. The outstanding balance at June 30, 2007 was \$7,000,000.

CITY OF COSTA MESA, CALIFORNIA
Notes to the Basic Financial Statements
(Continued)

(12) Fund Balances

The City has established the following fund balance reserves and designations at June 30, 2007:

	<u>General</u>	<u>Low and Moderate Income Housing</u>	<u>Debt Service Redevelopment Agency</u>	<u>Capital Improvements</u>	<u>Nonmajor Governmental Funds</u>
Reserved for:					
Encumbrances	\$ 790,347	-	-	13,920,080	4,037,846
Prepaid items	29,751	904	3,500	-	-
Inventories	33,944	-	-	-	-
Advances to other funds	15,472,268	736,429	-	-	181,545
Debt service	-	-	-	-	7,498,481
Self insurance	<u>2,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total reserved	<u>18,326,310</u>	<u>737,333</u>	<u>3,500</u>	<u>13,920,080</u>	<u>11,717,872</u>
Unreserved:					
Designated for working capital	14,125,000	-	-	-	-
Designated for workers' compensation claims	5,065,304	-	-	-	-
Designated for accrued compensated absences	6,249,240	-	-	-	-
Designated for general liability claims	3,513,765	-	-	-	-
Designated for other post employment benefits	7,000,000	-	-	-	-
Designated for FY 07-08 operating budget	5,120,081	-	-	-	-
Undesignated	<u>13,984,367</u>	<u>1,632,101</u>	<u>(11,002,058)</u>	<u>8,203,180</u>	<u>25,917,894</u>
Total unreserved	<u>55,057,757</u>	<u>1,632,101</u>	<u>(11,002,058)</u>	<u>8,203,180</u>	<u>25,917,894</u>
Total fund balance	<u>\$73,384,067</u>	<u>2,369,434</u>	<u>(10,998,558)</u>	<u>22,123,260</u>	<u>37,635,766</u>

The following funds had deficits at June 30, 2007:

Major Fund:	
Redevelopment Agency Fund	\$(10,998,558)
Nonmajor Funds:	
Special Revenue Funds:	
Local Law Enforcement Block Grant Fund	(142)
Office of Traffic Safety Fund	(39,299)

CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

(Continued)

(13) Property Tax Calendar

Property tax revenues are reported on a modified accrual basis. Accordingly, they are recognized in the fiscal year for which the taxes have been levied, provided this accrual meets the available criteria. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The County of Orange collects property taxes for the City tax liens attached annually as of 12:01 a.m. on the first day in March preceding the fiscal year for which the taxes are levied. The tax levy covers the fiscal period July 1st to June 30th. All secured personal property taxes and one-half of the taxes on real property are due November 1st. The second installment is due February 1st. All taxes are delinquent if not paid as of December 10th and April 10th, respectively. Unsecured personal property taxes become due on the first of March each year and are delinquent if not paid as of August 31st.

(14) Defined Benefit Pension Plan

The City of Costa Mesa contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan, except for, fire safety employees which are in a cost sharing multiple-employer defined 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 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 statues and City 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, 2006 to June 30, 2007 has been determined by an actuarial valuation of the plan as of June 30, 2004. The contribution rate indicated for the period is 23.765% for safety fire and 28.037% for safety police and 11.287% of payroll for the miscellaneous plan. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2007, this contribution rate would be multiplied by the payroll of covered employees that was actually paid during the period July 1, 2006 to June 30, 2007.

CITY OF COSTA MESA, CALIFORNIA
Notes to the Basic Financial Statements
(Continued)

(14) Defined Benefit Pension Plan, (Continued)

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

Valuation Date	June 30, 2004
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	32 Years as of the Valuation Date for safety police, and 23 Years as of the Valuation Date for miscellaneous plan
Asset Valuation Method	15 Year Smoothed Market
Actuarial Assumptions	
Investment Rate of Return	7.75% (net of administrative expenses)
Projected Salary Increases	3.25% to 13.15% depending on Age, Service, and type of employment for safety police, and 3.25% to 14.45% depending on Age, Service, and type of employment for the miscellaneous plan
Inflation	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.0% and an annual production growth of 0.25%.

Initial unfunded liabilities are amortized over a closed period that depends on the plan date of entry into PERS. Subsequent plan amendments are amortized as a level % 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 6% of unamortized gains and losses each year. If the plans accrued liabilities exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30-year amortization period.

CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

(Continued)

(14) Defined Benefit Pension Plan, (Continued)

Actuarial Valuation

Three-Year Trend Information (\$ amount in thousands)

Safety Police Employees

<u>Valuation Date</u>	<u>Entry Age Normal Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded Liability/ (Excess Assets)</u>	<u>Funded Status</u>	<u>Annual Covered Payroll</u>	<u>*UAAL As a % of Payroll</u>
6/30/04	\$116,199	\$ 88,378	\$27,821	76.1%	\$13,910	200.0%
6/30/05	125,802	100,722	25,080	80.1%	14,760	169.9%
6/30/06	137,408	113,072	24,336	82.3%	15,187	160.2%

Miscellaneous Employees

<u>Valuation Date</u>	<u>Entry Age Normal Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded Liability/ (Excess Assets)</u>	<u>Funded Status</u>	<u>Annual Covered Payroll</u>	<u>*UAAL As a % of Payroll</u>
6/30/04	\$113,526	\$104,534	\$8,992	92.10%	\$21,500	41.8%
6/30/05	126,027	116,389	9,638	92.40%	22,379	43.1%
6/30/06	137,864	128,961	8,903	93.50%	24,789	35.9%

*UAAL refers to unfunded actuarial accrued liability.

CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

(Continued)

(14) Defined Benefit Pension Plan, (Continued)

Annual Pension (Cost Employer Contribution)

Three-Year Trend Information

<u>Fiscal Year</u>	<u>Safety</u>	<u>Miscellaneous</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/05	\$2,233,311	\$1,573,331	100%	-
6/30/06	2,480,960	1,655,240	100%	-
6/30/07	2,563,814	1,770,376	100%	-

(15) Post-Employment Benefits

- (a) On January 1, 2004, the City adopted a new Retirement Health Savings Plan (RHS) for all full-time active employees. This benefit was ratified in the City's contractual agreements (MOU) with the Costa Mesa Employees Association (CMCEA), Costa Mesa Police Association (CMPA), Costa Mesa Police Management Association (CMPMA), and the Costa Mesa Firefighters Association (CMFA). This post-employment medical benefit is to assist employees with their qualifying medical expenses or premiums upon retirement or separation from the City with no minimum age requirement. The RHS plan is a defined contribution plan for all full and part-time employees at the City. Under this plan, the employee and the City each make a mandatory 1% of base pay contribution. If the employee separates from the City prior to the 10-year vesting period, the employee forfeits their share of the City's contribution. Also, the employee may elect to contribute up to 15% of their pre-tax base pay to this plan. The City's contribution to the defined contribution post retirement plan for the year ended June 30, 2007 was \$433,059. The City has no payment obligations once the employee separates from the City.
- (b) Prior to January 1, 2004, the City provided retirement health care benefits and life insurance under Council Policy No. 300-1 and the City's MOU's with the CMCEA, CMPA, CMPMA and the CMFA. Only employees hired before January 1, 2004 are eligible for those benefits if they reach normal retirement age while working for the City. Those and similar benefits for these active employees are provided through an insurance company whose premiums are based on the benefits paid during the year. As of June 30, 2007, approximately 270 retired employees were receiving benefits.

CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

(Continued)

(15) Post-Employment Benefits, (Continued)

The City pays up to 100% of these benefits under this plan, based upon the number of years of active service prior to retirement. The City finances these post-employment benefits on a pay-as-you-go basis. For the year ended June 30, 2007, approximately \$769,720 of post-employment benefit expenditures were recognized.

(16) Expenditures in Excess of Appropriations

Excess of expenditures over appropriations in individual funds at the function level (level of budgetary control) are as follows at June 30, 2007:

	<u>Function</u>	<u>Expenditures</u>	<u>Appropriations</u>	<u>Excess</u>
Major Funds:				
Low and Moderate				
Income Housing	Redevelopment	\$692,024	111,013	581,011
Nonmajor Funds:				
Special Revenue Funds:				
Proposition 172	Protection of persons and property	1,385,502	1,305,629	79,873
HOME Program	Community Programs	1,554,651	750,970	803,681
Park Development Fees	Community Programs	3,652,171	2,183,788	1,468,383
Rental Rehabilitation Program	Community Programs	47,514	-	47,514
Fire System	Protection of persons and property	15,892	-	15,892
Development Fees	Protection of persons and property	299	-	299
Local Law Enforcement Block Grant	Protection of persons and property	299	-	299

(17) Risk Management

The City participates in the California Municipal Excess Liability (“CAMEL”) Program. The membership of CAMEL consists of approximately 21 cities with similar interests and needs regarding liability insurance. Premiums are based upon the losses incurred. The Board of Directors set the premiums for each participant and each participant is represented on the Board. Premiums are based upon the losses incurred by each member and are not affected by losses incurred by other members.

In the Self-Insurance Workers’ Compensation/General Liability/Unemployment Internal Service Fund, the City has recorded liabilities of \$8,579,069 for lawsuits and other claims arising in the ordinary course of business. The City is self-insured for the first \$2,000,000 of each claim arising for workers’ compensation and has purchased outside insurance coverage in excess of the \$2,000,000 up to an unlimited maximum. The City is self-insured for the first \$2,000,000 of each claim arising for general liability. The City has purchased outside insurance coverage in excess of the \$2,000,000 up to a maximum of \$10,000,000 per occurrence. For the past three years, claim payments have not exceeded the amount of applicable insurance coverage.

CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

(Continued)

(17) Risk Management, (Continued)

The City has estimated losses for claims and judgments and has established liabilities of \$5,065,304 for workers' compensation and \$3,513,765 for general liability. Losses for claims incurred but not reported are recorded when the probable amount of loss can be reasonably estimated. These amounts represent estimates of amounts to be paid for reported claims and incurred but not yet reported claims based upon past experience, modified for current trends and information. While the ultimate amount of losses incurred through June 30, 2007 is dependent on future developments, based upon information from the City Attorney, the City's claims administrators and others involved with the administration of the programs, City management believes the accrual is adequate to cover such losses. The City is contingently liable for additional losses not reported in the accompanying financial statements in the range of approximately \$50,000 to \$3,000,000 for which the likelihood of an unfavorable outcome is only reasonably possible, as determined by legal counsel.

Changes in claims payable for the past two fiscal years are as follows:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Claims Incurred and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Ending Balance</u>
2005-2006	\$8,519,163	\$3,184,063	(\$2,696,105)	\$9,007,121
2006-2007	9,007,121	2,069,924	(2,497,976)	8,579,069

(18) Participant in Joint Venture

The City of Costa Mesa participates in a joint venture with the City of Newport Beach to provide Airborne Law Enforcement Services (ABLE). The purpose of ABLE is to use the equipment and personnel of the member agencies to provide helicopter law enforcement services to its citizens and to other requesting parties. The Board of Governors is comprised of two members from each City. At June 30, 2007, ABLE did not experience any fiscal stress as indicated by year-end unrestricted net assets of \$2,375,088. This year each member City contributed \$725,203 to the operation. Upon completion, separate financial statements of ABLE can be obtained at Costa Mesa City Hall.



REQUIRED SUPPLEMENTARY INFORMATION



COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2007

GENERAL FUND

The General Fund is used to account for all of the general revenues of the City not specifically levied or collected for some special purpose, and for the expenditures related to the rendering of general services by the City. The General Fund is used to account for all resources not required to be accounted for in another fund.

MAJOR SPECIAL REVENUE FUND

Low and Moderate Income Housing Fund

Established per Section 33334.3 of the Health and Safety Code to account for 20% of tax increment received by the Costa Mesa Redevelopment Agency which is to be expended for the purpose of increasing, improving, and preserving the low- and moderate-income housing available at affordable housing costs to persons and families of low or moderate income and to very low income households.

CITY OF COSTA MESA, CALIFORNIA

General Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

For the fiscal year ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes:					
Sales tax	\$ 46,996,640	46,996,640	45,641,219	(1,355,421)	45,116,230
Property tax	16,339,700	16,339,700	19,411,634	3,071,934	16,936,786
Transient occupancy tax	5,100,000	5,100,000	5,959,556	859,556	5,465,320
Franchise tax	3,742,000	3,742,000	3,911,800	169,800	3,674,652
Business license tax	870,000	870,000	897,608	27,608	912,324
Total taxes	<u>73,048,340</u>	<u>73,048,340</u>	<u>75,821,817</u>	<u>2,773,477</u>	<u>72,105,312</u>
Licenses and permits	1,942,600	1,942,600	2,874,124	931,524	2,101,870
Fines and forfeits	3,519,000	3,519,000	2,859,343	(659,657)	3,038,102
Investment income	2,985,000	2,985,000	4,458,067	1,473,067	1,047,575
Intergovernmental:					
Motor vehicle in-lieu	8,073,100	8,073,100	8,687,055	613,955	8,108,852
Grants and other reimbursements	381,900	515,072	913,862	398,790	1,180,771
Total intergovernmental	<u>8,455,000</u>	<u>8,588,172</u>	<u>9,600,917</u>	<u>1,012,745</u>	<u>9,289,623</u>
Charges for services	3,345,720	3,345,720	3,942,300	596,580	3,448,410
Rental	2,744,300	2,744,300	2,791,766	47,466	2,657,369
Miscellaneous	316,100	328,900	458,703	129,803	408,700
Total revenues	<u>96,356,060</u>	<u>96,502,032</u>	<u>102,807,037</u>	<u>6,305,005</u>	<u>94,096,961</u>
Expenditures:					
Current:					
General government:					
City council	251,104	254,904	288,979	(34,075)	266,277
City manager	1,020,408	1,050,909	1,038,003	12,906	925,064
City clerk	434,338	442,000	378,636	63,364	303,176
City attorney	687,900	687,900	525,781	162,119	546,480
Financial services	2,572,137	2,683,870	2,514,664	169,206	2,503,391
Administrative services:					
Administration	632,826	646,540	633,700	12,840	632,422
Personnel services	799,829	874,348	816,473	57,875	726,071
Central services	592,429	607,255	607,969	(714)	633,045
Risk management services	1,843,923	1,864,851	1,843,095	21,756	1,551,743
Communication services	3,836,312	4,228,271	3,663,917	564,354	3,368,799
Computer services	2,726,373	3,215,145	2,700,127	515,018	3,401,149
Development services:					
Administration	489,383	499,801	487,708	12,093	553,554
Facilities and equipment maintenance	9,593,106	10,321,354	10,351,708	(30,354)	9,101,638
Total general government	<u>25,480,068</u>	<u>27,377,148</u>	<u>25,850,760</u>	<u>1,526,388</u>	<u>24,512,809</u>

(Continued)

CITY OF COSTA MESA, CALIFORNIA

(Continued)

General Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

For the fiscal year ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Protection of persons and property:					
Police protection	37,100,011	38,503,310	37,362,826	1,140,484	35,876,575
Fire protection	18,218,366	18,871,083	19,226,654	(355,571)	18,827,510
Building and safety	3,165,909	3,249,768	3,038,409	211,359	2,669,041
Total protection of persons and property	<u>58,484,286</u>	<u>60,624,161</u>	<u>59,627,889</u>	<u>996,272</u>	<u>57,373,126</u>
Community programs:					
Community recreation	3,975,117	4,058,587	3,758,485	300,102	3,518,881
Planning	1,225,475	1,320,825	1,217,436	103,389	1,166,530
Total community programs	<u>5,200,592</u>	<u>5,379,412</u>	<u>4,975,921</u>	<u>403,491</u>	<u>4,685,411</u>
Public services:					
Administration	1,213,050	1,290,284	1,247,861	42,423	1,181,232
Engineering	2,609,457	2,705,914	2,519,806	186,108	2,490,277
Transportation	2,461,571	2,533,535	2,478,687	54,848	2,088,514
Total public services	<u>6,284,078</u>	<u>6,529,733</u>	<u>6,246,354</u>	<u>283,379</u>	<u>5,760,023</u>
Debt service:					
Principal	1,304,900	1,304,900	1,304,900	-	943,000
Interest and fiscal charges	1,025,843	1,025,843	239,703	786,140	189,406
Total debt service	<u>2,330,743</u>	<u>2,330,743</u>	<u>1,544,603</u>	<u>786,140</u>	<u>1,132,406</u>
Total expenditures	<u>97,779,767</u>	<u>102,241,197</u>	<u>98,245,527</u>	<u>3,995,670</u>	<u>93,463,775</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,423,707)</u>	<u>(5,739,165)</u>	<u>4,561,510</u>	<u>10,300,675</u>	<u>633,186</u>
Other financing sources (uses):					
Transfers in	1,047,240	1,047,240	1,101,939	54,699	1,891,695
Transfers out	(3,164,551)	(3,216,550)	(3,216,550)	-	(3,107,524)
Issuance of long-term debt	482,250	482,250	-	(482,250)	1,602,436
Total other financing sources (uses)	<u>(1,635,061)</u>	<u>(1,687,060)</u>	<u>(2,114,611)</u>	<u>(427,551)</u>	<u>386,607</u>
Net change in fund balance	(3,058,768)	(7,426,225)	2,446,899	9,873,124	1,019,793
Fund balance at beginning of year	<u>70,937,168</u>	<u>70,937,168</u>	<u>70,937,168</u>	<u>-</u>	<u>69,917,375</u>
Fund balance at end of year	<u>\$ 67,878,400</u>	<u>63,510,943</u>	<u>73,384,067</u>	<u>9,873,124</u>	<u>70,937,168</u>

CITY OF COSTA MESA, CALIFORNIA
 Low and Moderate Income Housing Fund
 Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
 For the fiscal year ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ 662,399	662,399	701,897	39,498	606,675
Fines and forfeits	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Charges for services	-	-	-	-	-
Rental	-	-	-	-	-
Investment income	6,624	6,624	78,285	71,661	66,792
Miscellaneous	-	891	43,301	42,410	327,940
Total revenues	669,023	669,914	823,483	153,569	1,001,407
Expenditures:					
Current:					
General government	-	-	-	-	-
Protection of persons and property	-	-	-	-	-
Community programs	-	-	-	-	-
Redevelopment	111,013	112,719	692,024	(579,305)	2,370,609
Total expenditures	111,013	112,719	692,024	(579,305)	2,370,609
Excess (deficiency) of revenues over (under) expenditures	558,010	557,195	131,459	(425,736)	(1,369,202)
Other financing sources (uses):					
Transfers in	43,318	43,318	-	(43,318)	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	43,318	43,318	-	(43,318)	-
Net change in fund balance	601,328	600,513	131,459	(469,054)	(1,369,202)
Fund balance at beginning of year	2,237,975	2,237,975	2,237,975	-	3,607,177
Fund balance at end of year	\$ 2,839,303	2,838,488	2,369,434	(469,054)	2,237,975

CITY OF COSTA MESA, CALIFORNIA
Notes to Required Supplementary Information
For the fiscal year ended June 30, 2007

(1) Budgetary Data

Annual budgets are legally adopted for all governmental funds on a basis consistent with generally accepted accounting principles, except for the following funds for which annual budgets were not adopted:

Debt Service Fund:
 Financing Authority Debt Service Fund

Capital Projects Fund:
 Parking Districts Fund

The City Council adopts each year's budget submitted by the City Manager prior to the beginning of the new fiscal year. Public hearings are conducted prior to its adoption by the Council. Supplemental appropriations, where required during the period, are also approved by the Council. Interfunctional budget changes are approved by the City Manager. Expenditures may not legally exceed appropriations at the function level. During the year ended June 30, 2007, several supplementary appropriations were made totaling \$57,017,698. At fiscal year-end all operating budget appropriations lapse.

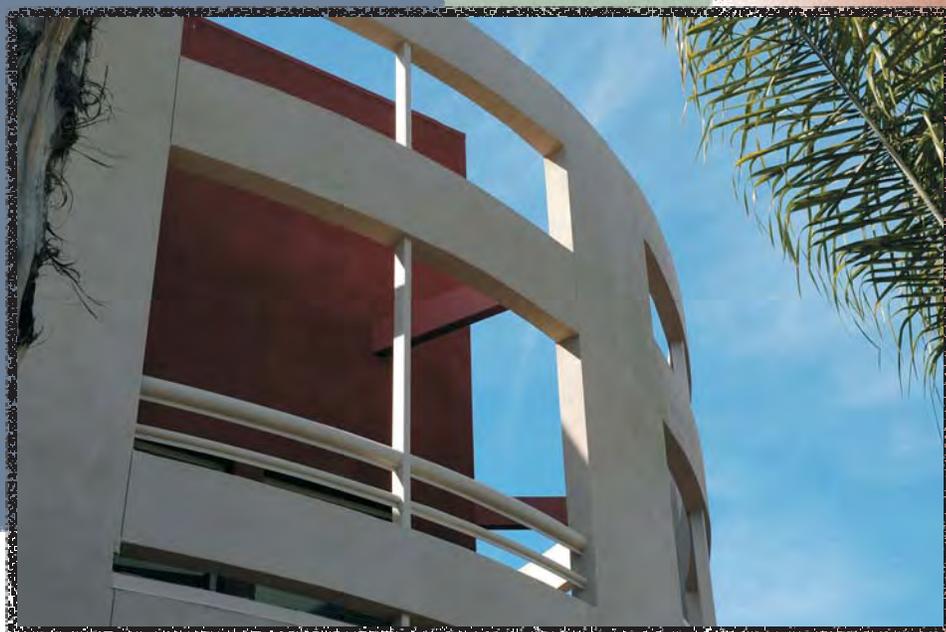
(2) Expenditures in Excess of Appropriations

The following individual funds at a function level (level of budgetary control) had excess of expenditures over appropriations:

	<u>Function</u>	<u>Expenditures</u>	<u>Appropriations</u>	<u>Excess</u>
Low and Moderate income Housing	Redevelopment	\$692,024	112,719	579,305



SUPPLEMENTARY SCHEDULES



COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2007

CITY OF COSTA MESA, CALIFORNIA

Nonmajor Governmental Funds

Combining Balance Sheet

June 30, 2007

	Special	Debt	Capital	Totals	
	Revenue	Service	Projects	2007	2006
<u>Assets</u>					
Cash and investments	\$ 24,130,591	1,975,000	8,648,658	34,754,249	29,734,609
Cash and investments with fiscal agent	64,752	5,523,481	126,430	5,714,663	3,170,612
Due from other governments	368,335	-	175,373	543,708	1,845,817
Accounts receivable	1,722,324	-	-	1,722,324	35,475
Interest receivable	287,019	-	1,103,971	1,390,990	1,239,262
Loans receivable	2,012,323	-	-	2,012,323	1,918,595
Rent receivable	-	-	1,063,025	1,063,025	1,042,189
Due from other funds	4,620	-	-	4,620	4,460
Loan deposit	490,120	-	-	490,120	511,308
Prepaid items	-	-	-	-	120
Advances to other funds	181,545	-	-	181,545	186,165
Total assets	<u>\$ 29,261,629</u>	<u>7,498,481</u>	<u>11,117,457</u>	<u>47,877,567</u>	<u>39,688,612</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ 489,943	-	110,579	600,522	538,000
Accrued liabilities	200,059	-	-	200,059	142,198
Retentions payable	375,513	-	329,157	704,670	663,697
Deposits payable	-	-	-	-	-
Due to other funds	64,307	-	55,852	120,159	334,393
Advance from other funds	3,616,833	-	-	3,616,833	-
Deferred revenue	2,683,988	-	2,315,570	4,999,558	5,631,498
Total liabilities	<u>7,430,643</u>	<u>-</u>	<u>2,811,158</u>	<u>10,241,801</u>	<u>7,309,786</u>
Fund balances:					
Reserved for:					
Encumbrances	2,656,390	-	1,381,456	4,037,846	3,287,507
Prepaid items	-	-	-	-	120
Advances to other funds	181,545	-	-	181,545	186,165
Debt service	-	7,498,481	-	7,498,481	5,233,230
Unreserved, reported in:					
Special revenue funds	18,993,051	-	-	18,993,051	16,776,603
Capital projects funds	-	-	6,924,843	6,924,843	6,895,201
Total fund balances	<u>21,830,986</u>	<u>7,498,481</u>	<u>8,306,299</u>	<u>37,635,766</u>	<u>32,378,826</u>
Total liabilities and fund balances	<u>\$ 29,261,629</u>	<u>7,498,481</u>	<u>11,117,457</u>	<u>47,877,567</u>	<u>39,688,612</u>

CITY OF COSTA MESA, CALIFORNIA
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the fiscal year ended June 30, 2007

	Special	Debt	Capital	Totals	
	Revenue	Service	Projects	2007	2006
Revenues:					
Taxes	\$ 848,380	-	767	849,147	933,677
Fines and forfeits	55,956	-	-	55,956	119,757
Intergovernmental	8,608,556	-	4,466,225	13,074,781	10,091,467
Charges for services	3,847,575	-	-	3,847,575	1,323,393
Rental	30,268	-	87,673	117,941	134,647
Investment income	982,222	229,698	428,318	1,640,238	1,100,431
Miscellaneous	263,018	-	28,277	291,295	61,951
Total revenues	<u>14,635,975</u>	<u>229,698</u>	<u>5,011,260</u>	<u>19,876,933</u>	<u>13,765,323</u>
Expenditures:					
Current:					
General government	1,623,034	-	-	1,623,034	1,558,183
Protection of persons and property	1,816,208	-	-	1,816,208	1,280,696
Community programs	5,605,304	-	-	5,605,304	2,250,166
Public services	2,316,053	-	5,223,681	7,539,734	4,987,827
Redevelopment	-	-	192,981	192,981	139,062
Debt service:					
Cost of issuance	-	-	-	-	90,345
Principal	-	1,760,000	-	1,760,000	1,840,000
Interest and fiscal charges	50,495	1,067,247	-	1,117,742	1,004,515
Total expenditures	<u>11,411,094</u>	<u>2,827,247</u>	<u>5,416,662</u>	<u>19,655,003</u>	<u>13,150,794</u>
Excess (deficiency) of revenues over (under) expenditures	<u>3,224,881</u>	<u>(2,597,549)</u>	<u>(405,402)</u>	<u>221,930</u>	<u>614,529</u>
Other financing sources (uses):					
Transfers in	92,412	5,026,755	506,890	5,626,057	2,878,414
Transfers out	(237,840)	(163,955)	(189,252)	(591,047)	(425,871)
Issuance of long-term debt	-	-	-	-	2,365,000
Payment to bond escrow agent	-	-	-	-	(2,139,205)
Total other financing sources (uses)	<u>(145,428)</u>	<u>4,862,800</u>	<u>317,638</u>	<u>5,035,010</u>	<u>2,678,338</u>
Net change in fund balances	3,079,453	2,265,251	(87,764)	5,256,940	3,292,867
Fund balances at beginning of year	<u>18,751,533</u>	<u>5,233,230</u>	<u>8,394,063</u>	<u>32,378,826</u>	<u>29,085,959</u>
Fund balances at end of year	<u>\$ 21,830,986</u>	<u>7,498,481</u>	<u>8,306,299</u>	<u>37,635,766</u>	<u>32,378,826</u>

NONMAJOR SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for revenue derived from specific taxes or other earmarked revenues sources (other than expendable trust or for major capital projects) that are restricted by law or administrative action to expenditures for specified purposes. The following have been classified as nonmajor governmental funds in the accompanying fund financial statements.

Special Gas Tax Fund

Established to account for the receipt and disbursement of funds used for construction and maintenance of the road network system of the City. Financing is provided by the City's share of State gasoline taxes.

Proposition 172 Fund

Established to account for the receipt and disbursement of voter-approved one-half cent permanent increase in the state sales tax in November 1993. These revenues must be expended for public safety purposes.

Air Quality Improvement Fund

Established to account for the City's share of funds received under Health & Safety Code 44223 (AB 2766) to finance mobile source air pollution reduction programs consistent with the California Clean Air Act of 1988.

Home Program Fund

Established to account for the receipt and disbursement of funds received under the Federal Home Investment Partnership Program of the Department of Housing and Urban Development. These revenues must be expended for acquisition, rehabilitation, and new construction of rental housing.

Community Development Fund

This fund accounts for revenues received from the Department of Housing and Urban Development. These revenues must be expended to accomplish one of the following objectives: elimination of slum or blight of benefit to low and moderate income persons, or to meet certain urgent community development needs.

Park Development Fees Fund

Established to account for the development and maintenance of the City's park system. Financing is provided by fees charged to residential and commercial developers.

Drainage Fees Fund

Established to account for the construction and maintenance of the City's drainage system. Financing is provided by fees charged to residential and commercial developers.

Supplemental Law Enforcement Services Fund (SLESF)

Established to account for the receipt and disbursement of funds received under the State Citizen's option for Public Safety (COPS) Program allocated pursuant to Government Code Section 30061 enacted by Assembly Bill 3229, Chapter 134 of the 1996 Statutes. These COPS/SLESF funds are allocated based on population and can only be spent for "front line municipal police services" as per Government Code Section 30061(c)(2).

Traffic Impact Fees Fund

Established to account for the receipt and disbursement of funds for off-site transportation improvements Citywide. Financing is provided by fees charged to residential and commercial developers.

Rental Rehabilitation Program Fund

Established to account for revenues received from the Department of Housing and Urban Development under Section 17 of the U.S. Housing Act of 1937. These revenues must be expended to provide assistance to rehabilitate primarily privately-owned residential rental property.

Narcotics Forfeiture Fund

Established to account for receipt and disbursement of narcotic forfeitures received from County, State and Federal agencies pursuant to Section 11470 of State Health and Safety Code and Federal Statute 21USC Section 881.

Fire System Development Fees Fund

Established to account for receipt and disbursement of the development impact fees established by Ordinance 89-1 for future construction of fire protection facilities and equipment for north Costa Mesa.

Local Law Enforcement Block Grant Fund

Established to account for Federal grant monies provided by the 1998 Appropriations Act, Public Law 105-119. Funds are restricted for projects utilized to reduce crime and improve public safety.

Office of Traffic Safety Fund

Established to account for State grant monies received from the Office of Traffic Safety. Funds are restricted for projects utilized to enhance traffic safety and to reduce drunk driving within the City.

CITY OF COSTA MESA, CALIFORNIA

Nonmajor Special Revenue Funds

Combining Balance Sheet

June 30, 2007

	Special Gas Tax	Proposition 172	Air Quality Improvement	HOME Program	Community Development	Park Development Fees	Drainage Fees
<u>Assets</u>							
Cash and investments	\$ 10,528,814	138,478	721,772	40,520	11,349	3,840,961	514,233
Cash with fiscal agent	63,005	-	-	-	-	-	-
Due from other governments	-	75,111	35,320	64,544	135,408	-	-
Accounts receivable	-	-	-	-	-	-	-
Interest receivable	124,586	1,627	8,480	-	5,584	42,778	6,042
Loans receivable	-	-	-	1,910,815	-	-	-
Due from other funds	-	-	-	-	4,620	-	-
Loan deposit	-	-	-	-	490,120	-	-
Prepaid items	-	-	-	-	-	-	-
Advances to other funds	-	-	-	-	181,545	-	-
Total assets	\$ 10,716,405	215,216	765,572	2,015,879	828,626	3,883,739	520,275
<u>Liabilities and Fund Balances</u>							
Liabilities:							
Accounts payable	\$ 236,091	1,994	11,973	803	60,166	3,228	-
Accrued liabilities	-	12,700	-	5,640	20,096	-	-
Retentions payable	352,439	-	1,330	-	-	750	-
Due to other funds	-	-	-	-	1,000	-	-
Advance from other funds	-	-	-	-	-	3,616,833	-
Deferred revenue	-	-	-	1,910,815	671,665	-	-
Total liabilities	588,530	14,694	13,303	1,917,258	752,927	3,620,811	-
Fund balances:							
Reserved for:							
Encumbrances	191,150	-	166,200	78,225	421,614	696,969	-
Prepaid items	-	-	-	-	-	-	-
Advances to other funds	-	-	-	-	181,545	-	-
Unreserved, reported in special revenue funds	9,936,725	200,522	586,069	20,396	(527,460)	(434,041)	520,275
Total fund balances (deficit)	10,127,875	200,522	752,269	98,621	75,699	262,928	520,275
Total liabilities and fund balances	\$ 10,716,405	215,216	765,572	2,015,879	828,626	3,883,739	520,275

Supplemental Law Enforcement Services	Traffic Impact Fees	Rental Rehabilitation Program	Narcotics Forfeiture	Fire System Development Fees	Local Law Enforcement Block Grant	Office of Traffic Safety	Totals	
							2007	2006
82,708	7,565,511	78,384	189,967	417,894	-	-	24,130,591	18,980,521
-	1,747	-	-	-	-	-	64,752	-
-	-	-	28,700	-	-	29,252	368,335	507,030
-	1,722,324	-	-	-	-	-	1,722,324	35,475
972	88,888	921	2,232	4,909	-	-	287,019	220,356
-	-	101,508	-	-	-	-	2,012,323	1,918,595
-	-	-	-	-	-	-	4,620	4,460
-	-	-	-	-	-	-	490,120	511,308
-	-	-	-	-	-	-	-	120
-	-	-	-	-	-	-	181,545	186,165
<u>83,680</u>	<u>9,378,470</u>	<u>180,813</u>	<u>220,899</u>	<u>422,803</u>	<u>-</u>	<u>29,252</u>	<u>29,261,629</u>	<u>22,364,030</u>
12,159	151,727	-	6,416	-	-	5,386	489,943	288,413
2,237	-	-	159,386	-	-	-	200,059	142,198
-	20,994	-	-	-	-	-	375,513	513,760
-	-	-	-	-	142	63,165	64,307	23,254
-	-	-	-	-	-	-	3,616,833	-
-	-	101,508	-	-	-	-	2,683,988	2,644,872
<u>14,396</u>	<u>172,721</u>	<u>101,508</u>	<u>165,802</u>	<u>-</u>	<u>142</u>	<u>68,551</u>	<u>7,430,643</u>	<u>3,612,497</u>
565	1,090,078	-	-	-	-	11,589	2,656,390	1,788,645
-	-	-	-	-	-	-	-	120
-	-	-	-	-	-	-	181,545	186,165
<u>68,719</u>	<u>8,115,671</u>	<u>79,305</u>	<u>55,097</u>	<u>422,803</u>	<u>(142)</u>	<u>(50,888)</u>	<u>18,993,051</u>	<u>16,776,603</u>
<u>69,284</u>	<u>9,205,749</u>	<u>79,305</u>	<u>55,097</u>	<u>422,803</u>	<u>(142)</u>	<u>(39,299)</u>	<u>21,830,986</u>	<u>18,751,533</u>
<u>83,680</u>	<u>9,378,470</u>	<u>180,813</u>	<u>220,899</u>	<u>422,803</u>	<u>-</u>	<u>29,252</u>	<u>29,261,629</u>	<u>22,364,030</u>

CITY OF COSTA MESA, CALIFORNIA
 Nonmajor Special Revenue Funds
 Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 For the fiscal year ended June 30, 2007

	Special Gas Tax	Proposition 172	Air Quality Improvement	HOME Program	Community Development	Park Development Fees	Drainage Fees
Revenues:							
Taxes	\$ -	848,380	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Intergovernmental	3,304,138	-	136,327	1,401,282	1,528,006	-	-
Charges for services	-	-	-	-	-	1,916,630	23,759
Rental	-	-	-	-	30,268	-	-
Investment income	479,654	11,631	29,589	-	5,584	112,582	20,073
Miscellaneous	3,630	-	-	3,097	21,791	500	84,000
Total revenues	<u>3,787,422</u>	<u>860,011</u>	<u>165,916</u>	<u>1,404,379</u>	<u>1,585,649</u>	<u>2,029,712</u>	<u>127,832</u>
Expenditures:							
Current:							
General government	-	-	-	-	1,623,034	-	-
Protection of persons and property	-	1,385,502	-	-	-	-	-
Community programs	-	-	-	1,554,651	-	3,601,676	-
Public services	2,278,047	-	38,006	-	-	-	-
Debt service:							
Interest and fiscal charges	-	-	-	-	-	50,495	-
Total expenditures	<u>2,278,047</u>	<u>1,385,502</u>	<u>38,006</u>	<u>1,554,651</u>	<u>1,623,034</u>	<u>3,652,171</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,509,375</u>	<u>(525,491)</u>	<u>127,910</u>	<u>(150,272)</u>	<u>(37,385)</u>	<u>(1,622,459)</u>	<u>127,832</u>
Other financing sources (uses):							
Transfers in	-	2,640	-	221	89,221	-	-
Transfers out	-	(37,840)	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>(35,200)</u>	<u>-</u>	<u>221</u>	<u>89,221</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>1,509,375</u>	<u>(560,691)</u>	<u>127,910</u>	<u>(150,051)</u>	<u>51,836</u>	<u>(1,622,459)</u>	<u>127,832</u>
Fund balances (deficit) at beginning of year	<u>8,618,500</u>	<u>761,213</u>	<u>624,359</u>	<u>248,672</u>	<u>23,863</u>	<u>1,885,387</u>	<u>392,443</u>
Fund balances (deficit) at end of year	<u>\$ 10,127,875</u>	<u>200,522</u>	<u>752,269</u>	<u>98,621</u>	<u>75,699</u>	<u>262,928</u>	<u>520,275</u>

Supplemental Law Enforcement Services	Traffic Impact Fees	Rental Rehabilitation Program	Narcotics Forfeiture	Fire System Development Fees	Local Law Enforcement Block Grant	Office of Traffic Safety	Totals	
							2007	2006
-	-	-	-	-	-	-	848,380	932,851
-	-	-	55,956	-	-	-	55,956	119,757
220,542	1,915,455	-	38,666	-	20,041	44,099	8,608,556	6,445,722
-	1,834,226	-	-	72,960	-	-	3,847,575	1,323,393
-	-	-	-	-	-	-	30,268	49,200
6,867	287,406	3,390	9,144	16,302	-	-	982,222	652,792
-	150,000	-	-	-	-	-	263,018	52,655
<u>227,409</u>	<u>4,187,087</u>	<u>3,390</u>	<u>103,766</u>	<u>89,262</u>	<u>20,041</u>	<u>44,099</u>	<u>14,635,975</u>	<u>9,576,370</u>
-	-	-	-	-	-	-	1,623,034	1,558,183
331,117	-	-	-	15,892	299	83,398	1,816,208	1,280,696
-	334,922	47,514	66,541	-	-	-	5,605,304	2,250,166
-	-	-	-	-	-	-	2,316,053	2,915,591
-	-	-	-	-	-	-	50,495	-
<u>331,117</u>	<u>334,922</u>	<u>47,514</u>	<u>66,541</u>	<u>15,892</u>	<u>299</u>	<u>83,398</u>	<u>11,411,094</u>	<u>8,004,636</u>
(103,708)	3,852,165	(44,124)	37,225	73,370	19,742	(39,299)	3,224,881	1,571,734
330	-	-	-	-	-	-	92,412	205,247
-	-	-	(200,000)	-	-	-	(237,840)	(239,000)
<u>330</u>	<u>-</u>	<u>-</u>	<u>(200,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(145,428)</u>	<u>(33,753)</u>
(103,378)	3,852,165	(44,124)	(162,775)	73,370	19,742	(39,299)	3,079,453	1,537,981
172,662	5,353,584	123,429	217,872	349,433	(19,884)	-	18,751,533	17,213,552
<u>69,284</u>	<u>9,205,749</u>	<u>79,305</u>	<u>55,097</u>	<u>422,803</u>	<u>(142)</u>	<u>(39,299)</u>	<u>21,830,986</u>	<u>18,751,533</u>

CITY OF COSTA MESA, CALIFORNIA

Special Gas Tax Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

For the fiscal year ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Fines and forfeits	-	-	-	-	-
Intergovernmental	2,125,000	2,125,000	3,304,138	1,179,138	3,456,457
Charges for services	-	-	-	-	-
Rental	-	-	-	-	-
Investment income	340,000	340,000	479,654	139,654	297,851
Miscellaneous	-	-	3,630	3,630	-
Total revenues	2,465,000	2,465,000	3,787,422	1,322,422	3,754,308
Expenditures:					
Current:					
General government	-	-	-	-	-
Protection of persons and property	-	-	-	-	-
Community programs	-	-	-	-	-
Public services	1,703,980	10,887,207	2,278,047	8,609,160	2,745,264
Total expenditures	1,703,980	10,887,207	2,278,047	8,609,160	2,745,264
Excess (deficiency) of revenues over (under) expenditures	761,020	(8,422,207)	1,509,375	9,931,582	1,009,044
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balance	761,020	(8,422,207)	1,509,375	9,931,582	1,009,044
Fund balance at beginning of year	8,618,500	8,618,500	8,618,500	-	7,609,456
Fund balance at end of year	\$ 9,379,520	196,293	10,127,875	9,931,582	8,618,500

CITY OF COSTA MESA, CALIFORNIA

Proposition 172 Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

For the fiscal year ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ 870,000	870,000	848,380	(21,620)	932,851
Fines and forfeits	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Charges for services	-	-	-	-	-
Rental	-	-	-	-	-
Investment income	28,200	28,200	11,631	(16,569)	20,784
Miscellaneous	-	-	-	-	-
Total revenues	898,200	898,200	860,011	(38,189)	953,635
Expenditures:					
Current:					
General government	-	-	-	-	-
Protection of persons and property	1,123,721	1,305,629	1,385,502	(79,873)	962,789
Community programs	-	-	-	-	-
Public services	-	-	-	-	-
Total expenditures	1,123,721	1,305,629	1,385,502	(79,873)	962,789
Excess (deficiency) of revenues over (under) expenditures	(225,521)	(407,429)	(525,491)	(118,062)	(9,154)
Other financing sources (uses):					
Transfers in	-	2,640	2,640	2,640	-
Transfers out	(37,840)	(37,840)	(37,840)	-	(39,000)
Total other financing sources (uses)	(37,840)	(35,200)	(35,200)	2,640	(39,000)
Net change in fund balance	(263,361)	(442,629)	(560,691)	(118,062)	(48,154)
Fund balance at beginning of year	761,213	761,213	761,213	-	809,367
Fund balance at end of year	\$ 497,852	318,584	200,522	(118,062)	761,213

CITY OF COSTA MESA, CALIFORNIA

Air Quality Improvement Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

For the fiscal year ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Fines and forfeits	-	-	-	-	-
Intergovernmental	140,000	140,000	136,327	(3,673)	173,438
Charges for services	-	-	-	-	-
Rental	-	-	-	-	-
Investment income	24,000	24,000	29,589	5,589	20,146
Miscellaneous	-	-	-	-	-
Total revenues	164,000	164,000	165,916	1,916	193,584
Expenditures:					
Current:					
General government	-	-	-	-	-
Protection of persons and property	-	-	-	-	-
Community programs	-	-	-	-	-
Public services	205,000	650,918	38,006	612,912	170,327
Total expenditures	205,000	650,918	38,006	612,912	170,327
Excess (deficiency) of revenues over (under) expenditures	(41,000)	(486,918)	127,910	614,828	23,257
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balance	(41,000)	(486,918)	127,910	614,828	23,257
Fund balance at beginning of year	624,359	624,359	624,359	-	601,102
Fund balance at end of year	\$ 583,359	137,441	752,269	614,828	624,359

CITY OF COSTA MESA, CALIFORNIA

HOME Program Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

For the fiscal year ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Fines and forfeits	-	-	-	-	-
Intergovernmental	705,600	705,600	1,401,282	695,682	669,274
Charges for services	-	-	-	-	-
Rental	-	-	-	-	-
Investment income	-	-	-	-	-
Miscellaneous	-	-	3,097	3,097	-
Total revenues	705,600	705,600	1,404,379	698,779	669,274
Expenditures:					
Current:					
General government	-	-	-	-	-
Protection of persons and property	-	-	-	-	-
Community programs	733,106	750,970	1,554,651	(803,681)	742,116
Public services	-	-	-	-	-
Total expenditures	733,106	750,970	1,554,651	(803,681)	742,116
Excess (deficiency) of revenues over (under) expenditures	(27,506)	(45,370)	(150,272)	(104,902)	(72,842)
Other financing sources (uses):					
Transfers in	-	221	221	221	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	221	221	221	-
Net change in fund balance	(27,506)	(45,149)	(150,051)	(104,902)	(72,842)
Fund balance at beginning of year	248,672	248,672	248,672	-	321,514
Fund balance at end of year	\$ 221,166	203,523	98,621	(104,902)	248,672

CITY OF COSTA MESA, CALIFORNIA

Community Development Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

For the fiscal year ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Fines and forfeits	-	-	-	-	-
Intergovernmental	1,405,240	1,405,240	1,528,006	122,766	1,188,862
Charges for services	-	-	-	-	-
Rental	-	-	30,268	30,268	49,200
Investment income	-	-	5,584	5,584	5,744
Miscellaneous	-	-	21,791	21,791	-
Total revenues	1,405,240	1,405,240	1,585,649	180,409	1,243,806
Expenditures:					
Current:					
General government	1,405,239	2,633,013	1,623,034	1,009,979	1,558,183
Protection of persons and property	-	-	-	-	-
Community programs	-	-	-	-	-
Public services	-	-	-	-	-
Total expenditures	1,405,239	2,633,013	1,623,034	1,009,979	1,558,183
Excess (deficiency) of revenues over (under) expenditures	1	(1,227,773)	(37,385)	1,190,388	(314,377)
Other financing sources (uses):					
Transfers in	-	1,548	89,221	89,221	85,447
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	1,548	89,221	89,221	85,447
Net change in fund balance	1	(1,226,225)	51,836	1,278,061	(228,930)
Fund balance at beginning of year	23,863	23,863	23,863	-	252,793
Fund balance (deficit) at end of year	\$ 23,864	(1,202,362)	75,699	1,278,061	23,863

CITY OF COSTA MESA, CALIFORNIA

Park Development Fees Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

For the fiscal year ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Fines and forfeits	-	-	-	-	-
Intergovernmental	-	-	-	-	205,273
Charges for services	542,080	542,080	1,916,630	1,374,550	1,302,341
Rental	-	-	-	-	-
Investment income	51,100	51,100	112,582	61,482	68,666
Miscellaneous	-	-	500	500	-
Total revenues	593,180	593,180	2,029,712	1,436,532	1,576,280
Expenditures:					
Current:					
General government	-	-	-	-	-
Protection of persons and property	-	-	-	-	-
Community programs	1,050,000	2,183,788	3,601,676	(1,417,888)	650,063
Public services	-	-	-	-	-
Debt service:					
Interest and fiscal charges	-	-	50,495	(50,495)	-
Total expenditures	1,050,000	2,183,788	3,652,171	(1,468,383)	650,063
Excess (deficiency) of revenues over (under) expenditures	(456,820)	(1,590,608)	(1,622,459)	(31,851)	926,217
Other financing sources (uses):					
Transfers in	-	-	-	-	119,800
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	119,800
Net change in fund balance	(456,820)	(1,590,608)	(1,622,459)	(31,851)	1,046,017
Fund balance at beginning of year	1,885,387	1,885,387	1,885,387	-	839,370
Fund balance at end of year	\$ 1,428,567	294,779	262,928	(31,851)	1,885,387

CITY OF COSTA MESA, CALIFORNIA

Drainage Fees Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

For the fiscal year ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Fines and forfeits	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Charges for services	10,000	10,000	23,759	13,759	21,052
Rental	-	-	-	-	-
Investment income	14,800	14,800	20,073	5,273	13,504
Miscellaneous	-	-	84,000	84,000	-
Total revenues	24,800	24,800	127,832	103,032	34,556
Expenditures:					
Current:					
General government	-	-	-	-	-
Protection of persons and property	-	-	-	-	-
Community programs	-	-	-	-	-
Public services	-	2,868	-	2,868	-
Total expenditures	-	2,868	-	2,868	-
Excess (deficiency) of revenues over (under) expenditures	24,800	21,932	127,832	105,900	34,556
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balance	24,800	21,932	127,832	105,900	34,556
Fund balance at beginning of year	392,443	392,443	392,443	-	357,887
Fund balance at end of year	\$ 417,243	414,375	520,275	105,900	392,443

CITY OF COSTA MESA, CALIFORNIA
 Supplemental Law Enforcement Services Fund
 Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
 For the fiscal year ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Fines and forfeits	-	-	-	-	-
Intergovernmental	165,000	220,442	220,542	100	164,086
Charges for services	-	-	-	-	-
Rental	-	-	-	-	-
Investment income	11,000	11,000	6,867	(4,133)	7,204
Miscellaneous	-	-	-	-	-
Total revenues	<u>176,000</u>	<u>231,442</u>	<u>227,409</u>	<u>(4,033)</u>	<u>171,290</u>
Expenditures:					
Current:					
General government	-	-	-	-	-
Protection of persons and property	186,611	336,101	331,117	4,984	224,454
Community programs	-	-	-	-	-
Public services	-	-	-	-	-
Total expenditures	<u>186,611</u>	<u>336,101</u>	<u>331,117</u>	<u>4,984</u>	<u>224,454</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(10,611)</u>	<u>(104,659)</u>	<u>(103,708)</u>	<u>951</u>	<u>(53,164)</u>
Other financing sources (uses):					
Transfers in	-	330	330	330	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>330</u>	<u>330</u>	<u>330</u>	<u>-</u>
Net change in fund balance	<u>(10,611)</u>	<u>(104,329)</u>	<u>(103,378)</u>	<u>951</u>	<u>(53,164)</u>
Fund balance at beginning of year	<u>172,662</u>	<u>172,662</u>	<u>172,662</u>	<u>-</u>	<u>225,826</u>
Fund balance at end of year	<u><u>\$ 162,051</u></u>	<u><u>68,333</u></u>	<u><u>69,284</u></u>	<u><u>951</u></u>	<u><u>172,662</u></u>

CITY OF COSTA MESA, CALIFORNIA

Traffic Impact Fees Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

For the fiscal year ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Fines and forfeits	-	-	-	-	-
Intergovernmental	400,000	400,000	1,915,455	1,515,455	571,556
Charges for services	-	-	1,834,226	1,834,226	-
Rental	-	-	-	-	-
Investment income	227,700	227,700	287,406	59,706	189,235
Miscellaneous	-	150,000	150,000	-	52,655
Total revenues	627,700	777,700	4,187,087	3,409,387	813,446
Expenditures:					
Current:					
General government	-	-	-	-	-
Protection of persons and property	-	-	-	-	-
Community programs	-	6,342,475	334,922	6,007,553	857,987
Public services	-	-	-	-	-
Total expenditures	-	6,342,475	334,922	6,007,553	857,987
Excess (deficiency) of revenues over (under) expenditures	627,700	(5,564,775)	3,852,165	9,416,940	(44,541)
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balance	627,700	(5,564,775)	3,852,165	9,416,940	(44,541)
Fund balance at beginning of year	5,353,584	5,353,584	5,353,584	-	5,398,125
Fund balance (deficit) at end of year	\$ 5,981,284	(211,191)	9,205,749	9,416,940	5,353,584

CITY OF COSTA MESA, CALIFORNIA

Rental Rehabilitation Program Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

For the fiscal year ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Fines and forfeits	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Charges for services	-	-	-	-	-
Rental	-	-	-	-	-
Investment income	6,200	6,200	3,390	(2,810)	5,027
Miscellaneous	-	-	-	-	-
Total revenues	6,200	6,200	3,390	(2,810)	5,027
Expenditures:					
Current:					
General government	-	-	-	-	-
Protection of persons and property	-	-	-	-	-
Community programs	-	-	47,514	(47,514)	-
Public services	-	-	-	-	-
Total expenditures	-	-	47,514	(47,514)	-
Excess (deficiency) of revenues over (under) expenditures	6,200	6,200	(44,124)	(50,324)	5,027
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balance	6,200	6,200	(44,124)	(50,324)	5,027
Fund balance at beginning of year	123,429	123,429	123,429	-	118,402
Fund balance at end of year	\$ 129,629	129,629	79,305	(50,324)	123,429

CITY OF COSTA MESA, CALIFORNIA

Narcotics Forfeiture Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

For the fiscal year ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Fines and forfeits	70,000	70,000	55,956	(14,044)	119,757
Intergovernmental	30,000	30,000	38,666	8,666	16,776
Charges for services	-	-	-	-	-
Rental	-	-	-	-	-
Investment income	14,600	14,600	9,144	(5,456)	12,088
Miscellaneous	-	-	-	-	-
Total revenues	114,600	114,600	103,766	(10,834)	148,621
Expenditures:					
Current:					
General government	-	-	-	-	-
Protection of persons and property	88,600	88,600	66,541	22,059	57,352
Community programs	-	-	-	-	-
Public services	-	-	-	-	-
Total expenditures	88,600	88,600	66,541	22,059	57,352
Excess (deficiency) of revenues over (under) expenditures	26,000	26,000	37,225	11,225	91,269
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	(200,000)	(200,000)	(200,000)	-	(200,000)
Total other financing sources (uses)	(200,000)	(200,000)	(200,000)	-	(200,000)
Net change in fund balance	(174,000)	(174,000)	(162,775)	11,225	(108,731)
Fund balance at beginning of year	217,872	217,872	217,872	-	326,603
Fund balance at end of year	\$ 43,872	43,872	55,097	11,225	217,872

CITY OF COSTA MESA, CALIFORNIA

Fire System Development Fees Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

For the fiscal year ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Fines and forfeits	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Charges for services	-	-	72,960	72,960	-
Rental	-	-	-	-	-
Investment income	14,300	14,300	16,302	2,002	12,543
Miscellaneous	-	-	-	-	-
Total revenues	14,300	14,300	89,262	74,962	12,543
Expenditures:					
Current:					
General government	-	-	-	-	-
Protection of persons and property	-	-	15,892	(15,892)	8,558
Community programs	-	-	-	-	-
Public services	-	-	-	-	-
Total expenditures	-	-	15,892	(15,892)	8,558
Excess (deficiency) of revenues over (under) expenditures	14,300	14,300	73,370	59,070	3,985
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balance	14,300	14,300	73,370	59,070	3,985
Fund balance at beginning of year	349,433	349,433	349,433	-	345,448
Fund balance at end of year	\$ 363,733	363,733	422,803	59,070	349,433

CITY OF COSTA MESA, CALIFORNIA

Local Law Enforcement Block Grant Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

For the fiscal year ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Fines and forfeits	-	-	-	-	-
Intergovernmental	-	-	20,041	20,041	-
Charges for services	-	-	-	-	-
Rental	-	-	-	-	-
Investment income	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total revenues	-	-	20,041	20,041	-
Expenditures:					
Current:					
General government	-	-	-	-	-
Protection of persons and property	-	-	299	(299)	27,543
Community programs	-	-	-	-	-
Public services	-	-	-	-	-
Total expenditures	-	-	299	(299)	27,543
Excess (deficiency) of revenues over (under) expenditures	-	-	19,742	19,742	(27,543)
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balance	-	-	19,742	19,742	(27,543)
Fund balance (deficit) at beginning of year	(19,884)	(19,884)	(19,884)	-	7,659
Fund balance (deficit) at end of year	\$ (19,884)	(19,884)	(142)	19,742	(19,884)

CITY OF COSTA MESA, CALIFORNIA

Office of Traffic Safety Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

For the fiscal year ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Fines and forfeits	-	-	-	-	-
Intergovernmental	-	543,646	44,099	(499,547)	-
Charges for services	-	-	-	-	-
Rental	-	-	-	-	-
Investment income	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total revenues	-	543,646	44,099	(499,547)	-
Expenditures:					
Current:					
General government	-	-	-	-	-
Protection of persons and property	-	489,664	83,398	406,266	-
Community programs	-	-	-	-	-
Public services	-	-	-	-	-
Total expenditures	-	489,664	83,398	406,266	-
Excess (deficiency) of revenues over (under) expenditures	-	53,982	(39,299)	(93,281)	-
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balance	-	53,982	(39,299)	(93,281)	-
Fund balance at beginning of year	-	-	-	-	-
Fund balance (deficit) at end of year	\$ -	53,982	(39,299)	(93,281)	-



MAJOR AND NONMAJOR DEBT SERVICE FUNDS

Debt Service Funds are used to account for the accumulated or resources for, and payment of, general long-term debt.

The following fund has been classified as a major fund in the accompanying government-wide financial statements:

Redevelopment Agency Debt Service Fund

To accumulate monies for payment of the 2003 Tax Allocation Refunding Bonds, the promissory note due upon demand to the City of Costa Mesa and other developer loans. All tax increments received are placed in this fund and are used to retire debt (bonded or loans) in accordance with the Health and Safety Code.

The following have been classified as nonmajor funds in the accompanying fund financial statements:

Financing Authority Debt Service Fund

To accumulate monies for payment of the 2007 Certificates of Participation (COP), 2006 Revenue Refunding Bonds, the 2003 Refunding Certificates of Participation, and the 1998 Refunding Revenue Bonds of the Corporation. The 2007 COP provided funding for the expansion of the police facility. The 2006 Revenue Refunding bonds refunded the 1991 Local Agency Revenues Bonds that provided monies for the purchase of the Costa Mesa Community Facilities 1991 Special Tax Bonds. The 2003 Refunding COP refunded the 1993 Refunding Revenue Bonds that provided for the refunding of the Costa Mesa City Hall and Public Safety Facilities, Inc. 1966 and 1988 Lease Revenue Bond issues. The 1998 Refunding Revenue Bonds provided for the refunding of the 1990 Lease Revenue Bonds.

CITY OF COSTA MESA, CALIFORNIA

Nonmajor Debt Service Funds

Comparative Balance Sheet

June 30, 2007

	Financing Authority Debt Service	Totals	
		2007	2006
<u>Assets</u>			
Cash and investments	\$ 1,975,000	1,975,000	2,062,618
Cash and investments with fiscal agents	5,523,481	5,523,481	3,170,612
Interest receivable	-	-	-
Total assets	<u>\$ 7,498,481</u>	<u>7,498,481</u>	<u>5,233,230</u>
 <u>Liabilities and Fund Balances</u>			
Liabilities:			
Accrued liabilities	\$ -	-	-
Total liabilities	-	-	-
Fund balances:			
Reserved for:			
Debt service	7,498,481	7,498,481	5,233,230
Total fund balances	<u>7,498,481</u>	<u>7,498,481</u>	<u>5,233,230</u>
Total liabilities and fund balances	<u>\$ 7,498,481</u>	<u>7,498,481</u>	<u>5,233,230</u>

CITY OF COSTA MESA, CALIFORNIA

Nonmajor Debt Service Funds

Comparative Statement of Revenues, Expenditures and Changes in Fund Balances

For the fiscal year ended June 30, 2007

	Financing Authority Debt Service	Totals	
		2007	2006
Revenues:			
Taxes	\$ -	-	-
Investment income	229,698	229,698	183,982
Total revenues	229,698	229,698	183,982
Expenditures:			
Debt service:			
Cost of issuance	-	-	90,345
Principal	1,760,000	1,760,000	1,840,000
Interest and fiscal charges	1,067,247	1,067,247	1,004,515
Total expenditures	2,827,247	2,827,247	2,934,860
Excess (deficiency) of revenues over (under) expenditures	(2,597,549)	(2,597,549)	(2,750,878)
Other financing sources (uses):			
Transfers in	5,026,755	5,026,755	2,543,454
Transfers out	(163,955)	(163,955)	-
Payment to bond escrow agent	-	-	(2,139,205)
Issuance of long-term debt	-	-	2,365,000
Total other financing sources (uses)	4,862,800	4,862,800	2,769,249
Net change in fund balances	2,265,251	2,265,251	18,371
Fund balances at beginning of year	5,233,230	5,233,230	5,214,859
Fund balances at end of year	\$ 7,498,481	7,498,481	5,233,230

CITY OF COSTA MESA, CALIFORNIA
Redevelopment Agency Debt Service Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the fiscal year ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ 2,649,597	2,649,597	2,807,587	157,990	2,173,047
Investment income	10,000	10,000	144,942	134,942	94,270
Miscellaneous	25,510	25,510	15,000	(10,510)	15,000
Total revenues	<u>2,685,107</u>	<u>2,685,107</u>	<u>2,967,529</u>	<u>282,422</u>	<u>2,282,317</u>
Expenditures:					
Debt service:					
Cost of issuance	-	-	-	-	-
Principal	833,188	833,188	460,000	373,188	455,000
Interest and fiscal charges	1,217,489	1,217,489	1,218,968	(1,479)	1,254,659
Total expenditures	<u>2,050,677</u>	<u>2,050,677</u>	<u>1,678,968</u>	<u>371,709</u>	<u>1,709,659</u>
Excess (deficiency) of revenues over (under) expenditures	<u>634,430</u>	<u>634,430</u>	<u>1,288,561</u>	<u>654,131</u>	<u>572,658</u>
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	(506,890)	(506,890)	(506,890)	-	(129,713)
Total other financing sources (uses)	<u>(506,890)</u>	<u>(506,890)</u>	<u>(506,890)</u>	<u>-</u>	<u>(129,713)</u>
Net change in fund balance	<u>127,540</u>	<u>127,540</u>	<u>781,671</u>	<u>654,131</u>	<u>442,945</u>
Fund balance (deficit) at beginning of year	(11,780,229)	(11,780,229)	(11,780,229)	-	(12,223,174)
Fund balance (deficit) at end of year	<u>\$ (11,652,689)</u>	<u>(11,652,689)</u>	<u>(10,998,558)</u>	<u>654,131</u>	<u>(11,780,229)</u>

MAJOR AND NONMAJOR CAPITAL PROJECTS FUNDS

Capital Projects Funds are established to account for financial resources segregated for the acquisition and construction of major capital facilities (other than those financed by proprietary funds). The following funds have been classified as nonmajor funds in the accompanying fund financial statements:

The following fund has been classified as a major fund in the accompanying government-wide financial statements:

Capital Improvements Fund

Established to account for the construction of capital facilities financed by the City's General Fund.

The following have been classified as nonmajor funds in the accompanying fund financial statements:

Measure "M" Construction Fund

Established to account for the expenditure of the April 1991 voter-approved one-half percent sales tax for local transportation improvements.

Parking Districts Fund

Established under the Vehicle Parking District Law of 1943 to provide vehicle facilities in the downtown area. Financing was provided through specific property tax levies.

Redevelopment Projects Fund

Established to account for financial resources to be used for acquisition or construction of major capital facilities within the Redevelopment Project Areas of Costa Mesa. Financing is to be provided by the Costa Mesa Redevelopment Agency.

CITY OF COSTA MESA, CALIFORNIA

Nonmajor Capital Projects Funds

Combining Balance Sheet

June 30, 2007

	Measure "M" Construction	Parking Districts	Redevelopment Projects	Totals	
				2007	2006
<u>Assets</u>					
Cash and investments	\$ 8,553,328	26,632	68,698	8,648,658	8,691,470
Cash and investments with fiscal agents	126,430	-	-	126,430	-
Due from other governments	172,688	30	2,655	175,373	1,338,787
Interest receivable	100,494	314	1,003,163	1,103,971	1,018,906
Rent receivable	-	-	1,063,025	1,063,025	1,042,189
Total assets	<u>\$ 8,952,940</u>	<u>26,976</u>	<u>2,137,541</u>	<u>11,117,457</u>	<u>12,091,352</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ 110,318	16	245	110,579	249,587
Retentions payable	329,157	-	-	329,157	149,937
Due to other funds	-	-	55,852	55,852	311,139
Deferred revenue	250,237	-	2,065,333	2,315,570	2,986,626
Total liabilities	<u>689,712</u>	<u>16</u>	<u>2,121,430</u>	<u>2,811,158</u>	<u>3,697,289</u>
Fund balances:					
Reserved for:					
Encumbrances	1,355,888	25,568	-	1,381,456	1,498,862
Unreserved, reported in capital projects funds	<u>6,907,340</u>	<u>1,392</u>	<u>16,111</u>	<u>6,924,843</u>	<u>6,895,201</u>
Total fund balances	<u>8,263,228</u>	<u>26,960</u>	<u>16,111</u>	<u>8,306,299</u>	<u>8,394,063</u>
Total liabilities and fund balances	<u>\$ 8,952,940</u>	<u>26,976</u>	<u>2,137,541</u>	<u>11,117,457</u>	<u>12,091,352</u>

CITY OF COSTA MESA, CALIFORNIA

Nonmajor Capital Projects Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

For the fiscal year ended June 30, 2007

	Measure "M"	Parking	Redevelopment	Totals	
	Construction	Districts	Projects	2007	2006
Revenues:					
Taxes	\$ -	767	-	767	826
Intergovernmental	4,466,225	-	-	4,466,225	3,645,745
Rental	-	-	87,673	87,673	85,447
Investment income	416,235	1,397	10,686	428,318	263,657
Miscellaneous	28,277	-	-	28,277	9,296
Total revenues	4,910,737	2,164	98,359	5,011,260	4,004,971
Expenditures:					
Current:					
Public services	5,206,248	17,433	-	5,223,681	2,072,236
Redevelopment	-	-	192,981	192,981	139,062
Total expenditures	5,206,248	17,433	192,981	5,416,662	2,211,298
Excess (deficiency) of revenues over (under) expenditures	(295,511)	(15,269)	(94,622)	(405,402)	1,793,673
Other financing sources (uses):					
Transfers in	-	-	506,890	506,890	129,713
Transfers out	(100,000)	(1,579)	(87,673)	(189,252)	(186,871)
Issuance of long-term debt	-	-	-	-	-
Total other financing sources (uses)	(100,000)	(1,579)	419,217	317,638	(57,158)
Net change in fund balance	(395,511)	(16,848)	324,595	(87,764)	1,736,515
Fund balance (deficit) at beginning of year	8,658,739	43,808	(308,484)	8,394,063	6,657,548
Fund balance at end of year	\$8,263,228	26,960	16,111	8,306,299	8,394,063

CITY OF COSTA MESA, CALIFORNIA

Capital Improvements Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

For the fiscal year ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Intergovernmental	930,000	1,049,725	-	(1,049,725)	2,818,380
Rental	-	-	-	-	-
Investment income	200,200	200,200	522,260	322,060	139,332
Miscellaneous	5,000	5,000	73,811	68,811	28,400
Total revenues	<u>1,135,200</u>	<u>1,254,925</u>	<u>596,071</u>	<u>(658,854)</u>	<u>2,986,112</u>
Expenditures:					
Current:					
Public services	2,515,000	27,775,075	11,165,509	16,609,566	4,944,876
Redevelopment	-	-	-	-	-
Debt service:					
Cost of issuance	-	-	593,136	(593,136)	-
Total expenditures	<u>2,515,000</u>	<u>27,775,075</u>	<u>11,758,645</u>	<u>16,016,430</u>	<u>4,944,876</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,379,800)</u>	<u>(26,520,150)</u>	<u>(11,162,574)</u>	<u>15,357,576</u>	<u>(1,958,764)</u>
Other financing sources (uses):					
Transfers in	435,000	479,108	637,988	158,880	444,270
Transfers out	-	-	(2,297,204)	(2,297,204)	(964,000)
Issuance of long-term debt	-	18,229,252	29,960,000	11,730,748	3,183,781
Bond premium	-	-	80,193	80,193	-
Total other financing sources (uses)	<u>435,000</u>	<u>18,708,360</u>	<u>28,380,977</u>	<u>9,672,617</u>	<u>2,664,051</u>
Net change in fund balance	(944,800)	(7,811,790)	17,218,403	25,030,193	705,287
Fund balance at beginning of year	<u>4,904,857</u>	<u>4,904,857</u>	<u>4,904,857</u>	<u>-</u>	<u>4,199,570</u>
Fund balance (deficit) at end of year	<u>\$ 3,960,057</u>	<u>(2,906,933)</u>	<u>22,123,260</u>	<u>25,030,193</u>	<u>4,904,857</u>

CITY OF COSTA MESA, CALIFORNIA

Measure "M" Construction Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

For the fiscal year ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Intergovernmental	9,702,920	9,882,920	4,466,225	(5,416,695)	3,645,745
Rental	-	-	-	-	-
Investment income	298,000	298,000	416,235	118,235	262,117
Miscellaneous	-	28,277	28,277	-	9,296
Total revenues	10,000,920	10,209,197	4,910,737	(5,298,460)	3,917,158
Expenditures:					
Current:					
Public services	9,722,920	21,134,274	5,206,248	15,928,026	2,072,236
Redevelopment	-	-	-	-	-
Total expenditures	9,722,920	21,134,274	5,206,248	15,928,026	2,072,236
Excess (deficiency) of revenues over (under) expenditures	278,000	(10,925,077)	(295,511)	10,629,566	1,844,922
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	(100,000)	(100,000)	(100,000)	-	(100,000)
Total other financing sources (uses)	(100,000)	(100,000)	(100,000)	-	(100,000)
Net change in fund balance	178,000	(11,025,077)	(395,511)	10,629,566	1,744,922
Fund balance at beginning of year	8,658,739	8,658,739	8,658,739	-	6,913,817
Fund balance (deficit) at end of year	\$ 8,836,739	(2,366,338)	8,263,228	10,629,566	8,658,739

CITY OF COSTA MESA, CALIFORNIA

Redevelopment Projects Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

For the fiscal year ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Intergovernmental	-	-	-	-	-
Rental	98,669	98,669	87,673	(10,996)	85,447
Investment income	-	-	10,686	10,686	-
Miscellaneous	-	413	-	(413)	-
Total revenues	<u>98,669</u>	<u>99,082</u>	<u>98,359</u>	<u>(723)</u>	<u>85,447</u>
Expenditures:					
Current:					
Public services	-	-	-	-	-
Redevelopment	547,890	548,960	192,981	355,979	139,062
Total expenditures	<u>547,890</u>	<u>548,960</u>	<u>192,981</u>	<u>355,979</u>	<u>139,062</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(449,221)</u>	<u>(449,878)</u>	<u>(94,622)</u>	<u>355,256</u>	<u>(53,615)</u>
Other financing sources (uses):					
Transfers in	506,890	506,890	506,890	-	129,713
Transfers out	(98,669)	(98,669)	(87,673)	10,996	(85,447)
Total other financing sources (uses)	<u>408,221</u>	<u>408,221</u>	<u>419,217</u>	<u>10,996</u>	<u>44,266</u>
Net change in fund balance	(41,000)	(41,657)	324,595	366,252	(9,349)
Fund balance (deficit) at beginning of year	<u>(308,484)</u>	<u>(308,484)</u>	<u>(308,484)</u>	<u>-</u>	<u>(299,135)</u>
Fund balance (deficit) at end of year	<u>\$ (349,484)</u>	<u>(350,141)</u>	<u>16,111</u>	<u>366,252</u>	<u>(308,484)</u>

INTERNAL SERVICE FUNDS

Internal Service Funds are used to account for the financing of goods and services provided by the one City department to others, or of other governmental units on a cost-reimbursement basis.

Equipment Replacement Fund

Established to account for all motorized equipment used by City departments.

Self Insurance Fund – Worker’s Compensation/General Liability/Unemployment

Established to account for the receipt and disbursement of funds used to pay worker’s compensation, general liability and unemployment claims filed against the City.

CITY OF COSTA MESA, CALIFORNIA

Internal Service Funds

Combining Statement of Net Assets

June 30, 2007

	Equipment Replacement	Self-Insurance Workers' Compensation/ General Liability/ Unemployment	Totals	
			2007	2006
<u>Assets</u>				
Current assets:				
Cash and investments	\$ 7,211,763	10,533,872	17,745,635	17,873,411
Accounts receivable	36,156	28,625	64,781	-
Interest receivable	77,842	120,280	198,122	200,181
Inventories	102,302	-	102,302	111,495
Total current assets	7,428,063	10,682,777	18,110,840	18,185,087
Capital assets:				
Motorized equipment	10,452,507	-	10,452,507	9,346,100
Other equipment	317,173	-	317,173	290,439
Accumulated depreciation	(5,217,987)	-	(5,217,987)	(4,818,204)
Net capital assets	5,551,693	-	5,551,693	4,818,335
Total assets	12,979,756	10,682,777	23,662,533	23,003,422
<u>Liabilities and Net Assets</u>				
Current liabilities:				
Accounts payable	147,495	68,944	216,439	150,748
Accrued liabilities	9,233	245	9,478	9,507
Due to other funds	4,737	-	4,737	-
Claims payable	-	2,337,627	2,337,627	2,386,928
Total current liabilities	161,465	2,406,816	2,568,281	2,547,183
Long-term liabilities:				
Claims payable	-	6,241,442	6,241,442	6,620,193
Total long-term liabilities	-	6,241,442	6,241,442	6,620,193
Total liabilities	161,465	8,648,258	8,809,723	9,167,376
Net assets:				
Invested in capital assets	5,551,693	-	5,551,693	4,818,335
Unrestricted	7,266,598	2,034,519	9,301,117	9,017,711
Total net assets	\$ 12,818,291	2,034,519	14,852,810	13,836,046

CITY OF COSTA MESA, CALIFORNIA

Internal Service Funds

Combining Statement of Revenues, Expenses and Changes in Net Assets

For the fiscal year ended June 30, 2007

	Equipment Replacement	Self-Insurance Workers' Compensation/ General Liability/ Unemployment	Totals	
			2007	2006
Operating revenues:				
Charges for services	\$ 3,106,546	3,229,673	6,336,219	6,410,223
Total operating revenues	3,106,546	3,229,673	6,336,219	6,410,223
Operating expenses:				
Allocated administrative costs	1,070,648	195,036	1,265,684	1,195,971
Depreciation	730,696	-	730,696	681,448
Fuel and repair parts	1,187,858	-	1,187,858	876,945
Claims and premiums	-	2,053,404	2,053,404	3,190,602
Total operating expenses	2,989,202	2,248,440	5,237,642	5,944,966
Operating income (loss)	117,344	981,233	1,098,577	465,257
Nonoperating revenues (expenses):				
Investment income	316,072	439,313	755,385	633,964
Loss on sale of equipment	(82,905)	-	(82,905)	(36,685)
Total nonoperating revenues (expenses)	233,167	439,313	672,480	597,279
Income (loss) before transfers	350,511	1,420,546	1,771,057	1,062,536
Transfers in	2,723	429	3,152	-
Transfers out	(323,622)	(433,823)	(757,445)	(587,271)
Total transfers	(320,899)	(433,394)	(754,293)	(587,271)
Change in net assets	29,612	987,152	1,016,764	475,265
Net assets at beginning of year	12,788,679	1,047,367	13,836,046	13,360,781
Net assets at end of year	\$ 12,818,291	2,034,519	14,852,810	13,836,046

CITY OF COSTA MESA, CALIFORNIA

Internal Service Funds

Combining Statement of Cash Flows

For the fiscal year ended June 30, 2007

	Equipment Replacement	Self-Insurance Workers' Compensation/ General Liability/ Unemployment	Totals	
			2007	2006
Cash flows from operating activities:				
Cash received from customers and user departments	\$ 3,070,390	3,201,048	6,271,438	6,410,223
Cash payments to suppliers for goods and services	(1,439,934)	(2,510,701)	(3,950,635)	(4,018,343)
Cash payments to employees for services	(745,713)	(163,795)	(909,508)	(871,870)
Net cash provided by (used for) operating activities	884,743	526,552	1,411,295	1,520,010
Cash flows from noncapital financing activities:				
Cash received from other funds	7,889	-	7,889	-
Cash paid to other funds	(324,051)	(433,394)	(757,445)	(587,271)
Net cash provided by (used for) noncapital financing activities	(316,162)	(433,394)	(749,556)	(587,271)
Cash flows from capital and related financing activities:				
Cash received from disposal of assets	74,980	-	74,980	56,844
Acquisition of capital assets	(1,621,939)	-	(1,621,939)	(1,408,589)
Net cash provided by (used for) capital and related financing activities	(1,546,959)	-	(1,546,959)	(1,351,745)
Cash flows from investing activities:				
Investment income received	323,621	433,823	757,444	587,272
Net cash provided by (used for) investing activities	323,621	433,823	757,444	587,272
Net increase (decrease) in cash and cash equivalents	(654,757)	526,981	(127,776)	168,266
Cash and cash equivalents at beginning of year	7,866,520	10,006,891	17,873,411	17,705,145
Cash and cash equivalents at end of year	\$ 7,211,763	10,533,872	17,745,635	17,873,411
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ 117,344	981,233	1,098,577	465,257
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	730,696	-	730,696	681,448
(Increase) decrease in inventories	9,193	-	9,193	(56,859)
(Increase) decrease in accounts receivable	(36,156)	(28,625)	(64,781)	-
Increase (decrease) in accounts payable	62,282	3,409	65,691	(48,974)
Increase (decrease) in accrued liabilities	1,384	(1,413)	(29)	(8,820)
Increase (decrease) in claims payable	-	(428,052)	(428,052)	487,958
Net cash provided by (used for) operating activities	\$ 884,743	526,552	1,411,295	1,520,010

AGENCY FUNDS

The Agency Funds are used to account for assets held by the City in a fiduciary capacity for individuals, government entities, and others. Such funds are operated by carrying out the specifications of trust indentures, statutes, ordinances, or other governing regulations.

Deposits Fund

Established to account for various other funds held by the City in an agent or trustee capacity of individuals, private organizations, other governmental units, and/or other funds.

Community Facilities District Fund

Established to account for a special tax received under the Mello-Roos Community Facilities Act of 1982. Bonds were issued to provide for improvements within the District.

Costa Mesa Community Foundation Fund

Established for the purpose of providing opportunities for donors to contribute assets for the benefit of the Community.

Airborne Law Enforcement (A.B.L.E.) Fund

Established to account for the receipt of funds made available to finance, acquire, and maintain the Airborne Law Enforcement Services, a public law enforcement service program. The Cities of Costa Mesa and Newport Beach are member agencies of this joint powers agency. The agency contracts with public entities to provide helicopter services.

CITY OF COSTA MESA, CALIFORNIA
Agency Funds
Combining Statement of Fiduciary Assets and Liabilities
June 30, 2007

	<u>Deposits</u>	<u>Community Facilities District</u>	<u>Costa Mesa Community Foundation</u>	<u>Airborne Law Enforcement</u>	<u>Totals</u>	
					2007	2006
<u>Assets</u>						
Cash and investments	\$ 3,794,596	-	110,251	2,070,023	5,974,870	4,255,551
Due from other governments	-	-	-	223,896	223,896	291,405
Accounts receivable	2,742	-	-	11,939	14,681	104,186
Interest receivable	9,287	-	1,295	24,320	34,902	18,137
Inventories	-	-	-	172,284	172,284	161,050
Prepaid items	-	-	-	4,313	4,313	110,535
	<u>\$ 3,806,625</u>	<u>-</u>	<u>111,546</u>	<u>2,506,775</u>	<u>6,424,946</u>	<u>4,940,864</u>
<u>Liabilities</u>						
Accounts payable	\$ 33,141	-	414	130,188	163,743	217,779
Deposits payable	3,773,484	-	111,132	-	3,884,616	2,964,079
Due to other governments	-	-	-	2,376,587	2,376,587	1,759,006
Held for bondholders	-	-	-	-	-	-
	<u>\$ 3,806,625</u>	<u>-</u>	<u>111,546</u>	<u>2,506,775</u>	<u>6,424,946</u>	<u>4,940,864</u>

CITY OF COSTA MESA, CALIFORNIA

Agency Funds

Combining Statement of Changes in Fiduciary Assets and Liabilities

For the fiscal year ended June 30, 2007

	<u>Balance at July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2007</u>
<u>DEPOSITS</u>				
<u>Assets</u>				
Cash and investments	\$ 2,827,299	41,818,873	40,851,576	3,794,596
Accounts receivable	27,389	114,437	139,084	2,742
Interest receivable	1,797	9,287	1,797	9,287
Prepaid items	16,892	-	16,892	-
Total assets	<u>\$ 2,873,377</u>	<u>41,942,597</u>	<u>41,009,349</u>	<u>3,806,625</u>
<u>Liabilities</u>				
Accounts payable	\$ 5,182	6,539,426	6,511,467	33,141
Deposits payable	2,868,195	41,641,678	40,736,389	3,773,484
Total liabilities	<u>\$ 2,873,377</u>	<u>48,181,104</u>	<u>47,247,856</u>	<u>3,806,625</u>
<u>COMMUNITY FACILITIES DISTRICT</u>				
<u>Assets</u>				
Cash and investments	\$ -	245,150	245,150	-
Prepaid items	47,557	-	47,557	-
Total assets	<u>\$ 47,557</u>	<u>245,150</u>	<u>292,707</u>	<u>-</u>
<u>Liabilities</u>				
Held for bondholders	\$ 47,557	245,150	292,707	-
Total liabilities	<u>\$ 47,557</u>	<u>245,150</u>	<u>292,707</u>	<u>-</u>
<u>COSTA MESA COMMUNITY FOUNDATION</u>				
<u>Assets</u>				
Cash and investments	\$ 94,799	52,548	37,096	110,251
Interest receivable	1,085	1,295	1,085	1,295
Total assets	<u>\$ 95,884</u>	<u>53,843</u>	<u>38,181</u>	<u>111,546</u>
<u>Liabilities</u>				
Accounts payable	\$ -	28,940	28,526	414
Deposits payable	95,884	69,751	54,503	111,132
Total liabilities	<u>\$ 95,884</u>	<u>98,691</u>	<u>83,029</u>	<u>111,546</u>

(Continued)

CITY OF COSTA MESA, CALIFORNIA

(Continued)

Agency Funds

Combining Statement of Changes in Fiduciary Assets and Liabilities

For the fiscal year ended June 30, 2007

	Balance at July 1, 2006	Additions	Deletions	Balance at June 30, 2007
<u>AIRBORNE LAW ENFORCEMENT</u>				
<u>Assets</u>				
Cash and investments	\$ 1,333,453	2,550,256	1,813,686	2,070,023
Due from other governments	291,405	1,711,189	1,778,698	223,896
Accounts receivable	76,797	11,939	76,797	11,939
Interest receivable	15,255	24,320	15,255	24,320
Inventories	161,050	11,234	-	172,284
Prepaid items	46,086	51,870	93,643	4,313
Total assets	<u>\$ 1,924,046</u>	<u>4,360,808</u>	<u>3,778,079</u>	<u>2,506,775</u>
<u>Liabilities</u>				
Accounts payable	\$ 165,040	130,188	165,040	130,188
Due to other governments	1,759,006	2,376,587	1,759,006	2,376,587
Total liabilities	<u>\$ 1,924,046</u>	<u>2,506,775</u>	<u>1,924,046</u>	<u>2,506,775</u>
<u>TOTALS - ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and investments	\$ 4,255,551	44,666,827	42,947,508	5,974,870
Due from other governments	291,405	1,711,189	1,778,698	223,896
Accounts receivable	104,186	126,376	215,881	14,681
Interest receivable	18,137	34,902	18,137	34,902
Inventories	161,050	11,234	-	172,284
Prepaid items	110,535	51,870	158,092	4,313
Total assets	<u>\$ 4,940,864</u>	<u>46,602,398</u>	<u>45,118,316</u>	<u>6,424,946</u>
<u>Liabilities</u>				
Accounts payable	\$ 170,222	6,698,554	6,705,033	163,743
Deposits payable	2,964,079	41,711,429	40,790,892	3,884,616
Due to other governments	1,759,006	2,376,587	1,759,006	2,376,587
Held for bondholders	47,557	245,150	292,707	-
Total liabilities	<u>\$ 4,940,864</u>	<u>51,031,720</u>	<u>49,547,638</u>	<u>6,424,946</u>

STATISTICAL SECTION



COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2007

STATISTICAL SECTION

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

FINANCIAL TRENDS

TABLES 1 - 4

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

REVENUE CAPACITY

TABLES 5 - 12

These schedules contain revenue information to help the reader assess the government's most significant local revenue source.

DEBT CAPACITY

TABLES 13 - 15

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

DEMOGRAPHIC AND ECONOMIC INFORMATION

TABLES 16 - 17

These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.

OPERATING INFORMATION

TABLES 18 - 20

These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.

TABLE 1

CITY OF COSTA MESA, CALIFORNIA

NET ASSETS BY COMPONENT

LAST SIX FISCAL YEARS

(accrual basis of accounting)

	Fiscal Years									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Governmental Activities										
Invested in capital assets, net of related debt	-	\$169,744,591	202,575,439	204,310,422	207,142,027	223,882,753	-	-	-	-
Restricted										
Protection of Persons and Property	-	2,411,456	2,723,835	1,714,903	1,481,296	747,564	-	-	-	-
Community programs	-	4,541,217	1,990,698	1,637,173	2,649,931	10,166,878	-	-	-	-
Public services	-	35,868,367	29,155,232	23,973,667	27,895,363	19,186,443	-	-	-	-
Redevelopment	-	-	-	-	6,348,075	8,743,736	-	-	-	-
Unrestricted	-	59,804,886	60,812,797	71,067,417	66,063,174	62,778,909	-	-	-	-
Total governmental activities net assets	-	<u>272,370,517</u>	<u>297,258,001</u>	<u>302,703,582</u>	<u>311,579,866</u>	<u>325,506,283</u>	-	-	-	-

⁽¹⁾ - GASB 34 was implemented in FY 2002-03 and prior information is not available.

Source: Government-Wide Financial Statements

TABLE 2

CITY OF COSTA MESA, CALIFORNIA

CHANGES IN NET ASSETS
LAST SIX FISCAL YEARS
(accrual basis of accounting)

	Fiscal Years									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Expenses										
Governmental Activities:										
General government	-	17,466,434	21,245,163	23,646,274	21,823,044	28,246,216	-	-	-	-
Protection of persons and property	-	47,765,134	45,672,246	51,753,396	58,123,794	52,299,944	-	-	-	-
Community programs	-	4,999,104	4,937,852	4,927,306	3,770,475	5,945,293	-	-	-	-
Public services	-	14,099,350	16,699,275	14,728,739	19,371,276	24,479,949	-	-	-	-
Redevelopment	-	528,350	632,735	534,995	2,509,671	885,005	-	-	-	-
Interest on long-term debt	-	3,046,397	3,359,285	1,486,198	2,502,868	3,419,566	-	-	-	-
Total primary government expenses	-	87,904,769	92,546,556	97,076,908	108,101,128	115,275,973	-	-	-	-
Program Revenues										
Governmental Activities:										
Charges for services:										
Protection of persons and property	-	2,379,028	2,931,054	2,932,734	3,199,365	3,742,586	-	-	-	-
Community programs	-	4,626,660	5,407,997	5,247,815	5,402,789	5,423,255	-	-	-	-
Public services	-	2,312,339	4,316,825	3,181,180	3,374,546	5,680,415	-	-	-	-
Redevelopment	-	180,061	-	-	-	-	-	-	-	-
Operating grants and contributions	-	12,012,746	6,818,121	6,071,120	11,709,774	11,459,481	-	-	-	-
Capital grants and contributions	-	3,592,565	5,419,104	5,253,030	4,511,691	6,506,495	-	-	-	-
Total primary government revenues	-	25,103,399	24,893,101	22,685,879	28,198,165	32,812,232	-	-	-	-
Total primary government net expense	-	(62,801,370)	(67,653,455)	(74,391,029)	(79,902,963)	(82,463,741)	-	-	-	-
General Revenues and Other Changes in Net Assets										
Governmental Activities:										
Taxes:										
Property taxes	-	17,853,053	18,826,218	18,586,166	19,752,336	22,921,884	-	-	-	-
Sales and use taxes	-	36,255,107	41,027,059	43,582,985	46,049,080	46,489,599	-	-	-	-
Transient occupancy tax	-	3,799,682	4,221,661	4,641,350	5,465,320	5,959,556	-	-	-	-
Franchise taxes	-	2,308,683	2,329,340	2,833,347	3,674,652	3,911,800	-	-	-	-
Business license tax	-	854,580	830,794	912,434	912,324	897,608	-	-	-	-
Other intergovernmental, unrestricted	-	7,811,132	5,208,889	8,659,395	8,108,852	8,687,055	-	-	-	-
Investment income	-	5,314,256	2,436,835	3,455,453	3,082,011	7,433,407	-	-	-	-
Miscellaneous	-	5,411,936	891,797	740,848	210,302	89,249	-	-	-	-
Total primary government	-	79,608,429	75,772,593	83,411,978	87,254,877	96,390,158	-	-	-	-
Change in Net Assets	-	16,807,059	8,119,138	9,020,949	7,351,914	13,926,417	-	-	-	-

⁽¹⁾ - GASB 34 was implemented in FY 2002-03 and prior information is not available.

Source: Government-Wide Financial Statements

TABLE 3

CITY OF COSTA MESA, CALIFORNIA
FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)

	Fiscal Years									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General fund										
Reserved	14,624,925	16,420,035	14,745,647	14,818,438	14,213,621	13,579,931	15,225,005	15,227,236	14,744,220	18,326,310
Unreserved	32,712,867	37,160,893	45,444,311	49,362,775	49,532,133	46,239,990	46,375,225	54,605,118	56,192,948	55,057,757
Total general fund	<u>47,337,792</u>	<u>53,580,928</u>	<u>60,189,958</u>	<u>64,181,213</u>	<u>63,745,754</u>	<u>59,819,921</u>	<u>61,600,230</u>	<u>69,832,354</u>	<u>70,937,168</u>	<u>73,384,067</u>
All other governmental funds										
Reserved	18,859,680	12,399,049	16,364,880	14,275,069	13,193,096	9,686,559	12,496,295	12,565,629	12,561,311	26,378,785
Unreserved, reported in:										
Special revenue funds	1,770,843	3,700,840	2,957,335	11,153,965	14,149,407	22,738,847	17,411,372	16,637,291	18,233,112	20,625,152
Capital projects funds	7,747,009	9,408,647	6,035,171	9,793,205	12,106,657	17,782,526	13,443,518	8,349,839	8,730,735	15,128,023
Debt services funds		(194,085)	(387,137)	(81,636)	(14,410)	(13,160,320)	(12,732,031)	(12,226,674)	(11,783,729)	(11,002,058)
Total primary government net expense	<u>28,377,532</u>	<u>25,314,451</u>	<u>24,970,249</u>	<u>35,140,603</u>	<u>39,434,750</u>	<u>37,047,612</u>	<u>30,619,154</u>	<u>25,326,085</u>	<u>27,741,429</u>	<u>51,129,902</u>

Source: Fund Financial Statements

TABLE 4

CITY OF COSTA MESA, CALIFORNIA
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)

	Fiscal Years									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Revenues										
Taxes	50,987,999	51,717,017	54,886,109	60,434,989	59,066,320	61,071,105	67,235,072	70,556,282	75,818,711	80,180,448
Licenses and permits	1,174,296	1,464,155	1,914,939	2,268,689	1,516,212.00	1,766,850	2,143,839	1,948,650	2,101,870	2,874,124
Fines and forfeits	1,624,038	1,995,131	1,940,865	1,887,675	2,145,631.00	2,333,653	3,358,468	2,953,385	3,157,859	2,915,299
Intergovernmental	20,152,187	16,694,142	16,617,033	19,077,230	22,541,858.00	25,593,714	16,080,227	19,585,648	22,199,470	22,675,698
Charges for services	3,358,236	2,511,543	2,688,370	2,661,860	2,233,011	3,477,270	3,170,569	3,325,517	4,771,803	7,789,875
Rental	2,007,788	2,296,832	2,397,473	2,498,142	2,643,323	2,686,336	2,816,656	2,858,286	2,792,016	2,909,707
Investment income	4,323,792	4,364,599	4,537,659	7,434,201	5,858,172	4,595,758	1,878,219	3,931,991	2,448,400	6,843,792
Miscellaneous	433,768	1,008,430	443,169	391,850	1,040,544.00	975,612	1,173,944	1,427,160	841,991	882,110
Total revenues	84,062,104	82,051,849	85,425,617	96,654,636	97,045,071	102,500,298	97,856,994	106,586,919	114,132,120	127,071,053
Expenditures										
General government	12,326,410	12,435,092	12,385,206	20,020,444	19,648,587	21,219,016	21,185,828	23,132,535	25,676,011	27,473,794
Protection of persons and property	35,596,105	37,108,197	35,798,506	41,684,236	44,953,141	47,622,359	48,965,777	51,926,311	58,653,822	61,444,097
Community programs	4,447,657	4,372,744	5,764,615	5,614,630	6,195,499	6,825,783	6,215,447	6,320,969	7,330,558	10,581,225
Public services	28,491,955	21,621,590	18,884,977	11,011,449	17,294,673	17,678,362	18,879,695	16,903,620	15,692,726	24,951,597
Redevelopment	307,658	107,355	552,131	410,324	986,134	528,350	488,843	549,793	2,509,671	885,005
Debt service:										
Principal	5,050,993	1,980,593	2,006,875	2,114,640	2,232,295	2,294,953	2,661,728	2,887,337	3,238,000	3,524,900
Interest	3,905,167	3,222,922	3,246,558	2,735,624	3,000,282	2,997,599	2,778,146	2,467,583	2,448,580	2,576,413
Other charges	399,457	-	-	-	-	-	2,730,272	-	90,345	593,136
Total expenditures	90,525,402	80,848,493	78,638,868	83,591,347	94,310,611	99,166,422	103,905,736	104,188,148	115,639,713	132,030,167
Excess of revenues over (under) expenditures	(6,463,298)	1,203,356	6,786,749	13,063,289	2,734,460	3,333,876	(6,048,742)	2,398,771	(1,507,593)	(4,959,114)
Other financing sources (uses):										
Transfers in	8,570,186	3,479,729	3,262,367	9,443,373	6,551,610	5,237,917	3,984,713	6,651,916	5,214,379	7,365,984
Transfers out	(8,326,223)	(3,230,782)	(3,086,514)	(9,132,723)	(6,243,568)	(5,011,721)	(3,468,827)	(6,111,632)	(4,627,108)	(6,611,691)
Issuance of long-term debt	-	-	-	-	-	-	21,824,120	-	7,151,217	-
Premium on debt issue	-	-	-	-	-	-	403,531	-	-	80,193
Payment to bond escrow agent	(13,210,021)	-	-	-	-	-	(19,645,279)	-	(2,139,205)	-
Lease proceeds	-	40,500	-	495,874	797,298	3,400,000	-	-	-	-
Loan proceeds	1,128,426	-	-	-	-	-	-	-	-	-
Bond proceeds	13,325,580	-	-	-	-	-	-	-	-	29,960,000
Sales of lands	324,807	370,751	58,200	445,000	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	1,812,755	660,198	234,053	1,251,524	1,105,340	3,626,196	3,098,258	540,284	5,599,283	30,794,486
Net change in fund balances	(4,650,543)	1,863,554	7,020,802	14,314,813	3,839,800	6,960,072	(2,950,484)	2,939,055	4,091,690	25,835,372
Debt service as a percentage of noncapital expenditures	10.33%	6.44%	6.68%	5.80%	5.55%	5.34%	7.86%	5.14%	5.54%	6.15%

Source: Fund Financial Statements

CITY OF COSTA MESA, CALIFORNIA
TAX REVENUES BY SOURCE, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)

<u>Fiscal Years</u>	<u>Sales</u>	<u>Property</u>	<u>Transient Occupancy</u>	<u>Franchise</u>	<u>Business License</u>	<u>Proposition 172</u>	<u>Total</u>
1998	29,137,280	12,431,496	3,846,151	1,827,146	778,623	606,826	48,627,522
1999	30,268,638	13,285,302	4,451,038	1,844,441	806,379	615,151	51,270,949
2000	32,650,942	14,131,797	4,118,044	2,008,090	817,795	700,570	54,427,238
2001	36,117,542	15,783,325	4,856,772	2,132,795	794,196	749,571	60,434,201
2002	34,460,553	16,811,162	3,865,823	2,366,926	842,839	718,227	59,065,530
2003	35,527,005	17,853,053	3,799,682	2,308,683	854,580	728,102	61,071,105
2004	40,244,632	18,826,218	4,221,661	2,329,340	830,794	782,427	67,235,072
2005	42,714,022	18,586,167	4,641,350	2,833,347	912,434	868,962	70,556,282
2006	45,116,230	19,717,334	5,465,320	3,674,652	912,324	932,851	75,818,711
2007	45,641,219	22,921,885	5,959,556	3,911,800	897,608	848,380	80,180,448

Source: Required Supplementary Information

TABLE 6

CITY OF COSTA MESA, CALIFORNIA
TAXABLE SALES BY CATEGORY
LAST TEN CALENDAR YEARS
(in thousands of dollars)

	Calendar Years									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Apparel stores	\$ 313,911	\$ 306,101	\$ 307,176	\$ 333,725	\$ 347,917	\$ 354,517	\$ 371,013	\$ 419,206	\$ 454,318	\$ 463,521
General merchandise	513,014	514,892	514,661	505,517	517,064	514,136	536,259	583,136	614,478	602,376
Food stores	72,712	74,737	83,755	88,647	92,150	91,818	93,223	89,945	95,332	100,243
Eating and drinking establishments	186,075	205,857	215,788	239,937	244,135	250,199	273,604	308,988	330,384	360,331
Building materials	84,235	95,943	109,606	157,195	167,901	176,453	189,652	208,049	233,108	237,727
Auto dealers and supplies	352,035	417,055	480,538	539,726	571,028	615,995	678,550	760,174	767,922	724,664
Service stations	114,458	87,150	93,151	107,910	106,569	102,732	115,955	136,154	151,650	173,583
Other retail stores	487,361	529,420	569,433	623,448	637,799	655,700	761,889	884,442	966,736	1,052,096
All other outlets	778,084	769,202	810,754	898,925	859,321	795,047	826,899	872,929	917,503	905,603
	<u>\$ 2,901,885</u>	<u>\$ 3,000,357</u>	<u>\$ 3,184,862</u>	<u>\$ 3,495,030</u>	<u>\$ 3,543,884</u>	<u>\$ 3,556,597</u>	<u>\$ 3,847,044</u>	<u>\$ 4,263,023</u>	<u>\$ 4,531,431</u>	<u>\$ 4,620,144</u>
City direct sales tax rate	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%

Source: State of California Board of Equalization and The HdL Companies

TABLE 7

**CITY OF COSTA MESA, CALIFORNIA
PRINCIPAL SALES TAX REMITTERS BY CATEGORY
CURRENT YEAR AND NINE YEARS AGO**

<u>Category</u>	<u>2007</u>			<u>1997</u>		
	<u>Taxable Sales</u>	<u>Rank</u>	<u>Percentage of Total City Taxable Sales</u>	<u>Taxable Sales</u>	<u>Rank</u>	<u>Percentage of Total City Taxable Sales</u>
Other retail stores	1,052,096	1	22.77%	487,361	3	16.79%
All other outlets	905,603	2	19.60%	778,084	1	26.81%
Auto dealers and supplies	724,664	3	15.68%	352,035	4	12.13%
General merchandise	602,376	4	13.04%	513,014	2	17.68%
Apparel stores	463,521	5	10.03%	313,911	5	10.82%
Eating and drinking establishments	360,331	6	7.80%	186,075	6	6.41%
Building materials	237,727	7	5.15%	84,235	8	2.90%
Service stations	173,583	8	3.76%	114,458	7	3.94%
Food stores	100,243	9	2.17%	72,712	9	2.51%

Source: State of California Board of Equalization and The HdL Companies

TABLE 8

**CITY OF COSTA MESA, CALIFORNIA
 DIRECT AND OVERLAPPING SALES TAX RATES
 LAST TEN FISCAL YEARS**

<u>Fiscal Years</u>	<u>City Direct Rate</u>	<u>Orange County Rate</u>	<u>State of California Rate</u>	<u>Total Sales Tax Rate</u>
1998	1.00	0.50	6.00	7.50
1999	1.00	0.50	6.00	7.50
2000	1.00	0.50	6.00	7.50
2001	1.00	0.50	5.75	7.25
2002	1.00	0.50	6.00	7.50
2003	1.00	0.50	6.00	7.50
2004	1.00	0.50	6.00	7.50
2005	1.00	0.50	6.25	7.75
2006	1.00	0.50	6.25	7.75
2007	1.00	0.50	6.25	7.75

Source: State of California Board of Equalization

TABLE 9

**CITY OF COSTA MESA, CALIFORNIA
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS**

Fiscal Year Ended June 30,	Taxes Levied for the Fiscal Year	Collected within the		Collected in Subsequent Years	Total Collections to Date	
		Fiscal Year of the Levy Amount	Percentage of Levy		Amount	Percentage of Levy
1998	10,596,928	10,409,996	98.24%	329,198	10,739,194	101.34%
1999	10,887,990	10,701,996	98.29%	238,845	10,940,841	100.49%
2000	11,749,672	11,575,465	98.52%	218,157	11,793,622	100.37%
2001	12,837,737	12,656,164	98.59%	216,612	12,872,776	100.27%
2002	13,759,323	13,427,866	97.59%	229,852	13,657,718	99.26%
2003	14,454,930	14,157,707	97.94%	269,338	14,427,045	99.81%
2004	15,334,915	14,971,613	97.63%	252,804	15,224,417	99.28%
2005	16,675,818	16,292,111	97.70%	210,990	16,503,101	98.96%
2006	18,134,611	17,586,064	96.98%	239,872	17,825,936	98.30%
2007	19,560,699	18,685,762	95.53%	312,318	18,998,080	97.12%

Source: Orange County Assessor 2006/07 Combined Tax Rolls

TABLE 10

CITY OF COSTA MESA, CALIFORNIA
ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)

<u>Fiscal Years</u>	<u>Residential Property</u>	<u>Commerical Property</u>	<u>Industrial Property</u>	<u>Miscellaneous Property</u>	<u>Less: Tax-Exempt Property</u>	<u>Total Taxable Assessed Value</u>	<u>Total Direct Tax Rate</u>	<u>Estimated Actual Taxable Value ⁽¹⁾</u>	<u>Taxable Assessed Value as a Percentage of Actual Taxable Value</u>
1998	3,544,442,076	1,925,839,318	662,096,583	855,309,604	-	6,987,687,581	0.17983%	6,987,687,581	100.00%
1999	3,747,364,955	1,147,682,542	634,469,000	1,614,418,269	-	7,143,934,766	0.17895%	7,143,934,766	100.00%
2000	3,985,556,014	1,987,997,215	743,854,287	898,361,731	-	7,615,769,247	0.17771%	7,615,769,247	100.00%
2001	4,385,154,916	1,322,224,744	738,057,361	1,918,956,278	-	8,364,393,299	0.17639%	8,364,393,299	100.00%
2002	4,685,572,867	1,442,038,876	743,917,246	2,066,414,924	-	8,937,943,913	0.17368%	8,937,943,913	100.00%
2003	5,037,637,890	1,508,229,344	771,481,624	2,175,012,439	-	9,492,361,297	0.17590%	9,492,361,297	100.00%
2004	5,401,000,174	2,708,744,818	914,850,557	1,032,588,177	-	10,057,183,726	0.17603%	10,057,183,726	100.00%
2005	6,011,396,006	1,648,237,709	875,070,937	2,154,452,653	-	10,689,157,305	0.17555%	10,689,157,305	100.00%
2006	6,687,872,490	1,786,332,922	955,171,755	2,215,398,310	-	11,644,775,477	0.17471%	11,644,775,477	100.00%
2007	7,358,784,736	2,216,054,436	1,009,929,135	2,149,934,744	-	12,734,703,051	0.17165%	12,734,703,051	100.00%

⁽¹⁾ In 1978 the voters of the State of California passed Proposition 13 which limited taxes to a total maximum rate of 1%, based upon the assessed value of the property being taxed. Each year, the assessed value of property may be increased by an inflation factor (limited to a maximum of 2%). With few exceptions, property is only reassessed as a result of new construction or at the purchase price (market value) or economic value of the property sold. The assessed valuation data shown above, represents the only data currently available with respect to the actual market value of taxable property and is subject to the limitations described above. Therefore, the estimated actual taxable value equals the total taxable assessed value.

Source: HdL Coren & Cone, Orange County Assessor 1997/98 - 2006/07 Combined Tax Rolls.

CITY OF COSTA MESA, CALIFORNIA
DIRECT AND OVERLAPPING PROPERTY TAX RATES
LAST TEN FISCAL YEARS

Fiscal Year	City Direct Rates				Overlapping Rates			
	Basic Rate	General Obligation Debt Service	Redevelopment Debt Service	Redevelopment Program	Total Direct Rate ⁽¹⁾	County of Orange Debt	School District Debt	Special Districts Debt
1998	0.14879	0.00421	0.01310	1.00000	0.17983	0.36657	0.48300	0.01055
1999	0.14879	0.00409	0.01310	1.00000	0.17895	0.36657	0.48300	0.01055
2000	0.14879	0.00381	0.01270	1.00000	0.17771	0.36657	0.48300	0.01055
2001	0.14879	0.00301	0.01180	1.00000	0.17639	0.36657	0.48300	0.01045
2002	0.14879	0.00304	0.00770	1.00000	0.17368	0.36657	0.48990	0.00935
2003	0.14879	0.00280	0.00950	1.00000	0.17590	0.36657	0.48974	0.00835
2004	0.14879	0.00276	0.00890	1.00000	0.17603	0.36657	0.50245	0.00775
2005	0.14879	-	0.00860	1.00000	0.17555	0.36657	0.52979	0.00745
2006	0.14879	-	0.00800	1.00000	0.17471	0.36657	0.51732	0.00685
2007	0.14879	-	0.00470	1.00000	0.17165	0.36657	0.51786	0.00635

⁽¹⁾ Per the Government Finance Officers Association the definition of "total direct rate" is as follows:
"The weighted average of all individual rates applied by the government preparing the statistical section"
The "total direct rate" for the City of Costa Mesa is a weighted average derived by dividing total City revenue by taxable assessed value.

Source: HdL Coren & Cone, Orange County Assessor 1997/98 - 2006/07 Combined Tax Rolls.

TABLE 12

**CITY OF COSTA MESA, CALIFORNIA
PRINCIPAL PROPERTY TAX PAYERS
CURRENT YEAR AND NINE YEARS AGO**

<u>Taxpayer</u>	<u>2006-07</u>			<u>1997-98</u>		
	<u>Property Tax Revenue</u>	<u>Rank</u>	<u>Percentage of Total City Property Tax Revenue</u>	<u>Property Tax Revenue</u>	<u>Rank</u>	<u>Percentage of Total City Property Tax Revenue</u>
CFRI of GreenlawTriangle Square	\$ 407,199	1	1.86%			
Rreef America Reit II Corpotation Cccc2	392,070	2	1.79%			
Maguire Props-Pacific Arts Plaza	369,281	3	1.69%			
South Coast Plaza	349,480	4	1.60%	\$ 327,262	2	2.60%
Teachers Retirement System of California	276,343	5	1.26%	224,323	4	1.78%
1901 Newport Plaza Limited Partnership	259,783	6	1.19%			
Automobile Club of Southern Calif.	207,046	7	0.95%			
CJ Segerstrom & Sons	175,407	8	0.80%	193,705	5	1.54%
LA Times Communications LLC	167,069	9	0.76%			
United Dominion realty Limited Partnership	140,145	10	0.64%			
Triangle Square Joint Venture				571,284	1	4.54%
New TMC Inc.				226,085	3	1.80%
Two Town Center Associates				161,799	6	1.29%
Center Tower Associates				140,306	7	1.12%
Sakioka Farms Inc./Curci England				123,460	8	0.98%
600 Anton Boulevard Associates				107,741	9	0.86%
Park Center Plaza Apartments				100,860	10	0.80%
Total	<u>\$ 2,743,824</u>		<u>12.54%</u>	<u>\$ 2,176,825</u>		<u>17.31%</u>

Source: HdL Coren & Cone, Orange County Assessor 2006/07 & 1997/98 Combined Tax Rolls.

TABLE 13

CITY OF COSTA MESA, CALIFORNIA
RATIO OF GENERAL BONDED DEBT OUTSTANDING AND LEGAL DEBT MARGIN
LAST TEN FISCAL YEARS

	Fiscal Years									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General bonded debt outstanding										
General obligation bonds	1,320,000	1,130,000	930,000	720,000	490,000	250,000	-	-	-	
Redevelopment bonds	9,025,000	8,760,000	8,485,000	8,195,000	7,890,000	7,570,000	7,470,000	7,020,000	6,565,000	6,105,000
Total	<u>10,345,000</u>	<u>9,890,000</u>	<u>9,415,000</u>	<u>8,915,000</u>	<u>8,380,000</u>	<u>7,820,000</u>	<u>7,470,000</u>	<u>7,020,000</u>	<u>6,565,000</u>	<u>6,105,000</u>
Percentage of taxable assessed value	0.1448%	0.1299%	0.1126%	0.0997%	0.0883%	0.0778%	0.0699%	0.0603%	0.0516%	0.0479%
Per capita	\$ 27.37	\$ 24.54	\$ 21.27	\$ 18.85	\$ 16.69	\$ 14.70	\$ 16.31	\$ 16.47	\$ 14.09	\$ 13.10
Less: Amounts set aside to repay general debt	770,780	769,354	774,219	774,219	759,793	762,440	704,877	707,466	710,981	711,982
Total net debt applicable to debt limit	9,574,220	9,120,646	8,640,781	8,140,781	7,620,207	7,057,560	6,765,123	6,312,534	5,854,019	5,393,018
Legal debt limit (3.75% of Assessed Value)	262,009,984	268,498,618	286,136,500	313,664,749	335,172,897	381,059,948	405,242,385	430,391,123	465,925,448	515,894,487
Legal debt margin	252,435,764	259,377,972	277,495,719	305,523,968	327,552,690	374,002,388	398,477,262	424,078,589	460,071,429	510,501,469
Legal debt margin as a percentage of the debt limit	96.35%	96.60%	96.98%	97.40%	97.73%	98.15%	98.33%	98.53%	98.74%	98.95%

Source: City of Costa Mesa Finance Department

TABLE 14

**CITY OF COSTA MESA, CALIFORNIA
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS**

Fiscal Year Ended June 30,	General Bonded Debt		Percentage of Total Taxable Assessed Value	Per Capita	Other Governmental Activities Debt			Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds	Redevelopment Bonds			Revenue Bonds	Certificates of Participation	Lease Purchase Financing			
1998	1,320,000	9,025,000	0.1480%	27.98	33,680,000	-	249,721	44,274,721	2.25%	2,342.58
1999	1,130,000	8,760,000	0.1384%	26.16	32,570,000	-	226,316	42,686,316	2.14%	2,258.54
2000	930,000	8,485,000	0.1236%	23.37	31,320,000	-	141,292	40,876,292	2.03%	2,162.77
2001	720,000	8,195,000	0.1066%	20.14	30,010,000	-	453,043	39,378,043	1.88%	2,083.49
2002	490,000	7,890,000	0.0938%	17.72	28,640,000	-	1,097,380	38,117,380	1.82%	2,016.79
2003	250,000	7,570,000	0.0824%	15.57	27,215,000	-	4,353,329	39,388,329	1.87%	2,084.04
2004	-	7,470,000	0.0743%	14.04	26,075,000	-	3,695,503	37,240,503	1.74%	1,970.40
2005	-	7,020,000	0.0657%	15.33	24,340,000	-	2,993,166	34,353,166	1.30%	1,471.73
2006	-	6,565,000	0.0564%	15.41	22,695,000	-	6,725,536	35,985,536	1.16%	1,316.78
2007	-	6,105,000	0.0479%	13.10	20,935,000	29,960,000	5,368,649	62,368,649	2.01%	2,282.18

Source: City of Costa Mesa Finance Department

TABLE 15

**CITY OF COSTA MESA, CALIFORNIA
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
AS OF JUNE 30, 2007**

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Direct and Overlapping Debt</u>
Overlapping Tax and Assessment debt repaid with property taxes			
City of Costa Mesa Community Facilities District No. 91-1	2,365,000	100%	2,365,000
Newport Mesa Unified School District	172,188,480	28.242%	48,629,471
Coast Community College District	353,203,867	14.787%	52,228,256
Santa Ana Unified School District	130,951,207	3.900%	5,107,097
Orange County Teeter Plan Obligations	123,725,000	3.620%	4,478,845
Rancho Santiago Community College District	324,638,495	1.615%	5,242,912
Metropolitan Water District	359,115,000	0.759%	2,725,683
Subtotal overlapping Tax and Assessment debt repaid with property taxes			<u>120,777,263</u>
Overlapping general fund debt repaid with property taxes			
Newport Mesa Unified School District Certificates of Participation	1,480,000	28.242%	417,982
Orange County Sanitation District Certificates of Participation	117,705,000	5.099%	6,001,778
Municipal Water District of Orange County Water Facilities Corporation	20,800,000	4.326%	899,808
Santa Ana Unified School District Certificates of Participation	66,856,251	3.900%	2,607,394
Orange County General Fund Obligations	597,550,000	3.620%	21,631,310
Orange County Pension Obligations	89,893,078	3.620%	3,254,129
Orange County Transit District Authority	1,235,000	3.620%	44,707
Orange County Board of Education Certificates of Participation	19,720,000	3.620%	713,864
Irvine Ranch Water District Certificates of Participation	41,600,000	1.774%	737,984
Subtotal overlapping general fund debt repaid with property taxes			<u>36,308,956</u>
Subtotal, all overlapping debt			157,086,219
City direct debt			
City of Costa Mesa General Fund Obligations	48,530,000	100%	48,530,000
Total direct and overlapping debt			<u><u>205,616,219</u></u>

Source: California Municipal Statistics, Inc.

CITY OF COSTA MESA, CALIFORNIA
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN CALENDAR YEARS

Calendar Year	Population (2)	Personal Income (thousands of dollars)	Per Capita Personal Income (1)	Median Age (1)	School Enrollment (3)	Orange County Unemployment Rate (4)
1998	104,237	1,970,079	18,900	31	10,414	2.90%
1999	105,608	1,995,991	18,900	31	20,779	2.90%
2000	106,607	2,014,872	18,900	31	21,364	2.90%
2001	110,932	2,096,615	18,900	32	21,138	3.00%
2002	110,720	2,092,608	18,900	32	21,622	2.60%
2003	111,512	2,107,577	18,900	32	22,380	3.20%
2004	113,011	2,135,908	18,900	32	21,806	3.60%
2005	113,042	2,638,626	23,342	32	21,875	2.90%
2006	113,134	3,091,785	27,329	32	21,253	3.70%
2007	113,805	3,110,122	27,329	32	20,877	3.90%

Source: (1) - City of Costa Mesa Finance Department.
(2) - California State Department of Finance.
(3) - Newport-Mesa Unified School District.
(4) - State of California Employment Development Department as of June 30th each year.

CITY OF COSTA MESA, CALIFORNIA
PRINCIPAL EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO

<u>Employer</u>	<u>2006-07</u>			<u>1997-98 ⁽¹⁾</u>		
	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>
Coast Community College District Foundation	3,044	1	4.66%			
Orange Coast Community College	2,500	2	3.83%			
Coast Community College	2,131	3	3.26%			
Fairview Developmental Center	1,500	4	2.30%			
Interinsurance Exchange	1,200	5	1.84%			
First Team Real Estate Inc	1,025	6	1.57%			
Los Angeles Times	1,000	7	1.53%			
Macy's Department Sores Inc.	800	8	1.23%			
Resources Connection Inc.	750	9	1.15%			
International Business Mahines	750	10	1.15%			

⁽¹⁾ - Data not available for the fiscal year 1997-98

Source: Dunn & Bradstreet, State of California Employment Development Department

TABLE 18

**CITY OF COSTA MESA, CALIFORNIA
OPERATING INDICATORS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS**

Function/Program	Fiscal Years									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General Government										
Number of residents served via public services programs	N\A	N\A	N\A	N\A	2,734	4,420	3,925	2,998	3,500	3,250
Accounts payable checks issued	N\A	N\A	10,861	11,122	11,357	12,037	11,525	11,693	12,075	12,250
Total printshop photocopies produced	N\A	N\A	N\A	N\A	2,800,000	6,243,573	6,223,133	5,257,928	5,010,580	5,200,000
Protection of persons and property										
Police protection										
Emergency calls	1,301	1,183	1,194	1,338	1,401	1,519	1,473	1,436	1,390	1,400
Calls responded to within 5 minutes	88%	86%	84%	86%	88%	85%	85%	85%	81%	80%
Assigned theft cases	2,044	1,840	1,441	1,934	1,872	1,932	1,998	2,130	2,000	1,000
Percentage of theft cases cleared	30%	30%	31%	29%	25%	25%	23%	23%	25%	25%
Assigned burglary cases	1,550	1,332	1,309	1,221	1,390	1,481	1,535	1,578	1,600	1,600
Percentage of burglary cases cleared	36%	41%	49%	45%	45%	30%	23%	21%	25%	25%
Case and arrest reports processed	47,948	43,050	43,221	45,324	45,357	47,583	46,236	27,704	46,300	24,180
Total violation contacts	26,136	25,652	23,839	25,498	21,648	24,271	22,805	12,085	22,170	25,000
Fire protection										
Number of calls for service	N\A	N\A	N\A	N\A	N\A	8,300	8,300	8,876	8,704	9,000
Fire related responses	105	98	94	99	98	249	255	178	261	180
Emergency medical aid responses	4,290	4,337	4,608	4,926	4,980	6,557	5,810	6,657	6,267	6,840
Community Programs										
Number of program participants at the Downtown Recreation Center	7,612	3,700	4,250	4,000	4,000	18,600	20,000	24,500	25,000	32,799
Over-the-counter plan checks reviewed within five (5) working days	25	130	264	390	264	290	420	438	482	600
Inspection requests with 24 hours	157	12,932	12,761	13,172	14,068	14,500	16,000	17,708	19,478	16,500
Complaint response within two (2) working days	N\A	9,908	15,000	13,000	9,908	13,000	15,025	15,459	22,742	22,000
Public services										
Number of trees pruned annually	4,497	5,940	5,586	5,465	5,400	5,400	5,410	5,430	5,400	5,065
Number of catch basins cleaned annually	1,011	1,063	1,073	1,065	1,065	1,300	1,275	1,236	1,300	1,275

Source: City of Costa Mesa Finance Department

TABLE 19

CITY OF COSTA MESA, CALIFORNIA
FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

<u>Function/Program</u>	<u>Fiscal Years</u>									
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004⁽¹⁾</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
General Government										
City council	5	5	5	5	5	5	5.5	5.5	5.5	5.5
City manager	15	15	15	14	14	14	16.25	16.27	16.27	16.56
City attorney	5	5	6	6	6	6	6	6	-	-
Financial services	22	22	22	23	23	23	23.67	23.67	23.67	23.67
Administrative services	120	121	123	129	132	133	135.96	136.11	130.28	125.19
Development services	40	40	40	43	43	43	45.10	44.50	44.50	45.00
Protection of persons and property										
Police protection	224	225	225	228	232	234	254.88	255.25	254.75	258.73
Fire protection	111	111	111	111	111	111	112.92	112.92	112.92	113.40
Public services	116	115	114	113	119	118	114.46	113.94	101	107.90
	<u>658</u>	<u>659</u>	<u>661</u>	<u>672</u>	<u>685</u>	<u>687</u>	<u>714.74</u>	<u>714.16</u>	<u>688.89</u>	<u>695.95</u>

⁽¹⁾ Fiscal year 2003-04 is the first fiscal year where full-time equivalents were calculated.

Source: City of Costa Mesa Finance Department

TABLE 20

**CITY OF COSTA MESA, CALIFORNIA
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS**

<u>Function/Program</u>	<u>Fiscal Years</u>									
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Police										
Stations/Substations	2	2	2	2	2	2	2	2	2	2
Fire										
Fire stations	6	6	6	6	6	6	6	6	6	6
Other public works										
Streets (lane miles)	525.0	525.0	525.0	525.0	525.0	525.0	525.0	525.0	525.0	525.0
Streetlights	6,630	6,630	6,635	6,637	6,641	6,651	6,658	6,658	6,661	6,676
Traffic signals	110	111	112	113	114	114	115	115	116	116
Parks and recreation										
Acres of open space	1,957	1,957	1,957	1,957	1,957	1,957	1,957	1,957	1,957	1,957
Park sites	26	27	27	27	27	30	30	30	30	30
Baseball/softball diamonds	5	5	5	5	5	5	5	5	6	6
Soccer/football fields	3	9	9	9	9	9	9	9	8	8
Community centers	3	3	3	3	3	3	3	3	3	3
Wastewater (miles)										
Sanitary sewers	320	326	325.7	325.7	325.7	325.7	325.7	325.7	325.7	325.7
Storm sewers	45.5	45.5	45.5	45.5	45.5	45.5	45.5	45.5	45.5	45.5

Source: City of Costa Mesa Finance Department