



CITY OF COSTA MESA, CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED
JUNE 30, 2006



Building *for the*
FUTURE



CITY OF COSTA MESA, CALIFORNIA
Comprehensive Annual Financial Report
For the fiscal year ended June 30, 2006

Prepared by: Finance Department
Marc Puckett, Finance Director

CITY OF COSTA MESA, CALIFORNIA

Comprehensive Annual Financial Report

For the fiscal year ended June 30, 2006

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INTRODUCTORY SECTION





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, 2006

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, 2006, 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 have been audited by Mayer Hoffman McCann P.C. (formerly Conrad and Associates), a 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, 2006, 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, 2006, 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. Councilmembers are elected to four-year staggered terms, with two or three Councilmembers elected every two years.

The City is not a full service city in the generally accepted meaning of that term, but it does provide 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.

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, 2006. 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 2005-2006 fiscal year. In December 2005, budget preparation began for the 2006-2007 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 2006-2007 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 2006, 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 6.0% - 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 \$58 million in cumulative financial impacts from Federal, State, and County governments in the form of un-funded mandates or decreased subventions.

MAJOR (AND FUTURE) DEVELOPMENT INITIATIVES

Pacific Medical Plaza – A 76,500 square-foot, four-story medical office building located in the 1600 block of Newport Boulevard began construction in 2005 and is expected to be completed in the spring of 2007.

1901 Newport Plaza – 145 town homes have been approved to the rear of the office building that already exists at the northwest corner of Newport Boulevard and 19th Street. The four-story residential project will also include 12 affordable units. Seven affordable units for low to moderate-income persons are to be located on-site; and five affordable units for low-income persons are anticipated to be within the Redevelopment Project Area. Phase 1 of the development includes a five-level parking structure and 32 town homes. Construction began in early 2006 and is expected to be completed in 2007.

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, has been approved and is expected to begin construction in 2007.

Mixed-Use Plans – In April, City Council approved four mixed-use urban plans for specific areas within the City. The goal of the three Westside urban plans and the SoBECA (South Bristol Entertainment and Cultural Arts) urban plan is to promote private revitalization of these areas through the application of overlay zoning standards. These plans allow for the development of mixed commercial and residential projects, live/work units, and ownership residential projects pursuant to the adoption of the master plan.

Residential Development on the Former Site of the Daily Pilot – A 32-unit single-family residential community is being constructed by Richmond American Homes of California, Inc. Model homes opened to prospective buyers in August, 2006.

High-Rise Residential Condominiums 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 residential condominium projects. Approximately 1,500 condominium units are being proposed at varied locations in the City's Cultural Arts Center. The residential 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 2007.

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.

The City has maintained its AA rating from Standard and Poor's Corporation and an Aa rating from Moody's Investor Service on general obligation bond issues. 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 (\$12.7 million outstanding), the PFA 1998 Refunding Revenue Bonds (\$7.6 million outstanding), the 2003 Redevelopment Agency Tax Allocation Refunding Bonds (\$6.6 million outstanding), the PFA 2006 Lease Revenue Refunding Bonds ((\$2.4 million outstanding) and \$6.7 million of capitalized lease obligations including two new leases totaling \$4.7 million. Long-term liabilities had a net increase of \$2.5 million in total due to the new capital lease agreements, which includes a reduction of \$3.2 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 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, 2006, was 4.31%. The City's cash position remained healthy throughout the year. Cash and investments represented approximately 27.7% of the City's total assets as of June 30, 2006.

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

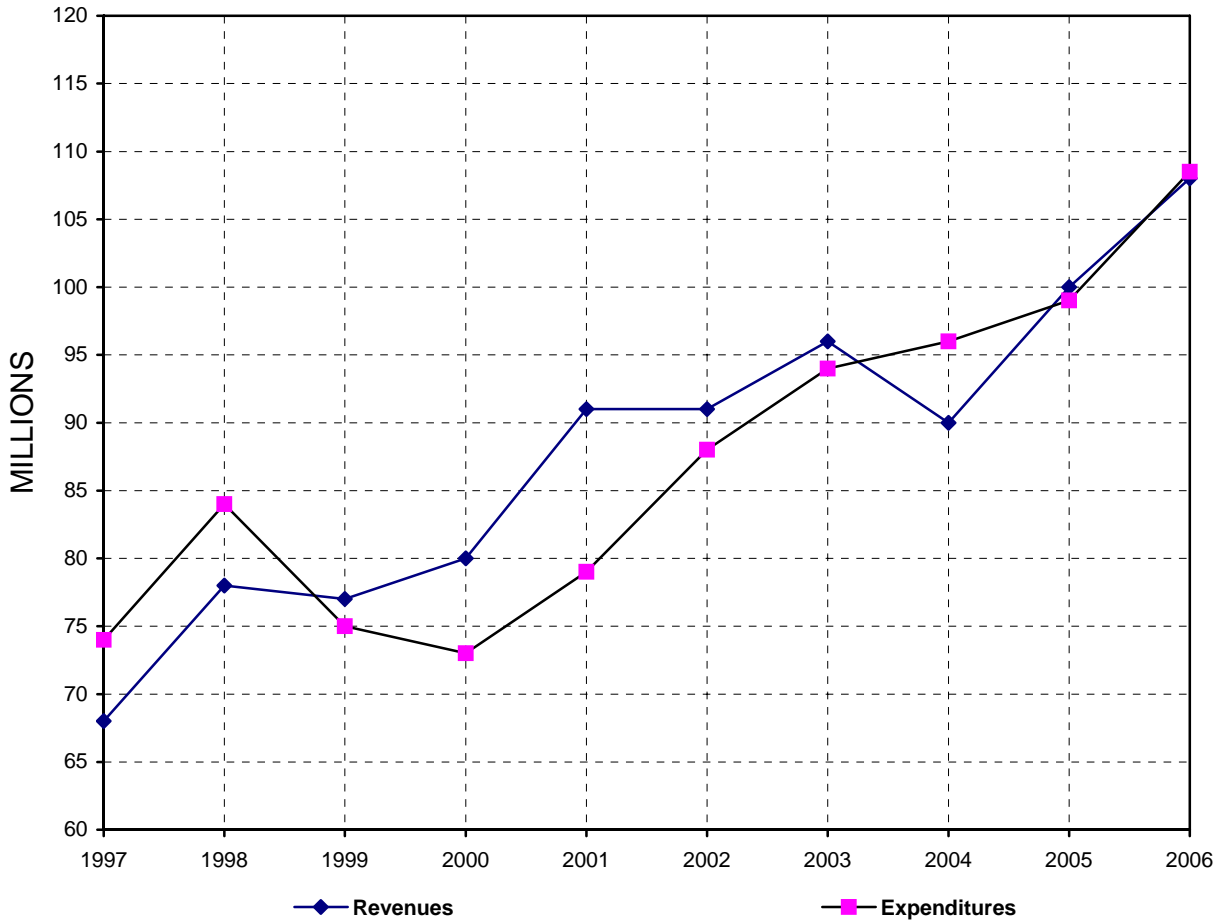
Revenue and Expenditures – All Governmental Funds Combined Reporting Entity For the Last Ten Fiscal Years



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, 2005. This was the twenty-seventh 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.

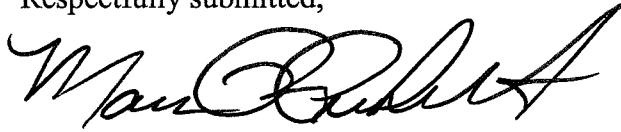
In addition, the California Society of Municipal Finance Officers (CSMFO) has awarded its Certificate of Award for Outstanding Financial Reporting to the City of Costa Mesa for its CAFR for the fiscal year ended June 30, 2005. Awards are presented in two categories: Outstanding and Meritorious. The judging standards for the Outstanding Award are substantially the same as those of the GFOA Certificate of Achievement for Excellence in Financial Reporting. The CSMFO has annually conducted the California Award Program to promote excellence in financial reporting among California cities for many years. However, the CSMFO has recently announced that the Awards program has been discontinued for 2006 due to the perceived overlap with the GFOA's awards program.

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 extend their 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, which is 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, 2006

Mayor

Allan R. Mansoor

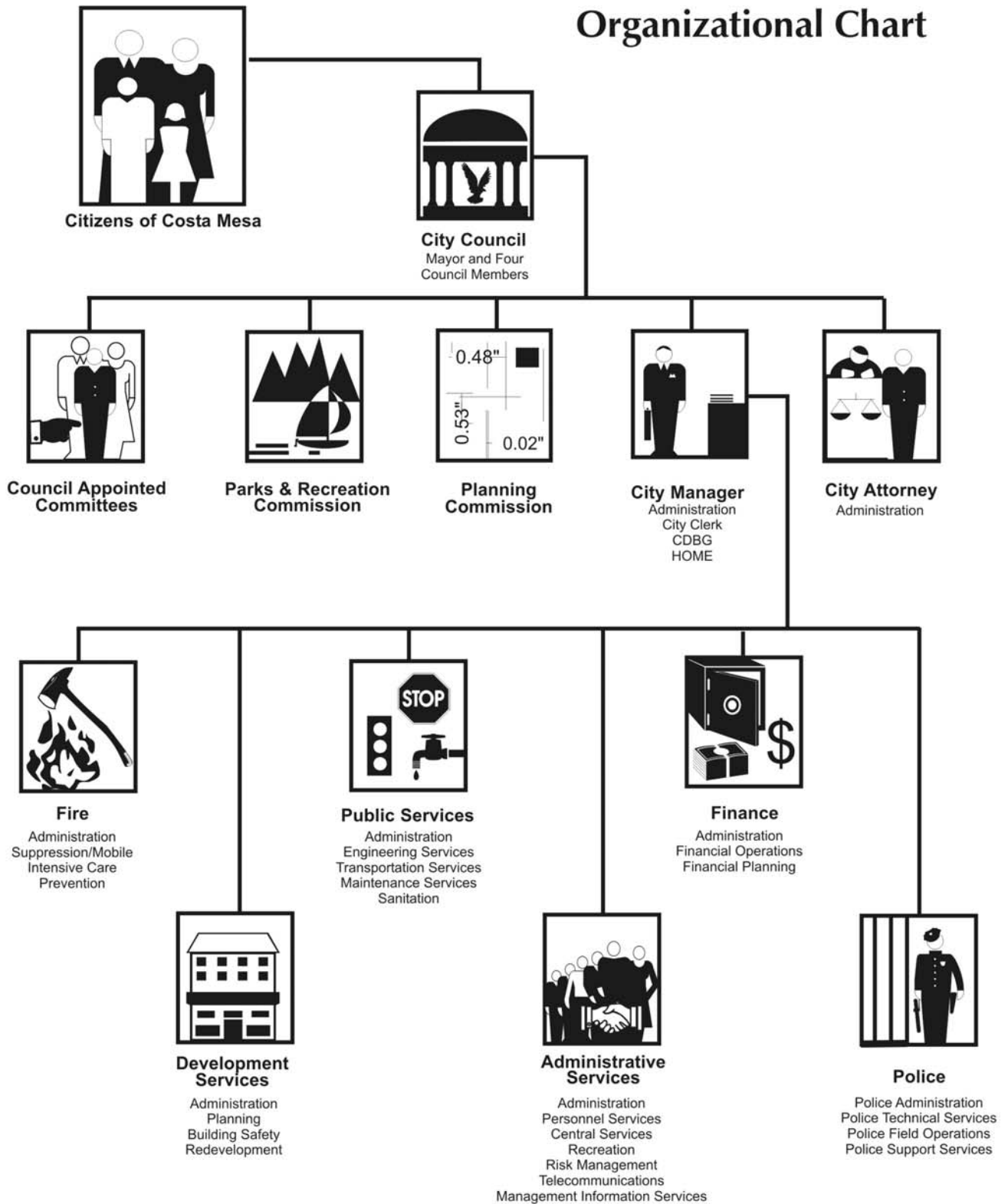
City Council

Gary C. Monahan
Linda W. Dixon
Katrina A. Foley
Eric R. Bever

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-----	Steven E. Parker
Police Chief-----	Steve H. Staveley

City of Costa Mesa, California

Organizational Chart



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

CITY OF COSTA MESA

GFOA Certificate of Achievement for Excellence in Financial Reporting

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, 2005

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



Carla E. Fudge

President

Jeffrey R. Emery

Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Costa Mesa for the City's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2005.

In order to be awarded a certificate of Achievement, a government must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City believes the current comprehensive annual financial report continues to meet the Certificate of Achievement Program requirements, and is submitting it to GFOA to determine its eligibility for another certificate.

CITY OF COSTA MESA

CSMFO Certificate of Award for Outstanding Financial Reporting

*California Society of
Municipal Finance Officers*

Certificate of Award

Outstanding Financial Reporting 2004-05

Presented to the

City of Costa Mesa

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

February 24, 2006

William J. Thomas

Bill Thomas, Chair
Professional & Technical Standards Committee

Dedicated to Excellence in Municipal Financial Management



On February 24, 2006, the California Society of Municipal Finance Officers (CSMFO) awarded the City of Costa Mesa its Award for Outstanding Financial Report, for the fiscal year ended June 30, 2005. To qualify for this award, a governmental unit must publish an easily readable and efficiently organized annual financial report, whose contents conform to award program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

FINANCIAL SECTION





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, 2006, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the management of the City of Costa Mesa, California. Our responsibility is to express opinions on these financial statements based on our audit. The prior year summarized comparative information has been derived from the City's 2005 financial statements which were audited by Conrad and Associates, L.L.P., who merged with Mayer Hoffman McCann P.C. as of January 1, 2006, and whose report dated October 6, 2005 expressed unqualified opinions on the respective financial statements of governmental activities, each major fund and the aggregate remaining fund information.

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, 2006, 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* are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

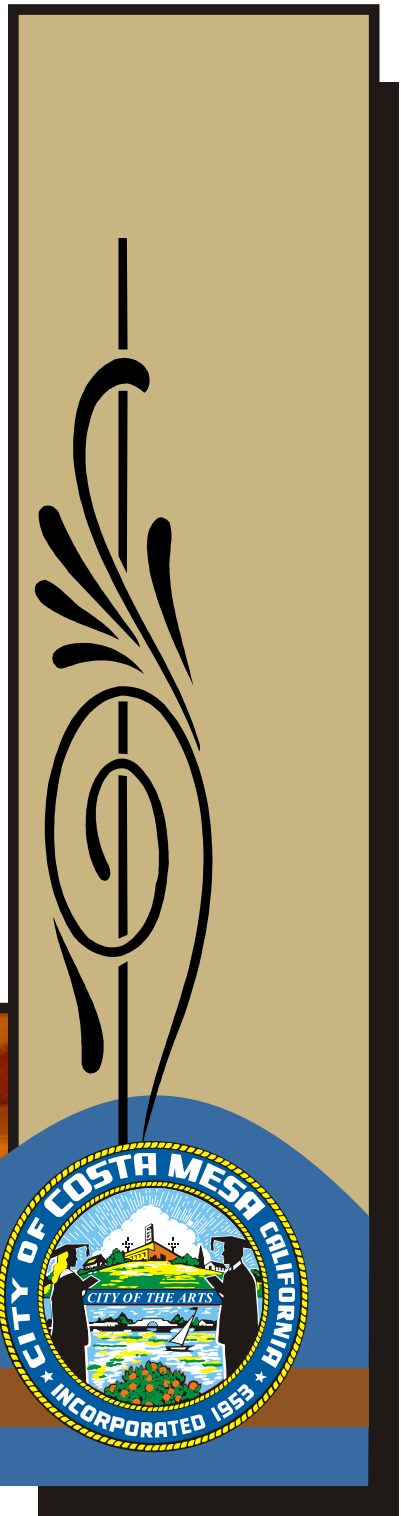
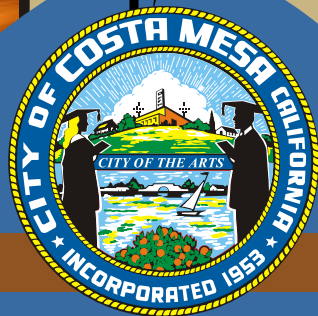
Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the City of Costa Mesa's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules and statistical tables listed in the 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 schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 28, 2006 on our consideration of the City'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 McLann R.C.

Irvine, California
September 28, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS



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, 2006. 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 2006 by \$311,579,866 (*net assets*). Of this amount, \$66,063,174 (*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 \$7,351,914 from the prior fiscal year total of \$304,227,952 (as restated – note 18).
- As of the close of fiscal year 2006, the City of Costa Mesa's governmental funds reported combined ending fund balances of \$98,678,597, an increase of \$3,520,158 in comparison with the prior year. More than half of this total amount, \$71,373,066, is *available for spending* at the government's discretion (*unreserved fund balance*).
- At the end of 2006, unreserved fund balance for the general fund was \$56,192,948 or 58.19 percent of total general fund expenditures and other financing uses.
- The City of Costa Mesa's total debt had a net increase of \$511,156 or 0.86 percent during fiscal year 2006.

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 funds. *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 and 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. 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 \$311,579,866 at the close of the fiscal year ended June 30, 2006.

Seventy-five 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>2006</u>	<u>2005</u>
Current and other assets	\$137,569,930	\$130,208,218
Capital assets	<u>233,669,316</u>	<u>231,643,588</u>
Total Assets	<u>371,239,246</u>	<u>361,851,806</u>
Long-term debt outstanding	51,016,101	48,544,988
Other liabilities	<u>8,643,279</u>	<u>10,603,236</u>
Total Liabilities	<u>59,659,380</u>	<u>59,148,224</u>
Net assets:		
Invested in capital assets, net of debt	207,142,027	204,310,422
Restricted	38,374,665	27,325,743
Unrestricted	<u>66,063,174</u>	<u>71,067,417</u>
Total net Assets	<u>\$311,579,866</u>	<u>\$302,703,582</u>

At the end of the 2006 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 2006 fiscal year, the City's total net assets increased by \$7,351,914 from the prior fiscal year total of \$304,227,952 (as restated – note 18).

City of Costa Mesa's Changes in Net Assets

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Revenues:		
Program Revenues:		
Charges for services	\$11,976,700	\$11,361,729
Operating contributions and grants	11,709,774	6,071,120
Capital contributions and grants	4,511,691	5,253,030
General revenues:		
Taxes:		
Property taxes, levied for general purpose	19,752,336	18,586,166
Sales taxes	46,049,080	43,582,985
Transient occupancy tax	5,465,320	4,641,350
Franchise taxes	3,674,652	2,833,347
Business license tax	912,324	912,434
Other taxes	-	-
Other intergovernmental	8,108,852	8,659,395
Investment earnings	3,082,011	3,455,453
Miscellaneous revenues	<u>210,302</u>	<u>740,848</u>
Total revenues	<u>115,453,042</u>	<u>106,097,857</u>
Expenses:		
General government	21,823,044	23,646,274
Public safety	58,123,794	51,753,396
Community Programs	3,770,475	4,927,306
Public Services	19,371,276	14,728,739
Redevelopment	2,509,671	534,995
Interest on long-term debt	<u>2,502,868</u>	<u>1,486,198</u>
Total expenses	<u>108,101,128</u>	<u>97,076,908</u>
Change in net assets	7,351,914	9,020,949
Net assets at beginning of year as restated (note 18)	<u>304,227,952</u>	<u>293,682,633</u>
Net assets at end of year	<u>\$311,579,866</u>	<u>\$302,703,582</u>

Governmental Activities

Governmental activities increased the City of Costa Mesa's net assets by \$7,351,914, 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 \$3,632,265 or 5.84% from fiscal year 2005. This change was due to an increase in sales tax collections of \$2,466,095 as a result of increased consumer spending and a general improvement in retail activity as a result of the expanding local economy. Property tax collections increased by \$1,166,170. This increase resulted primarily from growth in the taxable assessed value of property in the City and also due to a change in the subvention formula for distribution of property taxes between the state, county, and city governments.
- The largest percentage increase in revenues occurred in franchise tax revenues which increased by \$841,305 or 29.7% from fiscal year 2005. This increase resulted primarily from receipt of new revenue from the solid waste hauling franchise fee implemented in January, 2005, for the full year. Also, transient occupancy tax revenue increased by \$823,970 or 17.8% from the prior fiscal year. This change is a result of increased tourist travel and resultant higher occupancy and room rates at major hotels within the City.
- The City's governmental expenses for protection of persons and property in fiscal year 2006 increased by 12.3% or \$6,370,398 from the prior fiscal year. This increase resulted primarily from wage and benefit cost increases and expenses related to a major software and hardware system replacement project. Public Services expenses increased by \$4,642,537 or 31.5% from the prior fiscal year. This increase was due primarily to additional roadway improvement projects during the fiscal year, reduced attrition savings, 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 2006 fiscal year, the City of Costa Mesa's governmental funds reported combined ending fund balances of \$98,678,597, an increase of \$3,520,158 in comparison with the prior fiscal year. Of this total amount, \$27,305,531 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 \$56,192,948, while total fund balance amounted to \$70,937,168. The fund balance of the City of Costa Mesa's general fund increased by \$1,019,793 during fiscal year 2006. Key factors in this change are as follows:

- Sales tax, the General Fund's largest single source of revenue, increased by \$2,402,208 or 5.6% over the prior fiscal year. This increase was primarily a result of retail sales growth in the local economy.
- Property tax revenues increased by \$1,192,711 or 7.6% over the prior fiscal year. This increase resulted primarily from growth in the taxable assessed value of property in the City and also, due to a change in the subvention formula for distribution of property taxes between the state, county, and city governments.
- Transient occupancy tax revenues increased by \$823,970 or 17.8% over the prior fiscal year. This change is a result of increased tourist travel and resultant higher occupancy and room rates at major hotels within the City.
- Franchise tax revenues increased by \$841,305 over the prior fiscal year. This increase resulted primarily from receipt of new revenue from the solid waste hauling franchise fee implemented in January, 2005, for the full year.
- Public safety expenditures increased by 13.5% or \$6,804,327 from the prior fiscal year. This increase resulted primarily from wage and benefit cost increases and expenses related to a major software and hardware system replacement project.

The Redevelopment Agency Debt Service Fund has an accumulated fund deficit of \$11,783,729. The deficit exists since GAAP requires the debt service funds to record advances from other funds as a liability. At June 30, 2006, the balance in advances from other funds is \$13,146,597. The fund deficit decreased during the fiscal year by the amount of \$442,945.

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 \$9,017,711. The growth in total net assets for the fiscal year amounted to \$475,265.

GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the appropriations in the original budget and the final amended budget amounted to \$6,578,844. All budget adjustments were properly approved. The majority of the appropriation increases can be briefly summarized as follows:

- Personnel costs increased by over \$4.4 million due to contractually agreed-to compensation increases effective for all four employee groups.
- Over \$28 million in appropriation increases was added to the original budget due to prior year carryforwards for city wide capital improvement projects approved by Council.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City of Costa Mesa'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, 2006, amounts to \$233,669,316 net of accumulated depreciation. This investment in capital assets includes land, buildings, and systems, improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total increase in the City of Costa Mesa's investment in capital assets for the current fiscal year amounted to 0.87 percent.

Major capital asset events during the 2006 fiscal year included the following:

- A variety of street construction projects continue Citywide. Some of the major street projects this fiscal year included: Street Improvements, Preventive Maintenance of Asphalt Streets, Improvements of Alleys, Concrete Streets and Walkways, and Traffic Mitigation, and Preventive Maintenance of Curbs and Gutters. During the 2006 fiscal year, capital assets not being depreciated did not increase and capital assets being depreciated decreased by \$4,215,133. Construction in progress as of the end of the fiscal year totaled \$16,536,009.

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

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Land	\$28,949,103	\$28,949,103
Land rights related to streets	29,291,575	29,291,575
Construction in progress	16,536,009	10,295,148
Building improvements and structures	11,487,519	11,461,834
Machinery and equipment	12,026,788	10,500,839
Park System	3,541,686	3,635,200
Infrastructure- roads	105,358,660	108,567,496
Infrastructure- storm drains	<u>26,477,976</u>	<u>28,942,393</u>
Totals	<u>\$233,669,316</u>	<u>\$231,643,588</u>

Additional information on the City of Costa Mesa's capital assets can be found in note 6 on pages 45-46 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 (\$13.5 million outstanding), the PFA 1998 Refunding Revenue Bonds (\$8.5 million outstanding), the 2003 Redevelopment Agency Tax Allocation Refunding Bonds (\$7 million outstanding), the PFA 1991 Lease Revenue Bonds ((\$2.3 million outstanding) and \$6.7 million of capitalized lease obligations. During the fiscal year, long-term liabilities increased by \$2.5 million in total, which includes issuance of \$3.8 million in new capital lease obligations and a reduction of \$3.1 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>2006</u>	<u>2005</u>
Bonds payable	\$ 29,260,000	\$31,360,000
Other liabilities	15,030,565	14,191,822
Capitalized lease obligations	<u>6,725,536</u>	<u>2,993,166</u>
Totals	<u>\$51,016,101</u>	<u>\$48,544,988</u>

Additional information on the City of Costa Mesa's long-term debt can be found in notes 7 through 11 on pages 47-54 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The unemployment rate for the County of Orange was estimated at 3.7 percent as of June 30, which is an increase from the rate of 2.9 percent a year ago. This compares favorably to the state's average unemployment rate of 4.9 percent and the national average rate of 4.6 percent as of June 30.
- The property values in Costa Mesa increased by 8.9% 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 government'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 2007 fiscal year.

During the 2006 fiscal year, the unreserved fund balance in the General Fund increased by \$1.02 million. The fiscal year 2007 operating and capital improvement budget assumed an operating deficit for the General Fund in the amount of \$3,755,327 million. 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 2007 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



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, 2006

(With Comparative Data for Prior Year)

	Governmental Activities	
	2006	2005
Assets:		
Cash and investments (note 2)	\$ 102,925,785	105,240,365
Cash and investments with fiscal agent (note 2)	9,458,247	4,319,773
Due from other governments	12,275,052	11,445,180
Accounts receivable	475,162	1,425,144
Interest receivable	2,088,957	1,778,860
Loans receivable	6,086,695	3,992,783
Rent receivable	1,275,303	1,019,318
Loan deposits	511,308	560,508
Inventories	140,807	74,634
Prepaid items	84,904	351,653
Investment in joint venture (note 19)	2,247,710	-
Capital assets (note 6):		
Land	28,949,103	28,949,103
Land rights related to streets	29,291,575	29,291,575
Construction in progress	16,536,009	10,295,148
Other capital assets, net of accumulated depreciation	158,892,629	163,107,762
Total assets	<u>371,239,246</u>	<u>361,851,806</u>
Liabilities:		
Accounts payable	2,082,898	3,545,216
Accrued liabilities	899,615	1,434,612
Accrued interest	278,618	378,880
Retentions payable	1,179,651	964,458
Unearned revenue	901,063	791,269
Deposits payable	3,301,434	3,488,801
Long-term liabilities:		
Portion due within one year:		
Claims payable (notes 7, 9 and 17)	2,386,928	2,769,480
Bonds payable (notes 7 and 8)	2,220,000	2,230,000
Capital leases payable (notes 7 and 10)	1,356,887	731,641
Employee leave benefits payable (notes 7 and 9)	1,400,000	1,260,000
Portion due beyond one year:		
Claims payable (notes 7, 9 and 17)	6,620,193	5,749,683
Bonds payable (notes 7 and 8)	27,040,000	29,130,000
Capital leases payable (notes 7 and 10)	5,368,649	2,261,525
Employee leave benefits payable (notes 7 and 9)	4,623,444	4,412,659
Total liabilities	<u>59,659,380</u>	<u>59,148,224</u>
Net assets:		
Invested in capital assets, net of related debt	207,142,027	204,310,422
Restricted for:		
Public safety	1,481,296	1,714,903
Community programs	2,649,931	1,637,173
Public services	27,895,363	23,973,667
Redevelopment	6,348,075	-
Unrestricted	66,063,174	71,067,417
Total net assets	<u>\$ 311,579,866</u>	<u>302,703,582</u>

See accompanying notes to the basic financial statements.

CITY OF COSTA MESA, CALIFORNIA

Statement of Activities

Year ended June 30, 2006

(With Comparative Data for Prior Year)

Functions/Programs	Expenses	Program Revenues			Net (Expense)	
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	Revenue and Changes in Net Assets	
					2006	2005
Governmental activities:						
General government	\$ 21,823,044	-	-	-	(21,823,044)	(23,646,274)
Protection of person and property	58,123,794	3,199,365	2,010,474	-	(52,913,955)	(47,664,982)
Community programs	3,770,475	5,402,789	4,312,799	-	5,945,113	2,874,469
Public services	19,371,276	3,374,546	5,386,501	4,511,691	(6,098,538)	(3,933,049)
Redevelopment	2,509,671	-	-	-	(2,509,671)	(534,995)
Interest on long-term debt	2,502,868	-	-	-	(2,502,868)	(1,486,198)
Total governmental activities	\$ 108,101,128	11,976,700	11,709,774	4,511,691	(79,902,963)	(74,391,029)
General revenues:						
Taxes:						
					19,752,336	18,586,166
					46,049,080	43,582,985
					5,465,320	4,641,350
					3,674,652	2,833,347
					912,324	912,434
					8,108,852	8,659,395
					3,082,011	3,455,453
					210,302	740,848
					<u>87,254,877</u>	<u>83,411,978</u>
					7,351,914	9,020,949
					<u>304,227,952</u>	<u>293,682,633</u>
					<u>\$ 311,579,866</u>	<u>302,703,582</u>

See accompanying notes to basic financial statements.



FUND FINANCIAL STATEMENTS



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 1993 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.

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, 2006

<u>Assets</u>	<u>General</u>	<u>Special Revenue Low and Mod Income Housing</u>	<u>Debt Service Redevelopment Agency</u>	<u>Nonmajor Governmental Funds</u>
Cash and investments	\$ 50,162,000	1,284,544	1,899,372	31,706,458
Cash and investments with fiscal agent	1,638,703	-	710,981	7,108,563
Due from other governments	9,743,409	35,330	36,121	2,460,192
Accounts receivable	439,687	-	-	35,475
Interest receivable	1,589,673	16,144	29,982	1,251,525
Loans receivable	-	4,110,100	-	1,976,595
Rent receivable	233,114	-	-	1,042,189
Due from other funds (note 3)	527,498	262,792	-	4,460
Loan deposits	-	-	-	511,308
Advances to other funds (note 4)	12,180,685	779,747	-	186,165
Inventories	29,312	-	-	-
Prepaid items	32,823	904	3,500	120
Total assets	<u>\$76,576,904</u>	<u>6,489,561</u>	<u>2,679,956</u>	<u>46,283,050</u>
 <u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ 1,019,582	34,335	1,007,939	868,842
Accrued liabilities	747,910	-	-	142,198
Retentions payable	13,346	-	-	1,166,305
Deposits payable	3,301,434	-	-	-
Due to other funds (note 3)	-	107,151	305,649	334,393
Advances from other funds (note 4)	-	-	13,146,597	-
Deferred revenue	557,464	4,110,100	-	6,487,629
Total liabilities	<u>5,639,736</u>	<u>4,251,586</u>	<u>14,460,185</u>	<u>8,999,367</u>
Fund balances (note 12):				
Reserved for:				
Encumbrances	501,400	815	-	6,356,830
Prepaid items	32,823	904	3,500	120
Inventories	29,312	-	-	-
Advances to other funds	12,180,685	779,747	-	186,165
Debt service	-	-	-	5,233,230
Self insurance	2,000,000	-	-	-
Unreserved, reported in:				
General fund	56,192,948	-	-	-
Special revenue funds	-	1,456,509	-	16,776,603
Debt service funds	-	-	(11,783,729)	-
Capital projects funds	-	-	-	8,730,735
Total fund balances (deficit)	<u>70,937,168</u>	<u>2,237,975</u>	<u>(11,780,229)</u>	<u>37,283,683</u>
Total liabilities and fund balances	<u>\$76,576,904</u>	<u>6,489,561</u>	<u>2,679,956</u>	<u>46,283,050</u>

See the accompanying notes to the basic financial statements.

<u>Totals</u>	
<u>2006</u>	<u>2005</u>
85,052,374	87,535,220
9,458,247	4,319,773
12,275,052	11,445,180
475,162	1,425,144
2,887,324	2,646,226
6,086,695	3,992,783
1,275,303	1,019,318
794,750	765,748
511,308	560,508
13,146,597	13,495,532
29,312	19,998
37,347	351,653
<u>132,029,471</u>	<u>127,577,083</u>
2,930,698	4,366,349
890,108	1,416,285
1,179,651	964,458
3,301,434	3,488,801
747,193	765,748
13,146,597	13,495,532
<u>11,155,193</u>	<u>7,921,471</u>
<u>33,350,874</u>	<u>32,418,644</u>
6,859,045	6,244,895
37,347	351,653
29,312	19,998
13,146,597	13,304,907
5,233,230	5,871,412
2,000,000	2,000,000
56,192,948	54,605,118
18,233,112	16,637,291
(11,783,729)	(12,226,674)
<u>8,730,735</u>	<u>8,349,839</u>
<u>98,678,597</u>	<u>95,158,439</u>
<u>132,029,471</u>	<u>127,577,083</u>

CITY OF COSTA MESA, CALIFORNIA

Governmental Funds

Reconciliation of the Balance Sheet to the Statement of Net Assets

June 30, 2006

Fund balances of governmental funds \$ 98,678,597

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	473,519,530
Accumulated depreciation	(244,668,549)

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	(29,260,000)
Capital leases payable	(6,725,536)
Employee benefits leave payable	(6,023,444)

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. (278,618)

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. 13,836,046

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. 2,247,710

Deferred Revenue

Certain revenues that do not provide current financial resources are reported as deferred revenues in the funds. 10,254,130

Net assets of governmental activities \$ 311,579,866

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, 2006

(With Comparative Data for Prior Year)

	General	Special Revenue Low and Mod Income Housing	Debt Service Redevelopment Agency	Nonmajor Governmental Funds
Revenues:				
Taxes	\$ 72,105,312	606,675	2,173,047	933,677
Licenses and permits	2,101,870	-	-	-
Fines and forfeits	3,038,102	-	-	119,757
Intergovernmental	9,289,623	-	-	12,909,847
Charges for services	3,448,410	-	-	1,323,393
Rental	2,657,369	-	-	134,647
Investment income	1,047,575	66,792	94,270	1,239,763
Miscellaneous	408,700	327,940	15,000	90,351
Total revenues	94,096,961	1,001,407	2,282,317	16,751,435
Expenditures:				
Current:				
General government	24,117,828	-	-	1,558,183
Protection of persons and property	57,373,126	-	-	1,280,696
Community programs	5,080,392	-	-	2,250,166
Public services	5,760,023	-	-	9,932,703
Redevelopment	-	2,370,609	-	139,062
Debt service:				
Cost of issuance	-	-	-	90,345
Principal	943,000	-	455,000	1,840,000
Interest and fiscal charges	189,406	-	1,254,659	1,004,515
Total expenditures	93,463,775	2,370,609	1,709,659	18,095,670
Excess (deficiency) of revenues over (under) expenditures	633,186	(1,369,202)	572,658	(1,344,235)
Other financing sources (uses):				
Transfers in (note 5)	1,891,695	-	-	3,322,684
Transfers out (note 5)	(3,107,524)	-	(129,713)	(1,389,871)
Issuance of long-term debt	1,602,436	-	-	5,548,781
Payment to bond escrow agent	-	-	-	(2,139,205)
Total other financing sources (uses)	386,607	-	(129,713)	5,342,389
Net change in fund balances	1,019,793	(1,369,202)	442,945	3,998,154
Fund balances (deficit) at beginning of year, as restated (note 18)	69,917,375	3,607,177	(12,223,174)	33,285,529
Fund balances (deficit) at end of year	\$ 70,937,168	2,237,975	(11,780,229)	37,283,683

See accompanying notes to the basic financial statements.

Totals	
<u>2006</u>	<u>2005</u>
75,818,711	70,556,282
2,101,870	1,948,650
3,157,859	2,953,385
22,199,470	19,585,648
4,771,803	3,325,517
2,792,016	2,858,286
2,448,400	3,931,991
841,991	1,427,160
<u>114,132,120</u>	<u>106,586,919</u>
25,676,011	23,132,535
58,653,822	51,926,311
7,330,558	6,320,969
15,692,726	16,903,620
2,509,671	549,793
90,345	-
3,238,000	2,887,337
2,448,580	2,467,583
<u>115,639,713</u>	<u>104,188,148</u>
<u>(1,507,593)</u>	<u>2,398,771</u>
5,214,379	6,651,916
(4,627,108)	(6,111,632)
7,151,217	-
(2,139,205)	-
<u>5,599,283</u>	<u>540,284</u>
4,091,690	2,939,055
<u>94,586,907</u>	<u>92,219,384</u>
<u>98,678,597</u>	<u>95,158,439</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, 2006

Net changes in fund balances - total governmental funds \$4,091,690

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

Capital Related Items

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

Capital Outlay	11,384,867
Depreciation expense	(9,992,750)

Long-Term Debt Transactions

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	(350,785)
Bonds payable	1,840,000
Capital leases payable	1,475,436
The following are reconciling items related to the issuance of the 2006 Revenue Refunding Bonds:	
Issuance costs	64,205
Payment to escrow agent	2,139,205
Gross proceeds	(2,365,000)
Proceeds of capital leases are reported as revenue in the government funds, however, does not result in revenues in the Statement of Activities	(4,786,217)

Accrued Interest

Recording of the current year change of accrued interest on outstanding debt payable.	100,262
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Internal Service Funds

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.

475,265

Investment in Joint Venture

The current year change in the City's interest in the Airborne Law Enforcement operation with the City of Newport Beach.

151,808

Deferred Revenue

Certain revenues that do not provide current financial resources are reported as deferred revenue in the funds.

3,123,928

Change in net assets of governmental activities

\$7,351,914

See accompanying notes to the basic financial statements.



CITY OF COSTA MESA, CALIFORNIA

Proprietary Funds

Statement of Net Assets

June 30, 2006

(With Comparative Data for Prior Year)

	Governmental Activities - Internal Service Funds	
	<u>2006</u>	<u>2005</u>
<u>Assets</u>		
Current assets:		
Cash and investments	\$ 17,873,411	17,705,145
Interest receivable	200,181	153,489
Inventories	<u>111,495</u>	<u>54,636</u>
Total current assets	<u>18,185,087</u>	<u>17,913,270</u>
Capital assets:		
Automotive equipment	9,346,100	8,488,477
Other equipment	290,439	289,541
Accumulated depreciation	<u>(4,818,204)</u>	<u>(4,593,295)</u>
Net capital assets	<u>4,818,335</u>	<u>4,184,723</u>
Total assets	<u>23,003,422</u>	<u>22,097,993</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	150,748	199,722
Accrued liabilities	9,507	18,327
Claims payable	<u>2,386,928</u>	<u>2,769,480</u>
Total current liabilities	<u>2,547,183</u>	<u>2,987,529</u>
Long-term liabilities:		
Claims payable	<u>6,620,193</u>	<u>5,749,683</u>
Total long-term liabilities	<u>6,620,193</u>	<u>5,749,683</u>
Total liabilities	<u>9,167,376</u>	<u>8,737,212</u>
Net assets:		
Invested in capital assets	4,818,335	4,184,723
Unrestricted	<u>9,017,711</u>	<u>9,176,058</u>
Total net assets	<u>\$ 13,836,046</u>	<u>13,360,781</u>

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, 2006

(With Comparative Data for Prior Year)

	Governmental Activities - Internal Service Funds	
	<u>2006</u>	<u>2005</u>
Operating revenues:		
Charges for services	\$ 6,410,223	5,557,460
Total operating revenues	<u>6,410,223</u>	<u>5,557,460</u>
Operating expenses:		
Allocated administrative costs	1,195,971	832,786
Depreciation	681,448	684,909
Automotive fuel and parts	876,945	882,197
Claims and premiums	3,190,602	2,246,806
Total operating expenses	<u>5,944,966</u>	<u>4,646,698</u>
Operating income (loss)	<u>465,257</u>	<u>910,762</u>
Nonoperating revenues (expenses):		
Investment income	633,964	554,648
Loss on sale of equipment	(36,685)	(29,373)
Total nonoperating revenues (expenses)	<u>597,279</u>	<u>525,275</u>
Income (loss) before transfers	<u>1,062,536</u>	<u>1,436,037</u>
Transfers out (note 5)	<u>(587,271)</u>	<u>(540,284)</u>
Change in net assets	475,265	895,753
Net assets at beginning of year	<u>13,360,781</u>	<u>12,465,028</u>
Net assets at end of year	<u>\$ 13,836,046</u>	<u>13,360,781</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, 2006

(With Comparative Data for Prior Year)

	Governmental Activities - Internal Service Funds	
	2006	2005
Cash flows from operating activities:		
Cash received from customers and user departments	\$ 6,410,223	5,557,460
Cash payments to suppliers for goods and services	(4,018,343)	(4,228,512)
Cash payments to employees for services	(871,870)	(840,231)
Net cash provided by (used for) operating activities	<u>1,520,010</u>	<u>488,717</u>
Cash flows from noncapital financing activities:		
Cash paid to other funds	(587,271)	(540,284)
Net cash provided by (used for) noncapital financing activities	<u>(587,271)</u>	<u>(540,284)</u>
Cash flows from capital and related financing activities:		
Cash received from disposal of assets	56,844	25,623
Acquisition of capital assets	(1,408,589)	(288,899)
Net cash provided by (used for) capital and related financing activities	<u>(1,351,745)</u>	<u>(263,276)</u>
Cash flows from investing activities:		
Investment income received	587,272	540,284
Net cash provided by (used for) investing activities	<u>587,272</u>	<u>540,284</u>
Net increase (decrease) in cash and cash equivalents	168,266	225,441
Cash and cash equivalents at beginning of year	<u>17,705,145</u>	<u>17,479,704</u>
Cash and cash equivalents at end of year	<u>\$ 17,873,411</u>	<u>17,705,145</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	\$ 465,257	910,762
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	681,448	684,909
(Increase) decrease in inventories	(56,859)	21,911
(Increase) decrease in prepaid items	-	74
Increase (decrease) in accounts payable	(48,974)	(279,824)
Increase (decrease) in accrued liabilities	(8,820)	912
Increase (decrease) in claims payable	487,958	(850,027)
Net cash provided by (used for) operating activities	<u>\$ 1,520,010</u>	<u>488,717</u>

Non-cash investing, capital and financing activities:

During fiscal year 2005/2006, 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, 2006
 (With Comparative Data for Prior Year)

	Agency Funds	
	2006	2005
<u>Assets</u>		
Cash and investments (note 2)	\$ 4,255,551	2,922,821
Due from other governments	291,405	212,035
Accounts receivable	104,186	23,480
Interest receivable	18,137	2,165
Inventories	161,050	124,959
Prepaid items	110,535	-
	<u>\$ 4,940,864</u>	<u>3,285,460</u>
<u>Liabilities</u>		
Accounts payable	\$ 170,222	576,349
Deposits payable	2,964,079	1,432,616
Due to other governments	1,759,006	1,275,598
Due to other funds (note 3)	47,557	-
Held for bondholders	-	897
	<u>\$ 4,940,864</u>	<u>3,285,460</u>

See accompanying notes to the basic financial statements.



NOTES TO THE FINANCIAL STATEMENTS



CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

Year ended June 30, 2006

(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

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)

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.

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.

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)

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.

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.

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)

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.

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.

CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

(Continued)

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

(c) Fund Classifications, (Continued)

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 1993 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 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.

(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.

CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

(Continued)

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

(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.

(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 \$1,000 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:

CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

(Continued)

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

(i) Capital Assets, (Continued)

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

(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.

CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

(Continued)

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

(j) Employee Leave Benefits, (Continued)

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.

(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	\$ 102,925,785
Cash and investments with fiscal agent	9,458,247
Statement of Fiduciary Assets and Liabilities:	
Cash and investments	<u>4,255,551</u>
Total cash and investments	<u>\$ 116,639,583</u>

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

Cash and deposits:	
Imprest cash on hand	\$ 11,805
Demand deposits	<u>(588,721)</u>
Total cash and deposits	<u>(576,916)</u>
Investments:	
Costa Mesa Community Facilities District Bonds	2,050,000
Federal agency securities	89,449,878
Money market mutual funds	9,723,022
Medium term notes	4,971,917
State Treasurer's Investment Pool	<u>11,021,682</u>
Total investments	<u>117,216,499</u>
Total cash and investments	<u>\$ 116,639,583</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 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>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	\$ 89,449,878	10,971,340	27,513,505	50,965,033	-
Commerical Paper	4,971,917	4,971,917	-	-	-
State Investment Pool (LAIF)	11,021,682	11,021,682	-	-	-
Money Market Mutual Funds	264,775	264,775	-	-	-
Held by bond Trustee:					
Costa Mesa Community Facilities District Bonds	2,050,000	-	155,000	280,000	1,615,000
Money Market Mutual Funds	<u>9,458,247</u>	<u>9,458,247</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$117,216,499</u>	<u>36,687,961</u>	<u>27,668,505</u>	<u>51,245,033</u>	<u>1,615,000</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>AI/PI</u>	<u>Not Rated</u>
Federal Agency Securities	\$89,449,878	N/A	89,449,878	-	-
Commerical Paper:					
Citigroup	4,971,917	AI/PI	-	4,971,917	-
State Investment Pool (LAIF)	11,021,682	N/A	-	-	11,021,682
Money Market Mutual Funds	264,775	AAA	264,775	-	-
Held by Bond Trustee:					
Costa Mesa Community Facilities District Bonds	2,050,000	N/A	-	-	2,050,000
Money Market Mutual Funds	<u>9,458,247</u>	A	<u>9,458,247</u>	<u>-</u>	<u>-</u>
Total	<u>\$117,216,499</u>		<u>99,172,900</u>	<u>4,971,917</u>	<u>13,071,682</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 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	\$13,526,000	15.12%
FHLMC	Federal Agency Securities	19,079,659	21.33%
FHLB	Federal Agency Securities	39,630,938	44.31%
FNMA	Federal Agency Securities	<u>17,213,281</u>	19.24%
		<u>\$89,449,878</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.

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.

Disclosures by Reporting Unit

The City of Costa Mesa (including amounts held by bond trustee) had no items requiring disclosure as of June 30, 2006.

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, 2006 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$ 23,254
General Fund	Agency Funds	47,557
General Fund	Redevelopment Agency Fund	305,649
General Fund	Low and Moderate Housing Fund	107,151
General Fund	Nonmajor Governmental Funds	43,887
Nonmajor Governmental Funds	Nonmajor Governmental Funds	4,460
Low and Moderate Housing Fund	Nonmajor Governmental Funds	<u>262,792</u>
Total		<u>\$ 794,750</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, 2006 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Redevelopment Agency Fund	\$12,180,685
Nonmajor Governmental Funds	Redevelopment Agency Fund	186,165
Low and Moderate Income Housing Fund	Redevelopment Agency Fund	<u>779,747</u>
Total		<u>\$13,146,597</u>

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

The \$12,180,685 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 \$186,165 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 \$779,747 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, 2006 are as follows:

<u>Transfers out</u>	<u>Transfers In</u>	<u>Total</u>	
General Fund	Nonmajor Governmental Funds	\$3,107,524	(a)
Internal Service Funds	General Fund	587,271	(b)
Nonmajor Governmental Funds	General Fund	1,304,424	(c)
Redevelopment Agency – Debt Service Fund	Nonmajor Governmental Funds	129,713	(d)
Nonmajor Governmental Funds	Nonmajor Governmental Funds	<u>85,447</u>	(e)
		<u>\$5,214,379</u>	

- (a) The General Fund transferred the following:
1. \$119,800 to the Capital Improvements Fund for the Fairview Park Improvements;
 2. \$242,400 to the Capital Improvements Fund for the Fairview Park Wetlands/Riparian Habitat Project;
 3. \$186,525 to the Capital Improvements Fund for the Police Station Site Fencing Project;
 4. \$15,345 to the Capital Improvements Fund for the new traffic signal at Wilson/Pomona Street;
 5. \$2,543,454 to the Financing Authority Debt Service Fund for the payment of debt service payments.
- (b) \$587,271 from the Equipment Replacement and Self Insurance Funds (Internal Service) for the transfer of investment earnings back to the General Fund.
- (c) The Nonmajor Governmental Funds transferred to the General Fund for the following:
1. \$39,000 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. \$964,000 from the Capital Improvement Fund for debt service payments on Tewinkle Park Athletic Complex;
 4. \$100,000 from the Measure M Fund for reimbursement of the City Engineer’s salary and benefits;
 5. \$1,424 from the Parking District Fund for the transfer of investment earnings back to the General Fund.
- (d) \$129,713 from the Redevelopment Debt Service Fund to the Redevelopment Projects Fund for the reimbursement of expenditures.
- (e) \$85,447 from the Redevelopment Projects Fund to the Community Development Block Grant for the revenue received from Costa Mesa Family Village.

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, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2006</u>
<u>Governmental Activities</u>				
Capital assets not being depreciated:				
Land	\$ 28,949,103	-	-	28,949,103
Land rights related to streets	29,291,575	-	-	29,291,575
Construction in progress	<u>10,295,148</u>	<u>8,922,248</u>	<u>(2,681,387)</u>	<u>16,536,009</u>
Total capital assets not being depreciated	<u>68,535,826</u>	<u>8,922,248</u>	<u>(2,681,387)</u>	<u>74,776,687</u>
Capital assets being depreciated:				
Building improvements and structures	33,214,551	318,436	-	33,532,987
Landscaping and sprinklers	9,468,467	11,773	-	9,480,240
Automotive equipment	10,791,150	1,385,242	(527,619)	11,648,773
Office furniture	458,241	42,602	-	500,843
Office machines	10,351,919	531,904	(297,998)	10,585,825
Other equipment	8,668,456	1,388,468	(109,241)	9,947,683
Park system	4,267,049	352,811	-	4,619,860
Infrastructure – roads	234,490,516	2,521,209	(320,180)	236,691,545
Infrastructure – storm drains	<u>90,666,506</u>	<u>150</u>	<u>-</u>	<u>90,666,656</u>
Total capital assets being depreciated	<u>402,376,855</u>	<u>6,552,595</u>	<u>(1,255,038)</u>	<u>407,674,412</u>
Less accumulated depreciation for:				
Building improvements and structure	(21,752,717)	(292,751)	-	(22,045,468)
Landscaping and sprinkler	(9,132,206)	(51,031)	-	(9,183,237)
Automotive equipment	(6,602,802)	(689,989)	436,334	(6,856,457)
Office furniture	(244,034)	(39,743)	-	(283,777)
Office machines	(6,158,816)	(310,033)	297,460	(6,171,389)
Other equipment	(6,763,275)	(686,427)	104,989	(7,344,713)
Park system	(968,110)	(407,067)	-	(1,375,177)
Infrastructure – roads	(125,923,020)	(5,644,663)	234,798	(131,332,885)
Infrastructure – storm drain	<u>(61,724,113)</u>	<u>(2,464,567)</u>	<u>-</u>	<u>(64,188,680)</u>
Total accumulated depreciation	<u>(239,269,093)</u>	<u>(10,586,271)</u>	<u>1,073,581</u>	<u>(248,781,783)</u>
Total capital assets being depreciated, net	<u>163,107,762</u>	<u>(4,033,676)</u>	<u>(181,457)</u>	<u>158,892,629</u>
Governmental activities capital assets, net	<u>\$231,643,588</u>	<u>4,888,572</u>	<u>(2,862,844)</u>	<u>233,669,316</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, 2006:

General government	\$1,656,124
Protection of persons and property	395,914
Community programs	414,610
Public services	<u>8,119,623</u>
Total	<u>\$10,586,271</u>

The City has active construction projects as of June 30, 2006. 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>
Placentia, 19 th , Anaheim Road rehabilitation	300091	\$ 6,240,925	5,628,180	612,745
Northbound Newport Blvd street improvements	300075	592,509	342,411	250,098
I-405/Fairview Road interchange improvements	300084	716,775	452,740	264,035
Police Facility remodel and expansion	200018	2,094,237	173,312	1,920,925
Street maintenance - Citywide	400015	<u>8,599,136</u>	<u>463,311</u>	<u>8,135,825</u>
Total		<u>\$18,243,582</u>	<u>7,059,954</u>	<u>11,183,628</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, 2006 is as follows:

	Balance at July 1, 2005	Additions	Reductions	Balance at June 30, 2006	Portion Due Within One Year	Portion Due Beyond One Year
<u>Governmental Activities</u>						
Bonds:						
Redevelopment Agency 2003 Tax Allocation Refunding Bonds	\$7,020,000	-	(455,000)	6,565,000	460,000	6,105,000
Public Financing Authority 1991 Lease Revenue Bonds	2,310,000	-	(2,310,000)	-	-	-
Public Financing Authority 2003 Refunding Certificate of Participation	13,535,000	-	(805,000)	12,730,000	820,000	11,910,000
Public Financing Authority 2006 Refunding Revenue Refunding Bonds	-	2,365,000	-	2,365,000	-	2,365,000
Public Financing Authority 1998 Refunding Revenue Bonds	<u>8,495,000</u>	<u>-</u>	<u>(895,000)</u>	<u>7,600,000</u>	<u>940,000</u>	<u>6,660,000</u>
Total bonds payable	<u>31,360,000</u>	<u>2,365,000</u>	<u>(4,465,000)</u>	<u>29,260,000</u>	<u>2,220,000</u>	<u>27,040,000</u>
Other liabilities:						
Claims payable	8,519,163	3,184,063	(2,696,105)	9,007,121	2,386,928	6,620,193
Employee leave benefits payable	<u>5,672,659</u>	<u>1,728,889</u>	<u>(1,378,104)</u>	<u>6,023,444</u>	<u>1,400,000</u>	<u>4,623,444</u>
Total other liabilities	<u>14,191,822</u>	<u>4,912,952</u>	<u>(4,074,209)</u>	<u>15,030,565</u>	<u>3,786,928</u>	<u>11,243,637</u>
Capital leases:						
P.D. Computer System	2,347,595	-	(555,450)	1,792,145	575,909	1,216,236
HVAC System	482,737	-	(67,084)	415,653	69,555	346,098
OCE Copier Lease	37,292	-	(30,137)	7,155	7,155	-
Avaya Telephone Lease	125,542	-	(80,710)	44,832	44,832	-
Public Safety Hardware Lease	-	1,602,436	(120,488)	1,481,948	247,705	1,234,243
Tewinkle Park Athletic Field	<u>-</u>	<u>3,183,781</u>	<u>(199,978)</u>	<u>2,983,803</u>	<u>411,731</u>	<u>2,572,072</u>
Total capital leases payable	<u>2,993,166</u>	<u>4,786,217</u>	<u>(1,053,847)</u>	<u>6,725,536</u>	<u>1,356,887</u>	<u>5,368,649</u>
Total	<u>\$48,544,988</u>	<u>12,064,169</u>	<u>(9,593,056)</u>	<u>51,016,101</u>	<u>7,363,815</u>	<u>43,652,286</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 \$710,981 on reserve with the fiscal agent at June 30, 2006. The principal balance outstanding at June 30, 2006 is \$6,565,000.

The annual debt service requirements for the Redevelopment Agency 2003 Tax Allocation Refunding Bonds as of June 30, 2006 are as follows:

Year Ending June 30,	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 460,000	234,450
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>\$6,565,000</u>	<u>1,725,450</u>

CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

(Continued)

(8) Bonds Payable, (Continued)

Costa Mesa Public Financing Authority Bonds

2006 Revenue Refunding Bonds

On June 1, 2006, Costa Mesa Public Financing Authority issued \$2,365,000 of Revenue Refunding Bonds, Series 2006A, which was 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%.

The net proceeds of \$2,139,205 (after payment of \$225,795 in underwriting fees and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on these bonds. As a result, the 1991 Lease Revenue Bonds are considered defeased and the liability for those bonds has been removed from the government-wide financial statements. The advance refunding resulted in a decrease in debt service payments of \$59,973 and an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$203,068.

There is a reserve requirement of \$236,500 on the 2006 Revenue Refunding Bonds. The City has \$401,835 on reserve with the fiscal agent at June 30, 2006. The principal balance outstanding at June 30, 2006 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 21, 2005 and April 21, 2006, the City remitted payment 28 and 19 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 \$1,285,577 on reserve with the fiscal agent at June 30, 2006. The principal balance outstanding at June 30, 2006 is \$12,730,000.

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, 2006, the City had \$1,325,218 on reserve with the fiscal agent. The principal balance outstanding on the bonds as on June 30, 2006 is \$7,600,000.

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, 2006 are as follows:

Year Ending June 30	Governmental Activities					
	<u>2006 Refunding Revenue</u>		<u>2003 Refunding Revenue</u>		<u>1998 Refunding Revenue</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ -	60,384	820,000	441,825	940,000	344,314
2008	120,000	113,529	835,000	425,275	980,000	300,626
2009	135,000	103,590	855,000	407,306	1,030,000	253,364
2010	135,000	98,106	875,000	384,562	1,080,000	202,726
2011	125,000	92,634	900,000	357,937	1,130,000	149,402
2012	130,000	87,054	925,000	328,250	1,190,000	92,250
2013	140,000	81,011	960,000	295,863	1,250,000	31,250
2014	145,000	74,526	990,000	261,719	-	-
2015	150,000	67,666	1,025,000	223,275	-	-
2016	160,000	60,301	1,070,000	182,713	-	-
2017	165,000	52,439	1,110,000	140,450	-	-
2018	175,000	44,086	1,155,000	89,375	-	-
2019	185,000	35,130	1,210,000	30,250	-	-
2020	190,000	25,708	-	-	-	-
2021	200,000	15,810	-	-	-	-
2022	<u>210,000</u>	<u>5,355</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$2,365,000</u>	<u>1,017,329</u>	<u>12,730,000</u>	<u>3,568,800</u>	<u>7,600,000</u>	<u>1,373,932</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, 2006 is expected to be paid primarily by the general fund in future years.

\$ 6,023,444

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, 2006, 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, 2006 for general liability amounted to \$2,805,325 and workers' compensation was \$6,201,796.

9,007,121

Total other liabilities

\$ 15,030,565

(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.

\$ 1,792,145

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%.

415,653

CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

(Continued)

(10) Capital Leases Payable, (Continued)

In October 2001, the City of Costa Mesa entered into a 5-year \$122,000 lease agreement for an OCE copier. The obligations are due in monthly principal and interest payments of \$2,548. Interest is computed at 8.9%.

7,155

On November 11, 1999, the City of Costa Mesa entered into a 7 year Avaya telephone lease (lease no. X091520) in the amount of \$495,874 for the purchase of an Avaya telephone system. The obligations are due in monthly principal and interest payments of \$7,130. Interest is computed at a stated rate of 5.52%.

44,832

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.

1,481,948

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.

2,983,803

Total capital leases payable \$6,725,536

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>(1,324,006)</u>
Total	<u>\$ 8,155,085</u>

CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

(Continued)

(10) Capital Leases Payable, (Continued)

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

Year Ending June 30	Governmental Activities					
	P.D. Computer Lease		Municipal Finance Corp.		OCE Copier Lease	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 575,909	60,206	69,556	14,542	7,155	1,296
2008	597,121	38,993	72,117	11,980	-	-
2009	619,115	16,998	74,774	9,324	-	-
2010	-	-	77,528	6,570	-	-
2011	-	-	80,383	3,714	-	-
2012	-	-	41,295	754	-	-
2013	-	-	-	-	-	-
Totals	<u>\$1,792,145</u>	<u>116,197</u>	<u>415,653</u>	<u>46,884</u>	<u>7,155</u>	<u>1,296</u>

Year Ending June 30	Governmental Activities					
	Avaya Telephone Lease		Public Safety Hardware		Tewinkle Park Athletic Field	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$44,832	539	247,705	52,562	411,731	112,394
2008	-	-	256,955	43,312	427,946	96,178
2009	-	-	266,550	33,717	444,798	79,326
2010	-	-	276,503	23,763	462,314	61,810
2011	-	-	286,829	13,438	480,520	43,604
2012	-	-	147,406	2,727	499,443	24,680
2013	-	-	-	-	<u>257,051</u>	<u>5,013</u>
Totals	<u>\$44,832</u>	<u>539</u>	<u>1,481,948</u>	<u>169,519</u>	<u>2,983,803</u>	<u>423,005</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, 2006 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, 2006 was \$2,120,000.

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, 2006 was \$7,680,000.

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, 2006:

	<u>General</u>	<u>Low and Moderate Income Housing</u>	<u>Debt Service Redevelopment Agency</u>	<u>Nonmajor Governmental Funds</u>
Reserved for:				
Encumbrances	\$ 501,400	815	-	6,356,830
Prepaid items	32,823	904	3,500	120
Inventories	29,312	-	-	-
Advances to other funds	12,180,685	779,747	-	186,165
Debt service	-	-	-	5,233,230
Self insurance	<u>2,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total reserved	<u>14,744,220</u>	<u>781,466</u>	<u>3,500</u>	<u>11,776,345</u>
Unreserved:				
Designated for capital outlay	1,539,212	-	-	-
Designated for cable TV program	1,676,638	-	-	-
Designated for working capital	14,125,000	-	-	-
Designated for workers' compensation claims	6,201,796	-	-	-
Designated for accrued compensated absences	6,023,443	-	-	-
Designated for general liability claims	2,805,325	-	-	-
Designated for capital improvement projects	1,456,509	-	-	-
Designated for other post employment benefits	6,500,000	-	-	-
Designated for FY 06-07 operating budget	3,755,327	-	-	-
Undesignated	<u>12,109,698</u>	<u>1,456,509</u>	<u>(11,783,729)</u>	<u>25,506,705</u>
Total unreserved	<u>56,192,948</u>	<u>1,456,509</u>	<u>(11,783,729)</u>	<u>25,506,705</u>
Total fund balance	<u>\$70,937,168</u>	<u>2,237,975</u>	<u>(11,780,229)</u>	<u>37,283,050</u>

The following funds had deficits at June 30, 2006:

Redevelopment Agency Fund	\$(11,780,229)
Redevelopment Projects Fund	(308,484)
Local Law Enforcement Block Grant Fund	(19,884)

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. 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, 2005 to June 30, 2006 has been determined by an actuarial valuation of the plan as of June 30, 2003. The contribution rate indicated for the period is 24.538% for safety fire and 29.858% for safety police and 11.222% 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, 2006, this contribution rate would be multiplied by the payroll of covered employees that was actually paid during the period July 1, 2005 to June 30, 2006.

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, 2003
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	25 and 26 Years as of the Valuation Date for safety fire and safety police respectively, and 29 Years as of the Valuation Date for miscellaneous plan
Asset Valuation Method	3 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 fire, 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 10% 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>
6/30/03	\$109,769	\$82,356	\$27,413	75.00%	\$13,902	197.2%
6/30/04	116,199	89,228	26,971	76.80%	13,910	193.0%
6/30/05	125,802	97,319	28,483	77.40%	14,760	193.0%

Safety Fire Employees⁽¹⁾

<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>
6/30/03	\$82,613	\$67,865	\$14,748	82.10%	\$8,775	168.1%
6/30/04	1,252,475	1,026,501	225,974	81.96%	154,904	145.9%
6/30/05	1,325,511	1,105,298	220,213	83.40%	161,446	136.4%

⁽¹⁾ - The City of Costa Mesa entered into a Safety 3% @ 55 Risk Pool with the California Public Employee's Retirement System (CalPERS) effective with valuation date 6/30/04.

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>
6/30/03	\$106,278	\$100,513	\$5,765	94.6%	\$22,336	25.8%
6/30/04	113,526	106,286	7,240	93.6%	21,500	33.7%
6/30/05	126,027	113,213	12,814	89.8%	22,379	57.3%

*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>
6/30/04	\$1,915,076	\$1,490,302	100%	-
6/30/05	2,233,311	1,573,331	100%	-
6/30/06	2,480,960	1,655,240	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 or the employee may elect to convert secondary sick leave, vacation or holiday time to be earned in the coming calendar year to this plan. The City's contribution to the defined contribution post retirement plan for the year ended June 30, 2006 was \$415,191. The City has no payment obligations once the employee separates from the City. The IRS is currently reviewing the tax qualified status of the plan. A final determination has not yet been made as of the release date of the financial statements. At this point, it is not possible for the City to reasonably estimate the potential financial impact, if any, of the IRS determination.
- (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, 2006, approximately 269 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, 2006, approximately \$707,370 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, 2006:

	<u>Function</u>	<u>Expenditures</u>	<u>Appropriations</u>	<u>Excess</u>
Major Funds:				
General Fund:				
Protection of persons and property	Protection of persons and property	\$57,373,126	56,937,746	435,380
Low and Moderate Income Housing	Redevelopment	\$2,370,609	345,169	2,025,440
Nonmajor Funds:				
Special Revenue Funds:				
Local Law Enforcement Block Grant	Protection of persons and property	\$27,543	20,608	6,935

(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 \$9,007,121 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 \$6,201,796 for workers' compensation and \$2,805,325 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, 2006 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 \$25,000 to \$2,500,000 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>
2004-2005	\$9,369,190	\$1,708,260	(\$2,558,287)	\$8,519,163
2005-2006	8,519,163	3,184,063	(2,696,105)	9,007,121

(18) Prior Period Adjustment

The beginning net assets on the government-wide financial statements and the beginning fund balance of the General Fund and Public Financing Authority Fund (Nonmajor) have been restated. The following summarizes the effects of the restatement to the beginning net assets/fund balance as of July 1, 2005:

	<u>Governmental Activities</u>	<u>Fund Financials</u>	
		<u>General</u>	<u>Nonmajor Governmental</u>
Total net assets/fund balance at beginning of the year, as previously reported	\$302,703,582	69,832,354	33,942,082
To correct accounting in investment in bonds	(271,400)	-	(271,400)
To adjust for the over/(under) statement of accounts receivable	(300,132)	85,021	(385,153)
To report investment interest in joint venture	<u>2,095,902</u>	<u>-</u>	<u>-</u>
Total net assets/fund balance at beginning of the year, as restated	<u>\$304,227,952</u>	<u>69,917,375</u>	<u>33,285,529</u>

CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

(Continued)

(19) 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, 2006, ABLE did not experience any fiscal stress as indicated by year-end unrestricted net assets of \$1,748,330. This year each member City contributed \$720,266 to the operation. Upon completion, separate financial statements of ABLE can be obtained at Costa Mesa City Hall.



REQUIRED SUPPLEMENTARY INFORMATION



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.

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, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes:					
Sales tax	\$43,795,600	44,904,970	45,116,230	211,260	42,714,022
Property tax	14,869,700	15,269,700	16,936,786	1,667,086	15,744,075
Transient occupancy tax	4,900,000	4,900,000	5,465,320	565,320	4,641,350
Franchise tax	3,866,000	3,631,000	3,674,652	43,652	2,833,347
Business license tax	855,000	855,000	912,324	57,324	912,434
Total taxes	68,286,300	69,560,670	72,105,312	2,544,642	66,845,228
Licenses and permits	2,077,900	1,875,500	2,101,870	226,370	1,948,650
Fines and forfeits	2,728,000	2,708,000	3,038,102	330,102	2,776,842
Investment income	2,550,700	2,511,700	1,047,575	(1,464,125)	2,533,856
Intergovernmental:					
Motor vehicle in-lieu	6,870,900	8,085,500	8,108,852	23,352	8,659,395
Grants and other reimbursements	942,770	985,194	1,180,771	195,577	1,313,745
Total intergovernmental	7,813,670	9,070,694	9,289,623	218,929	9,973,140
Charges for services	2,639,770	2,927,370	3,448,410	521,040	3,140,577
Rental	2,746,110	2,730,600	2,657,369	(73,231)	2,722,143
Miscellaneous	181,300	334,800	408,700	73,900	863,044
Total revenues	89,023,750	91,719,334	94,096,961	2,377,627	90,803,480
Expenditures:					
Current:					
General government:					
City council	296,609	305,899	266,277	39,622	228,402
City manager	924,220	990,602	925,064	65,538	895,523
City clerk	291,296	306,961	303,176	3,785	293,671
City attorney	689,900	687,900	546,480	141,420	959,329
Financial services	2,347,972	2,622,513	2,503,391	119,122	2,212,720
Administrative services:					
Administration	600,512	622,396	632,422	(10,026)	565,755
Personnel services	745,767	778,529	726,071	52,458	660,504
Central services	571,703	602,374	633,045	(30,671)	520,688
Risk management services	1,633,670	1,657,274	1,551,743	105,531	1,477,022
Communication services	3,805,035	3,991,974	3,368,799	623,175	2,996,726
Computer services	3,767,250	4,106,472	3,401,149	705,323	2,354,299
Development services:					
Administration	521,139	545,563	553,554	(7,991)	475,785
Facilities and equipment maintenance	8,729,475	9,298,736	8,706,657	592,079	7,846,672
Total general government	24,924,548	26,517,193	24,117,828	2,399,365	21,487,096

(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, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Protection of persons and property:					
Police protection	33,221,777	35,864,143	35,876,575	(12,432)	31,383,587
Fire protection	17,126,426	18,451,876	18,827,510	(375,634)	16,985,620
Building and safety	2,448,343	2,621,727	2,669,041	(47,314)	2,199,592
Total protection of persons and property	<u>52,796,546</u>	<u>56,937,746</u>	<u>57,373,126</u>	<u>(435,380)</u>	<u>50,568,799</u>
Community programs:					
Community recreation	3,579,860	3,775,707	3,518,881	256,826	3,248,658
Sanitation	536,868	564,691	394,981	169,710	504,430
Planning	1,092,732	1,212,922	1,166,530	46,392	986,386
Total community programs	<u>5,209,460</u>	<u>5,553,320</u>	<u>5,080,392</u>	<u>472,928</u>	<u>4,739,474</u>
Public services:					
Administration	1,117,484	1,218,050	1,181,232	36,818	1,254,957
Engineering	2,472,153	2,770,419	2,490,277	280,142	1,955,832
Transportation	2,346,411	2,448,718	2,088,514	360,204	2,090,002
Total public services	<u>5,936,048</u>	<u>6,437,187</u>	<u>5,760,023</u>	<u>677,164</u>	<u>5,300,791</u>
Debt service:					
Principal	3,302,581	3,302,581	943,000	2,359,581	702,337
Interest and fiscal charges	1,188,711	1,188,711	189,406	999,305	119,793
Total debt service	<u>4,491,292</u>	<u>4,491,292</u>	<u>1,132,406</u>	<u>3,358,886</u>	<u>822,130</u>
Total expenditures	<u>93,357,894</u>	<u>99,936,738</u>	<u>93,463,775</u>	<u>6,472,963</u>	<u>82,918,290</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(4,334,144)</u>	<u>(8,217,404)</u>	<u>633,186</u>	<u>8,850,590</u>	<u>7,885,190</u>
Other financing sources (uses):					
Transfers in	1,874,000	1,874,000	1,891,695	17,695	3,457,279
Transfers out	(2,543,454)	(3,107,524)	(3,107,524)	-	(3,110,345)
Issuance of long-term debt	-	1,298,388	1,602,436	304,048	-
Total other financing sources (uses)	<u>(669,454)</u>	<u>64,864</u>	<u>386,607</u>	<u>321,743</u>	<u>346,934</u>
Net change in fund balance	<u>(5,003,598)</u>	<u>(8,152,540)</u>	<u>1,019,793</u>	<u>9,172,333</u>	<u>8,232,124</u>
Fund balance at beginning of year, as restated	<u>69,917,375</u>	<u>69,917,375</u>	<u>69,917,375</u>	<u>-</u>	<u>61,600,230</u>
Fund balance at end of year	<u>\$64,913,777</u>	<u>61,764,835</u>	<u>70,937,168</u>	<u>9,172,333</u>	<u>69,832,354</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, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ 636,922	636,922	606,675	(30,247)	617,123
Fines and forfeits	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Charges for services	-	-	-	-	-
Rental	-	-	-	-	-
Investment income	6,369	6,369	66,792	60,423	51,527
Miscellaneous	-	-	327,940	327,940	392,321
Total revenues	<u>643,291</u>	<u>643,291</u>	<u>1,001,407</u>	<u>358,116</u>	<u>1,060,971</u>
Expenditures:					
Current:					
General government	-	-	-	-	-
Protection of persons and property	-	-	-	-	-
Community programs	-	-	-	-	-
Redevelopment	121,246	345,169	2,370,609	(2,025,440)	424,889
Total expenditures	<u>121,246</u>	<u>345,169</u>	<u>2,370,609</u>	<u>(2,025,440)</u>	<u>424,889</u>
Excess (deficiency) of revenues over (under) expenditures	<u>522,045</u>	<u>298,122</u>	<u>(1,369,202)</u>	<u>(1,667,324)</u>	<u>636,082</u>
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	522,045	298,122	(1,369,202)	(1,667,324)	636,082
Fund balance at beginning of year	<u>3,607,177</u>	<u>3,607,177</u>	<u>3,607,177</u>	<u>-</u>	<u>2,971,095</u>
Fund balance at end of year	<u><u>\$ 4,129,222</u></u>	<u><u>3,905,299</u></u>	<u><u>2,237,975</u></u>	<u><u>(1,667,324)</u></u>	<u><u>3,607,177</u></u>

CITY OF COSTA MESA, CALIFORNIA
Notes to Required Supplementary Information
Year ended June 30, 2006

(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, 2006, several supplementary appropriations were made totaling \$43,795,358. 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>
General Fund:				
Protection of persons and property	Protection of persons and property	\$57,373,126	56,937,746	435,380
Low and Moderate income Housing	Redevelopment	\$2,370,609	345,169	2,025,440



SUPPLEMENTARY SCHEDULES



CITY OF COSTA MESA, CALIFORNIA

Nonmajor Governmental Funds

Combining Balance Sheet

June 30, 2006

	Special Revenue	Debt Service	Capital Projects	Totals	
				2006	2005
<u>Assets</u>					
Cash and investments	\$18,980,521	2,062,618	10,663,319	31,706,458	31,900,439
Cash and investments with fiscal agent	-	3,170,612	3,937,951	7,108,563	3,578,058
Due from other governments	507,030	-	1,953,162	2,460,192	1,840,536
Accounts receivable	35,475	-	-	35,475	483,208
Interest receivable	220,356	-	1,031,169	1,251,525	1,139,323
Loans receivable	1,918,595	-	58,000	1,976,595	1,740,650
Rent receivable	-	-	1,042,189	1,042,189	1,019,318
Due from other funds	4,460	-	-	4,460	42,379
Loan deposit	511,308	-	-	511,308	560,508
Prepaid items	120	-	-	120	435
Advances to other funds	186,165	-	-	186,165	190,625
Total assets	<u>\$22,364,030</u>	<u>5,233,230</u>	<u>18,685,790</u>	<u>46,283,050</u>	<u>42,495,479</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ 288,413	-	580,429	868,842	1,925,609
Accrued liabilities	142,198	-	-	142,198	111,818
Retentions payable	513,760	-	652,545	1,166,305	954,462
Deposits payable	-	-	-	-	-
Due to other funds	23,254	-	311,139	334,393	343,777
Deferred revenue	2,644,872	-	3,842,757	6,487,629	5,217,731
Total liabilities	<u>3,612,497</u>	<u>-</u>	<u>5,386,870</u>	<u>8,999,367</u>	<u>8,553,397</u>
Fund balances:					
Reserved for:					
Encumbrances	1,788,645	-	4,568,185	6,356,830	5,638,915
Prepaid items	120	-	-	120	435
Advances to other funds	186,165	-	-	186,165	190,625
Debt service	-	5,233,230	-	5,233,230	5,871,412
Unreserved, reported in:					
Special revenue funds	16,776,603	-	-	16,776,603	13,890,856
Capital projects funds	-	-	8,730,735	8,730,735	8,349,839
Total fund balances	<u>18,751,533</u>	<u>5,233,230</u>	<u>13,298,920</u>	<u>37,283,683</u>	<u>33,942,082</u>
Total liabilities and fund balances	<u>\$22,364,030</u>	<u>5,233,230</u>	<u>18,685,790</u>	<u>46,283,050</u>	<u>42,495,479</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, 2006

	Special Revenue	Debt Service	Capital Projects	Totals	
				2006	2005
Revenues:					
Taxes	\$ 932,851	-	826	933,677	901,194
Fines and forfeits	119,757	-	-	119,757	176,543
Intergovernmental	6,445,722	-	6,464,125	12,909,847	9,612,508
Charges for services	1,323,393	-	-	1,323,393	184,940
Rental	49,200	-	85,447	134,647	136,143
Investment income	652,792	183,982	402,989	1,239,763	1,302,819
Miscellaneous	52,655	-	37,696	90,351	163,775
Total revenues	9,576,370	183,982	6,991,083	16,751,435	12,477,922
Expenditures:					
Current:					
General government	1,558,183	-	-	1,558,183	1,645,439
Protection of persons and property	1,280,696	-	-	1,280,696	1,357,512
Community programs	2,250,166	-	-	2,250,166	1,581,495
Public services	2,915,591	-	7,017,112	9,932,703	11,602,829
Redevelopment	-	-	139,062	139,062	124,904
Debt service:					
Cost of issuance	-	90,345	-	90,345	-
Principal	-	1,840,000	-	1,840,000	1,735,000
Interest and fiscal charges	-	1,004,515	-	1,004,515	1,062,101
Total expenditures	8,004,636	2,934,860	7,156,174	18,095,670	19,109,280
Excess (deficiency) of revenues over (under) expenditures	1,571,734	(2,750,878)	(165,091)	(1,344,235)	(6,631,358)
Other financing sources (uses):					
Transfers in	205,247	2,543,454	573,983	3,322,684	3,194,637
Transfers out	(239,000)	-	(1,150,871)	(1,389,871)	(3,001,287)
Issuance of long-term debt	-	2,365,000	3,183,781	5,548,781	-
Payment to bond escrow agent	-	(2,139,205)	-	(2,139,205)	-
Total other financing sources (uses)	(33,753)	2,769,249	2,606,893	5,342,389	193,350
Net change in fund balances	1,537,981	18,371	2,441,802	3,998,154	(6,438,008)
Fund balances at beginning of year, as restated	17,213,552	5,214,859	10,857,118	33,285,529	40,380,090
Fund balances at end of year	\$18,751,533	5,233,230	13,298,920	37,283,683	33,942,082

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 construction and maintenance of the City's drainage 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.

CITY OF COSTA MESA, CALIFORNIA
Nonmajor Special Revenue Funds
Combining Balance Sheet
June 30, 2006

	Special Gas Tax	Proposition 172	Air Quality Improvement	HOME Program	Community Development	Park Development Fees	Drainage Fees
<u>Assets</u>							
Cash and investments	\$ 9,014,709	596,557	599,939	222,062	-	1,893,059	388,004
Due from other governments	142,041	167,700	-	70,693	124,675	-	-
Accounts receivable	-	-	35,475	-	-	-	-
Interest receivable	103,136	6,824	6,864	-	5,744	21,658	4,439
Loans receivable	-	-	-	1,817,087	-	-	-
Due from other funds	-	-	-	-	4,460	-	-
Loan deposit	-	-	-	-	511,308	-	-
Prepaid items	-	-	-	-	-	-	-
Advances to other funds	-	-	-	-	186,165	-	-
Total assets	\$ 9,259,886	771,081	642,278	2,109,842	832,352	1,914,717	392,443
<u>Liabilities and Fund Balances</u>							
Liabilities:							
Accounts payable	\$ 156,956	37	17,919	35,160	62,033	-	-
Accrued liabilities	-	9,831	-	5,861	19,871	-	-
Retentions payable	484,430	-	-	-	-	29,330	-
Due to other funds	-	-	-	-	3,370	-	-
Deferred revenue	-	-	-	1,820,149	723,215	-	-
Total liabilities	641,386	9,868	17,919	1,861,170	808,489	29,330	-
Fund balances:							
Reserved for:							
Encumbrances	1,380,848	108,714	10,707	16,150	45,606	26,498	-
Prepaid items	-	-	-	-	-	-	-
Advances to other funds	-	-	-	-	186,165	-	-
Unreserved, reported in special revenue funds	7,237,652	652,499	613,652	232,522	(207,908)	1,858,889	392,443
Total fund balances	8,618,500	761,213	624,359	248,672	23,863	1,885,387	392,443
Total liabilities and fund balances	\$ 9,259,886	771,081	642,278	2,109,842	832,352	1,914,717	392,443

Supplemental Law Enforcement Services	Traffic Impact Fees	Rental Rehabilitation Program	Narcotics Forfeiture	Fire System Development Fees	Local Law Enforcement Block Grant	Totals	
						2006	2005
175,230	5,293,027	122,033	321,959	353,942	-	18,980,521	17,644,764
-	-	-	1,921	-	-	507,030	1,157,476
-	-	-	-	-	-	35,475	3,055
2,005	60,557	1,396	3,684	4,049	-	220,356	151,407
-	-	101,508	-	-	-	1,918,595	1,680,650
-	-	-	-	-	-	4,460	42,379
-	-	-	-	-	-	511,308	560,508
-	-	-	120	-	-	120	435
-	-	-	-	-	-	186,165	190,625
<u>177,235</u>	<u>5,353,584</u>	<u>224,937</u>	<u>327,684</u>	<u>357,991</u>	<u>-</u>	<u>22,364,030</u>	<u>21,431,299</u>
3,209	-	-	4,541	8,558	-	288,413	1,159,118
1,364	-	-	105,271	-	-	142,198	111,818
-	-	-	-	-	-	513,760	449,015
-	-	-	-	-	19,884	23,254	41,987
-	-	101,508	-	-	-	2,644,872	2,455,809
<u>4,573</u>	<u>-</u>	<u>101,508</u>	<u>109,812</u>	<u>8,558</u>	<u>19,884</u>	<u>3,612,497</u>	<u>4,217,747</u>
-	200,122	-	-	-	-	1,788,645	3,131,636
-	-	-	120	-	-	120	435
-	-	-	-	-	-	186,165	190,625
<u>172,662</u>	<u>5,153,462</u>	<u>123,429</u>	<u>217,752</u>	<u>349,433</u>	<u>(19,884)</u>	<u>16,776,603</u>	<u>13,890,856</u>
<u>172,662</u>	<u>5,353,584</u>	<u>123,429</u>	<u>217,872</u>	<u>349,433</u>	<u>(19,884)</u>	<u>18,751,533</u>	<u>17,213,552</u>
<u>177,235</u>	<u>5,353,584</u>	<u>224,937</u>	<u>327,684</u>	<u>357,991</u>	<u>-</u>	<u>22,364,030</u>	<u>21,431,299</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, 2006

	Special Gas Tax	Proposition 172	Air Quality Improvement	HOME Program	Community Development	Park Development Fees	Drainage Fees
Revenues:							
Taxes	\$ -	932,851	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Intergovernmental	3,456,457	-	173,438	669,274	1,188,862	205,273	-
Charges for services	-	-	-	-	-	1,302,341	21,052
Rental	-	-	-	-	49,200	-	-
Investment income	297,851	20,784	20,146	-	5,744	68,666	13,504
Miscellaneous	-	-	-	-	-	-	-
Total revenues	3,754,308	953,635	193,584	669,274	1,243,806	1,576,280	34,556
Expenditures:							
Current:							
General government	-	-	-	-	1,558,183	-	-
Protection of persons and property	-	962,789	-	-	-	-	-
Community programs	-	-	-	742,116	-	650,063	-
Public services	2,745,264	-	170,327	-	-	-	-
Total expenditures	2,745,264	962,789	170,327	742,116	1,558,183	650,063	-
Excess (deficiency) of revenues over (under) expenditures	1,009,044	(9,154)	23,257	(72,842)	(314,377)	926,217	34,556
Other financing sources (uses):							
Transfers in	-	-	-	-	85,447	119,800	-
Transfers out	-	(39,000)	-	-	-	-	-
Total other financing sources (uses)	-	(39,000)	-	-	85,447	119,800	-
Net change in fund balances	1,009,044	(48,154)	23,257	(72,842)	(228,930)	1,046,017	34,556
Fund balances at beginning of year	7,609,456	809,367	601,102	321,514	252,793	839,370	357,887
Fund balances (deficit) at end 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>

Supplemental Law Enforcement Services	Traffic Impact Fees	Rental Rehabilitation Program	Narcotics Forfeiture	Fire System Development Fees	Local Law Enforcement Block Grant	Totals	
						2006	2005
-	-	-	-	-	-	932,851	868,962
-	-	-	119,757	-	-	119,757	176,543
164,086	571,556	-	16,776	-	-	6,445,722	6,918,503
-	-	-	-	-	-	1,323,393	184,940
-	-	-	-	-	-	49,200	53,685
7,204	189,235	5,027	12,088	12,543	-	652,792	576,506
-	52,655	-	-	-	-	52,655	51,703
<u>171,290</u>	<u>813,446</u>	<u>5,027</u>	<u>148,621</u>	<u>12,543</u>	<u>-</u>	<u>9,576,370</u>	<u>8,830,842</u>
-	-	-	-	-	-	1,558,183	1,645,439
224,454	-	-	57,352	8,558	27,543	1,280,696	1,357,512
-	857,987	-	-	-	-	2,250,166	1,581,495
-	-	-	-	-	-	2,915,591	4,076,661
<u>224,454</u>	<u>857,987</u>	<u>-</u>	<u>57,352</u>	<u>8,558</u>	<u>27,543</u>	<u>8,004,636</u>	<u>8,661,107</u>
<u>(53,164)</u>	<u>(44,541)</u>	<u>5,027</u>	<u>91,269</u>	<u>3,985</u>	<u>(27,543)</u>	<u>1,571,734</u>	<u>169,735</u>
-	-	-	-	-	-	205,247	84,292
-	-	-	(200,000)	-	-	(239,000)	(988,116)
-	-	-	(200,000)	-	-	(33,753)	(903,824)
<u>(53,164)</u>	<u>(44,541)</u>	<u>5,027</u>	<u>(108,731)</u>	<u>3,985</u>	<u>(27,543)</u>	<u>1,537,981</u>	<u>(734,089)</u>
<u>225,826</u>	<u>5,398,125</u>	<u>118,402</u>	<u>326,603</u>	<u>345,448</u>	<u>7,659</u>	<u>17,213,552</u>	<u>17,947,641</u>
<u>172,662</u>	<u>5,353,584</u>	<u>123,429</u>	<u>217,872</u>	<u>349,433</u>	<u>(19,884)</u>	<u>18,751,533</u>	<u>17,213,552</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, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Fines and forfeits	-	-	-	-	-
Intergovernmental	2,480,500	3,133,813	3,456,457	322,644	4,492,326
Charges for services	-	-	-	-	-
Rental	-	-	-	-	-
Investment income	270,800	270,800	297,851	27,051	274,781
Miscellaneous	-	-	-	-	3,962
Total revenues	2,751,300	3,404,613	3,754,308	349,695	4,771,069
Expenditures:					
Current:					
General government	-	-	-	-	-
Protection of persons and property	-	-	-	-	-
Community programs	-	-	-	-	-
Public services	2,401,000	13,084,299	2,745,264	10,339,035	3,904,241
Total expenditures	2,401,000	13,084,299	2,745,264	10,339,035	3,904,241
Excess (deficiency) of revenues over (under) expenditures	350,300	(9,679,686)	1,009,044	10,688,730	866,828
Other financing sources (uses):					
Transfers in	-	-	-	-	1,086
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	1,086
Net change in fund balance	350,300	(9,679,686)	1,009,044	10,688,730	867,914
Fund balance at beginning of year	7,609,456	7,609,456	7,609,456	-	6,741,542
Fund balance (deficit) at end of year	\$ 7,959,756	(2,070,230)	8,618,500	10,688,730	7,609,456

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, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ 800,000	800,000	932,851	132,851	868,962
Fines and forfeits	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Charges for services	-	-	-	-	-
Rental	-	-	-	-	-
Investment income	52,000	52,000	20,784	(31,216)	17,124
Miscellaneous	-	-	-	-	-
Total revenues	852,000	852,000	953,635	101,635	886,086
Expenditures:					
Current:					
General government	-	-	-	-	-
Protection of persons and property	1,041,854	1,252,589	962,789	289,800	1,058,550
Community programs	-	-	-	-	-
Public services	-	-	-	-	-
Total expenditures	1,041,854	1,252,589	962,789	289,800	1,058,550
Excess (deficiency) of revenues over (under) expenditures	(189,854)	(400,589)	(9,154)	391,435	(172,464)
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	(39,000)	(39,000)	(39,000)	-	(827,030)
Total other financing sources (uses)	(39,000)	(39,000)	(39,000)	-	(827,030)
Net change in fund balance	(228,854)	(439,589)	(48,154)	391,435	(999,494)
Fund balance at beginning of year	809,367	809,367	809,367	-	1,808,861
Fund balance at end of year	\$ 580,513	369,778	761,213	391,435	809,367

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, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Fines and forfeits	-	-	-	-	-
Intergovernmental	40,000	100,000	173,438	73,438	137,433
Charges for services	-	-	-	-	-
Rental	-	-	-	-	-
Investment income	18,700	18,700	20,146	1,446	20,106
Miscellaneous	-	-	-	-	-
Total revenues	58,700	118,700	193,584	74,884	157,539
Expenditures:					
Current:					
General government	-	-	-	-	-
Protection of persons and property	-	-	-	-	-
Community programs	-	-	-	-	-
Public services	120,216	535,515	170,327	365,188	172,420
Total expenditures	120,216	535,515	170,327	365,188	172,420
Excess (deficiency) of revenues over (under) expenditures	(61,516)	(416,815)	23,257	440,072	(14,881)
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balance	(61,516)	(416,815)	23,257	440,072	(14,881)
Fund balance at beginning of year	601,102	601,102	601,102	-	615,983
Fund balance at end of year	\$ 539,586	184,287	624,359	440,072	601,102

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, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Fines and forfeits	-	-	-	-	-
Intergovernmental	750,655	750,655	669,274	(81,381)	482,956
Charges for services	-	-	-	-	-
Rental	-	-	-	-	-
Investment income	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total revenues	<u>750,655</u>	<u>750,655</u>	<u>669,274</u>	<u>(81,381)</u>	<u>482,956</u>
Expenditures:					
Current:					
General government	-	-	-	-	-
Protection of persons and property	-	-	-	-	-
Community programs	809,582	1,354,269	742,116	612,153	422,131
Public services	-	-	-	-	-
Total expenditures	<u>809,582</u>	<u>1,354,269</u>	<u>742,116</u>	<u>612,153</u>	<u>422,131</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(58,927)</u>	<u>(603,614)</u>	<u>(72,842)</u>	<u>530,772</u>	<u>60,825</u>
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	(58,927)	(603,614)	(72,842)	530,772	60,825
Fund balance at beginning of year	<u>321,514</u>	<u>321,514</u>	<u>321,514</u>	<u>-</u>	<u>260,689</u>
Fund balance (deficit) at end of year	<u>\$ 262,587</u>	<u>(282,100)</u>	<u>248,672</u>	<u>530,772</u>	<u>321,514</u>

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, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Fines and forfeits	-	-	-	-	-
Intergovernmental	1,563,176	1,563,176	1,188,862	(374,314)	1,423,277
Charges for services	-	-	-	-	-
Rental	-	-	49,200	49,200	53,685
Investment income	-	-	5,744	5,744	5,849
Miscellaneous	-	-	-	-	22,741
Total revenues	1,563,176	1,563,176	1,243,806	(319,370)	1,505,552
Expenditures:					
Current:					
General government	1,939,167	2,821,736	1,558,183	1,263,553	1,645,439
Protection of persons and property	-	-	-	-	-
Community programs	-	-	-	-	-
Public services	-	-	-	-	-
Total expenditures	1,939,167	2,821,736	1,558,183	1,263,553	1,645,439
Excess (deficiency) of revenues over (under) expenditures	(375,991)	(1,258,560)	(314,377)	944,183	(139,887)
Other financing sources (uses):					
Transfers in	-	-	85,447	85,447	82,458
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	85,447	85,447	82,458
Net change in fund balance	(375,991)	(1,258,560)	(228,930)	1,029,630	(57,429)
Fund balance at beginning of year	252,793	252,793	252,793	-	310,222
Fund balance at end of year	\$ (123,198)	(1,005,767)	23,863	1,029,630	252,793

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, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Fines and forfeits	-	-	-	-	-
Intergovernmental	-	-	205,273	205,273	-
Charges for services	360,900	360,900	1,302,341	941,441	176,720
Rental	-	-	-	-	-
Investment income	46,200	46,200	68,666	22,466	32,769
Miscellaneous	-	-	-	-	-
Total revenues	407,100	407,100	1,576,280	1,169,180	209,489
Expenditures:					
Current:					
General government	-	-	-	-	-
Protection of persons and property	-	-	-	-	-
Community programs	690,000	1,783,712	650,063	1,133,649	673,534
Public services	-	-	-	-	-
Total expenditures	690,000	1,783,712	650,063	1,133,649	673,534
Excess (deficiency) of revenues over (under) expenditures	(282,900)	(1,376,612)	926,217	2,302,829	(464,045)
Other financing sources (uses):					
Transfers in	-	119,800	119,800	119,800	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	119,800	119,800	119,800	-
Net change in fund balance	(282,900)	(1,256,812)	1,046,017	2,302,829	(464,045)
Fund balance at beginning of year	839,370	839,370	839,370	-	1,303,415
Fund balance (deficit) at end of year	\$ 556,470	(417,442)	1,885,387	2,302,829	839,370

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, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Fines and forfeits	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Charges for services	15,000	15,000	21,052	6,052	8,220
Rental	-	-	-	-	-
Investment income	10,900	10,900	13,504	2,604	11,689
Miscellaneous	-	-	-	-	-
Total revenues	25,900	25,900	34,556	8,656	19,909
Expenditures:					
Current:					
General government	-	-	-	-	-
Protection of persons and property	-	-	-	-	-
Community programs	-	-	-	-	-
Public services	-	-	-	-	-
Total expenditures	-	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures	25,900	25,900	34,556	8,656	19,909
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balance	25,900	25,900	34,556	8,656	19,909
Fund balance at beginning of year	357,887	357,887	357,887	-	337,978
Fund balance at end of year	\$ 383,787	383,787	392,443	8,656	357,887

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, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Fines and forfeits	-	-	-	-	-
Intergovernmental	160,000	160,000	164,086	4,086	165,836
Charges for services	-	-	-	-	-
Rental	-	-	-	-	-
Investment income	6,600	6,600	7,204	604	8,174
Miscellaneous	-	-	-	-	-
Total revenues	<u>166,600</u>	<u>166,600</u>	<u>171,290</u>	<u>4,690</u>	<u>174,010</u>
Expenditures:					
Current:					
General government	-	-	-	-	-
Protection of persons and property	171,232	233,784	224,454	9,330	167,533
Community programs	-	-	-	-	-
Public services	-	-	-	-	-
Total expenditures	<u>171,232</u>	<u>233,784</u>	<u>224,454</u>	<u>9,330</u>	<u>167,533</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(4,632)</u>	<u>(67,184)</u>	<u>(53,164)</u>	<u>14,020</u>	<u>6,477</u>
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	(4,632)	(67,184)	(53,164)	14,020	6,477
Fund balance at beginning of year	<u>225,826</u>	<u>225,826</u>	<u>225,826</u>	<u>-</u>	<u>219,349</u>
Fund balance at end of year	<u><u>\$ 221,194</u></u>	<u><u>158,642</u></u>	<u><u>172,662</u></u>	<u><u>14,020</u></u>	<u><u>225,826</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, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Fines and forfeits	-	-	-	-	-
Intergovernmental	400,000	925,869	571,556	(354,313)	138,120
Charges for services	-	-	-	-	-
Rental	-	-	-	-	-
Investment income	210,000	210,000	189,235	(20,765)	180,812
Miscellaneous	-	-	52,655	52,655	-
Total revenues	610,000	1,135,869	813,446	(322,423)	318,932
Expenditures:					
Current:					
General government	-	-	-	-	-
Protection of persons and property	-	-	-	-	-
Community programs	59,033	5,390,254	857,987	4,532,267	485,830
Public services	-	-	-	-	-
Total expenditures	59,033	5,390,254	857,987	4,532,267	485,830
Excess (deficiency) of revenues over (under) expenditures	550,967	(4,254,385)	(44,541)	4,209,844	(166,898)
Other financing sources (uses):					
Transfers in	-	-	-	-	748
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	748
Net change in fund balance	550,967	(4,254,385)	(44,541)	4,209,844	(166,150)
Fund balance at beginning of year	5,398,125	5,398,125	5,398,125	-	5,564,275
Fund balance at end of year	\$ 5,949,092	1,143,740	5,353,584	4,209,844	5,398,125

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, 2006

	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	4,100	4,100	5,027	927	4,786
Miscellaneous	-	-	-	-	25,000
Total revenues	4,100	4,100	5,027	927	29,786
Expenditures:					
Current:					
General government	-	-	-	-	-
Protection of persons and property	-	-	-	-	-
Community programs	-	-	-	-	-
Public services	-	-	-	-	-
Total expenditures	-	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures	4,100	4,100	5,027	927	29,786
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balance	4,100	4,100	5,027	927	29,786
Fund balance at beginning of year	118,402	118,402	118,402	-	88,616
Fund balance at end of year	\$ 122,502	122,502	123,429	927	118,402

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, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Fines and forfeits	100,000	100,000	119,757	19,757	176,543
Intergovernmental	-	-	16,776	16,776	52,921
Charges for services	-	-	-	-	-
Rental	-	-	-	-	-
Investment income	8,500	8,500	12,088	3,588	7,008
Miscellaneous	-	-	-	-	-
Total revenues	108,500	108,500	148,621	40,121	236,472
Expenditures:					
Current:					
General government	-	-	-	-	-
Protection of persons and property	92,100	92,100	57,352	34,748	62,208
Community programs	-	-	-	-	-
Public services	-	-	-	-	-
Total expenditures	92,100	92,100	57,352	34,748	62,208
Excess (deficiency) of revenues over (under) expenditures	16,400	16,400	91,269	74,869	174,264
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	(200,000)	(200,000)	(200,000)	-	(160,000)
Total other financing sources (uses)	(200,000)	(200,000)	(200,000)	-	(160,000)
Net change in fund balance	(183,600)	(183,600)	(108,731)	74,869	14,264
Fund balance at beginning of year	326,603	326,603	326,603	-	312,339
Fund balance at end of year	\$ 143,003	143,003	217,872	74,869	326,603

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, 2006

	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	10,300	10,300	12,543	2,243	11,345
Miscellaneous	-	-	-	-	-
Total revenues	10,300	10,300	12,543	2,243	11,345
Expenditures:					
Current:					
General government	-	-	-	-	-
Protection of persons and property	-	24,550	8,558	15,992	-
Community programs	-	-	-	-	-
Public services	-	-	-	-	-
Total expenditures	-	24,550	8,558	15,992	-
Excess (deficiency) of revenues over (under) expenditures	10,300	(14,250)	3,985	18,235	11,345
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balance	10,300	(14,250)	3,985	18,235	11,345
Fund balance at beginning of year	345,448	345,448	345,448	-	334,103
Fund balance at end of year	\$ 355,748	331,198	349,433	18,235	345,448

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, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Fines and forfeits	-	-	-	-	-
Intergovernmental	20,000	20,000	-	(20,000)	25,634
Charges for services	-	-	-	-	-
Rental	-	-	-	-	-
Investment income	1,900	1,900	-	(1,900)	2,063
Miscellaneous	-	-	-	-	-
Total revenues	21,900	21,900	-	(21,900)	27,697
Expenditures:					
Current:					
General government	-	-	-	-	-
Protection of persons and property	-	20,608	27,543	(6,935)	69,221
Community programs	-	-	-	-	-
Public services	-	-	-	-	-
Total expenditures	-	20,608	27,543	(6,935)	69,221
Excess (deficiency) of revenues over (under) expenditures	21,900	1,292	(27,543)	(28,835)	(41,524)
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balance	21,900	1,292	(27,543)	(28,835)	(41,524)
Fund balance at beginning of year	7,659	7,659	7,659	-	49,183
Fund balance (deficit) at end of year	\$ 29,559	8,951	(19,884)	(28,835)	7,659

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 Debt Service Fund

To accumulate monies for payment of the 1993 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 2006 Revenue Refunding Bonds, the 2003 Refunding Certificates of Participation, and the 1998 Refunding Revenue Bonds of the Corporation. The 1991 Local Agency Revenues Bonds provided monies for the purchase of the Costa Mesa Community Facilities 1991 Special Tax Bonds. The 1993 Refunding Revenue Bonds 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. In addition, the 2006 Revenue Refunding Bonds provided for the refunding of the 1991 Local Agency Revenue Bonds. Lastly, the 2003 Certificates of Participation provided for the refunding of the 1993 Refunding Revenue Bonds.

CITY OF COSTA MESA, CALIFORNIA

Nonmajor Debt Service Funds

Comparative Balance Sheet

June 30, 2006

	Financing Authority Debt Service	Totals	
		2006	2005
<u>Assets</u>			
Cash and investments	\$ 2,062,618	2,062,618	2,379,018
Cash and investments with fiscal agents	3,170,612	3,170,612	3,012,241
Due from other governments	-	-	-
Accounts receivable	-	-	480,153
Interest receivable	-	-	-
Total assets	<u>\$ 5,233,230</u>	<u>5,233,230</u>	<u>5,871,412</u>
 <u>Liabilities and Fund Balances</u>			
Liabilities:			
Accrued liabilities	\$ -	-	-
Total liabilities	-	-	-
Fund balances:			
Reserved for:			
Debt service	<u>5,233,230</u>	<u>5,233,230</u>	<u>5,871,412</u>
Total fund balances	<u>5,233,230</u>	<u>5,233,230</u>	<u>5,871,412</u>
Total liabilities and fund balances	<u>\$ 5,233,230</u>	<u>5,233,230</u>	<u>5,871,412</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, 2006

	Financing Authority Debt Service	Totals	
		2006	2005
Revenues:			
Taxes	\$ -	-	31,422
Investment income	183,982	183,982	279,721
Total revenues	183,982	183,982	311,143
Expenditures:			
Debt service:			
Cost of issuance	90,345	90,345	-
Principal	1,840,000	1,840,000	1,735,000
Interest and fiscal charges	1,004,515	1,004,515	1,062,101
Total expenditures	2,934,860	2,934,860	2,797,101
Excess (deficiency) of revenues over (under) expenditures	<u>(2,750,878)</u>	<u>(2,750,878)</u>	<u>(2,485,958)</u>
Other financing sources (uses):			
Transfers in	2,543,454	2,543,454	2,563,173
Transfers out			(404,820)
Payment to bond escrow agent	(2,139,205)	(2,139,205)	-
Issuance of long-term debt	2,365,000	2,365,000	-
Total other financing sources (uses)	2,769,249	2,769,249	2,158,353
Net change in fund balances	18,371	18,371	(327,605)
Fund balances at beginning of year, as restated	5,214,859	5,214,859	6,199,017
Fund balances at end of year	\$ 5,233,230	5,233,230	5,871,412

CITY OF COSTA MESA, CALIFORNIA

Redevelopment Debt Service Fund

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

For the fiscal year ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ 2,272,689	2,272,689	2,173,047	(99,642)	2,192,737
Intergovernmental	-	-	-	-	-
Rental	-	-	-	-	-
Investment income	12,739	12,739	94,270	81,531	43,789
Miscellaneous	25,510	25,510	15,000	(10,510)	8,020
Total revenues	2,310,938	2,310,938	2,282,317	(28,621)	2,244,546
Expenditures:					
Debt service:					
Cost of issuance	-	-	-	-	-
Principal	803,935	803,935	455,000	348,935	450,000
Interest and fiscal charges	1,252,042	1,252,042	1,254,659	(2,617)	1,285,689
Total expenditures	2,055,977	2,055,977	1,709,659	346,318	1,735,689
Excess (deficiency) of revenues over (under) expenditures	254,961	254,961	572,658	317,697	508,857
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	(129,713)	(129,713)	(129,713)	-	-
Total other financing sources (uses)	(129,713)	(129,713)	(129,713)	-	-
Net change in fund balance	125,248	125,248	442,945	317,697	508,857
Fund balance (deficit) at beginning of year	(12,223,174)	(12,223,174)	(12,223,174)	-	(12,732,031)
Fund balance (deficit) at end of year	\$ (12,097,926)	(12,097,926)	(11,780,229)	317,697	(12,223,174)

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:

Capital Improvements Fund

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

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, 2006

	<u>Capital Improvements</u>	<u>Measure "M" Construction</u>	<u>Parking Districts</u>	<u>Redevelopment Projects</u>
<u>Assets</u>				
Cash and investments	\$ 1,971,849	8,648,191	43,279	-
Cash and investments with fiscal agents	3,937,951	-	-	-
Due from other governments	614,375	1,336,099	33	2,655
Interest receivable	12,263	98,943	496	919,467
Loans receivable	58,000	-	-	-
Rent receivable	-	-	-	1,042,189
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 6,594,438</u>	<u>10,083,233</u>	<u>43,808</u>	<u>1,964,311</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ 330,842	249,587	-	-
Retentions payable	502,608	149,937	-	-
Due to other funds	-	-	-	311,139
Deferred revenue	856,131	1,024,970	-	1,961,656
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>1,689,581</u>	<u>1,424,494</u>	<u>-</u>	<u>2,272,795</u>
Fund balances:				
Reserved for:				
Encumbrances	3,069,323	1,498,205	-	657
Unreserved, reported in capital projects funds	<u>1,835,534</u>	<u>7,160,534</u>	<u>43,808</u>	<u>(309,141)</u>
Total fund balances (deficit)	<u>4,904,857</u>	<u>8,658,739</u>	<u>43,808</u>	<u>(308,484)</u>
Total liabilities and fund balances	<u>\$ 6,594,438</u>	<u>10,083,233</u>	<u>43,808</u>	<u>1,964,311</u>

Totals

<u>2006</u>	<u>2005</u>
10,663,319	11,876,657
3,937,951	600,066
1,953,162	648,811
1,031,169	987,916
58,000	60,000
<u>1,042,189</u>	<u>1,019,318</u>
<u>18,685,790</u>	<u>15,192,768</u>

580,429	766,491
652,545	505,447
311,139	301,790
<u>3,842,757</u>	<u>2,761,922</u>
<u>5,386,870</u>	<u>4,335,650</u>

4,568,185	2,507,279
<u>8,730,735</u>	<u>8,349,839</u>
<u>13,298,920</u>	<u>10,857,118</u>
<u>18,685,790</u>	<u>15,192,768</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, 2006

	<u>Capital Improvements</u>	<u>Measure "M" Construction</u>	<u>Parking Districts</u>	<u>Redevelopment Projects</u>
Revenues:				
Taxes	\$ -	-	826	-
Intergovernmental	2,818,380	3,645,745	-	-
Rental	-	-	-	85,447
Investment income	139,332	262,117	1,540	-
Miscellaneous	28,400	9,296	-	-
Total revenues	<u>2,986,112</u>	<u>3,917,158</u>	<u>2,366</u>	<u>85,447</u>
Expenditures:				
Current:				
Public services	4,944,876	2,072,236	-	-
Redevelopment	-	-	-	139,062
Total expenditures	<u>4,944,876</u>	<u>2,072,236</u>	<u>-</u>	<u>139,062</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,958,764)</u>	<u>1,844,922</u>	<u>2,366</u>	<u>(53,615)</u>
Other financing sources (uses):				
Transfers in	444,270	-	-	129,713
Transfers out	(964,000)	(100,000)	(1,424)	(85,447)
Issuance of long-term debt	3,183,781	-	-	-
Total other financing sources (uses)	<u>2,664,051</u>	<u>(100,000)</u>	<u>(1,424)</u>	<u>44,266</u>
Net change in fund balance	705,287	1,744,922	942	(9,349)
Fund balance (deficit) at beginning of year	<u>4,199,570</u>	<u>6,913,817</u>	<u>42,866</u>	<u>(299,135)</u>
Fund balance (deficit) at end of year	<u><u>\$ 4,904,857</u></u>	<u><u>8,658,739</u></u>	<u><u>43,808</u></u>	<u><u>(308,484)</u></u>

Totals	
<u>2006</u>	<u>2005</u>
826	810
6,464,125	2,694,005
85,447	82,458
402,989	446,592
37,696	112,072
<u>6,991,083</u>	<u>3,335,937</u>
7,017,112	7,526,168
139,062	124,904
<u>7,156,174</u>	<u>7,651,072</u>
<u>(165,091)</u>	<u>(4,315,135)</u>
573,983	547,172
(1,150,871)	(1,608,351)
3,183,781	-
<u>2,606,893</u>	<u>(1,061,179)</u>
2,441,802	(5,376,314)
<u>10,857,118</u>	<u>16,233,432</u>
<u><u>13,298,920</u></u>	<u><u>10,857,118</u></u>

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, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Intergovernmental	50,000	1,050,000	2,818,380	1,768,380	392,594
Rental	-	-	-	-	-
Investment income	231,000	231,000	139,332	(91,668)	208,983
Miscellaneous	-	-	28,400	28,400	55,843
Total revenues	<u>281,000</u>	<u>1,281,000</u>	<u>2,986,112</u>	<u>1,705,112</u>	<u>657,420</u>
Expenditures:					
Current:					
Public services	4,176,000	11,143,865	4,944,876	6,198,989	4,940,502
Redevelopment	-	-	-	-	-
Total expenditures	<u>4,176,000</u>	<u>11,143,865</u>	<u>4,944,876</u>	<u>6,198,989</u>	<u>4,940,502</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(3,895,000)</u>	<u>(9,862,865)</u>	<u>(1,958,764)</u>	<u>7,904,101</u>	<u>(4,283,082)</u>
Other financing sources (uses):					
Transfers in	-	444,270	444,270	-	547,172
Transfers out	(964,000)	(964,000)	(964,000)	-	(17,583)
Issuance of long-term debt	4,698,338	3,400,000	3,183,781	(216,219)	-
Total other financing sources (uses)	<u>3,734,338</u>	<u>2,880,270</u>	<u>2,664,051</u>	<u>(216,219)</u>	<u>529,589</u>
Net change in fund balance	<u>(160,662)</u>	<u>(6,982,595)</u>	<u>705,287</u>	<u>7,687,882</u>	<u>(3,753,493)</u>
Fund balance at beginning of year	<u>4,199,570</u>	<u>4,199,570</u>	<u>4,199,570</u>	<u>-</u>	<u>7,953,063</u>
Fund balance (deficit) at end of year	<u>\$ 4,038,908</u>	<u>(2,783,025)</u>	<u>4,904,857</u>	<u>7,687,882</u>	<u>4,199,570</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, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Intergovernmental	2,374,000	3,911,200	3,645,745	(265,455)	2,301,411
Rental	-	-	-	-	-
Investment income	231,700	231,700	262,117	30,417	236,197
Miscellaneous	-	-	9,296	9,296	56,229
Total revenues	<u>2,605,700</u>	<u>4,142,900</u>	<u>3,917,158</u>	<u>(225,742)</u>	<u>2,593,837</u>
Expenditures:					
Current:					
Public services	3,452,615	13,970,550	2,072,236	11,898,314	2,575,337
Redevelopment	-	-	-	-	-
Total expenditures	<u>3,452,615</u>	<u>13,970,550</u>	<u>2,072,236</u>	<u>11,898,314</u>	<u>2,575,337</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(846,915)</u>	<u>(9,827,650)</u>	<u>1,844,922</u>	<u>11,672,572</u>	<u>18,500</u>
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	<u>(100,000)</u>	<u>(100,000)</u>	<u>(100,000)</u>	<u>-</u>	<u>(100,000)</u>
Total other financing sources (uses)	<u>(100,000)</u>	<u>(100,000)</u>	<u>(100,000)</u>	<u>-</u>	<u>(100,000)</u>
Net change in fund balance	<u>(946,915)</u>	<u>(9,927,650)</u>	<u>1,744,922</u>	<u>11,672,572</u>	<u>(81,500)</u>
Fund balance at beginning of year	<u>6,913,817</u>	<u>6,913,817</u>	<u>6,913,817</u>	<u>-</u>	<u>6,995,317</u>
Fund balance (deficit) at end of year	<u>\$ 5,966,902</u>	<u>(3,013,833)</u>	<u>8,658,739</u>	<u>11,672,572</u>	<u>6,913,817</u>

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, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Intergovernmental	-	-	-	-	-
Rental	-	-	85,447	85,447	82,458
Investment income	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total revenues	<u>-</u>	<u>-</u>	<u>85,447</u>	<u>85,447</u>	<u>82,458</u>
Expenditures:					
Current:					
Public services	-	-	-	-	-
Redevelopment	2,436,649	2,674,208	139,062	2,535,146	124,904
Total expenditures	<u>2,436,649</u>	<u>2,674,208</u>	<u>139,062</u>	<u>2,535,146</u>	<u>124,904</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,436,649)</u>	<u>(2,674,208)</u>	<u>(53,615)</u>	<u>2,620,593</u>	<u>(42,446)</u>
Other financing sources (uses):					
Transfers in	129,713	129,713	129,713	-	-
Transfers out	-	-	(85,447)	(85,447)	(82,458)
Total other financing sources (uses)	<u>129,713</u>	<u>129,713</u>	<u>44,266</u>	<u>(85,447)</u>	<u>(82,458)</u>
Net change in fund balance	<u>(2,306,936)</u>	<u>(2,544,495)</u>	<u>(9,349)</u>	<u>2,535,146</u>	<u>(124,904)</u>
Fund balance (deficit) at beginning of year	<u>(299,135)</u>	<u>(299,135)</u>	<u>(299,135)</u>	<u>-</u>	<u>(174,231)</u>
Fund balance (deficit) at end of year	<u><u>\$ (2,606,071)</u></u>	<u><u>(2,843,630)</u></u>	<u><u>(308,484)</u></u>	<u><u>2,535,146</u></u>	<u><u>(299,135)</u></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, 2006

	Equipment Replacement	Self-Insurance Workers' Compensation/ General Liability/ Unemployment	Totals	
			2006	2005
<u>Assets</u>				
Current assets:				
Cash and investments	\$ 7,866,520	10,006,891	17,873,411	17,705,145
Interest receivable	85,391	114,790	200,181	153,489
Inventories	111,495	-	111,495	54,636
Prepaid items	-	-	-	-
Total current assets	8,063,406	10,121,681	18,185,087	17,913,270
Capital assets:				
Automotive equipment	9,346,100	-	9,346,100	8,488,477
Other equipment	290,439	-	290,439	289,541
Accumulated depreciation	(4,818,204)	-	(4,818,204)	(4,593,295)
Net capital assets	4,818,335	-	4,818,335	4,184,723
Total assets	12,881,741	10,121,681	23,003,422	22,097,993
<u>Liabilities and Net Assets</u>				
Current liabilities:				
Accounts payable	85,213	65,535	150,748	199,722
Accrued liabilities	7,849	1,658	9,507	18,327
Claims payable	-	2,386,928	2,386,928	2,769,480
Total current liabilities	93,062	2,454,121	2,547,183	2,987,529
Long-term liabilities:				
Claims payable	-	6,620,193	6,620,193	5,759,683
Total long-term liabilities	-	6,620,193	6,620,193	5,759,683
Total liabilities	93,062	9,074,314	9,167,376	8,747,212
Net assets:				
Invested in capital assets	4,818,335	-	4,818,335	4,184,723
Unrestricted	7,970,344	1,047,367	9,017,711	9,176,058
Total net assets	\$ 12,788,679	1,047,367	13,836,046	13,360,781

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, 2006

	Equipment Replacement	Self-Insurance Workers' Compensation/ General Liability/ Unemployment	Totals	
			2006	2005
Operating revenues:				
Charges for services	\$ 3,053,473	3,356,750	6,410,223	5,557,460
Total operating revenues	3,053,473	3,356,750	6,410,223	5,557,460
Operating expenses:				
Allocated administrative costs	999,149	196,822	1,195,971	832,786
Depreciation	681,448	-	681,448	684,909
Automotive fuel and parts	876,945	-	876,945	882,197
Claims and premiums	-	3,190,602	3,190,602	2,246,806
Total operating expenses	2,557,542	3,387,424	5,944,966	4,646,698
Operating income (loss)	495,931	(30,674)	465,257	910,762
Nonoperating revenues (expenses):				
Investment income	283,533	350,431	633,964	554,648
Loss on sale of equipment	(36,685)	-	(36,685)	(29,373)
Total nonoperating revenues (expenses)	246,848	350,431	597,279	525,275
Income (loss) before transfers	742,779	319,757	1,062,536	1,436,037
Transfers in	-	-	-	-
Transfers out	(265,848)	(321,423)	(587,271)	(540,284)
Total transfers	(265,848)	(321,423)	(587,271)	(540,284)
Change in net assets	476,931	(1,666)	475,265	895,753
Net assets at beginning of year	12,311,748	1,049,033	13,360,781	12,465,028
Net assets at end of year	\$ 12,788,679	1,047,367	13,836,046	13,360,781

CITY OF COSTA MESA, CALIFORNIA
Internal Service Funds
Combining Statement of Cash Flows
For the fiscal year ended June 30, 2006

	Equipment Replacement	Self-Insurance Workers' Compensation/ General Liability/ Unemployment	Totals	
			2006	2005
Cash flows from operating activities:				
Cash received from customers and user departments	\$ 3,053,473	3,356,750	6,410,223	5,557,460
Cash payments to suppliers for goods and services	(1,252,909)	(2,765,434)	(4,018,343)	(4,228,512)
Cash payments to employees for services	(700,625)	(171,245)	(871,870)	(840,231)
Net cash provided by (used for) operating activities	<u>1,099,939</u>	<u>420,071</u>	<u>1,520,010</u>	<u>488,717</u>
Cash flows from noncapital financing activities:				
Cash paid to other funds	(265,848)	(321,423)	(587,271)	(540,284)
Net cash provided by (used for) noncapital financing activities	<u>(265,848)</u>	<u>(321,423)</u>	<u>(587,271)</u>	<u>(540,284)</u>
Cash flows from capital and related financing activities:				
Cash received from disposal of assets	56,844	-	56,844	25,623
Acquisition of capital assets	(1,408,589)	-	(1,408,589)	(288,899)
Net cash provided by (used for) capital and related financing activities	<u>(1,351,745)</u>	<u>-</u>	<u>(1,351,745)</u>	<u>(263,276)</u>
Cash flows from investing activities:				
Investment income received	265,849	321,423	587,272	540,284
Net cash provided by (used for) investing activities	<u>265,849</u>	<u>321,423</u>	<u>587,272</u>	<u>540,284</u>
Net increase (decrease) in cash and cash equivalents	(251,805)	420,071	168,266	225,441
Cash and cash equivalents at beginning of year	<u>8,118,325</u>	<u>9,586,820</u>	<u>17,705,145</u>	<u>17,479,704</u>
Cash and cash equivalents at end of year	<u>\$ 7,866,520</u>	<u>10,006,891</u>	<u>17,873,411</u>	<u>17,705,145</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ 495,931	(30,674)	465,257	910,762
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	681,448	-	681,448	684,909
(Increase) decrease in inventories	(56,859)	-	(56,859)	21,911
(Increase) decrease in prepaid items	-	-	-	74
Increase (decrease) in accounts payable	(13,132)	(35,842)	(48,974)	(279,824)
Increase (decrease) in accrued liabilities	(7,449)	(1,371)	(8,820)	912
Increase (decrease) in claims payable	-	487,958	487,958	(850,027)
Net cash provided by (used for) operating activities	<u>\$ 1,099,939</u>	<u>420,071</u>	<u>1,520,010</u>	<u>488,717</u>

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, 2006

	Deposits	Community Facilities District	Costa Mesa Community Foundation	Airborne Law Enforcement	Totals	
					2006	2005
<u>Assets</u>						
Cash and investments	\$ 2,827,299	-	94,799	1,333,453	4,255,551	2,922,821
Due from other governments	-	-	-	291,405	291,405	212,035
Accounts receivable	27,389	-	-	76,797	104,186	23,480
Interest receivable	1,797	-	1,085	15,255	18,137	2,165
Inventories	-	-	-	161,050	161,050	124,959
Prepaid items	16,892	47,557	-	46,086	110,535	-
Total assets	\$ 2,873,377	47,557	95,884	1,924,046	4,940,864	3,285,460
<u>Liabilities</u>						
Accounts payable	\$ 5,182	-	-	165,040	170,222	576,349
Deposits payable	2,868,195	-	95,884	-	2,964,079	1,432,616
Due to other governments	-	-	-	1,759,006	1,759,006	1,275,598
Due to other funds	-	47,557	-	-	47,557	-
Held for bondholders	-	-	-	-	-	897
Total liabilities	\$ 2,873,377	47,557	95,884	1,924,046	4,940,864	3,285,460

CITY OF COSTA MESA, CALIFORNIA

Agency Funds

Combining Statement of Changes in Fiduciary Assets and Liabilities

Year ended June 30, 2006

	<u>Balance at</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at</u> <u>June 30, 2006</u>
<u>DEPOSITS</u>				
<u>Assets</u>				
Cash and investments	\$ 1,755,885	32,010,582	30,939,168	2,827,299
Accounts receivable	22,647	166,141	161,399	27,389
Interest receivable	1,348	1,797	1,348	1,797
Prepaid items	-	16,892	-	16,892
Total assets	<u>\$ 1,779,880</u>	<u>32,195,412</u>	<u>31,101,915</u>	<u>2,873,377</u>
<u>Liabilities</u>				
Accounts payable	\$ 439,646	8,269,141	8,703,605	5,182
Deposits payable	1,340,234	36,900,390	35,372,429	2,868,195
Total liabilities	<u>\$ 1,779,880</u>	<u>45,169,531</u>	<u>44,076,034</u>	<u>2,873,377</u>
<u>COMMUNITY FACILITIES DISTRICT</u>				
<u>Assets</u>				
Cash and investments	\$ 897	-	897	-
Prepaid items	-	47,557	-	47,557
Total assets	<u>\$ 897</u>	<u>47,557</u>	<u>897</u>	<u>47,557</u>
<u>Liabilities</u>				
Due to other funds	-	47,557	-	47,557
Held for bondholders	\$ 897	385,232	386,129	-
Total liabilities	<u>\$ 897</u>	<u>385,232</u>	<u>386,129</u>	<u>47,557</u>
<u>COSTA MESA COMMUNITY FOUNDATION</u>				
<u>Assets</u>				
Cash and investments	\$ 91,565	41,058	37,824	94,799
Interest receivable	817	1,085	817	1,085
Total assets	<u>\$ 92,382</u>	<u>42,143</u>	<u>38,641</u>	<u>95,884</u>
<u>Liabilities</u>				
Deposits payable	\$ 92,382	53,383	49,881	95,884
Total liabilities	<u>\$ 92,382</u>	<u>53,383</u>	<u>49,881</u>	<u>95,884</u>

(Continued)

Agency Funds

Combining Statement of Changes in Fiduciary Assets and Liabilities

Year ended June 30, 2006

	Balance at July 1, 2005	Additions	Deletions	Balance at June 30, 2006
<u>AIRBORNE LAW ENFORCEMENT</u>				
<u>Assets</u>				
Cash and investments	\$ 1,074,474	2,119,596	1,860,617	1,333,453
Due from other governments	212,035	1,580,023	1,500,653	291,405
Accounts receivable	833	76,797	833	76,797
Interest receivable	-	15,255	-	15,255
Inventories	124,959	41,270	5,179	161,050
Prepaid items	-	46,086	-	46,086
Total assets	<u>\$ 1,412,301</u>	<u>3,879,027</u>	<u>3,367,282</u>	<u>1,924,046</u>
<u>Liabilities</u>				
Accounts payable	\$ 136,703	1,771,018	1,742,681	165,040
Due to other governments	1,275,598	2,596,969	2,113,561	1,759,006
Total liabilities	<u>\$ 1,412,301</u>	<u>4,367,987</u>	<u>3,856,242</u>	<u>1,924,046</u>
<u>TOTALS - ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and investments	\$ 2,922,821	34,171,236	32,838,506	4,255,551
Due from other governments	212,035	1,580,023	1,500,653	291,405
Accounts receivable	23,480	242,938	162,232	104,186
Interest receivable	2,165	18,137	2,165	18,137
Inventories	124,959	41,270	5,179	161,050
Prepaid items	-	110,535	-	110,535
Total assets	<u>\$ 3,285,460</u>	<u>36,164,139</u>	<u>34,508,735</u>	<u>4,940,864</u>
<u>Liabilities</u>				
Accounts payable	\$ 576,349	10,040,159	10,446,286	170,222
Deposits payable	1,432,616	36,953,773	35,422,310	2,964,079
Due to other governments	1,275,598	2,596,969	2,113,561	1,759,006
Due to other funds	-	47,557	-	47,557
Held for bondholders	897	385,232	386,129	-
Total liabilities	<u>\$ 3,285,460</u>	<u>50,023,690</u>	<u>48,368,286</u>	<u>4,940,864</u>

STATISTICAL SECTION



TABLE 1

CITY OF COSTA MESA, CALIFORNIA
NET ASSETS BY COMPONENT
LAST FIVE FISCAL YEARS
(accrual basis of accounting)

	Fiscal Years									
	2002 ⁽¹⁾	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	-	-	-	-	-
Restricted										
Public safety	-	2,411,456	2,723,835	1,714,903	1,481,296	-	-	-	-	-
Community programs	-	4,541,217	1,990,698	1,637,173	2,649,931	-	-	-	-	-
Public services	-	35,868,367	29,155,232	23,973,667	27,895,363	-	-	-	-	-
Redevelopment	-	-	-	-	6,348,075	-	-	-	-	-
Unrestricted	-	59,804,886	60,812,797	71,067,417	66,063,174	-	-	-	-	-
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>	-	-	-	-	-

⁽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 FIVE FISCAL YEARS
(accrual basis of accounting)

	Fiscal Years									
	2002 ⁽¹⁾	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	-	-	-	-	-
Protection of persons and property	-	47,765,134	45,672,246	51,753,396	58,123,794	-	-	-	-	-
Community programs	-	4,999,104	4,937,852	4,927,306	3,770,475	-	-	-	-	-
Public services	-	14,099,350	16,699,275	14,728,739	19,371,276	-	-	-	-	-
Redevelopment	-	528,350	632,735	534,995	2,509,671	-	-	-	-	-
Interest on long-term debt	-	3,046,397	3,359,285	1,486,198	2,502,868	-	-	-	-	-
Total primary government expenses	-	<u>87,904,769</u>	<u>92,546,556</u>	<u>97,076,908</u>	<u>108,101,128</u>	-	-	-	-	-
Program Revenues										
Governmental Activities:										
Charges for services:										
Protection of persons and property	-	2,379,028	2,931,054	2,932,734	3,199,365	-	-	-	-	-
Community programs	-	4,626,660	5,407,997	5,247,815	5,402,789	-	-	-	-	-
Public services	-	2,312,339	4,316,825	3,181,180	3,374,546	-	-	-	-	-
Redevelopment	-	180,061	-	-	-	-	-	-	-	-
Operating grants and contributions	-	12,012,746	6,818,121	6,071,120	11,709,774	-	-	-	-	-
Capital grants and contributions	-	3,592,565	5,419,104	5,253,030	4,511,691	-	-	-	-	-
Total primary government revenues	-	<u>25,103,399</u>	<u>24,893,101</u>	<u>22,685,879</u>	<u>28,198,165</u>	-	-	-	-	-
Total primary government net expense	-	<u>(62,801,370)</u>	<u>(67,653,455)</u>	<u>(74,391,029)</u>	<u>(79,902,963)</u>	-	-	-	-	-
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	-	-	-	-	-
Sales and use taxes	-	36,255,107	41,027,059	43,582,985	46,049,080	-	-	-	-	-
Transient occupancy tax	-	3,799,682	4,221,661	4,641,350	5,465,320	-	-	-	-	-
Franchise taxes	-	2,308,683	2,329,340	2,833,347	3,674,652	-	-	-	-	-
Business license tax	-	854,580	830,794	912,434	912,324	-	-	-	-	-
Other intergovernmental, unrestricted	-	7,811,132	5,208,889	8,659,395	8,108,852	-	-	-	-	-
Investment income	-	5,314,256	2,436,835	3,455,453	3,082,011	-	-	-	-	-
Miscellaneous	-	5,411,936	891,797	740,848	210,302	-	-	-	-	-
Total primary government	-	<u>79,608,429</u>	<u>75,772,593</u>	<u>83,411,978</u>	<u>87,254,877</u>	-	-	-	-	-
Change in Net Assets	-	<u>\$ 16,807,059</u>	<u>8,119,138</u>	<u>9,020,949</u>	<u>7,351,914</u>	-	-	-	-	-

⁽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									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General fund										
Reserved	\$ 13,787,926	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
Unreserved	30,701,202	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
Total general fund	<u>44,489,128</u>	<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>
All other governmental funds										
Reserved	24,356,975	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
Unreserved, reported in:										
Special revenue funds	546,528	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
Capital projects funds	11,091,797	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
Debt services funds			(194,085)	(387,137)	(81,636)	(14,410)	(13,160,320)	(12,732,031)	(12,226,674)	(11,783,729)
Total primary government net expense	<u>\$ 35,995,300</u>	<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>

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									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Revenues										
Taxes	\$ 47,984,566	50,987,999	51,717,017	54,886,109	60,434,989	59,066,320.00	61,071,105	67,235,072	70,556,282	75,818,711
Licenses and permits	1,373,099	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
Fines and forfeits	911,329	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
Intergovernmental	13,158,047	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
Charges for services	3,655,300	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
Rental	2,124,786	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
Investment income	4,655,461	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
Miscellaneous	914,725	433,768	1,008,430	443,169	391,850	1,040,544.00	975,612	1,173,944	1,427,160	841,991
Total revenues	<u>74,777,313</u>	<u>84,062,104</u>	<u>82,051,849</u>	<u>85,425,617</u>	<u>96,654,636</u>	<u>97,045,071</u>	<u>102,500,298</u>	<u>97,856,994</u>	<u>106,586,919</u>	<u>114,132,120</u>
Expenditures										
General government	13,942,462	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
Protection of persons and property	34,947,801	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
Community programs	4,546,031	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
Public services	18,011,193	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
Redevelopment	570,865	307,658	107,355	552,131	410,324	986,134	528,350	488,843	549,793	2,509,671
Debt service:										
Principal	3,794,495	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
Interest	4,070,776	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
Other charges	1,278,629	399,457	-	-	-	-	-	2,730,272	-	90,345
Total expenditures	<u>81,162,252</u>	<u>90,525,402</u>	<u>80,848,493</u>	<u>78,638,868</u>	<u>83,591,347</u>	<u>94,310,611</u>	<u>99,166,422</u>	<u>103,905,736</u>	<u>104,188,148</u>	<u>115,639,713</u>
Excess of revenues over (under) expenditures	<u>(6,384,939)</u>	<u>(6,463,298)</u>	<u>1,203,356</u>	<u>6,786,749</u>	<u>13,063,289</u>	<u>2,734,460</u>	<u>3,333,876</u>	<u>(6,048,742)</u>	<u>2,398,771</u>	<u>(1,507,593)</u>
Other financing sources (uses):										
Transfers in	5,402,025	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
Transfers out	(4,709,232)	(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)
Issuance of long-term debt	-	-	-	-	-	-	-	21,824,120	-	7,151,217
Premium on debt issue	-	-	-	-	-	-	-	403,531	-	-
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	1,150,466	1,128,426	-	-	-	-	-	-	-	-
Bond proceeds	-	13,325,580	-	-	-	-	-	-	-	-
Sales of lands	-	324,807	370,751	58,200	445,000	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	<u>1,843,259</u>	<u>1,812,755</u>	<u>660,198</u>	<u>234,053</u>	<u>1,251,524</u>	<u>1,105,340</u>	<u>3,626,196</u>	<u>3,098,258</u>	<u>540,284</u>	<u>5,599,283</u>
Net change in fund balances	<u>\$ (4,541,680)</u>	<u>(4,650,543)</u>	<u>1,863,554</u>	<u>7,020,802</u>	<u>14,314,813</u>	<u>3,839,800</u>	<u>6,960,072</u>	<u>(2,950,484)</u>	<u>2,939,055</u>	<u>4,091,690</u>
Debt service as a percentage of noncapital expenditures	11.27%	10.33%	6.44%	6.68%	5.80%	5.55%	5.34%	7.86%	5.14%	5.00%

Source: Fund Financial Statements

TABLE 5

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>
1997	\$ 27,982,908	12,095,008	3,466,941	1,779,341	818,870	511,750	46,654,818
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

Source: Required Supplementary Information

TABLE 6

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
1997	\$ 10,196,740	9,724,752	95.37%	381,711	10,106,463	99.11%
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%

Source: Orange County Assessor 2005/06 Combined Tax Rolls

TABLE 7

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>
1997	\$ 3,462,381,055	1,842,147,077	667,549,751	827,539,860	-	6,799,617,743	0.18073%	6,799,617,743	100.00%
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%

⁽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 1996/97 - 2005/06 Combined Tax Rolls.

TABLE 8

**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
1997	\$ 0.14879	0.00414	0.01340	1.00000	0.18073	0.36657	0.48300	0.01055
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

⁽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 1996/97 - 2005/06 Combined Tax Rolls.

TABLE 9

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

<u>Taxpayer</u>	<u>2005-06</u>			<u>1996-97</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>
Triangle Square Investment LLC	\$ 399,254	1	1.96%			
South Coast Plaza	348,978	2	1.71%	\$ 301,121	2	2.45%
Teachers Retirement System of California	270,939	3	1.33%	224,319	4	1.82%
Maguire Props-Pacific Arts Plaza	268,369	4	1.32%			
KWI 1901 Newport Plaza Limited Partnership	254,713	5	1.25%			
Automobile Club of Southern Calif.	195,130	6	0.96%			
LA Times Communications LLC	177,291	7	0.87%			
Orange County Performing Arts Center	174,926	8	0.86%			
Experian Information Solutions	153,931	9	0.76%			
CJ Segerstrom & Sons	146,734	10	0.72%	103,947	8	0.85%
Triangle Square Joint Venture				559,935	1	4.55%
New TMC Inc.				252,052	3	2.05%
Two Town Center Associates				126,034	5	1.03%
Sakioka Farms Inc./Curci England				118,250	6	0.96%
600 Anton Boulevard Associates				105,702	7	0.86%
Park Center Plaza Apartments				100,859	9	0.82%
Center Tower Associates				93,715	10	0.76%
Total	\$ 2,390,265		11.74%	\$ 1,985,934		16.15%

Source: HdL Coren & Cone, Orange County Assessor 2005/06 & 1996/97 Combined Tax Rolls.

TABLE 10

**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	Lease Purchase Financing				
1997	\$ 1,500,000	9,275,000	0.1585%	\$ 29.95	33,590,000	375,852	44,740,852	2.31%	\$ 2,367.24	
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	

Source: City of Costa Mesa Finance Department

TABLE 11

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

	Fiscal Years									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General bonded debt outstanding										
General obligation bonds	\$ 1,500,000	1,320,000	1,130,000	930,000	720,000	490,000	250,000	-	-	-
Redevelopment bonds	9,275,000	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
Total	<u>10,775,000</u>	<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>
Percentage of taxable assessed value	0.1585%	0.1480%	0.1384%	0.1236%	0.1066%	0.0938%	0.0824%	0.0743%	0.0657%	0.0564%
Per capita	\$ 29.95	27.98	26.16	23.37	20.14	17.72	15.57	14.04	15.33	15.41
Less: Amounts set aside to repay general debt	770,966	770,780	769,354	774,219	774,219	759,793	762,440	704,877	707,466	710,981
Total net debt applicable to debt limit	10,004,034	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
Legal debt limit (3.75% of Assessed Value)	254,985,665	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
Legal debt margin	\$ 244,981,631	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
Legal debt margin as a percentage of the debt limit	96.08%	96.35%	96.60%	96.98%	97.40%	97.73%	98.15%	98.33%	98.53%	98.74%

Source: City of Costa Mesa Finance Department

TABLE 12

**CITY OF COSTA MESA, CALIFORNIA
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
AS OF JUNE 30, 2006**

<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	104,770,000	28.498%	29,857,355
Coast Community College District	102,718,867	14.744%	15,144,870
Santa Ana Unified School District	135,923,187	3.916%	5,322,752
Orange County Teeter Plan Obligations	123,725,000	3.651%	4,517,200
Rancho Santiago Community College District	210,699,166	1.636%	3,447,038
Metropolitan Water District	389,565,000	0.769%	2,995,755
Subtotal overlapping Tax and Assessment debt repaid with property taxes			<u>63,649,969</u>
Overlapping general fund debt repaid with property taxes			
Newport Mesa Unified School District Certificates of Participation	1,915,000	28.498%	545,737
Coast Community College District Certificates of Participation	6,695,000	14.744%	987,111
Orange County Sanitation District Certificates of Participation	130,370,000	5.058%	6,594,115
Municipal Water District of Orange County Water Facilities Corporation	28,205,000	4.345%	1,225,507
Santa Ana Unified School District Certificates of Participation	44,699,711	3.916%	1,750,441
Orange County General Fund Obligations	630,022,000	3.651%	23,002,103
Orange County Pension Obligations	99,716,298	3.651%	3,640,642
Orange County Transit District Authority	2,470,000	3.651%	90,180
Orange County Board of Education Certificates of Participation	19,820,000	3.651%	723,628
Irvine Ranch Water District Certificates of Participation	44,200,000	1.806%	798,252
Subtotal overlapping general fund debt repaid with property taxes			<u>39,357,715</u>
Subtotal, all overlapping debt			<u>103,007,685</u>
City direct debt			
City of Costa Mesa General Fund Obligations	\$ 20,275,000	100%	<u>20,275,000</u>
Total direct and overlapping debt			<u><u>\$ 123,282,685</u></u>

Source: California Municipal Statistics, Inc.

**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>
1997	1.00%	0.50%	6.00%	7.50%
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

Source: State of California Board of Equalization

TABLE 14

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

	Fiscal Years									
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Apparel stores	\$ 293,328	313,911	306,101	307,176	333,725	347,917	354,517	371,013	419,206	454,318
General merchandise	508,511	513,014	514,892	514,661	505,517	517,064	514,136	536,259	583,136	614,478
Food stores	71,525	72,712	74,737	83,755	88,647	92,150	91,818	93,223	89,945	95,332
Eating and drinking establishments	169,386	186,075	205,857	215,788	239,937	244,135	250,199	273,604	308,988	330,384
Building materials	74,720	84,235	95,943	109,606	157,195	167,901	176,453	189,652	208,049	233,108
Auto dealers and supplies	328,017	352,035	417,055	480,538	539,726	571,028	615,995	678,550	760,174	767,922
Service stations	80,173	114,458	87,150	93,151	107,910	106,569	102,732	115,955	136,154	151,650
Other retail stores	458,438	487,361	529,420	569,433	623,448	637,799	655,700	761,889	884,442	966,736
All other outlets	724,744	778,084	769,202	810,754	898,925	859,321	795,047	826,899	872,929	917,503
	<u>\$ 2,708,842</u>	<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>
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

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

<u>Category</u>	2006			1996		
	<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	\$ 966,736	1	21.33%	\$ 458,438	3	16.92%
All other outlets	917,503	2	20.25%	724,744	1	26.75%
Auto dealers and supplies	767,922	3	16.95%	328,017	4	12.11%
General merchandise	614,478	4	13.56%	508,511	2	18.77%
Apparel stores	454,318	5	10.03%	293,328	5	10.83%
Eating and drinking establishments	330,384	6	7.29%	169,386	6	6.25%
Building materials	233,108	7	5.14%	74,720	8	2.76%
Service stations	151,650	8	3.35%	80,173	7	2.96%
Food stores	95,332	9	2.10%	71,525	9	2.64%

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

CITY OF COSTA MESA, CALIFORNIA

PRINCIPAL EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO

<u>Employer</u>	<u>2005-06</u>			<u>1996-97 ⁽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>
Orange Coast Community College	2,500	1	3.83%			
Coast Community College	2,131	2	3.26%			
Automobile Club of Souther California	1,600	3	2.45%			
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%			
Nordstrom Inc	1,000	8	1.53%			
Macy's West LLC	800	9	1.23%			
Secured Funding Corporation	800	10	1.23%			

⁽¹⁾ - Data not available for the fiscal year 1996-97.

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

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)
1997	102,574	\$ 1,938,649	\$ 18,900	31	10,836	3.20%
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%

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
FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

<u>Function/Program</u>	<u>Fiscal Years</u>									
	<u>1997</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>
General Government										
City council	5	5	5	5	5	5	5	5.5	5.5	5.5
City manager	15	15	15	15	14	14	14	16.25	16.27	16.27
City attorney	5	5	5	6	6	6	6	6	6	-
Financial services	22	22	22	22	23	23	23	23.67	23.67	23.67
Administrative services	120	120	121	123	129	132	133	135.96	136.11	130.28
Development services	40	40	40	40	43	43	43	45.10	44.50	44.50
Protection of persons and property										
Police protection	223	224	225	225	228	232	234	254.88	255.25	254.75
Fire protection	111	111	111	111	111	111	111	112.92	112.92	112.92
Public services	118	116	115	114	113	119	118	114.46	113.94	101
	<u>659</u>	<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>

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

Source: City of Costa Mesa Finance Department

TABLE 19

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

Function/Program	Fiscal Years									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General Government										
Public notification of Council actions	4,562	3,638	4,000	3,600	9,909	5,000	3,110	2,976	3,076	3,025
Number of residents served via public services programs	N\A	N\A	N\A	N\A	N\A	2,734	4,420	3,925	2,998	3,500
Accounts payable checks issued	N\A	N\A	N\A	10,861	11,122	11,357	12,037	11,525	11,693	12,075
Total printshop photocopies produced	N\A	N\A	N\A	N\A	N\A	2,800,000	6,243,573	6,223,133	5,257,928	5,010,580
Protection of persons and property										
Police protection										
Emergency calls	1,378	1,301	1,183	1,194	1,338	1,401	1,519	1,473	1,436	1,390
Calls responded to within 5 minutes	81%	88%	86%	84%	86%	88%	85%	85%	85%	81%
Assigned theft cases	2,359	2,044	1,840	1,441	1,934	1,872	1,932	1,998	2,130	2,000
Percentage of theft cases cleared	34%	30%	30%	31%	29%	25%	25%	23%	23%	25%
Assigned burglary cases	1,951	1,550	1,332	1,309	1,221	1,390	1,481	1,535	1,578	1,600
Percentage of burglary cases cleared	35%	36%	41%	49%	45%	45%	30%	23%	21%	25%
Case and arrest reports processed	47,584	47,948	43,050	43,221	45,324	45,357	47,583	46,236	27,704	46,300
Total violation contacts	N\A	26,136	25,652	23,839	25,498	21,648	24,271	22,805	12,085	22,170
Fire protection										
Number of calls for service	N\A	N\A	N\A	N\A	N\A	N\A	8,300	8,300	8,876	8,704
Fire related responses	105	105	98	94	99	98	249	255	178	261
Emergency medical aid responses	3,973	4,290	4,337	4,608	4,926	4,980	6,557	5,810	6,657	6,267
Community Programs										
Number of program participants at the Downtown Recreation Center	7,951	7,612	3,700	4,250	4,000	4,000	18,600	20,000	24,500	25,000
Over-the-counter plan checks reviewed within five (5) working days	20	25	130	264	390	264	290	420	438	482
Inspection requests with 24 hours	500	157	12,932	12,761	13,172	14,068	14,500	16,000	17,708	19,478
Complaint response within two (2) working days	N\A	N\A	9,908	15,000	13,000	9,908	13,000	15,025	15,459	22,742
Public services										
Number of trees pruned annually	4,886	4,497	5,940	5,586	5,465	5,400	5,400	5,410	5,430	5,400
Number of catch basins cleaned annually	1,011	1,011	1,063	1,073	1,065	1,065	1,300	1,275	1,236	1,300

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>1997</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>
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	6,627	6,630	6,630	6,635	6,637	6,641	6,651	6,658	6,658	6,661
Traffic signals	110	110	111	112	113	114	114	115	115	116
Parks and recreation										
Acres of open space	1,950	1,957	1,957	1,957	1,957	1,957	1,957	1,957	1,957	1,957
Park sites	26	26	27	27	27	27	30	30	30	30
Baseball/softball diamonds	5	5	5	5	5	5	5	5	5	6
Soccer/football fields	3	3	9	9	9	9	9	9	9	8
Community centers	3	3	3	3	3	3	3	3	3	3
Wastewater (miles)										
Sanitary sewers	320	320	325.7	325.7	325.7	325.7	325.7	325.7	325.7	325.7
Storm sewers	45.2	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