

*City of Costa Mesa
California*

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2005




Costa Mesa
Discover the Difference

CITY OF COSTA MESA, CALIFORNIA
Comprehensive Annual Financial Report
For the fiscal year ended June 30, 2005

Prepared by: Finance Department
Marc Puckett, Finance Director

CITY OF COSTA MESA, CALIFORNIA

Comprehensive Annual Financial Report

For the fiscal year ended June 30, 2005

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Introductory Section



- City Entry Monument in Vista Park at Victoria Street Bridge.

- "Lorquin's Admiral" butterflies are attracted to willows, poplar and cottonwood trees.





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, 2005

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, 2005, 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 Conrad and Associates, L.L.P., 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, 2005, 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, 2005, 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 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, 2005. 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 2004-2005 fiscal year. In December 2004, budget preparation began for the 2005-2006 fiscal year. Based on previous City Council direction, departments were instructed to prepare "flat" budgets with no bottom-line increases except as otherwise may be required to fund contractually-agreed to cost increases. Additionally, the 2005-2006 fiscal year budget will maintain 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 2005, 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 a sharply rebounding local economy that has shown signs of a 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 4% 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 \$54.2 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.

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 should begin in early 2006.

South Coast Home Furnishings Center – City Council recently approved the Master Plan that allows the construction of a home furnishings center that is 312,500 square feet in size. It is located on the south side of South Coast Drive, just west of Hyland Avenue.

Bristol Street Mixed-Use Plan - A City Council-appointed committee has been developing a draft ordinance for a mixed-use district, which would allow a mix of commercial and residential

uses on the same development site in the Bristol Street/Baker Street area. The draft ordinance will also include development standards for live/work lofts. It is anticipated that the General Plan and zoning code amendments to implement this project will be available for public review in late-Summer 2005.

Residential Development on the Former Site of the Daily Pilot – Businesses in the Daily Pilot building at 330-340 West Bay Street are currently being relocated to allow for the site's redevelopment as a 32-unit single-family residential community. Demolition of the office building is expected to occur before the end of 2005 to clear the site for the development.

Westside Revitalization Plan – City Council recently directed staff to pursue several revitalization strategies for the Westside. These strategies are based on the Westside Redevelopment Oversight Committee's recommendations to encourage additional residential and mixed-use or live/work projects in the area. Staff will be drafting the appropriate General Plan and zoning code amendments to implement these strategies, which will be made available for public review and comment in late 2005.

High-Rise Residential Condominiums in North Costa Mesa – City Council has indicated to the property owners in Two Town Center and South Coast Metro Center that the City would consider General Plan amendments to allow for the construction of two high-rise residential condominium projects. The residential high-rise buildings are intended to complement the surrounding office, retail, restaurants, and cultural arts uses. Staff expects that the proposed General Plan amendments will be ready for public hearings in late 2005.

New Residential Community on the Eastside – A new 25-unit, small lot, single-family residential community will soon be developed at the corner of Orange Avenue and 23rd Street. Construction of the housing units started in Spring 2005 and completion is expected prior to the end of the year. The developer is Shea Homes of Brea, California.

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 (\$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 \$3 million of capitalized lease obligations. Long-term liabilities decreased by \$6.6 million in total, which includes a reduction of \$2.9 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, 2005, was 3.646%. The City's cash position remained healthy throughout the year. Cash and investments represented approximately 29.1% of the City's total assets as of June 30, 2005.

RISK MANAGEMENT

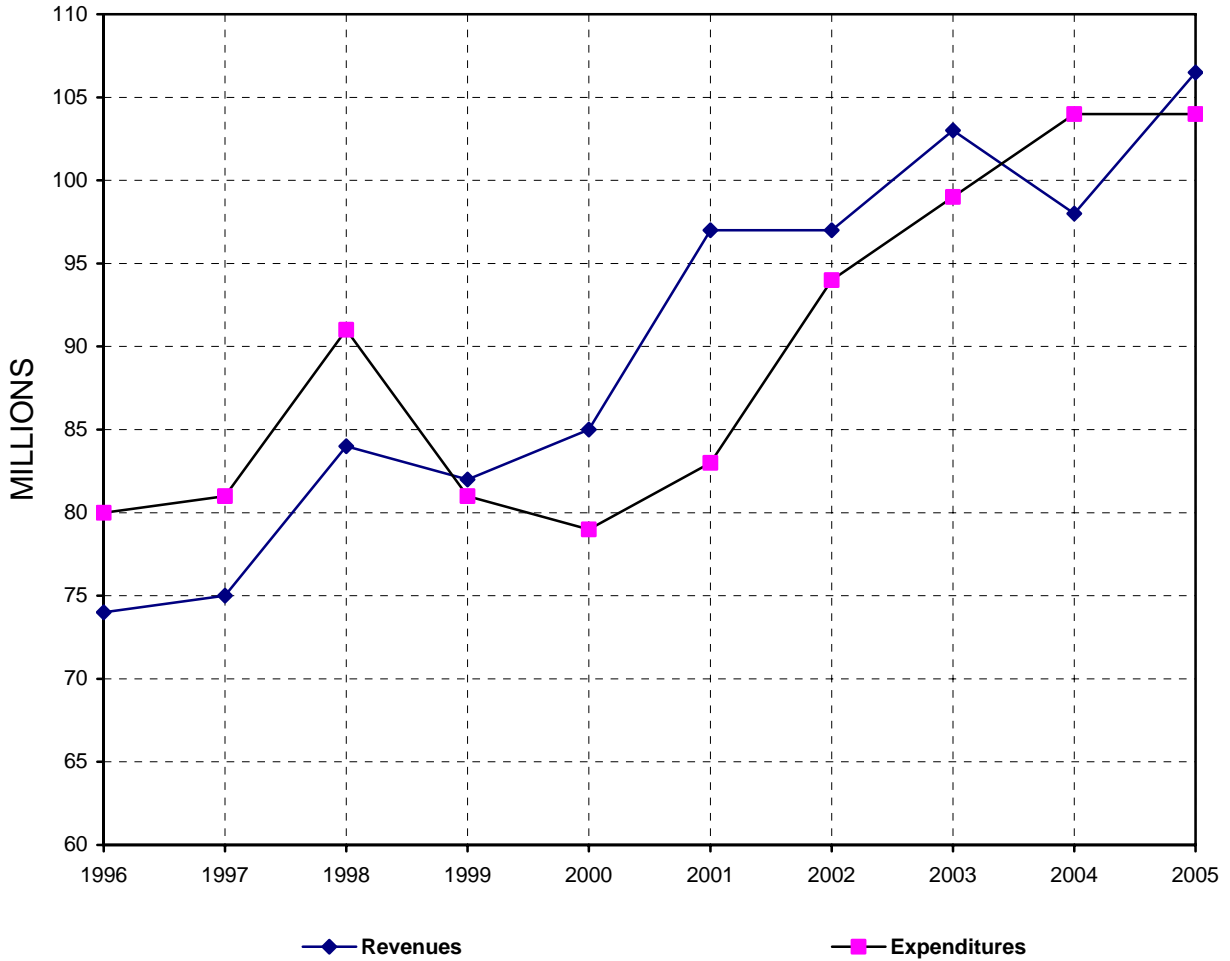
The City of Costa Mesa has an aggressive risk management program designed to reduce the City's operational cost of risk to the lowest level possible. This program involves the making and carrying out of decisions that will minimize the adverse effects of accidental losses in the City. The program includes: 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

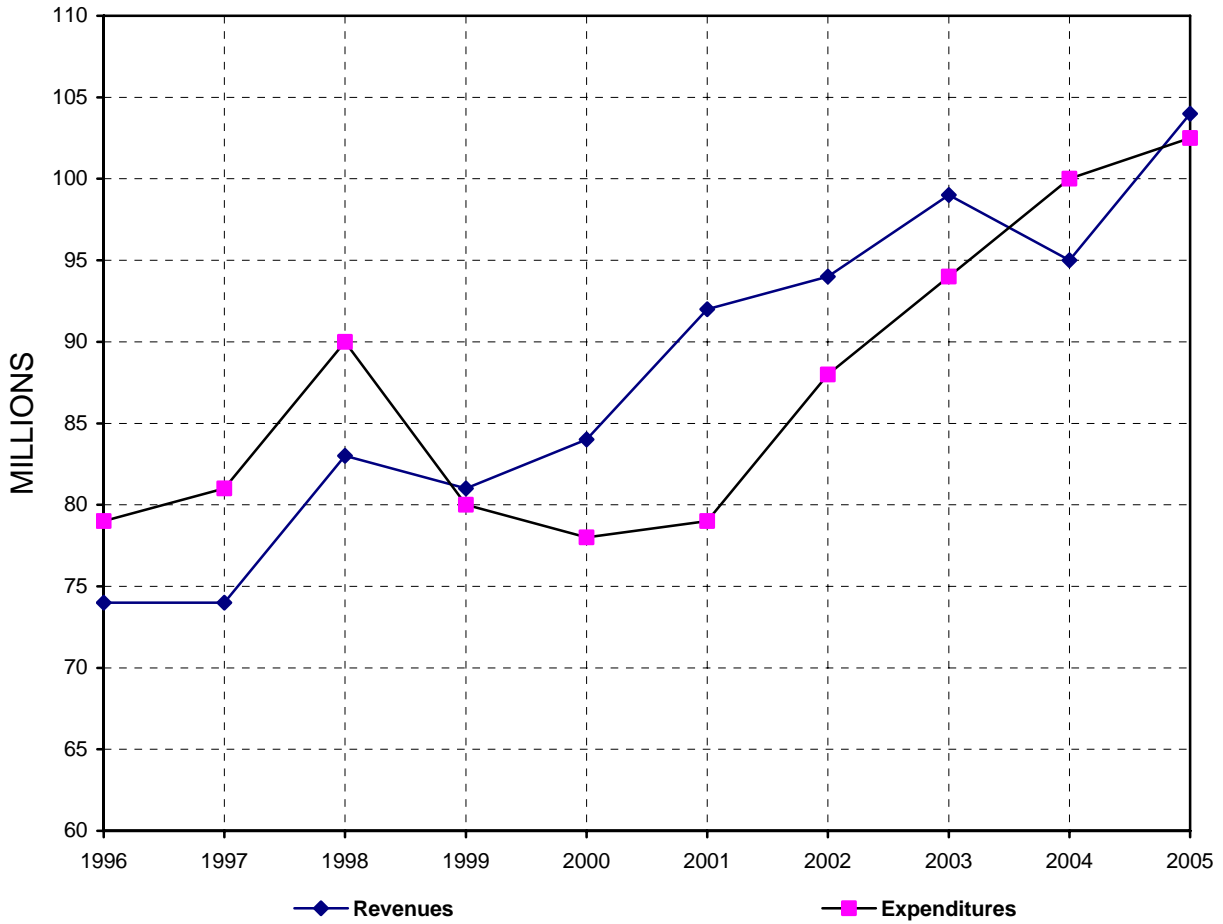
Revenue and Expenditures – All Governmental Funds Combined Reporting Entity For the Last Ten Fiscal Years



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 accounting firm of Conrad and Associates, LLP, CPA's, was selected by the City Council in fiscal year 2003-2004 to continue to conduct the City's annual audit. 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, 2004. This was the twenty-sixth 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, 2004. The CSMFO annually conducts the California Award Program to promote excellence in financial reporting among California cities. 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.

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, Conrad and Associates, 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 Heads, 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, sweeping initial "M".

MARC R. PUCKETT

Director of Finance



City of Costa Mesa List of Principal Officials

June 30, 2005

Mayor

Allan R. Mansoor

City Council

Gary C. Monahan

Linda W. Dixon

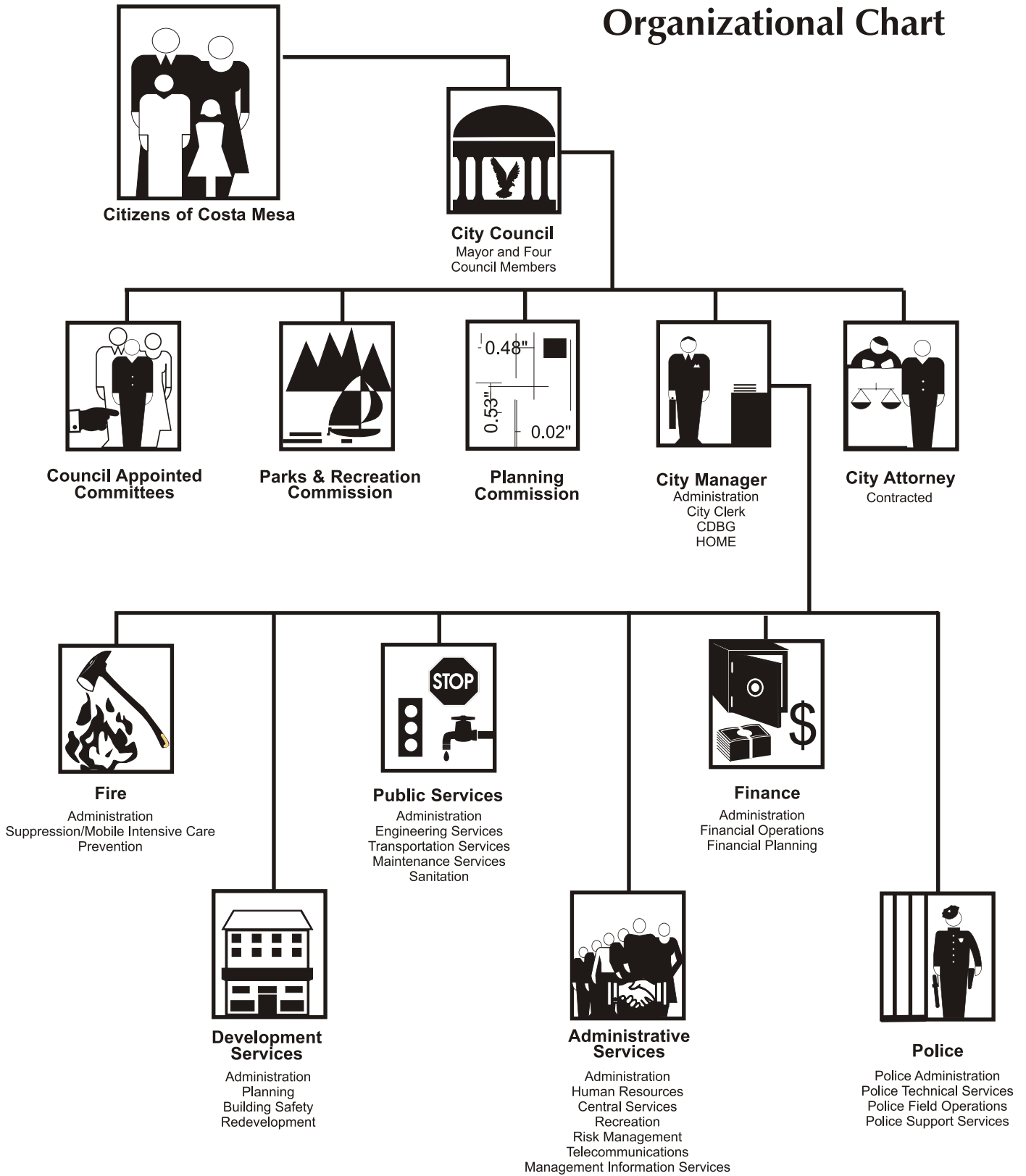
Katrina Foley

Eric R. Bever

City Manager-----	Allan L. Roeder
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-----	James M. Ellis
Police Chief-----	John D. Hensley

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, 2004

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



Nancy L. Zielle

President

Jeffrey R. Enos

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, 2004.

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 2003-04

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, 2005

William A. Thomas

Bill Thomas, Chair
Professional & Technical Standards Committee

Dedicated to Excellence in Municipal Financial Management

On February 24, 2005, 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, 2004. 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

- Change in season where deciduous trees shed their leaves before the cold or dry season. Before this the leaves often turn orange, red or yellow. New leaves appear in spring.

- "Cassins Kingbird", is a bird of open country and dry scrub. The Kingbird hunts for crickets, bees, grasshoppers and returns to its perch. This behavior is known as 'hawking'.



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, 2005, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the management of the City of Costa Mesa, California. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Costa Mesa, California, as of June 30, 2005, 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 statistical schedules 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 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.

City Council
City of Costa Mesa, California
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In accordance with *Government Auditing Standards*, we have also issued a report dated October 6, 2005 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 read in conjunction with this report in considering the results of our audit.

Canad and Associates, LLP

October 6, 2005

Management's Discussion and Analysis



- Scenic pathways and wide vistas connect Canyon Park to Talbert Nature Preserve.

- The "Red Tailed Hawk" is the most commonly seen hawk in the Costa Mesa area.

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, 2005. 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 2005 by \$302,703,582 (*net assets*). Of this amount, \$71,067,417 (*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 \$9,020,949 from the prior fiscal year total of \$293,682,633 (as restated – note 18).
- As of the close of fiscal year 2005, the City of Costa Mesa's governmental funds reported combined ending fund balances of \$95,158,439, an increase of \$2,939,055 in comparison with the prior year. More than half of this total amount, \$67,365,574, is *available for spending* at the government's discretion (*unreserved fund balance*).
- At the end of 2005, unreserved fund balance for the general fund was \$54,605,118 or 63.5 percent of total general fund expenditures and other financing uses.
- The City of Costa Mesa's total debt had a net decrease of \$2,020,719 or 3.3 percent during fiscal year 2005.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are 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 objective. 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 \$302,703,582 at the close of the fiscal year ended June 30, 2005.

Over seventy-six 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>2005</u>	<u>2004</u>
Current and other assets	\$130,208,218	\$127,122,513
Capital assets	<u>231,643,588</u>	<u>232,345,942</u>
Total Assets	<u>361,851,806</u>	<u>359,468,455</u>
Long-term debt outstanding	48,544,988	51,930,093
Other liabilities	<u>10,603,236</u>	<u>10,280,361</u>
Total Liabilities	<u>59,148,224</u>	<u>62,210,454</u>
Net assets:		
Invested in capital assets, net of debt	204,310,422	195,105,439
Restricted	27,325,743	33,869,765
Unrestricted	<u>71,067,417</u>	<u>68,282,797</u>
Total net Assets	<u>\$302,703,582</u>	<u>\$297,258,001</u>

At the end of the 2005 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 2005 fiscal year, the City's total net assets increased by \$9,020,949 from the prior fiscal year total of \$293,682,633.

City of Costa Mesa's Changes in Net Assets

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Revenues:		
Program Revenues:		
Charges for services	\$11,361,729	\$12,655,876
Operating contributions and grants	6,071,120	6,818,121
Capital contributions and grants	5,253,030	5,419,104
General revenues:		
Taxes:		
Property taxes, levied for general purpose	18,586,166	18,826,218
Sales taxes	43,582,985	41,027,059
Transient occupancy tax	4,641,350	4,221,661
Business license tax	912,434	830,794
Franchise taxes	2,833,347	2,329,340
Other taxes	-	-
Other intergovernmental	8,659,395	5,208,889
Investment earnings	3,455,453	2,436,835
Miscellaneous revenues	<u>740,848</u>	<u>891,797</u>
Total revenues	<u>106,097,857</u>	<u>100,665,694</u>
Expenses:		
General government	23,646,274	21,245,163
Public safety	51,753,396	45,672,246
Community Programs	4,927,306	4,937,852
Public Services	14,728,739	16,699,275
Redevelopment	534,995	632,735
Interest on long-term debt	<u>1,486,198</u>	<u>3,359,285</u>
Total expenses	<u>97,076,908</u>	<u>92,546,556</u>
Change in net assets	9,020,949	8,119,138
Net assets at beginning of year as restated (note 18)	<u>293,682,633</u>	<u>289,138,863</u>
Net assets at end of year	<u>\$302,703,582</u>	<u>\$297,258,001</u>

Governmental Activities

Governmental activities increased the City of Costa Mesa's net assets by \$9,020,949, 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 \$2,315,874 or 3.9% from fiscal year 2004. This change was due to an increase in sales tax collections of \$2,555,926 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 decreased by \$240,052. This slight decrease resulted primarily from 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 Other Intergovernmental revenues which increased by \$3,450,506 or 66.2% from fiscal year 2004. This increase resulted primarily from a change in the subvention formula for distribution of vehicle license fees between the state and city governments. Also, Investment Income increased by over \$1,018,618 due to rising interest rates and portfolio rebalancing strategies.
- The City's governmental expenses for protection of persons and property in fiscal year 2005 increased by 13.3% or \$6,081,150 from the prior fiscal year. This increase resulted primarily from decreased attrition savings, normal wage increases and expenses related to a major software and hardware system replacement project. Public Services expenses decreased by \$1,970,536 or 11.8% from the prior fiscal year. This decrease was due primarily to fewer freeway improvement projects during the fiscal year.

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 2005 fiscal year, the City of Costa Mesa's governmental funds reported combined ending fund balances of \$95,158,439, an increase of \$2,939,055 in comparison with the prior fiscal year. Of this total amount, \$27,792,865 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 \$54,605,118, while total fund balance amounted to \$69,832,354. The fund balance of the City of Costa Mesa's general fund increased by \$8,232,124 during fiscal year 2005. Key factors in this change are as follows:

- Sales tax, the General Fund's largest single source of revenue, increased by \$2,469,390 or 6.1% over the prior fiscal year. This increase was primarily a result of retail sales growth in the local economy.
- Franchise tax revenues increased by \$504,007 over the prior fiscal year. This increase was a result of implementation of a new Solid Waste Hauling Franchise Fee in January 2005. It is expected that this new revenue source will generate \$1.1 million in Franchise Fee revenues annually.
- Investment income increased from \$567,624 to \$2,533,856, an increase of \$1,966,232. This increase resulted from rising interest rates as the economy strengthens, the implementation of portfolio rebalancing strategies and the recovery of "paper" losses previously booked to adjust the valuation of the investment portfolio to fair value at year-end.
- Motor vehicle in-lieu (vehicle license fee) revenues increased by \$3,554,801 or 69.6% over the prior fiscal year. This increase primarily resulted from the early repayment of the \$1.9 million "gap" backfill loan by the State government prior to the previously announced due date of August 2006.

The Redevelopment Agency Debt Service Fund has an accumulated fund deficit of \$12,223,174. The deficit exists since GAAP requires the debt service funds to record advances from other funds as a liability. At June 30, 2005, the balance in advances from other funds is \$13,495,532. The fund deficit decreased during the fiscal year by the amount of \$326,523.

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 \$9,176,058. The growth in total net assets for the fiscal year was \$895,753.

GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the appropriations in the original budget and the final amended budget amounted to \$3,688,377. All budget adjustments were properly approved. The majority of the appropriation increases can be briefly summarized as follows:

- Personnel costs increased by over \$2.5 million due to contractually agreed-to compensation increases effective for all four employee groups.
- Over \$724,000 in appropriation increases was added to the original budget due to prior year carryforwards for 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, 2005 amounts to \$231,643,588 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 0.86 percent.

Major capital asset events during the 2005 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. Work on these projects during the 2005 fiscal year decreased capital assets by \$6,936,060 in capital assets not being depreciated and increased capital assets by \$18,291,201 in capital assets being depreciated. Construction in progress as of the end of the current fiscal year totaled \$10,295,148.

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

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Land	\$28,949,103	\$28,949,103
Land rights related to streets	29,291,575	29,291,575
Construction in progress	10,295,148	18,853,197
Building improvements and structures	11,461,834	7,625,174
Machinery and equipment	10,500,839	8,301,417
Park System	3,635,200	2,191,103
Infrastructure- roads	108,567,496	105,726,753
Infrastructure- storm drains	<u>28,942,393</u>	<u>31,407,620</u>
Totals	<u>\$231,643,588</u>	<u>\$232,345,942</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 \$3 million of capitalized lease obligations. Long-term liabilities decreased by \$6.6 million in total, which includes a reduction of \$2.9 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>2005</u>	<u>2004</u>
Bonds payable	\$ 31,360,000	\$33,545,000
Other liabilities	14,191,822	14,689,590
Capitalized lease obligations	<u>2,993,166</u>	<u>3,695,503</u>
Totals	<u>\$48,544,988</u>	<u>\$51,930,093</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 City of Costa Mesa was estimated at 2.9 percent as of June 30, which is a decrease from the rate of 3.6 percent a year ago. This compares favorably to the state's average unemployment rate of 5.4 percent and the national average rate of 5.0 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 2006 fiscal year.

During the 2005 fiscal year, the unreserved fund balance in the General Fund increased by \$8.2 million. The fiscal year 2006 operating and capital improvement budget assumed an operating deficit for the General Fund in the amount of \$4,733,752 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 2006 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

- Waterfall and
rock formations at
TeWinkle Park.

- The "Great
Egret" is a shallow
wetland visitor.
The word Egret
comes from the
French word
'aigrette' which
means
"ornamental tufts
of plumes".



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, 2005

(With Comparative Data for Prior Year)

	Governmental Activities	
	2005	2004
Assets:		
Cash and investments (note 2)	\$ 105,240,365	102,200,335
Cash and investments with fiscal agent (note 2)	4,319,773	5,196,232
Due from other governments	11,445,180	9,696,109
Accounts receivable	1,425,144	1,269,647
Interest receivable	1,778,860	1,517,801
Loans receivable	3,992,783	4,796,870
Rent receivable	1,019,318	970,278
Loan deposits	560,508	201,552
Inventories	74,634	92,128
Prepaid items	351,653	140,050
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	10,295,148	18,853,197
Other capital assets, net of accumulated depreciation	163,107,762	155,252,067
Total assets	<u>361,851,806</u>	<u>358,426,944</u>
Liabilities:		
Accounts payable	3,545,216	3,495,486
Accrued liabilities	1,434,612	1,426,041
Accrued interest	378,880	339,410
Retentions payable	964,458	709,903
Unearned revenue	791,269	-
Deposits payable	3,488,801	3,268,010
Long-term liabilities:		
Portion due within one year:		
Claims payable (notes 7, 9 and 17)	2,769,480	2,795,216
Bonds payable (notes 7 and 8)	2,230,000	2,185,000
Capital leases payable (notes 7 and 10)	731,641	702,337
Employee leave benefits payable (notes 7 and 9)	1,260,000	1,050,250
Portion due beyond one year:		
Claims payable (notes 7, 9 and 17)	5,749,683	6,573,974
Bonds payable (notes 7 and 8)	29,130,000	31,360,000
Capital leases payable (notes 7 and 10)	2,261,525	2,993,166
Employee leave benefits payable (notes 7 and 9)	4,412,659	4,270,150
Total liabilities	<u>59,148,224</u>	<u>61,168,943</u>
Net assets:		
Invested in capital assets, net of related debt	204,310,422	202,575,439
Restricted for:		
Public safety	1,714,903	2,723,835
Community programs	1,637,173	1,990,698
Public services	23,973,667	29,155,232
Redevelopment	-	-
Unrestricted	71,067,417	60,812,797
Total net assets	<u>\$ 302,703,582</u>	<u>297,258,001</u>

See accompanying notes to the basic financial statements.

CITY OF COSTA MESA, CALIFORNIA

Statement of Activities

Year ended June 30, 2005

(With Comparative Data for Prior Year)

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>	
		<u>Charges for</u> <u>Services</u>	<u>Operating</u> <u>Contributions</u> <u>and Grants</u>	<u>Capital</u> <u>Contributions</u> <u>and Grants</u>	<u>Revenue and</u> <u>Changes in Net Assets</u>	
					<u>2005</u>	<u>2004</u>
Governmental activities:						
General government	\$ 23,646,274	-	-	-	(23,646,274)	(21,245,163)
Protection of person and property	51,753,396	2,932,734	805,680	350,000	(47,664,982)	(41,901,603)
Community programs	4,927,306	5,247,815	2,553,960	-	2,874,469	3,078,492
Public services	14,728,739	3,181,180	2,711,480	4,903,030	(3,933,049)	(3,593,161)
Redevelopment	534,995	-	-	-	(534,995)	(632,735)
Interest on long-term debt	1,486,198	-	-	-	(1,486,198)	(2,317,774)
Total governmental activities	\$ 97,076,908	11,361,729	6,071,120	5,253,030	(74,391,029)	(66,611,944)
General revenues:						
Taxes:						
					18,586,166	18,826,218
					43,582,985	41,027,059
					4,641,350	4,221,661
					2,833,347	2,329,340
					912,434	830,794
					8,659,395	5,208,889
					3,455,453	1,395,324
					740,848	891,797
					<u>83,411,978</u>	<u>74,731,082</u>
					9,020,949	8,119,138
					<u>293,682,633</u>	<u>289,138,863</u>
					<u>\$ 302,703,582</u>	<u>297,258,001</u>

See accompanying notes to basic financial statements.



Fund Financial Statements



- The lake at TeWinkle Park (currently being remodeled).

- A male "Mallard Duck". The most familiar duck of local lakes and ponds.



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.

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 fifteen Special Revenue Funds, two Debt Service Funds and all six Capital Projects Funds.

CITY OF COSTA MESA, CALIFORNIA
Governmental Funds
Balance Sheet
June 30, 2005

<u>Assets</u>	General	Debt Service Redevelopment Agency	Nonmajor Governmental Funds	<u>Totals</u>	
				2005	2004
Cash and investments	\$ 51,426,445	1,832,118	34,276,657	87,535,220	84,720,631
Cash and investments with fiscal agent	-	707,466	3,612,307	4,319,773	5,196,232
Due from other governments	9,572,848	31,796	1,840,536	11,445,180	9,696,109
Accounts receivable	941,936	-	483,208	1,425,144	1,269,647
Interest receivable	1,483,388	10,111	1,152,727	2,646,226	2,420,187
Loans receivable	-	-	3,992,783	3,992,783	4,796,870
Rent receivable	-	-	1,019,318	1,019,318	970,278
Due from other funds (note 3)	432,806	7,500	325,442	765,748	780,353
Loan deposits	-	-	560,508	560,508	201,552
Advances to other funds (note 4)	12,481,842	-	1,013,690	13,495,532	13,822,055
Inventories	19,998	-	-	19,998	15,581
Prepaid items	119,416	3,500	228,737	351,653	139,976
Total assets	<u>\$ 76,478,679</u>	<u>2,592,491</u>	<u>48,505,913</u>	<u>127,577,083</u>	<u>124,029,471</u>
 <u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ 1,383,954	1,020,855	1,961,540	4,366,349	4,057,451
Accrued liabilities	1,304,467	-	111,818	1,416,285	1,408,626
Retentions payable	9,996	-	954,462	964,458	709,903
Deposits payable	3,488,801	-	-	3,488,801	3,268,010
Due to other funds (note 3)	7,500	299,278	458,970	765,748	780,353
Advances from other funds (note 4)	-	13,495,532	-	13,495,532	13,822,055
Deferred revenue	451,607	-	7,469,864	7,921,471	7,763,689
Total liabilities	<u>6,646,325</u>	<u>14,815,665</u>	<u>10,956,654</u>	<u>32,418,644</u>	<u>31,810,087</u>
Fund balances (note 12):					
Reserved for:					
Encumbrances	605,980	-	5,638,915	6,244,895	5,343,119
Prepaid items	119,416	3,500	228,737	351,653	139,976
Inventories	19,998	-	-	19,998	15,581
Advances to other funds	12,481,842	-	823,065	13,304,907	13,822,055
Debt service	-	-	5,871,412	5,871,412	6,199,017
Self insurance	2,000,000	-	-	2,000,000	2,000,000
Unreserved, reported in:					
General fund	54,605,118	-	-	54,605,118	46,375,225
Special revenue funds	-	-	16,637,291	16,637,291	17,612,924
Debt service funds	-	(12,226,674)	-	(12,226,674)	(12,732,031)
Capital projects funds	-	-	8,349,839	8,349,839	13,443,518
Total fund balances (deficit)	<u>69,832,354</u>	<u>(12,223,174)</u>	<u>37,549,259</u>	<u>95,158,439</u>	<u>92,219,384</u>
Total liabilities and fund balances	<u>\$ 76,478,679</u>	<u>2,592,491</u>	<u>48,505,913</u>	<u>127,577,083</u>	<u>124,029,471</u>

See the accompanying notes to the basic financial statements.

CITY OF COSTA MESA, CALIFORNIA
Governmental Funds
Reconciliation of the Balance Sheet to the Statement of Net Assets
June 30, 2005

Fund balances of governmental funds \$ 95,158,439

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	463,390,927
Accumulated depreciation	(235,932,062)

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	(31,360,000)
Capital leases payable	(2,993,166)
Employee benefits leave payable	(5,672,659)

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. (378,880)

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. 13,360,781

Deferred Revenue

Certain revenues that do not provide current financial resources are reported as deferred revenues in the funds. 7,130,202

Net assets of governmental activities \$ 302,703,582

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, 2005

(With Comparative Data for Prior Year)

	General	Debt		Totals	
		Service Redevelopment Agency	Nonmajor Governmental Funds	2005	2004
Revenues:					
Taxes	\$ 66,845,228	2,192,737	1,518,317	70,556,282	67,235,072
Licenses and permits	1,948,650	-	-	1,948,650	2,143,839
Fines and forfeits	2,776,842	-	176,543	2,953,385	3,358,468
Intergovernmental	9,973,140	-	9,612,508	19,585,648	16,080,227
Charges for services	3,140,577	-	184,940	3,325,517	3,170,569
Rental	2,722,143	-	136,143	2,858,286	2,816,656
Investment income	2,533,856	43,789	1,354,346	3,931,991	1,878,219
Miscellaneous	863,044	8,020	556,096	1,427,160	1,173,944
Total revenues	90,803,480	2,244,546	13,538,893	106,586,919	97,856,994
Expenditures:					
Current:					
General government	21,487,096	-	1,645,439	23,132,535	21,185,828
Protection of persons and property	50,568,799	-	1,357,512	51,926,311	48,965,777
Community programs	4,739,474	-	1,581,495	6,320,969	6,215,447
Public services	5,300,791	-	11,602,829	16,903,620	18,879,695
Redevelopment	-	-	549,793	549,793	488,843
Debt service:					
Advanced refunding escrow	-	-	-	-	2,135,589
Cost of issuance	-	-	-	-	594,683
Principal	702,337	450,000	1,735,000	2,887,337	2,661,728
Interest and fiscal charges	119,793	1,285,689	1,062,101	2,467,583	2,778,146
Total expenditures	82,918,290	1,735,689	19,534,169	104,188,148	103,905,736
Excess (deficiency) of revenues over (under) expenditures	7,885,190	508,857	(5,995,276)	2,398,771	(6,048,742)
Other financing sources (uses):					
Transfers in (note 5)	3,457,279	-	3,194,637	6,651,916	3,984,713
Transfers out (note 5)	(3,110,345)	-	(3,001,287)	(6,111,632)	(3,468,827)
Issuance of long-term debt	-	-	-	-	21,824,120
Premium on debt issue	-	-	-	-	403,531
Payment to bond escrow agent	-	-	-	-	(19,645,279)
Total other financing sources (uses)	346,934	-	193,350	540,284	3,098,258
Net change in fund balances	8,232,124	508,857	(5,801,926)	2,939,055	(2,950,484)
Fund balances (deficit) at beginning of year	61,600,230	(12,732,031)	43,351,185	92,219,384	95,169,868
Fund balances (deficit) at end of year	\$ 69,832,354	(12,223,174)	37,549,259	95,158,439	92,219,384

See accompanying notes to the basic financial statements.

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, 2005

Net changes in fund balances - total governmental funds \$ 2,939,055

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	12,520,683
Depreciation expense	(9,844,948)

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	(352,259)
Bonds payable	2,185,000
Capital leases payable	702,337

Accrued Interest

Beginning fund balances in the Statement of Activities have been restated to reflect the retroactive recording of accrued interest on outstanding debt payable. (39,470)

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. 895,753

Deferred Revenue

Certain revenues that do not provide current financial resources are reported as deferred revenue in the funds. 14,798

Change in net assets of governmental activities	<u>\$ 9,020,949</u>
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See accompanying notes to the basic financial statements.

CITY OF COSTA MESA, CALIFORNIA

Proprietary Funds

Statement of Net Assets

June 30, 2005

(With Comparative Data for Prior Year)

	Governmental Activities - Internal Service Funds	
	2005	2004
<u>Assets</u>		
Current assets:		
Cash and investments	\$ 17,705,145	17,479,704
Interest receivable	153,489	139,125
Inventories	54,636	76,547
Prepaid items	-	74
Total current assets	<u>17,913,270</u>	<u>17,695,450</u>
Capital assets:		
Automotive equipment	8,488,477	8,396,063
Other equipment	289,541	291,233
Accumulated depreciation	<u>(4,593,295)</u>	<u>(4,051,567)</u>
Net capital assets	<u>4,184,723</u>	<u>4,635,729</u>
Total assets	<u>22,097,993</u>	<u>22,331,179</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	199,722	479,546
Accrued liabilities	18,327	17,415
Claims payable	<u>2,769,480</u>	<u>2,795,216</u>
Total current liabilities	<u>2,987,529</u>	<u>3,292,177</u>
Long-term liabilities:		
Claims payable	<u>5,749,683</u>	<u>6,573,974</u>
Total long-term liabilities	<u>5,749,683</u>	<u>6,573,974</u>
Total liabilities	<u>8,737,212</u>	<u>9,866,151</u>
Net assets:		
Invested in capital assets	4,184,723	4,635,729
Unrestricted	<u>9,176,058</u>	<u>7,829,299</u>
Total net assets	<u>\$ 13,360,781</u>	<u>12,465,028</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, 2005

(With Comparative Data for Prior Year)

	Governmental Activities - Internal Service Funds	
	2005	2004
Operating revenues:		
Charges for services	\$ 5,557,460	6,822,607
Total operating revenues	<u>5,557,460</u>	<u>6,822,607</u>
Operating expenses:		
Allocated administrative costs	832,786	845,975
Depreciation	684,909	542,400
Automotive fuel and parts	882,197	671,142
Claims and premiums	<u>2,246,806</u>	<u>3,136,253</u>
Total operating expenses	<u>4,646,698</u>	<u>5,195,770</u>
Operating income (loss)	<u>910,762</u>	<u>1,626,837</u>
Nonoperating revenues (expenses):		
Investment income	554,648	558,619
Loss on sale of equipment	<u>(29,373)</u>	<u>(27,020)</u>
Total nonoperating revenues (expenses)	<u>525,275</u>	<u>531,599</u>
Income (loss) before transfers	<u>1,436,037</u>	<u>2,158,436</u>
Transfers out (note 5)	<u>(540,284)</u>	<u>(515,886)</u>
Change in net assets	895,753	1,642,550
Net assets at beginning of year	<u>12,465,028</u>	<u>10,822,478</u>
Net assets at end of year	<u>\$ 13,360,781</u>	<u>12,465,028</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, 2005

(With Comparative Data for Prior Year)

	Governmental Activities - Internal Service Funds	
	2005	2004
Cash flows from operating activities:		
Cash received from customers and user departments	\$ 5,557,460	6,827,632
Cash payments to suppliers for goods and services	(4,228,512)	(4,755,245)
Cash payments to employees for services	(840,231)	(770,522)
Net cash provided by (used for) operating activities	<u>488,717</u>	<u>1,301,865</u>
Cash flows from noncapital financing activities:		
Cash paid to other funds	<u>(540,284)</u>	<u>(515,886)</u>
Net cash provided by (used for) noncapital financing activities	<u>(540,284)</u>	<u>(515,886)</u>
Cash flows from capital and related financing activities:		
Cash received from disposal of assets	25,623	-
Acquisition of capital assets	<u>(288,899)</u>	<u>(1,011,283)</u>
Net cash provided by (used for) capital and related financing activities	<u>(263,276)</u>	<u>(1,011,283)</u>
Cash flows from investing activities:		
Investment income received	<u>540,284</u>	<u>515,886</u>
Net cash provided by (used for) investing activities	<u>540,284</u>	<u>515,886</u>
Net increase (decrease) in cash and cash equivalents	225,441	290,582
Cash and cash equivalents at beginning of year	<u>17,479,704</u>	<u>17,189,122</u>
Cash and cash equivalents at end of year	<u>\$ 17,705,145</u>	<u>17,479,704</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	\$ 910,762	1,626,837
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	684,909	542,400
Loss on sale of equipment	-	(27,020)
(Increase) decrease in accounts receivable	-	5,025
(Increase) decrease in inventories	21,911	(18,635)
(Increase) decrease in prepaid items	74	403,441
Increase (decrease) in accounts payable	(279,824)	339,630
Increase (decrease) in accrued liabilities	912	(2,692)
Increase (decrease) in claims payable	<u>(850,027)</u>	<u>(1,567,121)</u>
Net cash provided by (used for) operating activities	<u>\$ 488,717</u>	<u>1,301,865</u>

Non-cash investing, capital and financing activities:

During fiscal year 2004/2005, 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, 2005
 (With Comparative Data for Prior Year)

	Agency Funds	
	2005	2004
<u>Assets</u>		
Cash and investments (note 2)	\$ 2,922,821	3,161,615
Due from other governments	212,035	263,454
Accounts receivable	23,480	82,232
Interest receivable	2,165	8,625
Inventories	124,959	135,651
Total assets	\$ 3,285,460	3,651,577
<u>Liabilities</u>		
Accounts payable	\$ 576,349	453,562
Deposits payable	1,432,616	2,098,734
Due to other governments	1,275,598	1,097,080
Held for bondholders	897	2,201
Total liabilities	\$ 3,285,460	3,651,577

See accompanying notes to the basic financial statements.



Notes to the Financial Statements



- An example of the wide variety of colorful wildflowers on a rolling hillside in Fairview Park.

- The "Turkey Vulture" has a naked head that is designed to reduce the risk of picking up diseases from carcasses while feeding.



CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

Year ended June 30, 2005

(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)

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

CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

(Continued)

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

(j) Employee Leave Benefits, (Continued)

in the primary bank having in excess of 480 hours. Upon either separation from the City with a minimum of 20 years continuous service or eligibility for retirement benefits, the employees receive pay at their current hourly rate for 1/2 of the sick leave in their primary bank.

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

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

(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.

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	\$ 105,240,365
Cash and investments with fiscal agent	4,319,773
Statement of Fiduciary Assets and Liabilities:	
Cash and investments	<u>2,922,821</u>
Total cash and investments	<u>\$ 112,482,959</u>

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

Cash and deposits:	
Imprest cash on hand	\$ 11,905
Demand deposits	<u>586,307</u>
Total cash and deposits	<u>598,212</u>
Investments:	
Costa Mesa Community Facilities District Bonds	2,367,298
Federal agency securities	75,112,678
Money market mutual funds	4,729,221
Medium term notes	8,770,642
State Treasurer's Investment Pool	<u>20,904,908</u>
Total investments	<u>111,884,747</u>
Total cash and investments	<u>\$ 112,482,959</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 Obligations	Yes	2 years	None	None
U.S. Agency Securities	Yes	5 years	None	40%
Banker's Acceptances	Yes	80 days	40%	10%
Commercial Paper	Yes	70 days	25%	10%
Negotiable Certificates of Deposit	Yes	2 years	30%	None
Repurchase Agreements	Yes	1 year	None	None
Reverse Repurchase Agreements	Yes	10% of base value	None	None
Medium-Term Notes	Yes	5 years	30%	None
Mutual Funds	No	N/A	20%	10%
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 Obligations	None	None	40%
U.S. 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	\$ 75,112,678	7,970,625	-	67,142,053	-
Corporate Medium Term Notes	8,770,642	8,770,642	-	-	-
State Investment Pool (LAIF)	20,904,908	20,904,908	-	-	-
Costa Mesa Community Facilities					
District Bonds	2,367,298	-	-	-	2,367,298
Money Market Mutual Funds	409,448	409,448	-	-	-
Held by bond Trustee:					
Money Market Mutual Funds	<u>4,319,773</u>	<u>4,319,773</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$111,884,747</u>	<u>42,375,396</u>	<u>-</u>	<u>67,142,053</u>	<u>2,367,298</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>Not Rated</u>
			<u>AAA</u>	<u>A2</u>	<u>AA3</u>	<u>Baa2</u>	
Federal Agency Securities	\$75,112,678	N/A	75,112,678	-	-	-	-
Corporate Medium Term Notes:							
Bank of America	2,010,180	A	-	-	2,010,180	-	-
GMAC	3,023,670	A	-	-	-	3,023,670	-
John Deere	2,028,240	A	-	2,028,240	-	-	-
Caterpillar Financial Svc	1,708,552	A	-	1,708,552	-	-	-
State Investment Pool (LAIF)	20,904,908	N/A	-	-	-	-	20,904,908
Costa Mesa Community							
Facilities District Bonds	2,367,298	N/A	-	-	-	-	2,367,298
Money Market Mutual Funds	409,448	A	358,358	-	-	-	51,090
Held by Bond Trustee:							
Money Market Mutual Funds	<u>4,319,773</u>	A	<u>4,319,773</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$111,884,747</u>		<u>79,790,809</u>	<u>3,736,792</u>	<u>2,010,180</u>	<u>3,023,670</u>	<u>23,323,296</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 40%, 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	\$15,121,281	13.52%
FHLMC	Federal Agency Securities	11,371,710	10.16%
FHLB	Federal Agency Securities	38,110,781	34.06%
FNMA	Federal Agency Securities	<u>10,508,906</u>	9.39%
		<u>\$75,112,678</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.

As of June 30, 2005, the City of Costa Mesa had no exceptions to disclose under the GASB 40 requirements.

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, 2005.

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, 2005 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$ 153,936
General Fund	Redevelopment Agency Fund	278,870
Nonmajor Governmental Funds	Nonmajor Governmental Funds	305,034
Nonmajor Governmental Funds	Redevelopment Agency Fund	20,408
Redevelopment Agency Fund	General Fund	<u>7,500</u>
Total		<u>\$ 765,748</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, 2005 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Redevelopment Agency Fund	\$12,481,842
Nonmajor Governmental Funds	Redevelopment Agency Fund	<u>1,013,690</u>
Total		<u>\$13,495,532</u>

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

The \$12,481,842 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 \$190,625 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 \$823,065 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, 2005 are as follows:

<u>Transfers out</u>	<u>Transfers In</u>	<u>Total</u>	
General Fund	Nonmajor Governmental Funds	\$3,110,345	(a)
Internal Service Funds	General Fund	540,284	(b)
Nonmajor Governmental Funds	General Fund	1,811,023	(c)
Nonmajor Governmental Funds	General Fund	1,105,972	(d)
Nonmajor Governmental Funds	Nonmajor Governmental Funds	<u>84,292</u>	(e)
		<u>\$6,651,916</u>	

- (a) The General Fund transferred the following:
1. \$118,000 to the Capital Improvements Fund for emergency repair work caused by winter storms;
 2. \$200,000 to the Capital Improvements Fund for the TeWinkle Park Irrigation Mainline Project;
 3. \$35,000 to the Capital Improvements Fund for the purchase of natural gas vehicle fueling station;
 4. \$85,000 to the Capital Improvements Fund for the Police Locker Room Remodel Project;
 5. \$2,563,173 to the Financing Authority Debt Service Fund for the payment of debt service payments.
 6. \$109,172 to the Capital Improvements Fund for work on the Drainage Master Plan Project.
- (b) The Equipment Replacement and Self Insurance Funds (Internal Service) transferred investment earnings back to the General Fund.
- (c) Closure of the 1974 Open Space Bond Fund and Financing Authority Construction Funds (Nonmajor Governmental) transferred residual equity back to the General Fund.
- (d) The Nonmajor Governmental Funds transferred to the General Fund for the following:
1. \$827,030 from the Proposition 172 Public Safety Fund for reimbursement of public safety expenditures;
 2. \$160,000 from the Narcotics Forfeiture Fund for reimbursement of public safety expenditures;
 3. \$100,000 from the Measure M Fund for reimbursement of the City Engineer's salary and benefits;
 4. \$17,583 from the Capital Improvement Fund for reimbursement of construction project related expenditures;
 5. \$1,359 from the Parking District Fund for reimbursement of operational expenditures.

CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

(Continued)

(5) Transfers In and Out, (Continued)

(e) The Nonmajor Governmental Funds transferred to the Nonmajor Governmental Funds for the following:

1. \$1,086 from the Bicycle Pedestrian Fund to the Gas Tax Fund for reimbursement of construction project related expenditures;
2. \$82,458 from the Redevelopment Project Fund to the Community Development Fund for rental income received;
3. \$748 from the CENTROCCS Fund to the Traffic Impact Fund for fund closure.

(6) Capital Assets

A summary of changes in capital assets follows:

	Balance at July 1, 2004, as restated (Note 18)	<u>Additions</u>	<u>Deletions</u>	Balance at June 30, 2005
<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>17,231,208</u>	<u>11,721,237</u>	<u>(18,657,297)</u>	<u>10,295,148</u>
Total capital assets not being depreciated	<u>75,471,886</u>	<u>11,721,237</u>	<u>(18,657,297)</u>	<u>68,535,826</u>
Capital assets being depreciated:				
Building improvements and structures	29,085,140	4,129,411	-	33,214,551
Landscaping and sprinklers	9,409,204	59,263	-	9,468,467
Automotive equipment	10,698,736	288,899	(196,485)	10,791,150
Office furniture	418,838	53,034	(13,631)	458,241
Office machines	7,161,847	3,295,520	(105,448)	10,351,919
Other equipment	8,397,704	380,742	(109,990)	8,668,456
Park system	2,599,352	1,667,697	-	4,267,049
Infrastructure – roads	225,648,327	9,871,075	(1,028,886)	234,490,516
Infrastructure – storm drains	<u>90,666,506</u>	<u>-</u>	<u>-</u>	<u>90,666,506</u>
Total capital assets being depreciated	<u>384,085,654</u>	<u>19,745,641</u>	<u>(1,454,440)</u>	<u>402,376,855</u>

CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

(Continued)

(6) Capital Assets, (Continued)

	Balance at July 1, 2004, as restated (Note 18)	Additions	Deletions	Balance at June 30, 2005
Less accumulated depreciation for:				
Building improvements and structure	(21,459,966)	(292,751)	-	(21,752,717)
Landscaping and sprinkler	(9,089,641)	(42,565)	-	(9,132,206)
Automotive equipment	(6,052,718)	(692,352)	142,268	(6,602,802)
Office furniture	(218,597)	(33,506)	8,069	(244,034)
Office machines	(6,085,196)	(179,307)	105,687	(6,158,816)
Other equipment	(6,019,197)	(748,167)	4,089	(6,763,275)
Park system	(727,812)	(240,298)	-	(968,110)
Infrastructure – roads	(121,226,668)	(5,612,565)	916,213	(125,923,020)
Infrastructure – storm drain	<u>(59,258,886)</u>	<u>(2,465,227)</u>	<u>-</u>	<u>(61,724,113)</u>
Total accumulated depreciation	<u>(230,138,681)</u>	<u>(10,306,738)</u>	<u>1,176,326</u>	<u>(239,269,093)</u>
Total capital assets being depreciated, net	<u>153,946,973</u>	<u>9,438,903</u>	<u>(278,114)</u>	<u>163,107,762</u>
Governmental activities capital assets, net	<u>\$229,418,859</u>	<u>21,160,140</u>	<u>(18,935,411)</u>	<u>231,643,588</u>

Restatement of beginning capital assets is attributed to revised estimates of historical cost. Depreciation expense is charged to the following functions in the Statement of Activities for the year ended June 30, 2005:

General government	\$1,760,392
Protection of persons and property	199,359
Community programs	250,510
Public services	<u>8,096,477</u>
Total	<u>\$10,306,738</u>

The City has active construction projects as of June 30, 2005. The projects include the following:

<u>Construction Project</u>	<u>Total Budget</u>	<u>Spent to date</u>	<u>Remaining commitment</u>
Placentia, 19 th , Anaheim Road Rehab	\$ 6,240,925	4,191,683	2,049,242
AHRP Projects	1,706,200	997,933	708,267
Fairview park improvements	2,000,000	1,107,420	892,580
Police Facility Remodel and Expansion	890,900	819,803	71,097
Tewinkle Park Lake Pavilions	<u>1,150,465</u>	<u>791,767</u>	<u>358,698</u>
Total	<u>\$11,988,490</u>	<u>7,908,606</u>	<u>4,079,884</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, 2005 is as follows:

	Balance at July 1, 2004	Additions	Reductions	Balance at June 30, 2005	Portion Due Within One Year	Portion Due Beyond One Year
<u>Governmental Activities</u>						
Bonds:						
Redevelopment Agency 2003 Tax Allocation Refunding Bonds	\$7,470,000	-	(450,000)	7,020,000	455,000	6,565,000
Public Financing Authority 1991 Lease Revenue Bonds	2,380,000	-	(70,000)	2,310,000	75,000	2,235,000
Public Financing Authority 2003 Refunding Certificate of Participation	14,340,000	-	(805,000)	13,535,000	805,000	12,730,000
Public Financing Authority 1998 Refunding Revenue Bonds	<u>9,355,000</u>	<u>-</u>	<u>(860,000)</u>	<u>8,495,000</u>	<u>895,000</u>	<u>7,600,000</u>
Total bonds payable	<u>33,545,000</u>	<u>-</u>	<u>(2,185,000)</u>	<u>31,360,000</u>	<u>2,230,000</u>	<u>29,130,000</u>
Other liabilities:						
Claims payable	9,369,190	1,708,260	(2,558,287)	8,519,163	2,769,480	5,749,683
Employee leave benefits payable	<u>5,320,400</u>	<u>1,514,506</u>	<u>(1,162,247)</u>	<u>5,672,659</u>	<u>1,260,000</u>	<u>4,412,659</u>
Total other liabilities	<u>14,689,590</u>	<u>3,222,766</u>	<u>(3,720,534)</u>	<u>14,191,822</u>	<u>4,029,480</u>	<u>10,162,342</u>
Capital leases:						
P.D. Computer System	2,883,313	-	(535,718)	2,347,595	555,450	1,792,145
HVAC System	547,438	-	(64,701)	482,737	67,084	415,653
OCE Copier Lease	63,279	-	(25,987)	37,292	28,397	8,895
Avaya Telephone Lease	<u>201,473</u>	<u>-</u>	<u>(75,931)</u>	<u>125,542</u>	<u>80,710</u>	<u>44,832</u>
Total capital leases payable	<u>3,695,503</u>	<u>-</u>	<u>(702,337)</u>	<u>2,993,166</u>	<u>731,641</u>	<u>2,261,525</u>
Total	<u>\$51,930,093</u>	<u>3,222,766</u>	<u>(6,607,871)</u>	<u>48,544,988</u>	<u>6,991,121</u>	<u>41,553,867</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 \$707,414 on reserve with the fiscal agent at June 30, 2005. The principal balance outstanding at June 30, 2005 is \$7,020,000.

The annual debt service requirements for the Redevelopment Agency 2003 Tax Allocation Refunding Bonds as of June 30, 2005 are as follows:

Year Ending June 30,	Governmental Activities	
	Principal	Interest
2006	\$ 455,000	244,750
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>\$7,020,000</u>	<u>1,970,200</u>

CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

(Continued)

(8) Bonds Payable, (Continued)

Costa Mesa Public Financing Authority Bonds

1991 Lease Revenue Bonds

The Costa Mesa Public Financing Authority issued \$3,225,000 of 1991 Lease Revenue Bonds on November 1, 1991, consisting of \$710,000 of serial bonds and \$2,515,000 (\$620,000 and \$1,895,000) of term bonds. The serial bonds mature from August 1, 1992 through August 1, 2005 in annual principal payments ranging from \$30,000 to \$80,000 and bear an interest rate of 6.90%. The term bonds mature on August 1, 2011 (\$620,000) and August 1, 2021 (\$1,895,000), with interest rates of 6.90% and 7.10%, respectively.

The bonds were issued to provide monies to enable the Authority to acquire on the delivery date of the Bonds, 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 Bonds were issued in denominations of \$5,000. There is a reserve requirement of \$236,500 which is the maximum annual debt service requirement of the bond issue. The City has \$241,459 on reserve with the fiscal agent at June 30, 2005. The principal outstanding on the bonds as of June 30, 2005 is \$2,310,000. The bonds are secured by special tax levied within CFD 91-1 Plaza Tower Public Improvement. The special taxes 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, 2004 and April 21, 2005, the City remitted payment 24 and 22 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, which was 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 \$1,278,878 on reserve with the fiscal agent at June 30, 2005. The principal balance outstanding at June 30, 2005 is \$13,535,000.

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, 2005, the City had \$1,318,512 on reserve with the fiscal agent. The principal balance outstanding on the bonds as on June 30, 2005 is \$8,495,000.

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 Revenue Bonds as of June 30, 2005 are as follows:

Year Ending June 30	Governmental Activities					
	1991 Lease Revenue		2003 Refunding Revenue		1998 Refunding Revenue	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$75,000	160,133	805,000	458,075	895,000	385,379
2007	80,000	154,785	820,000	441,825	940,000	344,314
2008	85,000	149,092	835,000	425,275	980,000	300,626
2009	90,000	143,055	855,000	407,306	1,030,000	253,364
2010	100,000	136,500	875,000	384,562	1,080,000	202,726
2011	105,000	129,428	900,000	357,937	1,130,000	149,402
2012	110,000	122,010	925,000	328,250	1,190,000	92,250
2013	120,000	113,955	960,000	295,863	1,250,000	31,250
2014	130,000	105,080	990,000	261,719	-	-
2015	140,000	95,495	1,025,000	223,275	-	-
2016	145,000	85,377	1,070,000	182,713	-	-
2017	160,000	74,550	1,110,000	140,450	-	-
2018	170,000	62,835	1,155,000	89,375	-	-
2019	180,000	50,410	1,210,000	30,250	-	-
2020	195,000	37,098	-	-	-	-
2021	205,000	22,897	-	-	-	-
2022	<u>220,000</u>	<u>7,810</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$2,310,000</u>	<u>1,650,510</u>	<u>13,535,000</u>	<u>4,026,875</u>	<u>8,495,000</u>	<u>1,759,311</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, 2005 is expected to be paid primarily by the general fund in future years.

\$ 5,672,659

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, 2005, 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, 2005 for general liability amounted to \$1,593,508 and workers' compensation was \$6,925,655.

8,519,163

Total other liabilities

\$ 14,191,822

(10) Capital Leases Payable

On February 3, 2003, the City of Costa Mesa entered into a 6 year lease (lease no. 03-002-AF) 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.

\$ 2,347,595

On July 16, 2001, the City of Costa Mesa entered into a 10 year 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%.

482,737

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 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%.

37,292

On November 11, 1999, the City of Costa Mesa entered into a 7 year Avaya telephone lease (lease no. X091520) 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%.

125,542

Total capital leases payable \$2,993,166

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
2006	\$ 555,450	80,665	67,084	17,013	28,397	2,179
2007	575,909	60,206	69,556	14,542	8,895	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	-	-	<u>41,295</u>	<u>754</u>	-	-
Totals	<u>\$2,347,595</u>	<u>196,862</u>	<u>482,737</u>	<u>63,897</u>	<u>37,292</u>	<u>3,475</u>

Year Ending June 30	Governmental Activities	
	Avaya Telephone Lease	
	Principal	Interest
2006	\$ 80,710	4,850
2007	44,832	539
2008	-	-
2009	-	-
2010	-	-
2011	-	-
2012	-	-
Totals	<u>\$125,542</u>	<u>5,389</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, 2005 was \$3,100,000.

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, 2005 was \$2,185,000.

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, 2005 was \$8,330,000.

(12) Fund Balances

The following funds had deficits at June 30, 2005:

Redevelopment Agency Fund	\$(12,223,174)
Redevelopment Projects Fund	(299,135)

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 statutes 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, 2004 to June 30, 2005 has been determined by an actuarial valuation of the plan as of June 30, 2002. The contribution rate indicated for the period is 31.350% for safety fire and 35.515% for safety police and 7.080% 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, 2005, this contribution rate would be multiplied by the payroll of covered employees that was actually paid during the period July 1, 2004 to June 30, 2005.

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, 2002
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	15 and 16 Years as of the Valuation Date for safety fire and safety police respectively, and 30 Years as of the Valuation Date for miscellaneous plan
Asset Valuation Method	3 Year Smoothed Market
Actuarial Assumptions	
Investment Rate of Return	8.25% (net of administrative expenses)
Projected Salary Increases	4.27% to 11.59% depending on Age, Service, and type of employment for safety fire safety police, and 3.75% to 14.20% depending on Age, Service, and type of employment for the miscellaneous plan
Inflation	3.50%
Payroll Growth	3.75%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.5% 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 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>
6/30/01	164,852	150,683	14,169	91.40%	19,942	71.1%
6/30/02	180,809	145,533	35,276	80.05%	20,911	168.7%
6/30/03	192,382	150,221	42,161	78.10%	22,677	185.9%
6/30/04	Not available at time report was published					

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>
6/30/01	81,571	102,813	(21,242)	126.0%	18,486	(114.9%)
6/30/02	89,757	98,370	(8,613)	109.6%	20,700	(41.6%)
6/30/03	106,278	100,513	5,765	94.6%	22,336	25.8%
6/30/04	Not available at time report was published					

*UAAL refers to unfunded actuarial accrued liability.

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>
6/30/03	\$1,940,430	\$1,447,842	100%	-
6/30/04	1,915,076	1,490,302	100%	-
6/30/05	2,233,311	1,573,331	100%	-

CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

(Continued)

(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, 2005 was \$1,255,591. The City has no payment obligations once the employee separates from the City.
- (b) Prior to January 1, 2004, the City provided retirement health care benefits and life insurance under Council Policy No. 300-1 and the City's MOU's with the CMCEA, CMPA, CMPMA and the CMFA. Only employees hired before January 1, 2004 are eligible for those benefits if they reach normal retirement age while working for the City. Those and similar benefits for these active employees are provided through an insurance company whose premiums are based on the benefits paid during the year. As of June 30, 2005, approximately 249 retired employees were receiving benefits. 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, 2005, approximately \$656,112 of post-employment benefit expenditures were recognized.

CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

(Continued)

(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, 2005:

	<u>Function</u>	<u>Expenditures</u>	<u>Appropriations</u>	<u>Excess</u>
Special Revenue Funds:				
Air Quality Improvement	Public services	172,420	50,000	122,420
Community Development	General Government	1,645,439	928,586	716,871
Park Development Fees	Community programs	673,534	-	673,534
Traffic Impact Fees	Community services	485,830	-	485,830
Capital Project Funds:				
Capital Improvements	Public services	4,940,502	1,164,130	3,776,372
Financing Authority Construction	Public services	10,329	-	10,329

(17) Risk Management

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

In the Self-Insurance Workers’ Compensation/General Liability/Unemployment Internal Service Fund, the City has recorded liabilities of \$8,519,163 for lawsuits and other claims arising in the ordinary course of business. The City is self-insured for the first \$1,500,000 of each claim arising for workers’ compensation and has purchased outside insurance coverage in excess of the \$1,500,000 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 \$20,000,000 per occurrence. For the past three years, claim payments have not exceeded the amount of applicable insurance coverage.

The City has estimated losses for claims and judgments and has established liabilities of \$6,925,655 for workers’ compensation and \$1,593,508 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,

CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

(Continued)

(17) Risk Management, (Continued)

modified for current trends and information. While the ultimate amount of losses incurred through June 30, 2005 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 \$2,240,000 to \$5,870,000 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>
2003-2004	\$10,936,311	\$1,821,921	(\$3,389,042)	\$ 9,369,190
2004-2005	9,369,190	1,708,260	(2,558,287)	8,519,163

(18) Prior Period Adjustment

The beginning net assets on the government-wide financial statements have been restated to reflect a reevaluation of infrastructure capital assets. The following summarizes the effects of the restatement to the beginning net assets as of July 1, 2004:

	<u>Governmental Activities</u>
Total net assets at beginning of the year, as previously reported	\$297,258,001
To adjust previously reported infrastructure historical costs	(2,927,083)
To adjust unearned revenue not previously reported on the government-wide financial statements	<u>(648,285)</u>
Total net assets at beginning of the year, as restated	<u>\$293,682,633</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, 2005, ABLE did not experience any fiscal stress as indicated by year-end unrestricted net assets of \$1,275,598. This year each member City contributed \$385,088 to the operation. Upon completion, separate financial statements of ABLE can be obtained at Costa Mesa City Hall.



Required Supplementary Information



- Open fields at TeWinkle Park. Perfect setting for families and individuals to congregate and appreciate nature.

- The "Mourning Dove" is named for the distinct cooing vocal sounds it makes. It is one of the few birds able to drink without lifting its head.



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.

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, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes:					
Sales tax	\$38,900,000	41,726,780	42,714,022	987,242	40,244,632
Property tax	14,366,620	14,409,300	15,744,075	1,334,775	15,757,926
Transient occupancy tax	4,161,500	4,250,000	4,641,350	391,350	4,221,661
Franchise tax	2,297,000	2,341,000	2,833,347	492,347	2,329,340
Business license tax	855,000	855,000	912,434	57,434	830,794
Total taxes	60,580,120	63,582,080	66,845,228	3,263,148	63,384,353
Licenses and permits	2,007,350	1,963,850	1,948,650	(15,200)	2,143,839
Fines and forfeits	2,142,000	2,227,000	2,776,842	549,842	3,098,176
Investment income	2,680,000	2,480,000	2,533,856	53,856	567,624
Intergovernmental:					
Motor vehicle in-lieu	6,503,100	6,736,260	8,659,395	1,923,135	5,104,594
Grants and other reimbursements	1,383,790	1,685,050	1,313,745	(371,305)	1,597,189
Total intergovernmental	7,886,890	8,421,310	9,973,140	1,551,830	6,701,783
Charges for services	2,660,410	2,658,630	3,140,577	481,947	2,882,211
Rental	2,593,900	2,673,900	2,722,143	48,243	2,730,378
Miscellaneous	114,000	182,799	863,044	680,245	288,421
Total revenues	80,664,670	84,189,569	90,803,480	6,613,911	81,796,785
Expenditures:					
Current:					
General government:					
City council	237,916	241,066	228,402	12,664	211,663
City manager	977,910	1,033,465	895,523	137,942	749,408
City clerk	291,355	300,482	293,671	6,811	234,169
City attorney	926,218	957,591	959,329	(1,738)	738,150
Financial services	2,153,387	2,297,676	2,212,720	84,956	1,943,158
Administrative services:					
Administration	602,123	612,280	565,755	46,525	591,683
Personnel services	782,182	803,407	660,504	142,903	633,036
Central services	514,637	530,437	520,688	9,749	499,063
Risk management services	1,648,385	1,660,359	1,477,022	183,337	1,293,634
Communication services	3,106,545	3,216,500	2,996,726	219,774	2,776,675
Computer services	2,914,563	3,028,934	2,354,299	674,635	1,853,202
Development services:					
Administration	474,232	490,760	475,785	14,975	472,781
Facilities and equipment maintenance	8,239,191	8,823,178	7,846,672	976,506	7,509,123
Total general government	22,868,644	23,996,135	21,487,096	2,509,039	19,505,745

(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, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Protection of persons and property:					
Police protection	30,487,559	32,334,913	31,383,587	951,326	29,701,326
Fire protection	16,260,866	17,080,798	16,985,620	95,178	15,932,032
Building and safety	2,295,111	2,381,746	2,199,592	182,154	2,008,554
Total protection of persons and property	49,043,536	51,797,457	50,568,799	1,228,658	47,641,912
Community programs:					
Community recreation	3,789,277	3,830,857	3,248,658	582,199	3,304,990
Sanitation	1,151,597	477,737	504,430	(26,693)	914,546
Planning	1,064,025	1,109,132	986,386	122,746	827,352
Total community programs	6,004,899	5,417,726	4,739,474	678,252	5,046,888
Public services:					
Administration	1,213,891	1,288,220	1,254,957	33,263	1,402,110
Engineering	2,351,999	2,638,854	1,955,832	683,022	1,756,444
Transportation	2,413,626	2,446,580	2,090,002	356,578	2,106,124
Total public services	5,979,516	6,373,654	5,300,791	1,072,863	5,264,678
Debt service:					
Principal	600,419	600,419	702,337	(101,918)	576,728
Interest and fiscal charges	119,793	119,793	119,793	-	145,330
Total debt service	720,212	720,212	822,130	(101,918)	722,058
Total expenditures	84,616,807	88,305,184	82,918,290	5,386,894	78,181,281
Excess (deficiency) of revenues over (under) expenditures	(3,952,137)	(4,115,615)	7,885,190	12,000,805	3,615,504
Other financing sources (uses):					
Transfers in	2,938,680	2,956,263	3,457,279	501,016	1,067,699
Transfers out	-	(3,110,345)	(3,110,345)	-	(2,917,014)
Issuance of long-term debt	-	-	-	-	14,120
Total other financing sources (uses)	2,938,680	(154,082)	346,934	501,016	(1,835,195)
Net change in fund balance	(1,013,457)	(4,269,697)	8,232,124	12,501,821	1,780,309
Fund balance at beginning of year	61,600,230	61,600,230	61,600,230	-	59,819,921
Fund balance at end of year	\$60,586,773	57,330,533	69,832,354	12,501,821	61,600,230



CITY OF COSTA MESA, CALIFORNIA
Notes to Required Supplementary Information
Year ended June 30, 2005

(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:

- Special Revenue Fund:
 - Bicycle and Pedestrian Facilities Fund

- Debt Service Fund:
 - 1974 Open Space Bond 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, 2005, several supplementary appropriations were made totaling \$21,174,181. At fiscal year-end all operating budget appropriations lapse.

(2) Expenditures in Excess of Appropriations

There were no individual funds at a function level (level of budgetary control) that had an excess of expenditures over appropriations.



Supplementary Schedules



- Large trees in Canyon Park provide a tranquil environment for walking, jogging or a leisurely stroll.

- Mr. and Mrs. "House Finch" share a common perch.



CITY OF COSTA MESA, CALIFORNIA

Nonmajor Governmental Funds

Combining Balance Sheet

June 30, 2005

	Special Revenue	Debt Service	Capital Projects	Totals	
				2005	2004
<u>Assets</u>					
Cash and investments	\$20,020,982	2,379,018	11,876,657	34,276,657	39,099,253
Cash and investments with fiscal agent	-	3,012,241	600,066	3,612,307	4,491,355
Due from other governments	1,191,725	-	648,811	1,840,536	1,458,509
Accounts receivable	3,055	480,153	-	483,208	673,238
Interest receivable	164,811	-	987,916	1,152,727	1,019,160
Loans receivable	3,932,783	-	60,000	3,992,783	4,796,870
Rent receivable	-	-	1,019,318	1,019,318	970,278
Due from other funds	325,442	-	-	325,442	176,877
Loan deposit	560,508	-	-	560,508	201,552
Prepaid items	228,737	-	-	228,737	-
Advances to other funds	1,013,690	-	-	1,013,690	1,061,363
Total assets	<u>\$27,441,733</u>	<u>5,871,412</u>	<u>15,192,768</u>	<u>48,505,913</u>	<u>53,948,455</u>
 <u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ 1,195,049	-	766,491	1,961,540	1,858,551
Accrued liabilities	111,818	-	-	111,818	152,185
Retentions payable	449,015	-	505,447	954,462	705,295
Deposits payable	-	-	-	-	-
Due to other funds	157,180	-	301,790	458,970	511,955
Deferred revenue	4,707,942	-	2,761,922	7,469,864	7,369,284
Total liabilities	<u>6,621,004</u>	<u>-</u>	<u>4,335,650</u>	<u>10,956,654</u>	<u>10,597,270</u>
Fund balances:					
Reserved for:					
Encumbrances	3,131,636	-	2,507,279	5,638,915	5,034,363
Prepaid items	228,737	-	-	228,737	-
Advances to other funds	823,065	-	-	823,065	1,061,363
Debt service	-	5,871,412	-	5,871,412	6,199,017
Unreserved, reported in:					
Special revenue funds	16,637,291	-	-	16,637,291	17,612,924
Capital projects funds	-	-	8,349,839	8,349,839	13,443,518
Total fund balances	<u>20,820,729</u>	<u>5,871,412</u>	<u>10,857,118</u>	<u>37,549,259</u>	<u>43,351,185</u>
Total liabilities and fund balances	<u>\$27,441,733</u>	<u>5,871,412</u>	<u>15,192,768</u>	<u>48,505,913</u>	<u>53,948,455</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, 2005

	Special Revenue	Debt Service	Capital Projects	Totals	
				2005	2004
Revenues:					
Taxes	\$ 1,486,085	31,422	810	1,518,317	1,651,817
Fines and forfeits	176,543	-	-	176,543	260,292
Intergovernmental	6,918,503	-	2,694,005	9,612,508	9,378,444
Charges for services	184,940	-	-	184,940	288,358
Rental	53,685	-	82,458	136,143	86,278
Investment income	628,033	279,721	446,592	1,354,346	1,299,609
Miscellaneous	444,024	-	112,072	556,096	885,523
Total revenues	9,891,813	311,143	3,335,937	13,538,893	13,850,321
Expenditures:					
Current:					
General government	1,645,439	-	-	1,645,439	1,680,083
Protection of persons and property	1,357,512	-	-	1,357,512	1,323,865
Community programs	1,581,495	-	-	1,581,495	1,168,559
Public services	4,076,661	-	7,526,168	11,602,829	13,615,017
Redevelopment	424,889	-	124,904	549,793	488,843
Debt service:					
Advanced refunding escrow	-	-	-	-	1,373,003
Cost of issuance	-	-	-	-	318,983
Principal	-	1,735,000	-	1,735,000	1,745,000
Interest and fiscal charges	-	1,062,101	-	1,062,101	1,248,185
Total expenditures	9,085,996	2,797,101	7,651,072	19,534,169	22,961,538
Excess (deficiency) of revenues over (under) expenditures	805,817	(2,485,958)	(4,315,135)	(5,995,276)	(9,111,217)
Other financing sources (uses):					
Transfers in	84,292	2,563,173	547,172	3,194,637	2,917,014
Transfers out	(988,116)	(404,820)	(1,608,351)	(3,001,287)	(551,813)
Proceeds of long-term debt	-	-	-	-	14,340,000
Premium on debt issue	-	-	-	-	238,060
Payment to bond escrow agent	-	-	-	-	(12,991,126)
Total other financing sources (uses)	(903,824)	2,158,353	(1,061,179)	193,350	3,952,135
Net change in fund balances	(98,007)	(327,605)	(5,376,314)	(5,801,926)	(5,159,082)
Fund balances at beginning of year	20,918,736	6,199,017	16,233,432	43,351,185	48,510,267
Fund balances at end of year	\$20,820,729	5,871,412	10,857,118	37,549,259	43,351,185

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.

Bicycle and Pedestrian Facilities Fund

Established to account for the construction of bicycle and pedestrian facilities. Financing is provided by the Transportation Development Act.

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.

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.

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, 2005

	Special Gas Tax	Proposition 172	Air Quality Improvement	HOME Program	Community Development	Park Development Fees	Drainage Fees
<u>Assets</u>							
Cash and investments	\$ 8,351,019	660,204	574,770	292,624	41,258	903,950	354,721
Due from other governments	445,501	163,318	37,534	52,716	443,068	-	-
Accounts receivable	-	-	-	-	-	-	-
Interest receivable	74,516	5,891	5,130	-	-	8,066	3,166
Loans receivable	-	-	-	1,579,142	-	-	-
Due from other funds	-	-	-	21,971	20,408	-	-
Loan deposit	-	-	-	-	560,508	-	-
Prepaid items	-	-	-	-	435	-	-
Advances to other funds	-	-	-	-	190,625	-	-
Total assets	\$ 8,871,036	829,413	617,434	1,946,453	1,256,302	912,016	357,887
<u>Liabilities and Fund Balances</u>							
Liabilities:							
Accounts payable	\$ 892,630	349	4,516	41,155	145,087	13,680	-
Accrued liabilities	-	19,697	-	1,580	8,860	58,966	-
Retentions payable	368,950	-	11,816	-	68,249	-	-
Due to other funds	-	-	-	-	9,216	-	-
Deferred revenue	-	-	-	1,582,204	772,097	-	-
Total liabilities	1,261,580	20,046	16,332	1,624,939	1,003,509	72,646	-
Fund balances:							
Reserved for:							
Encumbrances	2,230,493	-	101,676	-	14,142	38,977	-
Prepaid items	-	-	-	-	435	-	-
Advances to other funds	-	-	-	-	-	-	-
Unreserved, reported in special revenue funds	5,378,963	809,367	499,426	321,514	238,216	800,393	357,887
Total fund balances	7,609,456	809,367	601,102	321,514	252,793	839,370	357,887
Total liabilities and fund balances	\$ 8,871,036	829,413	617,434	1,946,453	1,256,302	912,016	357,887

Bicycle and Pedestrian Facilities	Supplemental Law Enforcement Services	Traffic Impact Fees	Rental Rehabilitation Program	Narcotics Forfeiture	Fire System Development Fees	Low and Moderate Income Housing	Local Law Enforcement Block Grant	Totals	
								2005	2004
-	233,634	5,350,389	149,836	331,791	342,393	2,376,218	58,175	20,020,982	20,388,179
-	-	-	-	15,339	-	34,249	-	1,191,725	1,148,148
-	-	-	-	-	3,055	-	-	3,055	-
-	2,085	47,736	1,337	2,961	-	13,404	519	164,811	151,937
-	-	-	101,508	-	-	2,252,133	-	3,932,783	4,734,870
-	-	-	-	-	-	283,063	-	325,442	176,877
-	-	-	-	-	-	-	-	560,508	201,552
-	-	-	-	-	-	228,302	-	228,737	-
-	-	-	-	-	-	823,065	-	1,013,690	1,061,363
-	235,719	5,398,125	252,681	350,091	345,448	6,010,434	58,694	27,441,733	27,862,926
-	6,200	-	-	4,466	-	35,931	51,035	1,195,049	1,171,767
-	3,693	-	-	19,022	-	-	-	111,818	148,894
-	-	-	-	-	-	-	-	449,015	331,187
-	-	-	32,771	-	-	115,193	-	157,180	335,913
-	-	-	101,508	-	-	2,252,133	-	4,707,942	4,956,429
-	9,893	-	134,279	23,488	-	2,403,257	51,035	6,621,004	6,944,190
-	-	746,348	-	-	-	-	-	3,131,636	2,244,449
-	-	-	-	-	-	228,302	-	228,737	-
-	-	-	-	-	-	823,065	-	823,065	1,061,363
-	225,826	4,651,777	118,402	326,603	345,448	2,555,810	7,659	16,637,291	17,612,924
-	225,826	5,398,125	118,402	326,603	345,448	3,607,177	7,659	20,820,729	20,918,736
-	235,719	5,398,125	252,681	350,091	345,448	6,010,434	58,694	27,441,733	27,862,926

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, 2005

	Special Gas Tax	Proposition 172	Air Quality Improvement	HOME Program	Community Development	Park Development Fees	Drainage Fees
Revenues:							
Taxes	\$ -	868,962	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Intergovernmental	4,492,326	-	137,433	482,956	1,423,277	-	-
Charges for services	-	-	-	-	-	176,720	8,220
Rental	-	-	-	-	53,685	-	-
Investment income	274,781	17,124	20,106	-	5,849	32,769	11,689
Miscellaneous	3,962	-	-	-	22,741	-	-
Total revenues	4,771,069	886,086	157,539	482,956	1,505,552	209,489	19,909
Expenditures:							
Current:							
General government	-	-	-	-	1,645,439	-	-
Protection of persons and property	-	1,058,550	-	-	-	-	-
Community programs	-	-	-	422,131	-	673,534	-
Public services	3,904,241	-	172,420	-	-	-	-
Redevelopment	-	-	-	-	-	-	-
Total expenditures	3,904,241	1,058,550	172,420	422,131	1,645,439	673,534	-
Excess (deficiency) of revenues over (under) expenditures	866,828	(172,464)	(14,881)	60,825	(139,887)	(464,045)	19,909
Other financing sources (uses):							
Transfers in	1,086	-	-	-	82,458	-	-
Transfers out	-	(827,030)	-	-	-	-	-
Total other financing sources (uses)	1,086	(827,030)	-	-	82,458	-	-
Net change in fund balances	867,914	(999,494)	(14,881)	60,825	(57,429)	(464,045)	19,909
Fund balances at beginning of year	6,741,542	1,808,861	615,983	260,689	310,222	1,303,415	337,978
Fund balances at end of year	\$ 7,609,456	809,367	601,102	321,514	252,793	839,370	357,887

Bicycle and Pedestrian Facilities	Supplemental Law Enforcement Services	Traffic Impact Fees	Rental Rehabilitation Program	Narcotics Forfeiture	Fire System Development Fees	Low and Moderate Income Housing	Local Law Enforcement Block Grant	Totals	
								2005	2004
-	-	-	-	-	-	617,123	-	1,486,085	1,371,344
-	-	-	-	176,543	-	-	-	176,543	260,292
-	165,836	138,120	-	52,921	-	-	25,634	6,918,503	5,594,404
-	-	-	-	-	-	-	-	184,940	288,358
-	-	-	-	-	-	-	-	53,685	86,278
-	8,174	180,812	4,786	7,008	11,345	51,527	2,063	628,033	633,137
-	-	-	25,000	-	-	392,321	-	444,024	371,293
-	174,010	318,932	29,786	236,472	11,345	1,060,971	27,697	9,891,813	8,605,106
-	-	-	-	-	-	-	-	1,645,439	1,680,083
-	167,533	-	-	62,208	-	-	69,221	1,357,512	1,323,865
-	-	485,830	-	-	-	-	-	1,581,495	1,168,559
-	-	-	-	-	-	-	-	4,076,661	6,885,877
-	-	-	-	-	-	424,889	-	424,889	206,823
-	167,533	485,830	-	62,208	-	424,889	69,221	9,085,996	11,265,207
-	6,477	(166,898)	29,786	174,264	11,345	636,082	(41,524)	805,817	(2,660,101)
-	-	748	-	-	-	-	-	84,292	-
(1,086)	-	-	-	(160,000)	-	-	-	(988,116)	(476,689)
(1,086)	-	748	-	(160,000)	-	-	-	(903,824)	(476,689)
(1,086)	6,477	(166,150)	29,786	14,264	11,345	636,082	(41,524)	(98,007)	(3,136,790)
1,086	219,349	5,564,275	88,616	312,339	334,103	2,971,095	49,183	20,918,736	24,055,526
-	225,826	5,398,125	118,402	326,603	345,448	3,607,177	7,659	20,820,729	20,918,736

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, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Fines and forfeits	-	-	-	-	-
Intergovernmental	2,069,370	2,069,370	4,492,326	2,422,956	2,366,066
Charges for services	-	-	-	-	-
Rental	-	-	-	-	-
Investment income	284,000	284,000	274,781	(9,219)	248,953
Miscellaneous	-	-	3,962	3,962	2,048
Total revenues	2,353,370	2,353,370	4,771,069	2,417,699	2,617,067
Expenditures:					
Current:					
General government	-	-	-	-	-
Protection of persons and property	-	-	-	-	-
Community programs	-	-	-	-	-
Public services	4,500,000	13,990,720	3,904,241	10,086,479	4,358,607
Total expenditures	4,500,000	13,990,720	3,904,241	10,086,479	4,358,607
Excess (deficiency) of revenues over (under) expenditures	(2,146,630)	(11,637,350)	866,828	12,504,178	(1,741,540)
Other financing sources (uses):					
Transfers in	-	-	1,086	1,086	-
Transfers out	-	-	-	-	(449,689)
Total other financing sources (uses)	-	-	1,086	1,086	(449,689)
Net change in fund balance	(2,146,630)	(11,637,350)	867,914	12,505,264	(2,191,229)
Fund balance at beginning of year	6,741,542	6,741,542	6,741,542	-	8,932,771
Fund balance (deficit) at end of year	\$ 4,594,912	(4,895,808)	7,609,456	12,505,264	6,741,542

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, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ 750,000	750,000	868,962	118,962	782,427
Fines and forfeits	-	-	-	-	-
Intergovernmental	-	-	-	-	91,709
Charges for services	-	-	-	-	-
Rental	-	-	-	-	-
Investment income	58,430	58,430	17,124	(41,306)	52,268
Miscellaneous	-	-	-	-	-
Total revenues	808,430	808,430	886,086	77,656	926,404
Expenditures:					
Current:					
General government	-	-	-	-	-
Protection of persons and property	1,955,461	1,994,023	1,058,550	935,473	1,028,886
Community programs	-	-	-	-	-
Public services	-	-	-	-	-
Total expenditures	1,955,461	1,994,023	1,058,550	935,473	1,028,886
Excess (deficiency) of revenues over (under) expenditures	(1,147,031)	(1,185,593)	(172,464)	1,013,129	(102,482)
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	(827,030)	(827,030)	(27,000)
Total other financing sources (uses)	-	-	(827,030)	(827,030)	(27,000)
Net change in fund balance	(1,147,031)	(1,185,593)	(999,494)	186,099	(129,482)
Fund balance at beginning of year	1,808,861	1,808,861	1,808,861	-	1,938,343
Fund balance at end of year	\$ 661,830	623,268	809,367	186,099	1,808,861

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, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Fines and forfeits	-	-	-	-	-
Intergovernmental	120,000	120,000	137,433	17,433	140,583
Charges for services	-	-	-	-	-
Rental	-	-	-	-	-
Investment income	17,000	17,000	20,106	3,106	17,048
Miscellaneous	-	-	-	-	-
Total revenues	137,000	137,000	157,539	20,539	157,631
Expenditures:					
Current:					
General government	-	-	-	-	-
Protection of persons and property	-	-	-	-	-
Community programs	-	-	-	-	-
Public services	50,000	50,000	172,420	(122,420)	134,167
Total expenditures	50,000	50,000	172,420	(122,420)	134,167
Excess (deficiency) of revenues over (under) expenditures	87,000	87,000	(14,881)	(101,881)	23,464
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balance	87,000	87,000	(14,881)	(101,881)	23,464
Fund balance at beginning of year	615,983	615,983	615,983	-	592,519
Fund balance at end of year	\$ 702,983	702,983	601,102	(101,881)	615,983

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, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Fines and forfeits	-	-	-	-	-
Intergovernmental	791,195	791,195	482,956	(308,239)	692,687
Charges for services	-	-	-	-	-
Rental	-	-	-	-	-
Investment income	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total revenues	791,195	791,195	482,956	(308,239)	692,687
Expenditures:					
Current:					
General government	-	-	-	-	-
Protection of persons and property	-	-	-	-	-
Community programs	1,127,949	1,130,577	422,131	708,446	648,025
Public services	-	-	-	-	-
Total expenditures	1,127,949	1,130,577	422,131	708,446	648,025
Excess (deficiency) of revenues over (under) expenditures	(336,754)	(339,382)	60,825	400,207	44,662
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balance	(336,754)	(339,382)	60,825	400,207	44,662
Fund balance at beginning of year	260,689	260,689	260,689	-	216,027
Fund balance (deficit) at end of year	\$ (76,065)	(78,693)	321,514	400,207	260,689

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, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Fines and forfeits	-	-	-	-	-
Intergovernmental	1,655,000	1,655,000	1,423,277	(231,723)	1,692,380
Charges for services	-	-	-	-	-
Rental	-	-	53,685	53,685	86,278
Investment income	-	-	5,849	5,849	5,874
Miscellaneous	-	-	22,741	22,741	83,937
Total revenues	1,655,000	1,655,000	1,505,552	(149,448)	1,868,469
Expenditures:					
Current:					
General government	871,706	928,568	1,645,439	(716,871)	1,680,083
Protection of persons and property	-	-	-	-	-
Community programs	-	-	-	-	-
Public services	-	-	-	-	-
Total expenditures	871,706	928,568	1,645,439	(716,871)	1,680,083
Excess (deficiency) of revenues over (under) expenditures	783,294	726,432	(139,887)	(866,319)	188,386
Other financing sources (uses):					
Transfers in	-	-	82,458	82,458	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	82,458	82,458	-
Net change in fund balance	783,294	726,432	(57,429)	(783,861)	188,386
Fund balance at beginning of year	310,222	310,222	310,222	-	121,836
Fund balance at end of year	\$ 1,093,516	1,036,654	252,793	(783,861)	310,222

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, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Fines and forfeits	-	-	-	-	-
Intergovernmental	-	-	-	-	26,000
Charges for services	400,000	400,000	176,720	(223,280)	54,393
Rental	-	-	-	-	-
Investment income	41,300	41,300	32,769	(8,531)	43,890
Miscellaneous	-	-	-	-	-
Total revenues	441,300	441,300	209,489	(231,811)	124,283
Expenditures:					
Current:					
General government	-	-	-	-	-
Protection of persons and property	-	-	-	-	-
Community programs	-	-	673,534	(673,534)	446,023
Public services	-	-	-	-	-
Total expenditures	-	-	673,534	(673,534)	446,023
Excess (deficiency) of revenues over (under) expenditures	441,300	441,300	(464,045)	(905,345)	(321,740)
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balance	441,300	441,300	(464,045)	(905,345)	(321,740)
Fund balance at beginning of year	1,303,415	1,303,415	1,303,415	-	1,625,155
Fund balance at end of year	\$ 1,744,715	1,744,715	839,370	(905,345)	1,303,415

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, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Fines and forfeits	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Charges for services	30,000	30,000	8,220	(21,780)	46,776
Rental	-	-	-	-	-
Investment income	9,650	9,650	11,689	2,039	10,466
Miscellaneous	-	-	-	-	-
Total revenues	39,650	39,650	19,909	(19,741)	57,242
Expenditures:					
Current:					
General government	-	-	-	-	-
Protection of persons and property	-	-	-	-	-
Community programs	-	-	-	-	22,132
Public services	-	-	-	-	-
Total expenditures	-	-	-	-	22,132
Excess (deficiency) of revenues over (under) expenditures	39,650	39,650	19,909	(19,741)	35,110
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balance	39,650	39,650	19,909	(19,741)	35,110
Fund balance at beginning of year	337,978	337,978	337,978	-	302,868
Fund balance at end of year	\$ 377,628	377,628	357,887	(19,741)	337,978

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, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Fines and forfeits	-	-	-	-	-
Intergovernmental	150,000	150,000	165,836	15,836	166,094
Charges for services	-	-	-	-	-
Rental	-	-	-	-	-
Investment income	9,480	9,480	8,174	(1,306)	6,719
Miscellaneous	-	-	-	-	-
Total revenues	<u>159,480</u>	<u>159,480</u>	<u>174,010</u>	<u>14,530</u>	<u>172,813</u>
Expenditures:					
Current:					
General government	-	-	-	-	-
Protection of persons and property	154,939	192,907	167,533	25,374	127,407
Community programs	-	-	-	-	-
Public services	-	-	-	-	-
Total expenditures	<u>154,939</u>	<u>192,907</u>	<u>167,533</u>	<u>25,374</u>	<u>127,407</u>
Excess (deficiency) of revenues over (under) expenditures	<u>4,541</u>	<u>(33,427)</u>	<u>6,477</u>	<u>39,904</u>	<u>45,406</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	4,541	(33,427)	6,477	39,904	45,406
Fund balance at beginning of year	<u>219,349</u>	<u>219,349</u>	<u>219,349</u>	<u>-</u>	<u>173,943</u>
Fund balance at end of year	<u><u>\$ 223,890</u></u>	<u><u>185,922</u></u>	<u><u>225,826</u></u>	<u><u>39,904</u></u>	<u><u>219,349</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, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Fines and forfeits	-	-	-	-	-
Intergovernmental	400,000	400,000	138,120	(261,880)	323,396
Charges for services	-	-	-	-	-
Rental	-	-	-	-	-
Investment income	274,000	274,000	180,812	(93,188)	196,437
Miscellaneous	-	-	-	-	-
Total revenues	<u>674,000</u>	<u>674,000</u>	<u>318,932</u>	<u>(355,068)</u>	<u>519,833</u>
Expenditures:					
Current:					
General government	-	-	-	-	-
Protection of persons and property	-	-	-	-	-
Community programs	-	-	485,830	(485,830)	2,393,103
Public services	-	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>485,830</u>	<u>(485,830)</u>	<u>2,393,103</u>
Excess (deficiency) of revenues over (under) expenditures	<u>674,000</u>	<u>674,000</u>	<u>(166,898)</u>	<u>(840,898)</u>	<u>(1,873,270)</u>
Other financing sources (uses):					
Transfers in	-	-	748	748	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>748</u>	<u>748</u>	<u>-</u>
Net change in fund balance	674,000	674,000	(166,150)	(840,150)	(1,873,270)
Fund balance at beginning of year	<u>5,564,275</u>	<u>5,564,275</u>	<u>5,564,275</u>	<u>-</u>	<u>7,437,545</u>
Fund balance at end of year	<u>\$ 6,238,275</u>	<u>6,238,275</u>	<u>5,398,125</u>	<u>(840,150)</u>	<u>5,564,275</u>

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, 2005

	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	4,970	4,970	4,786	(184)	3,529
Miscellaneous	-	-	25,000	25,000	2,458
Total revenues	4,970	4,970	29,786	24,816	5,987
Expenditures:					
Current:					
General government	-	-	-	-	-
Protection of persons and property	-	-	-	-	-
Community programs	-	-	-	-	52,379
Public services	-	-	-	-	-
Total expenditures	-	-	-	-	52,379
Excess (deficiency) of revenues over (under) expenditures	4,970	4,970	29,786	24,816	(46,392)
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balance	4,970	4,970	29,786	24,816	(46,392)
Fund balance at beginning of year	88,616	88,616	88,616	-	135,008
Fund balance at end of year	\$ 93,586	93,586	118,402	24,816	88,616

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, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Fines and forfeits	50,000	50,000	176,543	126,543	260,292
Intergovernmental	36,000	36,000	52,921	16,921	44,453
Charges for services	-	-	-	-	-
Rental	-	-	-	-	-
Investment income	-	-	7,008	7,008	8,900
Miscellaneous	-	-	-	-	-
Total revenues	86,000	86,000	236,472	150,472	313,645
Expenditures:					
Current:					
General government	-	-	-	-	-
Protection of persons and property	251,800	251,800	62,208	189,592	74,078
Community programs	-	-	-	-	-
Public services	-	-	-	-	-
Total expenditures	251,800	251,800	62,208	189,592	74,078
Excess (deficiency) of revenues over (under) expenditures	(165,800)	(165,800)	174,264	340,064	239,567
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	(160,000)	(160,000)	-
Total other financing sources (uses)	-	-	(160,000)	(160,000)	-
Net change in fund balance	(165,800)	(165,800)	14,264	180,064	239,567
Fund balance at beginning of year	312,339	312,339	312,339	-	72,772
Fund balance at end of year	\$ 146,539	146,539	326,603	180,064	312,339

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, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Fines and forfeits	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Charges for services	20,000	20,000	-	(20,000)	187,189
Rental	-	-	-	-	-
Investment income	4,620	4,620	11,345	6,725	10,746
Miscellaneous	-	-	-	-	-
Total revenues	24,620	24,620	11,345	(13,275)	197,935
Expenditures:					
Current:					
General government	-	-	-	-	-
Protection of persons and property	-	-	-	-	1,387
Community programs	-	-	-	-	-
Redevelopment	-	-	-	-	-
Total expenditures	-	-	-	-	1,387
Excess (deficiency) of revenues over (under) expenditures	24,620	24,620	11,345	(13,275)	196,548
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balance	24,620	24,620	11,345	(13,275)	196,548
Fund balance at beginning of year	334,103	334,103	334,103	-	137,555
Fund balance at end of year	\$ 358,723	358,723	345,448	(13,275)	334,103

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, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ 615,434	615,434	617,123	1,689	588,917
Fines and forfeits	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Charges for services	-	-	-	-	-
Rental	-	-	-	-	-
Investment income	6,154	6,154	51,527	45,373	26,896
Miscellaneous	43,318	43,318	392,321	349,003	282,850
Total revenues	664,906	664,906	1,060,971	396,065	898,663
Expenditures:					
Current:					
General government	-	-	-	-	-
Protection of persons and property	-	-	-	-	-
Community programs	-	-	-	-	-
Redevelopment	1,411,703	1,221,560	424,889	796,671	206,823
Total expenditures	1,411,703	1,221,560	424,889	796,671	206,823
Excess (deficiency) of revenues over (under) expenditures	(746,797)	(556,654)	636,082	1,192,736	691,840
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balance	(746,797)	(556,654)	636,082	1,192,736	691,840
Fund balance at beginning of year	2,971,095	2,971,095	2,971,095	-	2,279,255
Fund balance at end of year	\$ 2,224,298	2,414,441	3,607,177	1,192,736	2,971,095

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, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Fines and forfeits	-	-	-	-	-
Intergovernmental	45,000	45,000	25,634	(19,366)	51,036
Charges for services	-	-	-	-	-
Rental	-	-	-	-	-
Investment income	3,040	3,040	2,063	(977)	1,411
Miscellaneous	-	-	-	-	-
Total revenues	48,040	48,040	27,697	(20,343)	52,447
Expenditures:					
Current:					
General government	-	-	-	-	-
Protection of persons and property	-	97,278	69,221	28,057	92,107
Community programs	-	-	-	-	-
Redevelopment	-	-	-	-	-
Total expenditures	-	97,278	69,221	28,057	92,107
Excess (deficiency) of revenues over (under) expenditures	48,040	(49,238)	(41,524)	7,714	(39,660)
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balance	48,040	(49,238)	(41,524)	7,714	(39,660)
Fund balance at beginning of year	49,183	49,183	49,183	-	88,843
Fund balance (deficit) at end of year	\$ 97,223	(55)	7,659	7,714	49,183



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:

1974 Open Space Bond Fund

To accumulate monies for payment of the General Obligation bonds which are serial bonds due in annual installments through January 1, 2004. Financing is provided through specific property tax levies.

Financing Authority Debt Service Fund

To accumulate monies for payment of the 1991 Local Agency Revenue Bonds, the 1993 Refunding Revenues Bonds, 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.

CITY OF COSTA MESA, CALIFORNIA

Nonmajor Debt Service Funds

Combining Balance Sheet

June 30, 2005

	1974 Open Space Bond	Financing Authority Debt Service	Totals	
			2005	2004
<u>Assets</u>				
Cash and investments	\$ -	2,379,018	2,379,018	2,735,608
Cash and investments with fiscal agents	-	3,012,241	3,012,241	2,977,979
Due from other governments	-	-	-	5,698
Accounts receivable	-	480,153	480,153	480,153
Interest receivable	-	-	-	2,870
Total assets	<u>\$ -</u>	<u>5,871,412</u>	<u>5,871,412</u>	<u>6,202,308</u>
 <u>Liabilities and Fund Balances</u>				
Liabilities:				
Accrued liabilities	\$ -	-	-	3,291
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,291</u>
 Fund balances:				
Reserved for:				
Debt service	-	5,871,412	5,871,412	6,199,017
Total fund balances	<u>-</u>	<u>5,871,412</u>	<u>5,871,412</u>	<u>6,199,017</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>5,871,412</u>	<u>5,871,412</u>	<u>6,202,308</u>

CITY OF COSTA MESA, CALIFORNIA

Nonmajor Debt Service Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

For the fiscal year ended June 30, 2005

	1974 Open Space Bond	Financing Authority Debt Service	Totals	
			2005	2004
Revenues:				
Taxes	\$ 31,422	-	31,422	279,678
Investment income	7,331	272,390	279,721	200,970
Total revenues	38,753	272,390	311,143	480,648
Expenditures:				
Debt service:				
Advanced refunding escrow	-	-	-	1,373,003
Cost of issuance	-	-	-	318,983
Principal	-	1,735,000	1,735,000	1,745,000
Interest and fiscal charges	-	1,062,101	1,062,101	1,248,185
Total expenditures	-	2,797,101	2,797,101	4,685,171
Excess (deficiency) of revenues over (under) expenditures	38,753	(2,524,711)	(2,485,958)	(4,204,523)
Other financing sources (uses):				
Proceeds of long-term debt	-	-	-	14,340,000
Premium on debt issue	-	-	-	238,060
Payment to bond escrow agent	-	-	-	(12,991,126)
Transfers in	-	2,563,173	2,563,173	2,492,884
Transfers out	(404,820)	-	(404,820)	(8,943)
Total other financing sources (uses)	(404,820)	2,563,173	2,158,353	4,070,875
Net change in fund balances	(366,067)	38,462	(327,605)	(133,648)
Fund balances at beginning of year	366,067	5,832,950	6,199,017	6,332,665
Fund balances at end of year	\$ -	5,871,412	5,871,412	6,199,017

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, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ 2,305,155	2,305,155	2,192,737	(112,418)	2,198,902
Investment income	24,617	24,617	43,789	19,172	10,986
Miscellaneous	25,510	25,510	8,020	(17,490)	-
Total revenues	<u>2,355,282</u>	<u>2,355,282</u>	<u>2,244,546</u>	<u>(110,736)</u>	<u>2,209,888</u>
Expenditures:					
Debt service:					
Advanced refunding escrow	-	-	-	-	762,586
Cost of issuance	-	-	-	-	275,700
Principal	987,490	987,490	450,000	537,490	340,000
Interest and fiscal charges	1,282,159	1,282,159	1,285,689	(3,530)	1,384,631
Total expenditures	<u>2,269,649</u>	<u>2,269,649</u>	<u>1,735,689</u>	<u>533,960</u>	<u>2,762,917</u>
Excess (deficiency) of revenues over (under) expenditures	<u>85,633</u>	<u>85,633</u>	<u>508,857</u>	<u>423,224</u>	<u>(553,029)</u>
Other financing sources (uses):					
Issuance of long-term debt	-	-	-	-	7,470,000
Premium on debt issue	-	-	-	-	165,471
Payment to bond escrow agent	-	-	-	-	(6,654,153)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>981,318</u>
Net change in fund balance	85,633	85,633	508,857	423,224	428,289
Fund balance (deficit) at beginning of year	<u>(12,732,031)</u>	<u>(12,732,031)</u>	<u>(12,732,031)</u>	<u>-</u>	<u>(13,160,320)</u>
Fund balance (deficit) at end of year	<u><u>\$ (12,646,398)</u></u>	<u><u>(12,646,398)</u></u>	<u><u>(12,223,174)</u></u>	<u><u>423,224</u></u>	<u><u>(12,732,031)</u></u>

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.

CENTROCCS Fund

Established to account for receipt and disbursement of funds received from developers for transportation improvements in the Sunflower/Main Street project area as defined in the Central Orange County Circulation Study (CENTROCCS).

Financing Authority Construction Fund

Established to account for the construction of capital facilities financed by the Costa Mesa Financing Authority bond proceeds.

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, 2005

<u>Assets</u>	<u>Capital Improvements</u>	<u>Measure "M" Construction</u>	<u>CENTROCCS</u>	<u>Financing Authority Construction</u>
Cash and investments	\$ 4,841,226	6,992,979	-	-
Cash and investments with fiscal agents	600,066	-	-	-
Due from other governments	392,594	253,528	-	-
Interest receivable	43,198	62,399	-	-
Loans receivable	60,000	-	-	-
Rent receivable	-	-	-	-
 Total assets	 <u>\$ 5,937,084</u>	 <u>7,308,906</u>	 <u>-</u>	 <u>-</u>
 <u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ 667,695	98,796	-	-
Retentions payable	321,482	183,965	-	-
Due to other funds	-	-	-	-
Deferred revenue	748,337	112,328	-	-
 Total liabilities	 <u>1,737,514</u>	 <u>395,089</u>	 <u>-</u>	 <u>-</u>
Fund balances:				
Reserved for:				
Encumbrances	1,336,345	1,170,934	-	-
Unreserved, reported in capital projects funds	<u>2,863,225</u>	<u>5,742,883</u>	<u>-</u>	<u>-</u>
 Total fund balances (deficit)	 <u>4,199,570</u>	 <u>6,913,817</u>	 <u>-</u>	 <u>-</u>
 Total liabilities and fund balances	 <u>\$ 5,937,084</u>	 <u>7,308,906</u>	 <u>-</u>	 <u>-</u>

Parking Districts	Redevelopment Projects	Totals	
		2005	2004
42,452	-	11,876,657	15,975,466
-	-	600,066	1,513,376
34	2,655	648,811	497,748
380	881,939	987,916	864,353
-	-	60,000	62,000
-	1,019,318	1,019,318	970,278
<u>42,866</u>	<u>1,903,912</u>	<u>15,192,768</u>	<u>19,883,221</u>
-	-	766,491	686,784
-	-	505,447	374,108
-	301,790	301,790	176,042
-	1,901,257	2,761,922	2,412,855
-	2,203,047	4,335,650	3,649,789
-	-	2,507,279	2,789,914
<u>42,866</u>	<u>(299,135)</u>	<u>8,349,839</u>	<u>13,443,518</u>
<u>42,866</u>	<u>(299,135)</u>	<u>10,857,118</u>	<u>16,233,432</u>
<u>42,866</u>	<u>1,903,912</u>	<u>15,192,768</u>	<u>19,883,221</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, 2005

	<u>Capital Improvements</u>	<u>Measure "M" Construction</u>	<u>CENTROCCS</u>	<u>Financing Authority Construction</u>
Revenues:				
Taxes	\$ -	-	-	-
Intergovernmental	392,594	2,301,411	-	-
Rental	-	-	-	-
Investment income	208,983	236,197	4	-
Miscellaneous	55,843	56,229	-	-
Total revenues	<u>657,420</u>	<u>2,593,837</u>	<u>4</u>	<u>-</u>
Expenditures:				
Current:				
Public services	4,940,502	2,575,337	-	10,329
Redevelopment	-	-	-	-
Total expenditures	<u>4,940,502</u>	<u>2,575,337</u>	<u>-</u>	<u>10,329</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(4,283,082)</u>	<u>18,500</u>	<u>4</u>	<u>(10,329)</u>
Other financing sources (uses):				
Transfers in	547,172	-	-	-
Transfers out	(17,583)	(100,000)	(748)	(1,406,203)
Total other financing sources (uses)	<u>529,589</u>	<u>(100,000)</u>	<u>(748)</u>	<u>(1,406,203)</u>
Net change in fund balance	<u>(3,753,493)</u>	<u>(81,500)</u>	<u>(744)</u>	<u>(1,416,532)</u>
Fund balance (deficit) at beginning of year	<u>7,953,063</u>	<u>6,995,317</u>	<u>744</u>	<u>1,416,532</u>
Fund balance (deficit) at end of year	<u>\$ 4,199,570</u>	<u>6,913,817</u>	<u>-</u>	<u>-</u>

Parking Districts	Redevelopment Projects	Totals	
		2005	2004
810	-	810	795
-	-	2,694,005	3,784,040
-	82,458	82,458	-
1,408	-	446,592	465,502
-	-	112,072	514,230
<u>2,218</u>	<u>82,458</u>	<u>3,335,937</u>	<u>4,764,567</u>
-	-	7,526,168	6,729,140
-	124,904	124,904	282,020
-	124,904	7,651,072	7,011,160
<u>2,218</u>	<u>(42,446)</u>	<u>(4,315,135)</u>	<u>(2,246,593)</u>
-	-	547,172	424,130
<u>(1,359)</u>	<u>(82,458)</u>	<u>(1,608,351)</u>	<u>(66,181)</u>
<u>(1,359)</u>	<u>(82,458)</u>	<u>(1,061,179)</u>	<u>357,949</u>
859	(124,904)	(5,376,314)	(1,888,644)
<u>42,007</u>	<u>(174,231)</u>	<u>16,233,432</u>	<u>18,122,076</u>
<u>42,866</u>	<u>(299,135)</u>	<u>10,857,118</u>	<u>16,233,432</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, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Intergovernmental	396,380	746,380	392,594	(353,786)	637,439
Rental	-	-	-	-	-
Investment income	243,170	243,170	208,983	(34,187)	200,898
Miscellaneous	-	54,898	55,843	945	491,808
Total revenues	<u>639,550</u>	<u>1,044,448</u>	<u>657,420</u>	<u>(387,028)</u>	<u>1,330,145</u>
Expenditures:					
Current:					
Public services	1,164,130	1,164,130	4,940,502	(3,776,372)	4,056,974
Redevelopment	-	-	-	-	-
Total expenditures	<u>1,164,130</u>	<u>1,164,130</u>	<u>4,940,502</u>	<u>(3,776,372)</u>	<u>4,056,974</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(524,580)</u>	<u>(119,682)</u>	<u>(4,283,082)</u>	<u>(4,163,400)</u>	<u>(2,726,829)</u>
Other financing sources (uses):					
Transfers in	-	547,172	547,172	-	424,130
Transfers out	-	(17,583)	(17,583)	-	(65,000)
Total other financing sources (uses)	<u>-</u>	<u>529,589</u>	<u>529,589</u>	<u>-</u>	<u>359,130</u>
Net change in fund balance	<u>(524,580)</u>	<u>409,907</u>	<u>(3,753,493)</u>	<u>(4,163,400)</u>	<u>(2,367,699)</u>
Fund balance at beginning of year	<u>7,953,063</u>	<u>7,953,063</u>	<u>7,953,063</u>	<u>-</u>	<u>10,320,762</u>
Fund balance at end of year	<u>\$ 7,428,483</u>	<u>8,362,970</u>	<u>4,199,570</u>	<u>(4,163,400)</u>	<u>7,953,063</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, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Intergovernmental	4,643,630	4,643,630	2,301,411	(2,342,219)	3,146,601
Rental	-	-	-	-	-
Investment income	191,820	191,820	236,197	44,377	218,946
Miscellaneous	-	-	56,229	56,229	22,422
Total revenues	4,835,450	4,835,450	2,593,837	(2,241,613)	3,387,969
Expenditures:					
Current:					
Public services	3,658,903	10,671,447	2,575,337	8,096,110	2,287,098
Redevelopment	-	-	-	-	-
Total expenditures	3,658,903	10,671,447	2,575,337	8,096,110	2,287,098
Excess (deficiency) of revenues over (under) expenditures	1,176,547	(5,835,997)	18,500	5,854,497	1,100,871
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	(100,000)	(100,000)	-
Total other financing sources (uses)	-	-	(100,000)	(100,000)	-
Net change in fund balance	1,176,547	(5,835,997)	(81,500)	5,754,497	1,100,871
Fund balance at beginning of year	6,995,317	6,995,317	6,995,317	-	5,894,446
Fund balance at end of year	<u>\$ 8,171,864</u>	<u>1,159,320</u>	<u>6,913,817</u>	<u>5,754,497</u>	<u>6,995,317</u>

CITY OF COSTA MESA, CALIFORNIA

CENTROCCS Fund

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

For the fiscal year ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Intergovernmental	-	-	-	-	-
Rental	-	-	-	-	-
Investment income	11,590	11,590	4	(11,586)	1,272
Miscellaneous	-	-	-	-	-
Total revenues	<u>11,590</u>	<u>11,590</u>	<u>4</u>	<u>(11,586)</u>	<u>1,272</u>
Expenditures:					
Current:					
Public services	-	-	-	-	384,750
Redevelopment	-	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>384,750</u>
Excess (deficiency) of revenues over (under) expenditures	<u>11,590</u>	<u>11,590</u>	<u>4</u>	<u>(11,586)</u>	<u>(383,478)</u>
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	(748)	(748)	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(748)</u>	<u>(748)</u>	<u>-</u>
Net change in fund balance	<u>11,590</u>	<u>11,590</u>	<u>(744)</u>	<u>(12,334)</u>	<u>(383,478)</u>
Fund balance at beginning of year	<u>744</u>	<u>744</u>	<u>744</u>	<u>-</u>	<u>384,222</u>
Fund balance at end of year	<u>\$ 12,334</u>	<u>12,334</u>	<u>-</u>	<u>(12,334)</u>	<u>744</u>

CITY OF COSTA MESA, CALIFORNIA

Financing Authority Construction Fund

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

For the fiscal year ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Intergovernmental	-	-	-	-	-
Rental	-	-	-	-	-
Investment income	43,960	43,960	-	(43,960)	43,103
Miscellaneous	-	-	-	-	-
Total revenues	<u>43,960</u>	<u>43,960</u>	<u>-</u>	<u>(43,960)</u>	<u>43,103</u>
Expenditures:					
Current:					
Public services	-	-	10,329	(10,329)	318
Redevelopment	-	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>10,329</u>	<u>(10,329)</u>	<u>318</u>
Excess (deficiency) of revenues over (under) expenditures	<u>43,960</u>	<u>43,960</u>	<u>(10,329)</u>	<u>(54,289)</u>	<u>42,785</u>
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	(1,308,060)	(1,308,060)	(1,406,203)	(98,143)	-
Total other financing sources (uses)	<u>(1,308,060)</u>	<u>(1,308,060)</u>	<u>(1,406,203)</u>	<u>(98,143)</u>	<u>-</u>
Net change in fund balance	(1,264,100)	(1,264,100)	(1,416,532)	(152,432)	42,785
Fund balance at beginning of year	<u>1,416,532</u>	<u>1,416,532</u>	<u>1,416,532</u>	<u>-</u>	<u>1,373,747</u>
Fund balance at end of year	<u>\$ 152,432</u>	<u>152,432</u>	<u>-</u>	<u>(152,432)</u>	<u>1,416,532</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, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Intergovernmental	-	-	-	-	-
Rental	88,669	88,669	82,458	(6,211)	-
Investment income	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total revenues	<u>88,669</u>	<u>88,669</u>	<u>82,458</u>	<u>(6,211)</u>	<u>-</u>
Expenditures:					
Current:					
Public services	-	-	-	-	-
Redevelopment	209,207	209,207	124,904	84,303	282,020
Total expenditures	<u>209,207</u>	<u>209,207</u>	<u>124,904</u>	<u>84,303</u>	<u>282,020</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(120,538)</u>	<u>(120,538)</u>	<u>(42,446)</u>	<u>78,092</u>	<u>(282,020)</u>
Other financing sources (uses):					
Transfers in	210,862	210,862	-	(210,862)	-
Transfers out	(88,669)	(88,669)	(82,458)	6,211	-
Total other financing sources (uses)	<u>122,193</u>	<u>122,193</u>	<u>(82,458)</u>	<u>(204,651)</u>	<u>-</u>
Net change in fund balance	1,655	1,655	(124,904)	(126,559)	(282,020)
Fund balance (deficit) at beginning of year	<u>(174,231)</u>	<u>(174,234)</u>	<u>(174,231)</u>	<u>3</u>	<u>107,789</u>
Fund balance (deficit) at end of year	<u>\$ (172,576)</u>	<u>(172,579)</u>	<u>(299,135)</u>	<u>(126,556)</u>	<u>(174,231)</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, 2005

	Equipment Replacement	Self-Insurance Workers' Compensation/ General Liability/ Unemployment	Totals	
			2005	2004
<u>Assets</u>				
Current assets:				
Cash and investments	\$ 8,118,325	9,586,820	17,705,145	17,479,704
Interest receivable	67,707	85,782	153,489	139,125
Inventories	54,636	-	54,636	76,547
Prepaid items	-	-	-	74
Total current assets	8,240,668	9,672,602	17,913,270	17,695,450
Capital assets:				
Automotive equipment	8,488,477	-	8,488,477	8,396,063
Other equipment	289,541	-	289,541	291,233
Accumulated depreciation	(4,593,295)	-	(4,593,295)	(4,051,567)
Net capital assets	4,184,723	-	4,184,723	4,635,729
Total assets	12,425,391	9,672,602	22,097,993	22,331,179
<u>Liabilities and Net Assets</u>				
Current liabilities:				
Accounts payable	98,345	101,377	199,722	479,546
Accrued liabilities	15,298	3,029	18,327	17,415
Claims payable	-	2,769,480	2,769,480	2,795,216
Total current liabilities	113,643	2,873,886	2,987,529	3,292,177
Long-term liabilities:				
Claims payable	-	5,749,683	5,749,683	6,573,974
Total long-term liabilities	-	5,749,683	5,749,683	6,573,974
Total liabilities	113,643	8,623,569	8,737,212	9,866,151
Net assets:				
Invested in capital assets	4,184,723	-	4,184,723	4,635,729
Unrestricted	8,127,025	1,049,033	9,176,058	7,829,299
Total net assets	\$ 12,311,748	1,049,033	13,360,781	12,465,028

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, 2005

	Equipment Replacement	Self-Insurance Workers' Compensation/ General Liability/ Unemployment	Totals	
			2005	2004
Operating revenues:				
Charges for services	\$ 2,505,835	3,051,625	5,557,460	6,822,607
Total operating revenues	2,505,835	3,051,625	5,557,460	6,822,607
Operating expenses:				
Allocated administrative costs	832,786	-	832,786	845,975
Depreciation	684,909	-	684,909	542,400
Automotive fuel and parts	882,197	-	882,197	671,142
Claims and premiums	-	2,246,806	2,246,806	3,136,253
Total operating expenses	2,399,892	2,246,806	4,646,698	5,195,770
Operating income (loss)	105,943	804,819	910,762	1,626,837
Nonoperating revenues (expenses):				
Investment income	241,932	312,716	554,648	558,619
Loss on sale of equipment	(29,373)	-	(29,373)	(27,020)
Total nonoperating revenues (expenses)	212,559	312,716	525,275	531,599
Income (loss) before transfers	318,502	1,117,535	1,436,037	2,158,436
Transfers in	-	-	-	-
Transfers out	(234,885)	(305,399)	(540,284)	(515,886)
Total transfers	(234,885)	(305,399)	(540,284)	(515,886)
Change in net assets	83,617	812,136	895,753	1,642,550
Net assets at beginning of year	12,228,131	236,897	12,465,028	10,822,478
Net assets at end of year	\$ 12,311,748	1,049,033	13,360,781	12,465,028

CITY OF COSTA MESA, CALIFORNIA
Internal Service Funds
Combining Statement of Cash Flows
For the fiscal year ended June 30, 2005

	Equipment Replacement	Self-Insurance Workers' Compensation/ General Liability/ Unemployment	Totals	
			2005	2004
Cash flows from operating activities:				
Cash received from customers and user departments	\$2,505,835	3,051,625	5,557,460	6,827,632
Cash payments to suppliers for goods and services	(1,124,408)	(3,104,104)	(4,228,512)	(4,755,245)
Cash payments to employees for services	(618,993)	(221,238)	(840,231)	(770,522)
Net cash provided by (used for) operating activities	762,434	(273,717)	488,717	1,301,865
Cash flows from noncapital financing activities:				
Cash paid to other funds	(234,885)	(305,399)	(540,284)	(515,886)
Net cash provided by (used for) noncapital financing activities	(234,885)	(305,399)	(540,284)	(515,886)
Cash flows from capital and related financing activities:				
Cash received from disposal of assets	25,623	-	25,623	-
Acquisition of capital assets	(288,899)	-	(288,899)	(1,011,283)
Net cash provided by (used for) capital and related financing activities	(263,276)	-	(263,276)	(1,011,283)
Cash flows from investing activities:				
Investment income received	234,885	305,399	540,284	515,886
Net cash provided by (used for) investing activities	234,885	305,399	540,284	515,886
Net increase (decrease) in cash and cash equivalents	499,158	(273,717)	225,441	290,582
Cash and cash equivalents at beginning of year	7,619,167	9,860,537	17,479,704	17,189,122
Cash and cash equivalents at end of year	\$8,118,325	9,586,820	17,705,145	17,479,704
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ 105,943	804,819	910,762	1,626,837
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	684,909	-	684,909	542,400
Loss on sale of equipment	-	-	-	(27,020)
(Increase) decrease in accounts receivable	-	-	-	5,025
(Increase) decrease in inventories	21,911	-	21,911	(18,635)
(Increase) decrease in prepaid items	74	-	74	403,441
Increase (decrease) in accounts payable	(52,676)	(227,148)	(279,824)	339,630
Increase (decrease) in accrued liabilities	2,273	(1,361)	912	(2,692)
Increase (decrease) in claims payable	-	(850,027)	(850,027)	(1,567,121)
Net cash provided by (used for) operating activities	\$ 762,434	(273,717)	488,717	1,301,865

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, 2005

	<u>Deposits</u>	<u>Community Facilities District</u>	<u>Costa Mesa Community Foundation</u>	<u>Airborne Law Enforcement</u>	<u>Totals</u>	
					2005	2004
<u>Assets</u>						
Cash and investments	\$ 1,755,885	897	91,565	1,074,474	2,922,821	3,161,615
Due from other governments	-	-	-	212,035	212,035	263,454
Accounts receivable	22,647	-	-	833	23,480	82,232
Interest receivable	1,348	-	817	-	2,165	8,625
Inventories	-	-	-	124,959	124,959	135,651
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 1,779,880</u>	<u>897</u>	<u>92,382</u>	<u>1,412,301</u>	<u>3,285,460</u>	<u>3,651,577</u>
<u>Liabilities</u>						
Accounts payable	\$ 439,646	-	-	136,703	576,349	453,562
Deposits payable	1,340,234	-	92,382	-	1,432,616	2,098,734
Due to other governments	-	-	-	1,275,598	1,275,598	1,097,080
Held for bondholders	-	897	-	-	897	2,201
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>\$ 1,779,880</u>	<u>897</u>	<u>92,382</u>	<u>1,412,301</u>	<u>3,285,460</u>	<u>3,651,577</u>

CITY OF COSTA MESA, CALIFORNIA

Agency Funds

Combining Statement of Changes in Fiduciary Assets and Liabilities

Year ended June 30, 2005

	<u>Balance at July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2005</u>
<u>DEPOSITS</u>				
<u>Assets</u>				
Cash and investments	\$ 2,264,915	21,713,788	22,222,818	1,755,885
Accounts receivable	79,399	117,172	173,924	22,647
Interest receivable	<u>1,529</u>	<u>1,348</u>	<u>1,529</u>	<u>1,348</u>
Total assets	<u>\$ 2,345,843</u>	<u>21,832,308</u>	<u>22,398,271</u>	<u>1,779,880</u>
<u>Liabilities</u>				
Accounts payable	\$ 339,381	18,716,205	18,615,940	439,646
Deposits payable	<u>2,006,462</u>	<u>31,928,672</u>	<u>32,594,900</u>	<u>1,340,234</u>
Total liabilities	<u>\$ 2,345,843</u>	<u>50,644,877</u>	<u>51,210,840</u>	<u>1,779,880</u>
<u>COMMUNITY FACILITIES DISTRICT</u>				
<u>Assets</u>				
Cash and investments	\$ 2,201	250,996	252,300	897
Total assets	<u>\$ 2,201</u>	<u>250,996</u>	<u>252,300</u>	<u>897</u>
<u>Liabilities</u>				
Held for bondholders	<u>\$ 2,201</u>	<u>250,996</u>	<u>252,300</u>	<u>897</u>
Total liabilities	<u>\$ 2,201</u>	<u>250,996</u>	<u>252,300</u>	<u>897</u>
<u>COSTA MESA COMMUNITY FOUNDATION</u>				
<u>Assets</u>				
Cash and investments	\$ 92,657	76,404	77,496	91,565
Interest receivable	<u>735</u>	<u>817</u>	<u>735</u>	<u>817</u>
Total assets	<u>\$ 93,392</u>	<u>77,221</u>	<u>78,231</u>	<u>92,382</u>
<u>Liabilities</u>				
Deposits payable	<u>\$ 93,392</u>	<u>98,715</u>	<u>99,725</u>	<u>92,382</u>
Total liabilities	<u>\$ 93,392</u>	<u>98,715</u>	<u>99,725</u>	<u>92,382</u>

(Continued)

CITY OF COSTA MESA, CALIFORNIA

(Continued)

Agency Funds

Combining Statement of Changes in Fiduciary Assets and Liabilities

Year ended June 30, 2005

	<u>Balance at July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2005</u>
<u>AIRBORNE LAW ENFORCEMENT</u>				
<u>Assets</u>				
Cash and investments	\$ 801,842	1,713,385	1,440,753	1,074,474
Due from other governments	263,454	1,056,324	1,107,743	212,035
Accounts receivable	2,833	44,233	46,233	833
Interest receivable	6,361	-	6,361	-
Inventories	135,651	2,137	12,829	124,959
Total assets	<u>\$ 1,210,141</u>	<u>2,816,079</u>	<u>2,613,919</u>	<u>1,412,301</u>
<u>Liabilities</u>				
Accounts payable	\$ 112,031	1,480,144	1,455,472	136,703
Deposits payable	1,030	-	1,030	-
Due to other governments	1,097,080	2,015,595	1,837,077	1,275,598
Total liabilities	<u>\$ 1,210,141</u>	<u>3,495,739</u>	<u>3,293,579</u>	<u>1,412,301</u>
<u>TOTALS - ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and investments	\$ 3,161,615	23,754,573	23,993,367	2,922,821
Due from other governments	263,454	1,056,324	1,107,743	212,035
Accounts receivable	82,232	161,405	220,157	23,480
Interest receivable	8,625	2,165	8,625	2,165
Inventories	135,651	2,137	12,829	124,959
Total assets	<u>\$ 3,651,577</u>	<u>24,976,604</u>	<u>25,342,721</u>	<u>3,285,460</u>
<u>Liabilities</u>				
Accounts payable	\$ 451,412	20,196,349	20,071,412	576,349
Deposits payable	2,100,884	32,027,387	32,695,655	1,432,616
Due to other governments	1,097,080	2,015,595	1,837,077	1,275,598
Held for bondholders	2,201	250,996	252,300	897
Total liabilities	<u>\$ 3,651,577</u>	<u>54,490,327</u>	<u>54,856,444</u>	<u>3,285,460</u>

Statistical Section



- A tree-lined pathway, one of many throughout Costa Mesa parks.

- "Snowy Egret", a common visitor to inland wetlands, eats aquatic insects and small fish.



TABLE 1

CITY OF COSTA MESA, CALIFORNIA
GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION ⁽¹⁾
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>General Government</u>	<u>Protection of Persons and Property</u>	<u>Community Programs</u> ⁽²⁾	<u>Public Services</u> ⁽³⁾
1995-96	10,903,220	32,655,134	4,415,470	6,498,504
1996-97	10,964,706	34,947,801	4,539,634	5,883,628
1997-98	12,326,410	35,596,105	4,451,921	6,995,934
1998-99	11,661,679	37,108,197	4,382,759	6,276,542
1999-00	12,385,206	35,798,506	5,764,615	6,973,452
2000-01	20,020,444	41,684,236	5,614,630	5,702,873
2001-02	19,648,587	44,953,141	6,195,499	11,740,724
2002-03	21,219,016	47,622,359	6,825,783	17,678,362
2003-04	21,185,828	48,965,777	6,215,447	18,879,695
2004-05	23,132,535	51,926,311	6,320,969	16,903,620

<u>Fiscal Year</u>	<u>Leisure and Community Development</u>	<u>Redevelopment</u>	<u>Debt Service</u>	<u>TOTAL</u>
1995-96	5,205,720	-	9,616,303	69,294,351
1996-97	4,982,354	-	9,055,865	70,373,988
1997-98	5,140,984	-	9,267,582	73,778,936
1998-99	6,253,708	-	5,177,515	70,860,400
1999-00	5,111,378	-	5,253,433	71,286,590
2000-01	- (4)	\$ 358,282 (5)	4,850,264	78,230,729
2001-02	- (4)	863,071 (5)	5,232,577	88,633,599
2002-03	- (4)	528,350 (5)	5,292,552	99,166,422
2003-04	- (4)	488,843 (5)	8,170,146	103,905,736
2004-05	- (4)	549,793 (5)	5,354,920	104,188,148

(1) Includes General, Special Revenue, and Debt Service Funds.

(2) Previously Community Health & Environment.

(3) Previously shown as Transportation function.

(4) Expenditures were included in Community Programs function for FY 2001 forward.

(5) Previously shown as Capital Project Fund Type.

TABLE 2

CITY OF COSTA MESA, CALIFORNIA
GENERAL GOVERNMENTAL REVENUES BY SOURCE ⁽¹⁾
Last Ten Fiscal Years

Fiscal Year	Taxes	Licenses and Permits	Fines and Forfeitures	Inter-governmental	Charges for Services
1995-96	43,935,170	1,025,540	1,182,470	7,946,869	4,041,473
1996-97	46,654,818	1,373,099	911,329	8,041,317	3,655,300
1997-98	48,627,522	1,174,296	1,624,038	9,567,732	3,358,236
1998-99	51,270,949	1,464,155	1,995,131	10,935,752	2,511,543
1999-00	54,427,238	1,914,939	1,940,865	12,242,958	2,688,370
2000-01	60,434,201	2,268,689	1,887,675	16,788,980	2,661,860
2001-02	59,065,530	1,516,212	2,145,631	19,216,103	2,233,011
2002-03	61,070,311	1,766,850	6,070,844	18,235,831	3,477,270
2003-04	67,235,072	2,143,839	3,358,468	16,080,227	3,170,569
2004-05	70,556,282	1,948,650	2,953,385	19,585,648	3,325,517

Fiscal Year	Special Assessments	Rental	Interest	Miscellaneous	TOTAL
1995-96	1,235,776	2,015,633	3,590,757	1,758,176	66,731,864
1996-97	898,019	2,124,786	3,262,818	604,398	67,525,884
1997-98	8,754	2,007,788	3,442,184	293,002	70,103,552
1998-99	8,748	-	3,680,594	2,886,021	74,752,893
1999-00	-	2,397,473	3,874,674	266,417	79,752,934
2000-01	-	2,432,256	6,831,889	367,471	93,673,021
2001-02	-	2,573,044	5,192,589	910,242	92,852,362
2002-03	-	2,607,667	3,958,048	595,533	97,782,354
2003-04	-	2,816,656	1,878,219	1,173,944	97,856,994
2004-05	-	2,858,286	3,931,991	1,427,160	106,586,919

(1) Includes General, Special Revenue, and Debt Service Funds.

TABLE 3

CITY OF COSTA MESA, CALIFORNIA
GENERAL GOVERNMENTAL TAX REVENUES BY SOURCE ⁽¹⁾
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Property Taxes</u>	<u>Sales and Use Taxes</u>	<u>Transient Occupancy Taxes</u>
1995-96	12,219,721	26,367,098	2,977,748
1996-97	12,095,008	28,494,658	3,466,941
1997-98	12,431,496	29,744,106	3,846,151
1998-99	13,285,302	30,883,789	4,451,038
1999-00	14,131,797	33,351,512	4,118,044
2000-01	15,783,325	36,867,113	4,856,772
2001-02	16,811,162	35,178,780	3,865,823
2002-03	17,852,259	36,255,107	3,799,682
2003-04	18,825,423	41,027,059	4,221,661
2004-05	18,586,166	43,582,985	4,641,350

<u>Fiscal Year</u>	<u>Franchise Taxes</u>	<u>Business License Taxes</u>	<u>Total Taxes</u>
1995-96	1,616,685	753,918	43,935,170
1996-97	1,779,341	818,870	46,654,818
1997-98	1,827,146	778,623	48,627,522
1998-99	1,844,441	806,379	51,270,949
1999-00	2,008,090	817,795	54,427,238
2000-01	2,132,795	794,196	60,434,201
2001-02	2,366,926	842,839	59,065,530
2002-03	2,308,683	854,580	61,070,311
2003-04	2,329,340	830,794	67,234,277
2004-05	2,833,347	912,434	70,556,282

(1) Includes General, Special Revenue, and Debt Service Funds.

**CITY OF COSTA MESA, CALIFORNIA
RETIREMENT PLAN FOR SAFETY EMPLOYEES
OF THE CITY OF COSTA MESA**

REVENUES BY SOURCE AND EXPENSES BY TYPE

Ten Years Ended June 30, 2005

Revenues by Source					
<u>Fiscal Year</u>	<u>Participant Contributions</u>	<u>City Contributions</u>	<u>% (1)</u>	<u>Investment Income (Loss)</u>	<u>Total</u>
1996 (2)	-	-	-	-	-
1997	-	-	-	-	-
1998	-	-	-	-	-
1999	-	-	-	-	-
2000	-	-	-	-	-
2001	-	-	-	-	-
2002	-	-	-	-	-
2003	-	-	-	-	-
2004	-	-	-	-	-
2005	-	-	-	-	-

Expenses by Type				
<u>Fiscal Year</u>	<u>Benefits</u>	<u>Withdrawals</u>	<u>Administrative Expenses</u>	<u>TOTAL</u>
1996 (2)	-	-	-	-
1997	-	-	-	-
1998	-	-	-	-
1999	-	-	-	-
2000	-	-	-	-
2001	-	-	-	-
2002	-	-	-	-
2003	-	-	-	-
2004	-	-	-	-
2005	-	-	-	-

(1) City contributions as a percent of annual covered payroll.

(2) As of September 6, 1994, the City transferred the assets of its Retirement Plan for Safety Employees to the California Public Employees Retirement System.

CITY OF COSTA MESA, CALIFORNIA
STATEMENT OF DIRECT AND OVERLAPPING BONDED DEBT
June 30, 2005

2004-05 Assessed Valuation: \$ 10,316,882,174 (after deducting \$ 378,464,803 Redevelopment incremental valuation)

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 6/30/05</u>
Orange County Teeter Plan Obligations	3.677	\$ 4,549,368
Metropolitan Water District	0.777	3,258,660
Coast Community College District	14.592	15,778,164
Rancho Santiago Community College District	1.711	3,639,380
Newport Mesa Unified School District	28.718	30,831,645
Santa Ana Unified School District	4.184	5,897,062
City of Costa Mesa Community Facilities District No. 91-1	100.000	2,595,000
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		<u>\$ 66,549,279</u>
<u>DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>		
Orange County General Fund Obligations	3.677	\$ 32,228,868
Orange County Pension Obligations	3.677	4,109,875
Orange County Transit District Authority	3.677	136,233
Orange County Board of Education Certificates of Participation	3.677	731,723
Municipal Water District of Orange County Water Facilities Corporation	4.389	1,543,392
Orange County Sanitation District Certificates of Participation	5.066	7,210,185
Coast Community College District Certificates of Participation	14.592	1,049,894
Newport Mesa School District Certificates of Participation	28.718	667,694
Santa Ana Unified School District Certificates of Participation	4.184	1,954,007
Irvine Ranch Water District Certificates of Participation	1.776	827,616
City of Costa Mesa General Fund Obligations	100.000	21,840,000
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$ 72,299,487
Less: Orange County Transit District Authority (80% self-supporting)		108,986
MWDOC Water Facilities Corporation (100% self-supporting)		1,543,392
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		<u>\$ 70,647,109</u>
GROSS COMBINED TOTAL DEBT		\$ 138,848,766 (1)
NET COMBINED TOTAL DEBT		\$ 137,196,388

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

Ratios to 2004-05 Assessed Valuation:

Total Direct and Overlapping Tax and Assessment Debt 0.62%

Ratios to Adjusted Assessed Valuation:

Combined Direct Debt (\$ 23,340,000) 0.21%

Gross Combined Total Debt 1.35%

Net Combined Total Debt 1.33%

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

Source: California Municipal Statistics, Inc.

TABLE 6

CITY OF COSTA MESA, CALIFORNIA
RATIO OF NET GENERAL BONDED DEBT TO ASSESSED VALUE
AND NET BONDED DEBT PER CAPITA
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>(1) Population</u>	<u>(2) Assessed Value</u>	<u>Gross Bonded Debt</u>	
1995-96	102,084	6,893,284,716	1,670,000	
1996-97	102,574	6,799,617,743	1,500,000	
1997-98	104,237	6,986,832,897	1,320,000	
1998-99	105,608	7,159,963,142	1,130,000	
1999-00	106,607	7,630,306,669	930,000	
2000-01	110,932	8,364,393,299	720,000	
2001-02	110,720	8,937,943,913	490,000	
2002-03	111,512	10,161,598,621	250,000	
2003-04	113,011	10,803,463,598	-	
2004-05	113,011	11,477,096,607	-	

<u>Fiscal Year</u>	<u>(3) Less Debt Service Fund</u>	<u>Net Bonded Debt</u>	<u>Ratio of Net Bonded Debt to Assessed Value</u>	<u>Net Bonded Debt Per Capita</u>
1995-96	232,954	1,437,046	0.0002	14.01
1996-97	239,944	1,260,056	0.0002	12.09
1997-98	268,605	1,051,395	0.0001	9.96
1998-99	298,699	831,301	0.0001	7.80
1999-00	339,344	380,656	0.0000	3.43
2000-01	340,349	149,651	0.0000	1.35
2001-02	345,402	144,598	0.00002	1.31
2002-03	348,014	(98,014)	-0.00001	-0.88
2003-04	366,067	(366,067)	-0.00003	-3.24
2004-05	-	-	0.0000	0.00

(1) Costa Mesa 2005 Community Economic Profile

(2) Assessed Valuation - Source: HdL Coren & Cone, Orange County Assessor 2004/05 Combined Tax Rolls.

(3) Amount available for repayment of General Obligation Bonds.

TABLE 7

**CITY OF COSTA MESA, CALIFORNIA
COMPUTATION OF LEGAL DEBT MARGIN
Fiscal Year Ended June 30, 2005**

ASSESSED VALUE		<u>\$ 11,477,096,607</u>
DEBT LIMIT: 3.75 Percent of Assessed Value		430,391,123
Amount of Debt applicable to Debt Limit:		
Total Bonded Debt	<u>\$ -</u>	
LESS: Assets in Debt Service Fund (Net)	<u>-</u>	
TOTAL AMOUNT OF DEBT APPLICABLE TO DEBT LIMIT		<u>-</u>
LEGAL DEBT MARGIN		<u><u>\$ 430,391,123</u></u>

TABLE 8

CITY OF COSTA MESA, CALIFORNIA
RATIO OF ANNUAL DEBT SERVICE EXPENDITURES
FOR GENERAL OBLIGATION BONDED DEBT
TO TOTAL GENERAL GOVERNMENTAL EXPENDITURES ⁽¹⁾
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Services</u>	<u>Total General Governmental Expenditures</u>	<u>Ratio Debt Service to General Govmtl. Expenditures (Percent)</u>
1995-96	170,000	95,415	265,415	69,294,351	0.38
1996-97	170,000	86,575	256,575	70,373,988	0.36
1997-98	180,000	77,650	257,650	73,778,936	0.35
1998-99	190,000	68,200	258,200	70,860,400	0.36
1999-00	200,000	58,130	258,130	71,286,590	0.36
2000-01	210,000	47,530	257,530	78,230,729	0.33
2001-02	230,000	39,136	269,136	88,633,599	0.30
2002-03	240,000	26,958	266,958	99,166,422	0.27
2003-04	250,000	12,603	262,603	103,905,736	0.25
2004-05	-	-	-	104,188,148	0.00

(1) Includes General, Special Revenue, and Debt Service Funds.

TABLE 9

CITY OF COSTA MESA, CALIFORNIA
TAX RATES, LAST TEN YEARS ⁽¹⁾
(PER \$100 ASSESSED VALUATION)
Tax Code Area 15-045

<u>Year</u>	<u>School Tax Rate</u>	<u>County Tax Rate ⁽²⁾</u>	<u>Miscellaneous Districts Tax Rate</u>	<u>Costa Mesa 1974 Open Space Bond Issue Tax Rate</u>	<u>Total Tax Rate</u>
1995-96	-	1.0000	.0094	.0044	1.0138
1996-97	-	1.0000	.0090	.0042	1.0132
1997-98	-	1.0000	.0089	.0042	1.0131
1998-99	-	1.0000	.0089	.0041	1.0130
1999-00	-	1.0000	.0089	.0038	1.0127
2000-01	-	1.0000	.0146	.0030	1.0176
2001-02	-	1.0000	.0134	.0028	1.0162
2002-03	-	1.0000	.0255	.0028	1.0283
2003-04	-	1.0000	.0525	-	1.0525
2004-05	-	1.0000	.0395	-	1.0395

(1) Source: County of Orange, Auditor-Controller.

(2) Effective FY 1978-79 with the implementation of Proposition 13, the County Tax Rate represents the tax for all local agencies except that necessary to amortize general obligation bonds.

CITY OF COSTA MESA, CALIFORNIA
PROPERTY TAX LEVIES AND COLLECTIONS⁽¹⁾ - GENERAL FUND
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Total Tax Levy</u>	<u>Current Tax Collections</u>	<u>Percent of Levy Collected</u>
1995-96	10,340,638	9,849,355	95.2%
1996-97	10,196,740	9,724,752	95.4%
1997-98	10,596,928	10,409,996	98.2%
1998-99	10,887,990	10,701,996	98.3%
1999-00	11,749,672	11,575,465	98.5%
2000-01	12,837,737	12,656,164	98.6%
2001-02	13,759,323	13,427,866	97.6%
2002-03	14,454,930	14,157,707	97.9%
2003-04	15,334,915	14,971,613	97.6%
2004-05	16,675,818	16,292,111	97.7%

<u>Fiscal Year</u>	<u>Delinquent Tax Collections</u>	<u>Total Tax Collections</u>	<u>Total Collections as Percent of Current Levy</u>
1995-96	463,723	10,313,078	99.7%
1996-97	381,711	10,106,463	99.1%
1997-98	329,198	10,739,194	101.3%
1998-99	238,845	10,940,841	100.5%
1999-00	218,157	12,874,321	100.3%
2000-01	216,612	13,644,478	99.2%
2001-02	229,852	13,657,718	99.3%
2002-03	269,338	14,427,045	99.8%
2003-04	252,804	15,224,417	99.3%
2004-05	210,990	16,503,101	99.0%

(1) Source: Orange County Assessor 2004/05 Combined Tax Rolls.

TABLE 11

**CITY OF COSTA MESA, CALIFORNIA
PRINCIPAL PROPERTY TAXPAYERS
Fiscal Year Ended June 30, 2005**

<u>Property Owner</u>	<u>2005 Assessed Valuation ⁽¹⁾</u>	<u>Percentage of Total Assessed Valuation</u>
1. South Coast Plaza	\$ 219,032,431	2.03%
2. Maguire Props - Pacific Arts Plaza	173,333,245	1.60%
3. City of Costa Mesa	137,025,674	1.27%
4. JKS CMFV LLC	128,861,633	1.19%
5. Automobile Club of Southern California	125,234,585	1.16%
6. Los Angeles Times Communications LLC	109,710,205	1.02%
7. Casden Lakes Limited Partnership	104,629,625	0.97%
8. Orange County Performing Arts Center	102,364,324	0.95%
9. CJ Segerstrom & Sons	95,364,919	0.88%
10. Essex Villa Venetia Apartments	<u>75,381,579</u>	<u>0.70%</u>
	<u><u>\$ 1,270,938,220</u></u>	<u><u>11.76%</u></u>

(1) Source: HdL Coren & Cone, Orange County Assessor 2004/05 Combined Tax Rolls.

CITY OF COSTA MESA, CALIFORNIA
SPECIAL ASSESSMENT BILLINGS AND COLLECTIONS ⁽¹⁾
Last Ten Fiscal Years

Fiscal Year	Current Assessments	Assessments Collected	Ratio of Collections to Amount Due	Total Outstanding Current & Delinquent Assessments
1995-96	1,474,592	1,484,753	100.7%	188
1996-97	1,153,376	1,150,429	99.7%	517
1997-98	256,871	252,867	98.4%	149
1998-99	260,171	259,630	99.8%	142
1999-00	247,375	246,633	99.7%	-
2000-01	249,106	248,359	99.7%	-
2001-02	250,381	249,630	99.7%	-
2002-03	251,254	250,500	99.7%	-
2003-04	251,731	250,976	99.7%	-
2004-05	251,751	251,751	100.0%	-

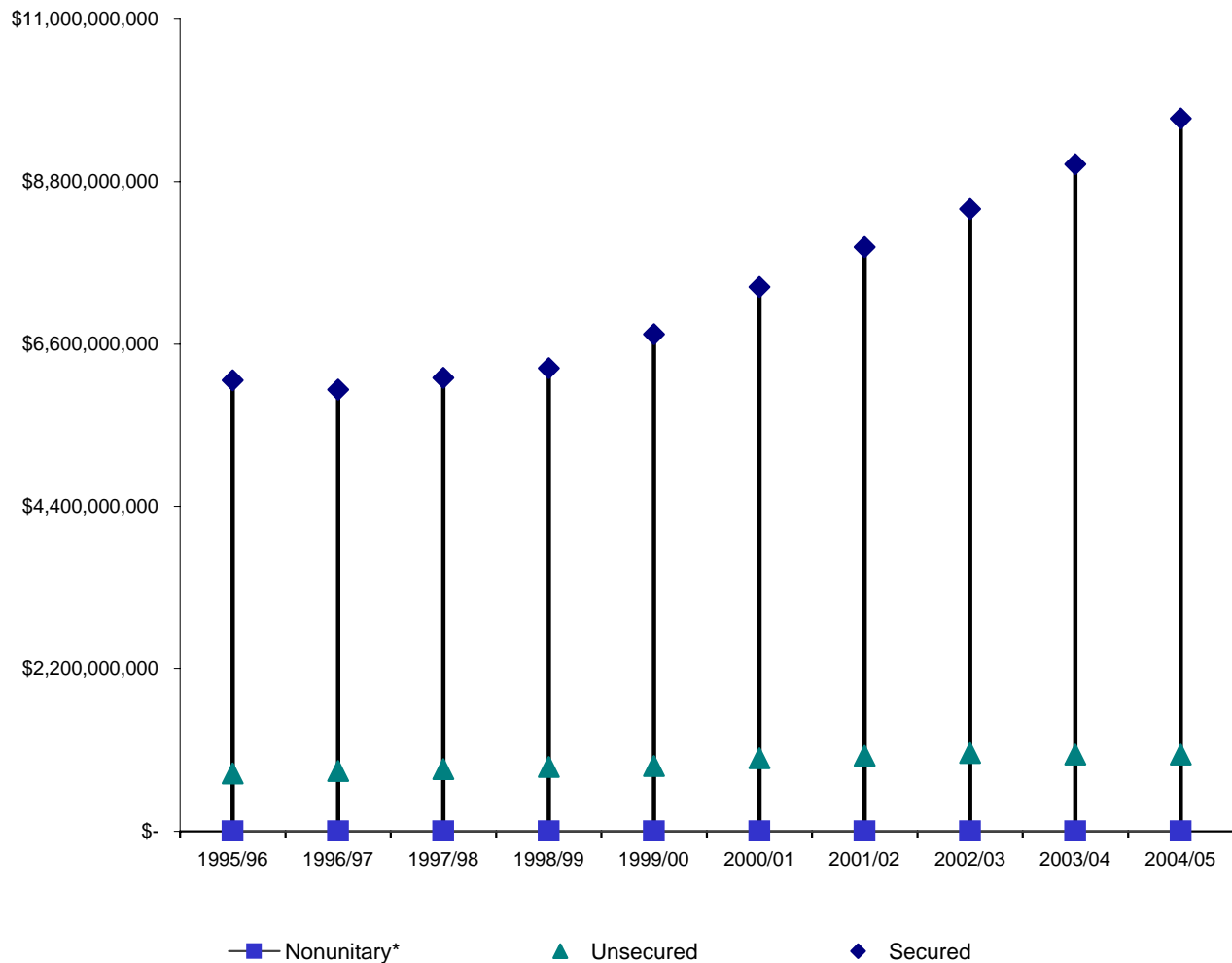
(1) Source: Orange County Assessor Tax Ledger.

TABLE 13

**CITY OF COSTA MESA, CALIFORNIA
NET TAXABLE ASSESSED VALUES
Last Ten Fiscal Years**

Lien Year:	1995/96	1996/97	1997/98	1998/99	1999/00
Secured	\$6,111,102,140	\$5,981,565,797	\$6,144,988,121	\$6,272,401,475	\$6,731,312,359
Nonunitary *	\$3,971	\$3,595	\$4,530	\$3,973	\$2,714
Unsecured	\$782,178,605	\$818,048,351	\$841,840,246	\$871,529,318	\$884,454,174
Net Total AV	\$6,893,284,716	\$6,799,617,743	\$6,986,832,897	\$7,143,934,766	\$7,615,769,247

Lien Year:	2000/01	2001/02	2002/03	2003/04	2004/05
Secured	\$7,375,600,479	\$7,912,343,814	\$8,429,239,852	\$9,035,782,660	\$9,656,488,370
Nonunitary *	\$2,510	\$2,747	\$2,645	\$3,020	\$3,770
Unsecured	\$988,790,310	\$1,025,597,352	\$1,063,118,800	\$1,043,278,924	\$1,040,853,273
Net Total AV	\$8,364,393,299	\$8,937,943,913	\$9,492,361,297	\$10,079,064,604	\$10,697,345,413



CITY OF COSTA MESA, CALIFORNIA
PROPERTY VALUE
Last Ten Fiscal Years (In Thousands)

<u>Fiscal Year</u>	<u>Commercial</u>	<u>Residential</u>	<u>Nontaxable</u>
1995-96	2,741,203	3,494,975	253,887
1996-97	1,842,147	3,462,381	351,749
1997-98	2,753,246	3,564,554	260,294
1998-99	2,810,295	3,530,964	207,343
1999-00	2,193,044	3,992,290	370,729
2000-01	1,714,378	4,386,916	380,196
2001-02	1,554,319	4,704,477	392,557
2002-03	1,623,873	5,057,395	403,543
2003-04	1,751,814	5,480,280	429,589
2004-05	1,795,544	6,056,123	437,466

- (1) FY 1995-96, City of Costa Mesa Development Services Department.
FY 1996-97, HdL Coren & Cone, Orange County Assessor 1996/97 Combined Tax Rolls.
FY 1997-98 and FY 1998-99, City of Costa Mesa Development Services Department.
FY 1999-00 through FY 2004-05, HdL Coren & Cone, Orange County Assessor Combined Tax Rolls.

CITY OF COSTA MESA, CALIFORNIA
CONSTRUCTION VALUE
Last Ten Fiscal Years (In Thousands)

Fiscal Year	Commercial ⁽¹⁾		Residential ⁽¹⁾	
	Number of Permits	Construction Value	Number of Permits	Construction Value
1995-96	-	61,073	-	12,024
1996-97	30	6,626	443	22,818
1997-98	30	4,136	375	12,031
1998-99	28	21,829	342	14,785
1999-00	26	32,444	397	15,305
2000-01	28	34,961	439	20,409
2001-02	14	13,308	432	11,002
2002-03	14	33,034	427	17,500
2003-04	14	35,000	508	27,926
2004-05	7	5,253	60	14,163

(1) City of Costa Mesa Development Services Department. Number of permits was not available in years prior to FY 1996-97.

**CITY OF COSTA MESA, CALIFORNIA
DEMOGRAPHIC STATISTICS
Last Ten Fiscal Years**

<u>Fiscal Year</u>	<u>Population (1)</u>	<u>Per Capita Income (1)</u>	<u>Median Age (1)</u>	<u>School Enrollment (2)</u>	<u>Orange County Unemployment Rate (1 & 3)</u>
1995-96	102,084	18,900	31	10,301	4.3%
1996-97	102,574	18,900	31	10,836	3.2%
1997-98	104,237	18,900	31	10,414	2.9%
1998-99	105,608	18,900	31	20,779	2.9%
1999-00	106,607	18,900	31	21,364	2.9%
2000-01	110,932	18,900	32	21,138	3.0%
2001-02	110,720	18,900	32	21,622	2.6%
2002-03	111,512	18,900	32	22,380	3.2%
2003-04	113,011	18,900	32	21,806	3.6%
2004-05	113,440	23,342	32	21,875	2.9%

(1) California Dept. of Finance.

(2) Newport-Mesa Unified School District.

(3) State of California Employment Development Department as of June 30th of each year.

**CITY OF COSTA MESA, CALIFORNIA
MISCELLANEOUS STATISTICS**

General

Date of incorporation	June 29, 1953
Form of government	Council-Manager
Classification	General Law
Area	16.8 Square Miles
Major industries	Trade (retail and wholesale), manufacturing and services
Acres zoned for industry	1,146
Acres of open space	1,957
Post offices	2

Fire Protection

Number of Stations	6
Number of Sworn Fire Fighters	103
Fire Insurance Rating	Class 2

Police Protection

Number of Sworn Police Officers	160
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Streets, Parks and Sanitation

Miles of streets	525 Lane Miles
Miles of alleys	14.61
Trees, street	25,000
Park sites	30
18-hole public golf courses	2
Miles of storm drains	45.5
Miles of sewers	325.7
Sanitation pumping stations	20

Education Facilities

Elementary schools	10
Junior High schools	2
High schools	2
2-year community college	1
4-year college	3
Public libraries	2