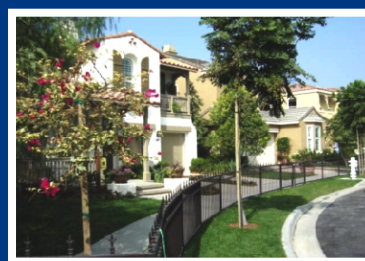


City of Costa Mesa, California
Comprehensive
Annual Financial
Report

Fiscal Year Ended June 30, 2004



*A great place
to live, work and play!*

CITY OF COSTA MESA, CALIFORNIA
Comprehensive Annual Financial Report
For the fiscal year ended June 30, 2004

CITY OF COSTA MESA, CALIFORNIA

Comprehensive Annual Financial Report

For the fiscal year ended June 30, 2004

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CITY OF COSTA MESA, CALIFORNIA

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Introductory Section



CITY OF COSTA MESA

CALIFORNIA 92628-1200

P.O. BOX 1200

FROM THE OFFICE OF THE DIRECTOR OF FINANCE—CITY TREASURER

December 2, 2004

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, 2004, 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, 2004, 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, 2004, 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 113,011 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.

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, 2004. 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. Intrafunctional budget changes are approved by the City Manager.

The City of Costa Mesa has continued to be proactive in its budget approach during the 2003-2004 fiscal year. In December 2003, budget preparation began for the 2004-2005 fiscal year. Based on previous City Council direction, departments were instructed to prepare "flat" budgets with no bottom-line increases. Additionally, the 2004-2005 fiscal year budget will maintain all services at current levels; does not use the \$14.125 million General Fund operating reserve; and continues to provide a strong Public Safety field presence.

In March 2003, budget hearings were held with department management to review the submitted flat budgets, and supplemental proposals for additional appropriations. The City Manager, together with Finance department staff, reviewed each department's budget 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 rebounding local economy that has shown positive signs of a strong improvement in retail 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, places it among the highest volume regional shopping centers 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 \$2.5 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 expected 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 \$50.2 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

Segerstrom Home Ranch: This project is comprised of 93 acres and includes the following:

- Construction of 791,050 square feet of high-quality corporate office and office-related uses along the Interstate 405 frontage; completion expected in 2004.
- Construction of 181,735 square feet of the Emulex World headquarters adjacent to the Los Angeles Times building; an additional 70,900 square feet can be developed at a later date.
- Construction of a 143 dwelling units (60 single-family detached and 83 town homes) in planned residential community; completion expected in 2004.
- Establishment of a 1.5-acre Historical Preservation Area that includes the historically significant Segerstrom Farmhouse and barn.

Two Town Center: The project, located on a 14-acre site, would result in the demolition of the existing Edward's Cinema and the development of an 18-story high-rise office building containing over 400,000 square feet of leas-able space and a five-level parking structure in the South Coast Plaza/Town Center Area.

South Coast Metro Center/Experian: The master plan for the 47-acre South Coast Metro Center project area was approved to allow development of 1,526,200 square-feet of mixed-use commercial development, of which, 1,169,400 square feet has been completed and is in use. Future development will include the following:

- Construction of an additional 155,000 square feet to the existing Experian World headquarters office campus; construction date unknown.
- Construction of a 300-room hotel; completion date unknown.

Segerstrom Center for the Arts – The Cultural Arts Center will be expanded to include the 2,000 seat Renee and Henry Segerstrom Concert Hall; the 500 seat Henry and Susan Samueli Music Theater (under construction); a 160 seat (32,000 square feet) expansion of the South Coast Repertory Theater (now completed) and, an art museum/academy.

South Coast Plaza Town Center - A 186 room hotel and an additional 255,000 square feet of office space has been adopted for the South Coast Plaza Town Center property. Construction date unknown.

Sakioka Farms Lot 1 and 2. In accordance with the North Costa Mesa Specific Plan, 1,400 new high-density residential units are adopted to be constructed on the “Lot 1” site at build-out development. The “Lot 1” site is 40.3 acres in total land area. This adopted development would consist of approximately 25-35 residential dwelling units per acre. On the “Lot 2” site, a total of 863,000 square feet of mixed use office and commercial development has been adopted at build-out development. The “Lot 2” site is 33 acres in total land area.

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 \$14.3million of PFA 2003 refunding certificates of participation, \$9.4 of PFA 1998 refunding revenue bonds, \$7.5 million of 2003 Redevelopment Agency tax allocation refunding bonds, \$2.4 million in PFA 1991 lease revenue bonds, and \$3.7 million of capitalized lease obligations. Long-term debt decreased by \$3.7 million as a result of the payment of normal scheduled principal maturities.

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 prudence 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, 2004, was 3.354%. The City's cash position remained healthy throughout the year. Cash and investments represented approximately 28.4% of the City's total assets as of June 30, 2004.

RISK MANAGEMENT

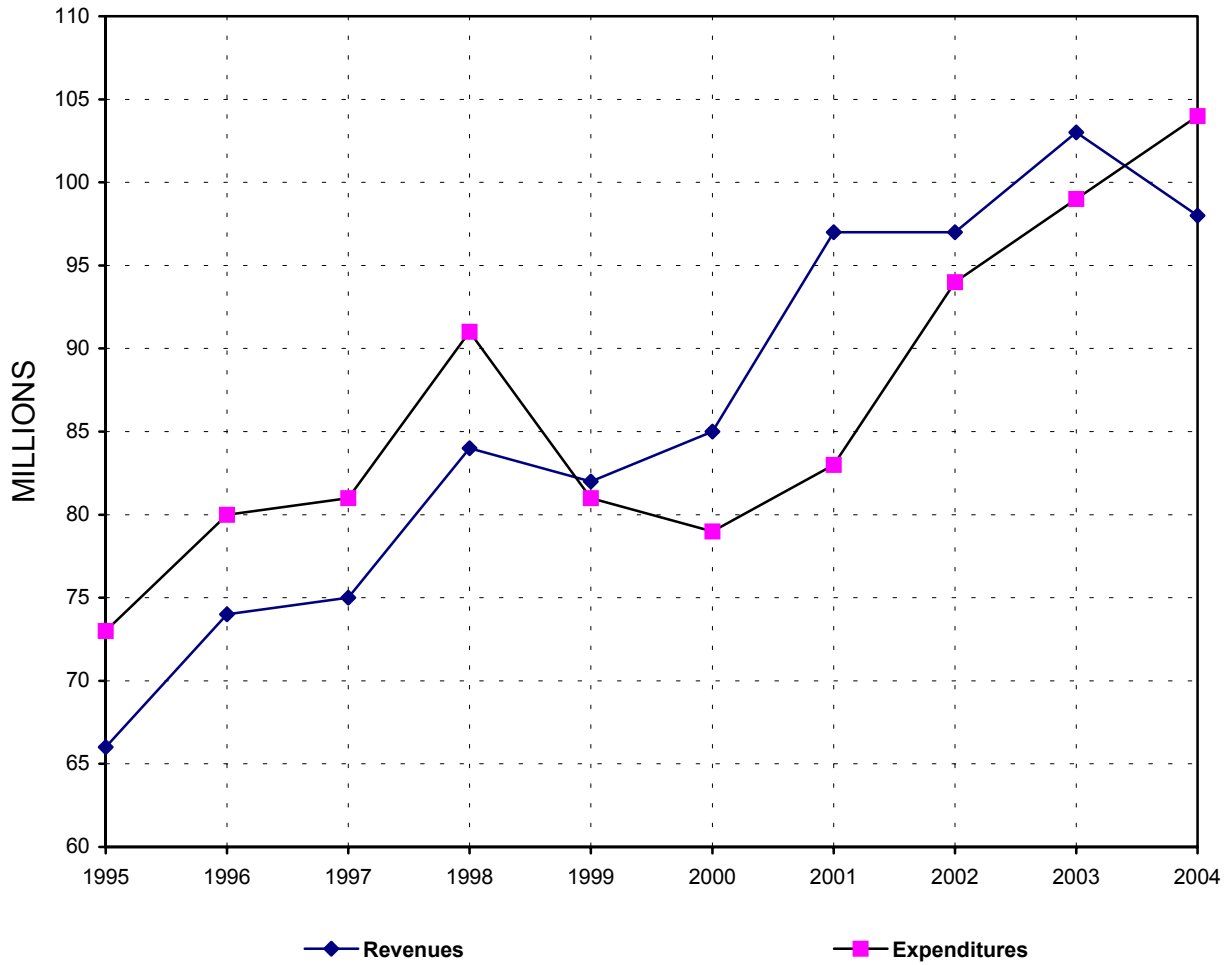
The City of Costa Mesa has an aggressive risk management program designed to reduce the City's operational cost of risk to the lowest level possible. This program involves the making and carrying out of decisions that will minimize the adverse effects of accidental losses in the City. The program includes: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

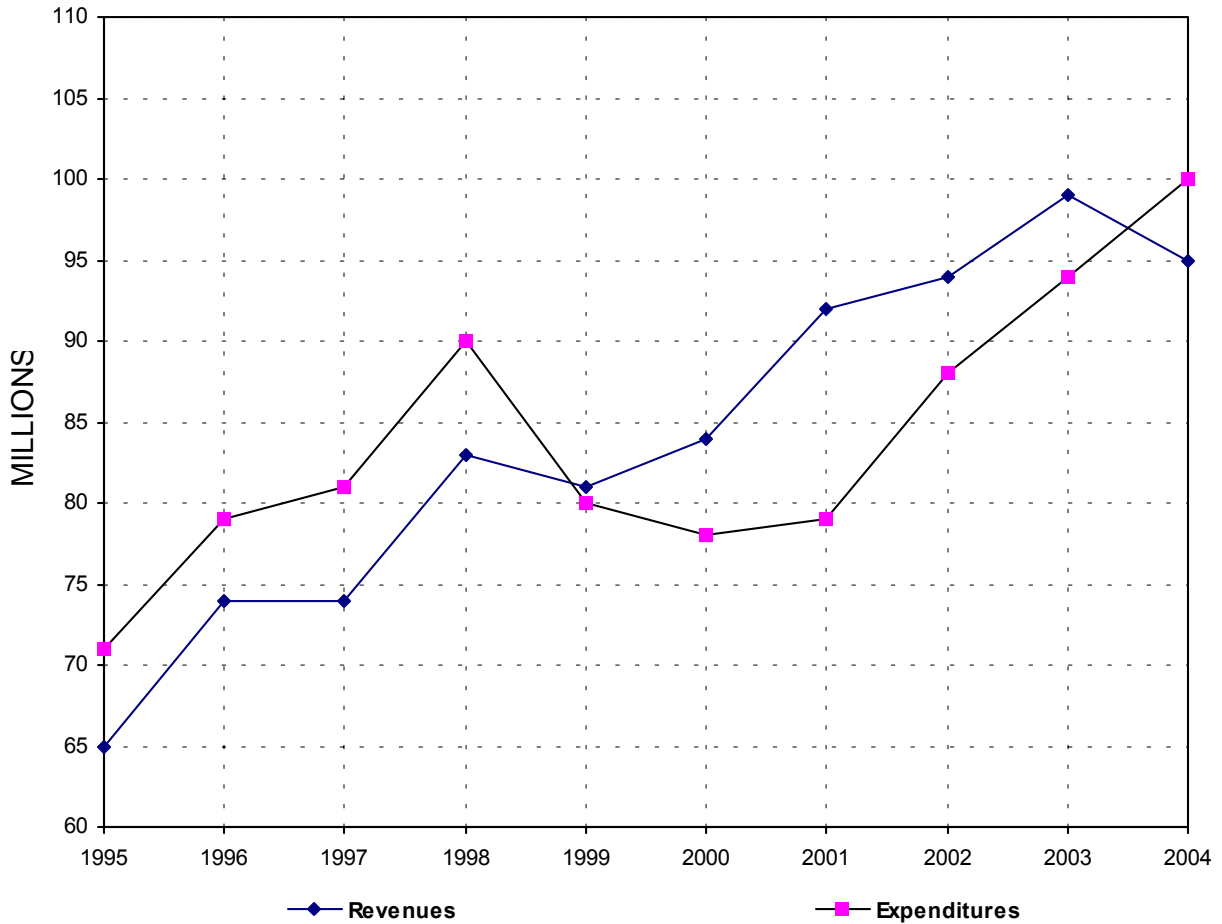
Revenue and Expenditures – All Governmental Funds Combined Reporting Entity For the Last Ten Fiscal Years



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, 2003. This was the twenty-fifth 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 conform 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 Certificate of Achievement program requirements and we 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, 2003. 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 in assisting the City in preparing an improved financial report this year.

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", written in a cursive style.

MARC R. PUCKETT

Director of Finance



City of Costa Mesa List of Principal Officials

June 30, 2004

Mayor

Gary C. Monahan

City Council

Elizabeth A. Cowan

Allan R. Mansoor

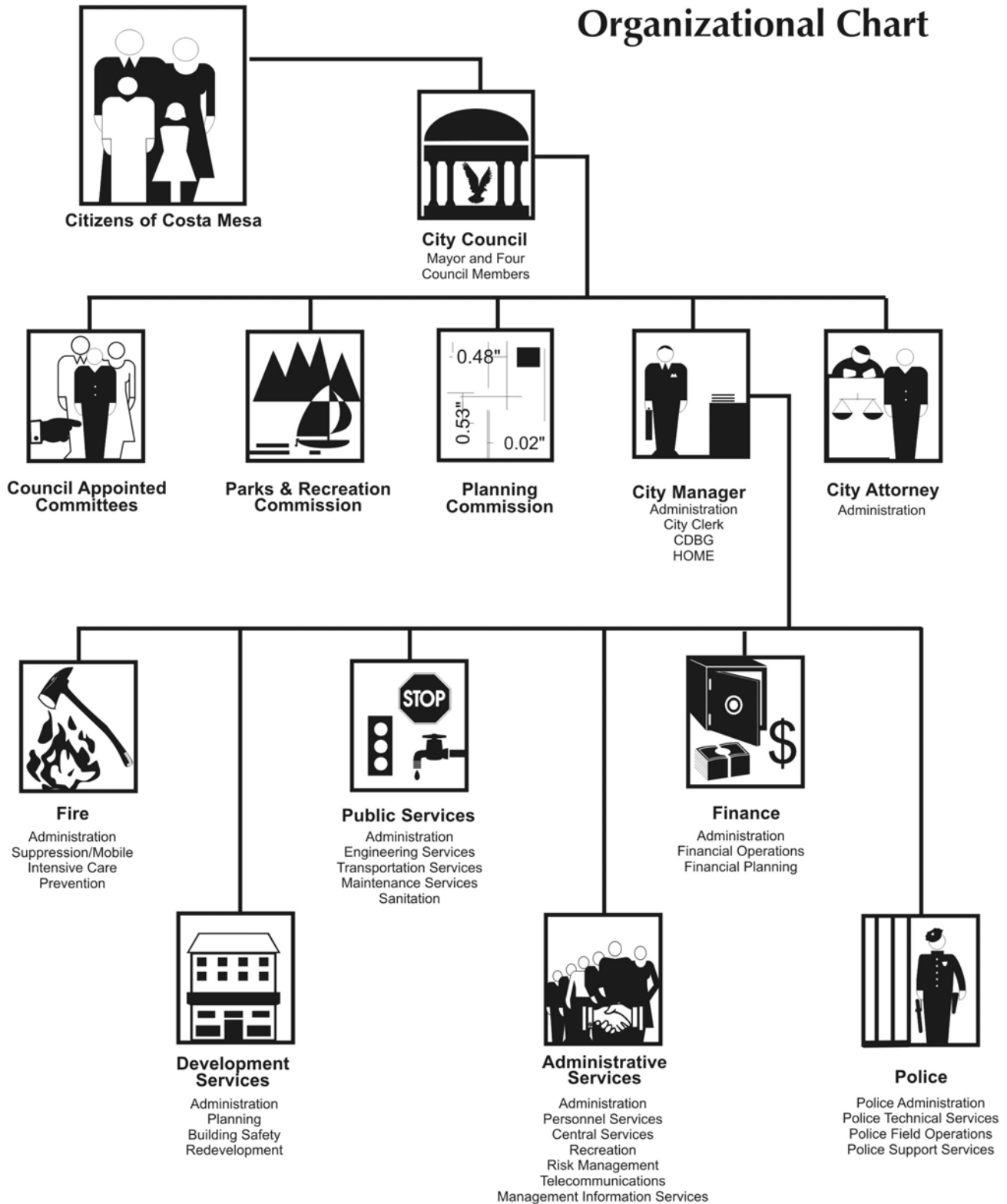
Mike L. Scheafer

Chris M. Steel

City Manager-----	Allen L. Roeder
Acting City Attorney-----	Tom C. Wood
Director of Administrative Services-----	Steven E. Hayman
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, 2003

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. Ziehl

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, 2003.

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 2002-2003

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.*

March 1, 2004

Bret M. Plumlee

Chair, Professional & Technical Standards Committee

Dedicated to Excellence in Municipal Financial Management



On March 1, 2004, 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, 2003. 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

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, 2004, which collectively comprise the City's basic financial statements, as listed in the accompanying 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, 2004, 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 the Governmental Accounting Standards Board. 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, California'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
Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2004 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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.

Conrad and Associates, L.L.P.

October 7, 2004



Management's Discussion and Analysis

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Costa Mesa, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Costa Mesa for the fiscal year ended June 30, 2004. 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 2004 by \$297,258,001 (*net assets*). Of this amount, \$68,282,797 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$8,119,138.
- As of the close of fiscal year 2004, the City of Costa Mesa's governmental funds reported combined ending fund balances of \$92,219,384, a decrease of \$4,648,149 in comparison with the prior year. More than half of this total amount, \$64,498,084, is *available for spending* at the government's discretion (*unreserved fund balance*).
- At the end of 2004, unreserved fund balance for the general fund was \$46,375,225 or 59.3 percent of total general fund expenditures.
- The City of Costa Mesa's total debt had a net decrease of \$6,192,708 or 9.1 percent during fiscal year 2004.

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 69-113 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 \$297,258,001 at the close of the fiscal year ended June 30, 2004.

Sixty-six percent of the City of Costa Mesa's 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>2004</u>
Current and other assets	\$127,122,513
Capital assets	<u>232,345,942</u>
Total Assets	<u>359,468,455</u>
Long-term debt outstanding	51,930,093
Other liabilities	<u>10,280,361</u>
Total Liabilities	<u>62,210,454</u>
Net assets:	
Invested in capital assets, net of debt	195,105,439
Restricted	33,869,765
Unrestricted	<u>68,282,797</u>
Total net Assets	<u>\$297,258,001</u>

At the end of the 2004 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 2004 fiscal year, the government's net assets increased by \$8,119,138.

City of Costa Mesa's Changes in Net Assets

	Governmental Activities
Revenues:	
Program Revenues:	
Charges for services	\$12,655,876
Operating contributions and grants	6,818,121
Capital contributions and grants	5,419,104
General revenues:	
Taxes:	
Property taxes, levied for general purpose	18,826,218
Sales taxes	41,027,059
Transient occupancy tax	4,221,661
Business license tax	830,794
Franchise taxes	2,329,340
Other taxes	-
Other intergovernmental	5,208,889
Investment earnings	2,436,835
Miscellaneous revenues	<u>891,797</u>
Total revenues	<u>100,665,694</u>
Expenses:	
General government	21,245,163
Public safety	45,672,246
Community Programs	4,937,852
Public Services	16,699,275
Redevelopment	632,735
Interest on long-term debt	<u>3,359,285</u>
Total expenses	<u>92,546,556</u>
Change in net assets	8,119,138
Net assets at beginning of year	<u>289,138,863</u>
Net assets at end of year	<u>\$297,258,001</u>

Governmental Activities

Governmental activities increased the City of Costa Mesa's net assets by \$8,119,138, 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 \$5,745,117 or 10.6% from fiscal year 2003. This change was due primarily to an increase in sales tax collections of \$4,771,952 as a result of increased consumer spending and a general improvement in retail activity as a result of the rebounding economy. Property tax collections also increased by \$973,165. This increase resulted primarily from normal market sales activity primarily from the sale of single-family residences. Tax rates did not increase for the fiscal year.
- The largest percentage increase in revenues occurred in Charges for Services which increased by \$5,129,108 or 68.1% from fiscal year 2003. This increase resulted from an increase in program revenues. Also, Investment Income declined by over \$2,800,000 due to declining interest rates and the recessionary economic environment.
- The City's governmental expenses for protection of persons and property in fiscal year 2004 decreased by 4.4% or \$2,092,888 from the prior fiscal year. This decrease resulted primarily from attrition savings and changes in management practices related to personnel costs.

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 2004 fiscal year, the City of Costa Mesa's governmental funds reported combined ending fund balances of \$92,219,384, a decrease of \$4,648,149 in comparison with the prior fiscal year. Of this total amount, \$27,721,300 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 \$46,375,225, while total fund balance amounted to \$61,600,230. The fund balance of the City of Costa Mesa's general fund increased by \$1,780,309 during fiscal year 2004. Key factors in this change are as follows:

- The net increase in revenues and other financing sources over expenditures and other financing uses amounted to \$1,780,309. This increase primarily resulted from attrition savings and increased sales tax revenues as a result of retail sales growth in the economy as it recovers ground lost during the recession.
- The largest revenue decrease occurred in investment income, which decreased from \$4.6 million to \$1.9 million, respectively. This decline resulted from declining interest rates and the recessionary economic environment.

The Redevelopment Agency Debt Service Fund has an accumulated fund deficit of \$12,732,031. The deficit exists since GAAP requires the debt service funds to record advances from other funds as a liability. At June 30, 2004, the balance in advances from other funds is \$13,822,055. The fund deficit decreased during the fiscal year by the amount of \$428,289.

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 \$7,829,299. The total growth in net assets for the fiscal year was \$1,642,550.

GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget were relatively minor (\$1.3 million increase in appropriations) as a whole and the majority of the appropriation increases can be briefly summarized as follows:

- \$724,000 in Council approved Capital Improvement projects.
- \$226,000 in appropriation increases due to prior year carryforwards for capital improvement projects.
- \$49,500 in personnel cost increases in the Fire department due to contractual compensation increases.

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, 2004 amounts to \$232,345,942 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 was 3.4 percent.

Major capital asset events during the 2004 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 2004 fiscal year increased capital assets by \$6,758,371 in capital assets not being depreciated and by \$7,661,605 in capital assets being depreciated. Construction in progress as of the end of the current fiscal year totaled \$18,853,197.

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

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
Land	\$28,949,103	\$28,949,103
Land rights related to streets	29,291,575	3,181,500
Construction in progress	18,853,197	21,312,544
Building improvements and structures	7,625,174	3,213,548
Machinery and equipment	8,301,417	8,231,864
Park System	2,191,103	3,069,122
Infrastructure- roads	105,726,753	104,362,602
Infrastructure- storm drains	<u>31,407,620</u>	<u>33,872,122</u>
Totals	<u>\$232,345,942</u>	<u>\$206,192,405</u>

Additional information on the City of Costa Mesa's capital assets can be found in note 6 on pages 46-47 of this report.

Long-Term Debt

At year-end, the City has a number of debt issues outstanding. These issues include \$14.3 million of PFA 2003 refunding certificates of participation, \$9.4 of PFA 1998 refunding revenue bonds, \$7.5 million of 2003 Redevelopment Agency tax allocation refunding bonds, \$2.4 million in PFA 1991 lease revenue bonds, and \$3.7 million of capitalized lease obligations. 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. Long-term debt decreased by \$3.7 million as a result of the payment of normal scheduled principal maturities.

City of Costa Mesa's Outstanding Debt

	Governmental Activities	
	<u>2004</u>	<u>2003</u>
Bonds payable	\$ 33,545,000	\$35,035,000
Other liabilities	14,689,590	16,285,324
Capitalized lease obligations	<u>3,695,503</u>	<u>4,353,329</u>
Totals	<u>\$51,930,093</u>	<u>\$55,673,653</u>

Additional information on the City of Costa Mesa's long-term debt can be found in notes 7 through 11 on pages 48-55 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The unemployment rate for the City of Costa Mesa is currently 3.6 percent, which is an increase from a rate of 3.2 percent a year ago. This compares favorably to the state's average unemployment rate of 6.3 percent and the national average rate of 5.6 percent as of June 30.
- The property values in Costa Mesa increased by 6.9% 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 2005 fiscal year.

During the 2004 fiscal year, the unreserved fund balance in the General Fund increased by \$1.6 million. The fiscal year 2005 operating and capital improvement budget assumed an operating deficit for the General Fund in the amount of \$4.3 million. Due to signs of an economic recovery in the local economy, it is anticipated that the net result will be better than anticipated assuming that there are no adverse impacts to the City's revenue base as a result of adverse actions by the State government.

REQUEST FOR INFORMATION

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



**Government-Wide
Financial Statements**

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

Statement of Net Assets

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

Statement of Activities

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

CITY OF COSTA MESA, CALIFORNIA

Statement of Net Assets

June 30, 2004

(With Comparative Data for Prior Year)

	Governmental Activities	
	2004	2003
Assets:		
Cash and investments (note 2)	\$ 102,200,335	105,277,109
Cash and investments with fiscal agent (note 2)	5,196,232	7,097,628
Due from other governments	9,696,109	9,931,918
Accounts receivable	1,269,647	855,489
Interest receivable	2,559,312	2,360,403
Loans receivable	4,796,870	4,967,980
Rent receivable	970,278	970,278
Loan deposits	201,552	547,218
Inventories	92,128	74,441
Prepaid items	140,050	801,145
Land held for resale	-	1,697,665
Capital assets (note 6):		
Land	28,949,103	28,949,103
Land rights related to streets	29,291,575	3,181,500
Construction in progress	18,853,197	21,312,544
Other capital assets, net of accumulated depreciation	155,252,067	152,749,258
Total assets	<u>359,468,455</u>	<u>340,773,679</u>
Liabilities:		
Accounts payable	4,536,997	4,168,916
Accrued liabilities	1,426,041	1,562,951
Accrued interest	339,410	515,291
Retentions payable	709,903	388,335
Deposits payable	3,268,010	6,094,016
Long-term liabilities:		
Portion due within one year:		
Claims payable (notes 7, 9 and 17)	2,795,216	2,951,327
Bonds payable (notes 7 and 8)	2,185,000	2,085,000
Capital leases payable (notes 7 and 10)	702,337	669,718
Employee leave benefits payable (notes 7 and 9)	1,050,250	971,233
Portion due beyond one year:		
Claims payable (notes 7, 9 and 17)	6,573,974	7,984,984
Bonds payable (notes 7 and 8)	31,360,000	32,950,000
Capital leases payable (notes 7 and 10)	2,993,166	3,683,611
Employee leave benefits payable (notes 7 and 9)	4,270,150	4,377,780
Total liabilities	<u>62,210,454</u>	<u>68,403,162</u>
Net assets:		
Invested in capital assets, net of related debt	195,105,439	169,744,591
Restricted for:		
Public safety	2,723,835	2,411,456
Community programs	1,990,698	4,541,217
Public services	29,155,232	35,868,367
Redevelopment	-	-
Unrestricted	68,282,797	59,804,886
Total net assets	<u>\$ 297,258,001</u>	<u>272,370,517</u>

See accompanying notes to the basic financial statements.

CITY OF COSTA MESA, CALIFORNIA

Statement of Activities

Year ended June 30, 2004

(With Comparative Data for Prior Year)

Functions/Programs	Program Revenues				Net (Expense)	
	Expenses	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	Revenue and Changes in Net Assets	
					2004	2003
Governmental activities:						
General government	\$ 21,245,163	-	-	-	(21,245,163)	(17,466,434)
Protection of person and property	45,672,246	2,931,054	839,589	-	(41,901,603)	(44,976,654)
Community programs	4,937,852	5,407,997	2,608,347	-	3,078,492	3,315,708
Public services	16,699,275	4,316,825	3,370,185	5,419,104	(3,593,161)	(1,772,338)
Redevelopment	632,735	-	-	-	(632,735)	1,144,745
Interest on long-term debt	<u>3,359,285</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,359,285)</u>	<u>(3,046,397)</u>
Total governmental activities	<u>92,546,556</u>	<u>12,655,876</u>	<u>6,818,121</u>	<u>5,419,104</u>	<u>(67,653,455)</u>	<u>(62,801,370)</u>
	General revenues:					
	Taxes:					
					18,826,218	17,853,053
					41,027,059	36,255,107
					4,221,661	3,799,682
					2,329,340	2,308,683
					830,794	854,580
					5,208,889	7,811,132
					2,436,835	5,314,256
					891,797	5,411,936
					<u>75,772,593</u>	<u>79,608,429</u>
					8,119,138	16,807,059
					<u>289,138,863</u>	<u>255,563,458</u>
					<u>\$ 297,258,001</u>	<u>272,370,517</u>

See accompanying notes to basic financial statements.





Fund Financial Statements

GOVERNMENTAL FUNDS

Major Governmental Funds

GENERAL FUND

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

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, 2004

	General	Debt	Nonmajor Governmental Funds	Totals	
		Service Redevelopment Agency		2004	2003
<u>Assets</u>					
Cash and investments	\$43,944,532	1,676,846	39,099,253	84,720,631	88,087,987
Cash and investments with fiscal agent	-	704,877	4,491,355	5,196,232	7,097,628
Due from other governments	8,217,199	20,401	1,458,509	9,696,109	9,931,918
Accounts receivable	596,409	-	673,238	1,269,647	850,464
Interest receivable	1,395,877	5,150	1,019,160	2,420,187	2,264,012
Loans receivable	-	-	4,796,870	4,796,870	4,967,980
Rent receivable	-	-	970,278	970,278	970,278
Due from other funds (note 3)	603,476	-	176,877	780,353	111,632
Loan deposits	-	-	201,552	201,552	547,218
Advances to other funds (note 4)	12,760,692	-	1,061,363	13,822,055	14,127,897
Inventories	15,581	-	-	15,581	16,529
Prepaid items	139,976	-	-	139,976	397,630
Land held for resale	-	-	-	-	1,697,665
Total assets	\$67,673,742	2,407,274	53,948,455	124,029,471	131,068,838
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ 1,150,048	1,048,852	1,858,551	4,057,451	4,029,000
Accrued liabilities	1,256,441	-	152,185	1,408,626	1,542,844
Retentions payable	4,608	-	705,295	709,903	388,335
Deposits payable	3,268,010	-	-	3,268,010	6,094,016
Due to other funds (note 3)	-	268,398	511,955	780,353	111,632
Advances from other funds (note 4)	-	13,822,055	-	13,822,055	14,127,897
Deferred revenue	394,405	-	7,369,284	7,763,689	7,907,581
Total liabilities	6,073,512	15,139,305	10,597,270	31,810,087	34,201,305
Fund balances (note 12):					
Reserved for:					
Encumbrances	308,756	-	5,034,363	5,343,119	5,329,231
Loan deposits	-	-	201,552	201,552	547,218
Advances to other funds	12,760,692	-	1,061,363	13,822,055	13,018,886
Inventories	15,581	-	-	15,581	16,529
Prepaid items	139,976	-	-	139,976	397,630
Retirement buyback receivable	-	-	-	-	152,511
Debt service	-	-	6,199,017	6,199,017	6,327,040
Self insurance	2,000,000	-	-	2,000,000	2,000,000
Land held for resale	-	-	-	-	1,697,665
Unreserved, reported in:					
General fund	46,375,225	-	-	46,375,225	44,239,990
Special revenue funds	-	-	17,411,372	17,411,372	24,055,526
Debt service funds	-	(12,732,031)	-	(12,732,031)	(13,160,320)
Capital projects funds	-	-	13,443,518	13,443,518	12,245,627
Total fund balances (deficit)	61,600,230	(12,732,031)	43,351,185	92,219,384	96,867,533
Total liabilities and fund balances	\$67,673,742	2,407,274	53,948,455	124,029,471	131,068,838

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, 2004

Fund balances of governmental funds \$ 92,219,384

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. 227,710,213

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. (42,560,903)

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. (339,410)

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. 12,465,028

Deferred Revenue

Certain revenues that do not provide current financial resources are reported as deferred revenues in the funds. 7,763,689

Net assets of governmental activities \$ 297,258,001

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, 2004

(With Comparative Data for Prior Year)

	General	Debt	Nonmajor Governmental Funds	Totals	
		Service Redevelopment Agency		2004	2003
Revenues:					
Taxes	\$ 63,384,353	2,198,902	1,651,817	67,235,072	61,071,105
Licenses and permits	2,143,839	-	-	2,143,839	1,766,850
Fines and forfeits	3,098,176	-	260,292	3,358,468	2,333,653
Intergovernmental	6,701,783	-	9,378,444	16,080,227	25,593,714
Charges for services	2,882,211	-	288,358	3,170,569	3,477,270
Rental	2,730,378	-	86,278	2,816,656	2,686,336
Investment income	567,624	10,986	1,299,609	1,878,219	4,595,758
Miscellaneous	288,421	-	885,523	1,173,944	975,612
Total revenues	81,796,785	2,209,888	13,850,321	97,856,994	102,500,298
Expenditures:					
Current:					
General government	19,505,745	-	1,680,083	21,185,828	21,219,016
Protection of persons and property	47,641,912	-	1,323,865	48,965,777	47,622,359
Community programs	5,046,888	-	1,168,559	6,215,447	6,825,783
Public services	5,264,678	-	13,615,017	18,879,695	17,678,362
Redevelopment	-	-	488,843	488,843	528,350
Debt service:					
Advanced refunding escrow	-	762,586	1,373,003	2,135,589	-
Cost of issuance	-	275,700	318,983	594,683	-
Principal	576,728	340,000	1,745,000	2,661,728	2,294,953
Interest and fiscal charges	145,330	1,384,631	1,248,185	2,778,146	2,997,599
Total expenditures	78,181,281	2,762,917	22,961,538	103,905,736	99,166,422
Excess (deficiency) of revenues over (under) expenditures	3,615,504	(553,029)	(9,111,217)	(6,048,742)	3,333,876
Other financing sources (uses):					
Transfers in (note 5)	1,067,699	-	2,917,014	3,984,713	5,237,917
Transfers out (note 5)	(2,917,014)	-	(551,813)	(3,468,827)	(5,011,721)
Issuance of long-term debt	-	7,635,471	14,578,060	22,213,531	-
Payment to bond escrow agent	-	(6,654,153)	(12,991,126)	(19,645,279)	-
Lease proceeds	14,120	-	-	14,120	3,400,000
Total other financing sources (uses)	(1,835,195)	981,318	3,952,135	3,098,258	3,626,196
Net change in fund balances	1,780,309	428,289	(5,159,082)	(2,950,484)	6,960,072
Fund balances (deficit) at beginning of year, as restated (note 18)	59,819,921	(13,160,320)	48,510,267	95,169,868	89,907,461
Fund balances (deficit) at end of year	\$ 61,600,230	(12,732,031)	43,351,185	92,219,384	96,867,533

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

Year ended June 30, 2004

Net changes in fund balances - total governmental funds \$ (2,950,484)

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.

7,218,644

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.

2,176,439

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.

175,881

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.

1,642,550

Deferred Revenue

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

(143,892)

Change in net assets of governmental activities

\$ 8,119,138

See accompanying notes to the basic financial statements.

CITY OF COSTA MESA, CALIFORNIA

Proprietary Funds

Statement of Net Assets

June 30, 2004

(With Comparative Data for Prior Year)

	Governmental Activities - Internal Service Funds	
	<u>2004</u>	<u>2003</u>
<u>Assets</u>		
Current assets:		
Cash and investments	\$ 17,479,704	17,189,122
Accounts receivable	-	5,025
Interest receivable	139,125	96,391
Inventories	76,547	57,912
Prepaid items	74	403,515
Total current assets	<u>17,695,450</u>	<u>17,751,965</u>
Capital assets:		
Automotive equipment	8,396,063	7,568,961
Other equipment	291,233	288,983
Accumulated depreciation	<u>(4,051,567)</u>	<u>(3,691,097)</u>
Net capital assets	<u>4,635,729</u>	<u>4,166,847</u>
Total assets	<u>22,331,179</u>	<u>21,918,812</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	479,546	139,916
Accrued liabilities	17,415	20,107
Claims payable	<u>2,795,216</u>	<u>2,951,327</u>
Total current liabilities	<u>3,292,177</u>	<u>3,111,350</u>
Long-term liabilities:		
Claims payable	<u>6,573,974</u>	<u>7,984,984</u>
Total long-term liabilities	<u>6,573,974</u>	<u>7,984,984</u>
Total liabilities	<u>9,866,151</u>	<u>11,096,334</u>
Net assets:		
Invested in capital assets, net of related debt	4,635,729	4,166,847
Unrestricted	<u>7,829,299</u>	<u>6,655,631</u>
Total net assets	<u>\$ 12,465,028</u>	<u>10,822,478</u>

See accompanying notes to the basic financial statements.

CITY OF COSTA MESA, CALIFORNIA

Proprietary Funds

Statement of Revenues, Expenses and Changes in Fund Net Assets

For the fiscal year ended June 30, 2004

(With Comparative Data for Prior Year)

	Governmental Activities - Internal Service Funds	
	<u>2004</u>	<u>2003</u>
Operating revenues:		
Charges for services	\$ 6,822,607	6,200,408
Total operating revenues	<u>6,822,607</u>	<u>6,200,408</u>
Operating expenses:		
Allocated administrative costs	845,975	1,006,470
Depreciation	542,400	523,348
Automotive fuel and parts	671,142	632,706
Claims and premiums	<u>3,136,253</u>	<u>3,389,042</u>
Total operating expenses	<u>5,195,770</u>	<u>5,551,566</u>
Operating income (loss)	<u>1,626,837</u>	<u>648,842</u>
Nonoperating revenues (expenses):		
Investment income	558,619	718,496
Loss on sale of equipment	<u>(27,020)</u>	<u>(8,372)</u>
Total nonoperating revenues (expenses)	<u>531,599</u>	<u>710,124</u>
Income (loss) before transfers	<u>2,158,436</u>	<u>1,358,966</u>
Transfers in (note 5)	-	20,000
Transfers out (note 5)	<u>(515,886)</u>	<u>(246,196)</u>
Total transfers	<u>(515,886)</u>	<u>(226,196)</u>
Change in net assets	1,642,550	1,132,770
Net assets at beginning of year	<u>10,822,478</u>	<u>9,689,708</u>
Net assets at end of year	<u>\$ 12,465,028</u>	<u>10,822,478</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, 2004

(With Comparative Data for Prior Year)

	Governmental Activities - Internal Service Funds	
	2004	2003
Cash flows from operating activities:		
Cash received from customers and user departments	\$ 6,827,632	6,195,383
Cash payments to suppliers for goods and services	(4,755,245)	(4,354,441)
Cash payments to employees for services	(770,522)	(833,800)
Net cash provided by (used for) operating activities	<u>1,301,865</u>	<u>1,007,142</u>
Cash flows from noncapital financing activities:		
Cash received from other funds	-	20,000
Cash paid to other funds	(515,886)	(246,196)
Net cash provided by (used for) noncapital financing activities	<u>(515,886)</u>	<u>(226,196)</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(1,011,282)	(819,544)
Net cash provided by (used for) capital and related financing activities	<u>(1,011,282)</u>	<u>(819,544)</u>
Cash flows from investing activities:		
Investment income received	515,885	717,593
Net cash provided by (used for) investing activities	<u>515,885</u>	<u>717,593</u>
Net increase (decrease) in cash and cash equivalents	290,582	678,995
Cash and cash equivalents at beginning of year	17,189,122	16,510,127
Cash and cash equivalents at end of year	<u>\$ 17,479,704</u>	<u>17,189,122</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	\$ 1,626,837	648,842
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	542,400	523,348
Loss on sale of equipment	(27,020)	(8,372)
(Increase) decrease in accounts receivable	5,025	(5,025)
(Increase) decrease in inventories	(18,635)	11,475
(Increase) decrease in prepaid items	403,441	(339,932)
Increase (decrease) in accounts payable	339,630	(23,497)
Increase (decrease) in accrued liabilities	(2,692)	1,652
Increase (decrease) in claims payable	(1,567,121)	198,651
Net cash provided by (used for) operating activities	<u>\$ 1,301,865</u>	<u>1,007,142</u>

Non-cash investing, capital and financing activities:

During fiscal year 2003/2004, 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, 2004
(With Comparative Data for Prior Year)

	Agency Funds	
	2004	2003
<u>Assets</u>		
Cash and investments	\$ 3,161,615	4,394,847
Due from other governments	263,454	171,660
Accounts receivable	82,232	36,161
Interest receivable	8,625	13,039
Inventories	135,651	7,754
Total assets	\$ 3,651,577	4,623,461
<u>Liabilities</u>		
Accounts payable	\$ 453,562	83,190
Deposits payable	2,098,734	2,276,614
Due to other governments	1,097,080	2,139,297
Held for bondholders	2,201	124,360
Total liabilities	\$ 3,651,577	4,623,461

See accompanying notes to the basic financial statements.





Notes to the Financial Statements

CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

Year ended June 30, 2004

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

The “total fund balances” of the City’s governmental funds \$92,219,384 reported in the Balance Sheet differs from “total net assets” of governmental activities \$297,258,001 reported in the Statement of Net Assets. This difference primarily results from the long-term economic focus of the Statement of Net Assets versus the current financial resources focus of the governmental funds Balance Sheet.

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	\$453,797,327
Accumulated depreciation	<u>(226,087,114)</u>
Total capital assets, net	<u>\$227,710,213</u>

CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

(Continued)

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

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

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	\$(33,545,000)
Capital leases payable	(3,695,503)
Employee benefits leave payable	<u>(5,320,400)</u>
Total long-term liabilities	<u>\$(42,560,903)</u>

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.

Accrued interest	<u>\$(339,410)</u>
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Internal Service Funds

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

Net assets of Internal Service Funds	<u>\$12,465,028</u>
--------------------------------------	---------------------

Deferred Revenue

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

	<u>\$7,763,689</u>
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CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

(Continued)

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

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

Reclassifications and Eliminations

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

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

The “net changes in fund balances” for governmental funds \$(2,950,484) reported in the Statement of revenues, Expenditures and Changes in Fund Balances differs from the “change in net assets” for governmental activities \$8,119,138 reported in the Statement of Activities. The differences arise primarily from the long-term economic focus of the Statement of Activities versus the current financial resources focus of the governmental funds.

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	\$16,692,494
Depreciation expense	<u>(9,473,850)</u>
Difference	<u>\$ 7,218,644</u>

CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

(Continued)

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

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

Long-term Debt Transactions

Some 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.

Net changes in employee benefits leave payable \$28,613

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.

Bonds payable	\$2,085,000
Capital leases payable	<u>671,946</u>
Total principal payments	<u>\$2,756,946</u>

When long-term debt is refunded, the proceeds of the new debt issuance and all related payments are reported as expenditures and other financing sources and uses in the governmental funds. However, in the government-wide financial statements, the new debt is reported directly on the Statement of Net Assets and there is no effect in the change of net assets on the Statement of Activities. The following are reconciling items related to the issuance of the 2003 RDA Refunding Tax Allocation Bonds and the 2003 Refunding Certificates of Participation:

Issuance costs	\$ 594,683
Advance refunding escrow	2,135,589
Gross proceeds	(21,810,000)
Payment to escrow agent	19,645,279
Premium and other reconciling items	<u>(1,160,551)</u>
Total	<u>\$ (595,000)</u>

Proceeds of capital lease are reported as revenue in governmental funds, however, does not result in revenues in the Statement of Activities.

\$(14,120)

CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

(Continued)

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

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

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.

Accrued interest deducted \$175,881

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.

Net change in net assets of Internal Service Funds \$1,642,550

Reclassifications and Eliminations

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

Deferred Revenue

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

\$(143,892)

(f) 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.

CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

(Continued)

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

(f) Cash and Investments (Continued)

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.

(g) 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.

(h) 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.

(i) 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.

(j) Prepays

The City uses the consumption method to record prepaid items.

(k) 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.

CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

(Continued)

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

(k) Capital Assets, (Continued)

Capital assets include public domain (infrastructure) capital assets consisting of certain improvements including roads, streets, sidewalks, medians, sewers and storm drains. Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method in the government-wide financial statements and in the fund financial statements of the proprietary funds. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective balance sheet. The ranges of lives used for computing depreciation for each capital asset class are as follows:

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

(l) 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)

(l) 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.

(m) 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.

(n) 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	\$ 102,200,335
Cash and investments with fiscal agent	5,196,232
Statement of Fiduciary Assets and Liabilities:	
Cash and investments	<u>3,161,615</u>
	<u>\$ 110,558,182</u>

Cash and investments held by the City at June 30, 2004 consisted of the following:

Cash and deposits:	
Imprest cash on hand	\$ 11,905
Demand deposits	<u>840,651</u>
Total cash and deposits	<u>852,556</u>
Investments:	
Costa Mesa Community Facilities District Bonds	2,362,200
Federal agency securities	72,292,815
Money market mutual funds	43,084
Medium term notes	7,335,838
State Treasurer's Investment Pool	22,304,447
Investments with parties other than financial institutions	<u>171,010</u>
Total investments	<u>104,509,394</u>
Total cash and investments held by the City	<u>\$105,361,950</u>

Cash and investments with fiscal agent at June 30, 2004 consisted of the following:

Federal agency securities	\$ 386,845
Mutual funds	<u>4,809,387</u>
Total cash and investments with fiscal agent	<u>\$ 5,196,232</u>

The City and its component units are generally authorized under the state statute and local resolutions to invest in U.S. Treasury bills, U.S. Treasury notes, federal agency securities, banker's acceptances, certificates of deposit, negotiable certificates of deposit, commercial paper, medium term notes, repurchase agreements, Local Agency Investment

CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

Fund of the State of California, Orange County Treasurer’s Pool, asset-backed and mortgage-backed securities, and passbook savings account demand deposits.

The City and its component units have also established guidelines for security purchases with investment limitations as follows: The City limits its investments to no more than 40% of its surplus funds in any one Federal Agency. Banker’s acceptances may not exceed 40% of the City’s surplus money nor exceed 180 days maturity. Negotiable certificates of deposits may not exceed 30% of the City’s surplus money. Commercial paper may not exceed 270 days maturity nor exceed 30% of the City’s surplus funds. Medium term corporate notes may not exceed 30% of the City’s surplus funds. The City may not invest more than 10% of its surplus funds in reverse repurchase agreements, and must always match its maturities to the reinvestment. The City may not invest more than 35% of its surplus money with the Orange County Treasurer’s Pool. Asset-backed and mortgage-backed securities may not exceed 20% of the City’s surplus money.

Under the California Government Code, a financial institution is required to secure deposits made by state or local governmental units by pledging securities held in the form of an undivided collateral pool. 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.

Deposits of cities and other state or local governments are classified in three categories to give an indication of the level of custodial risk assumed by the entity at year end. Category 1 includes deposits that are insured or collateralized with securities held by the City or its agent in the City’s name. Category 2 includes deposits collateralized with securities held by the pledging financial institution’s trust department or agent in the City’s name. Category 2 also includes deposits collateralized by an interest in an undivided collateral pool held by an authorized agent and subject to certain regulatory requirements under State law. Category 3 includes deposits collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the City’s name. Category 3 also includes any uncollateralized deposits.

Deposits held by the City as of June 30, 2004 are classified in risk categories as follows:

	<u>1</u>	<u>Category</u> <u>2</u>	<u>3</u>	<u>Bank</u> <u>Balance</u>	<u>Carrying</u> <u>Amount</u>
Deposits held by City:					
Demand deposits	\$100,000	1,193,794	-	1,293,794	840,651
	<u>\$100,000</u>	<u>1,193,794</u>	<u>-</u>	<u>1,293,794</u>	<u>840,651</u>

CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

Investments of cities and other state or local governments are classified in three categories to give an indication of the level of custodial risk assumed by the entity at year-end. Category 1 includes investments that are insured, registered or are held by the City or its agent (other than the institution through which the City purchased the securities) in the City's name. Investments held "in the City's name" include securities held in a separate custodial or fiduciary account and identified as owned by the City in the custodian's internal accounting records. Category 2 includes uninsured and unregistered securities which are held in the City's name by the counterparty's trust department or agent. Category 3 includes uninsured and unregistered securities which are held by the counterparty, or the counterparty's trust department or agent, but not in the City's name. The counterparty is the party that acts as the broker-dealer for the transaction. Category 3 also includes all securities held by the broker-dealer agent of the City (purchased on behalf of the City) regardless of whether or not the securities are being held in the City's name.

	<u>1</u>	<u>Category</u> <u>2</u>	<u>3</u>	<u>Carrying</u> <u>Amount</u>
Investments held by the City:				
Costa Mesa Community				
Facilities District Bonds	\$ 2,362,200	-	-	2,362,200
Federal agency securities	72,292,815	-	-	72,292,815
Medium term notes	7,335,838	-	-	7,335,838
Investments held by fiscal agent:				
Federal agency securities	-	-	<u>386,845</u>	<u>386,845</u>
	<u>\$81,990,853</u>	<u>-</u>	<u>386,845</u>	82,377,698
Investments held by City not subject to categorization:				
Investment in State Treasurer's Investment Pool (LAIF)				22,304,447
Investment with parties other than financial institutions				171,010
Money market mutual funds				43,084
Investments held by fiscal agent not subject to categorization:				
Mutual funds				<u>4,809,387</u>
				<u>\$109,705,626</u>

CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

The City 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's investment in this pool is reported in the accompanying financial statements at amounts based upon the City'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. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations.

(3) Due From and To Other Funds

Interfund receivable and payable balances at June 30, 2004 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Non-Major Governmental Funds	\$ 345,282
General Fund	Redevelopment Agency Fund	258,194
Nonmajor Governmental Funds	Redevelopment Agency Fund	10,204
Nonmajor Governmental Funds	Non-Major Governmental Funds	<u>166,673</u>
Total		<u>\$780,353</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, 2004 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Redevelopment Agency Fund	\$12,760,692
Nonmajor Governmental Funds	Redevelopment Agency Fund	<u>1,061,363</u>
Total		<u>\$13,822,055</u>

CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

(Continued)

(4) Advances To and From Other Funds, (Continued)

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

The \$12,760,692 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 \$194,980 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 \$866,383 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.

(5) Transfers In and Out

Transfers in and out for the year ended June 30, 2004 are as follows:

<u>Transfers out</u>	<u>Transfers In</u>	<u>Total</u>	
General Fund	Nonmajor Governmental Funds	\$2,917,014	(a)
Internal Service Funds	General Fund	515,886	(b)
Nonmajor Governmental Funds	General Fund	10,124	(c)
Nonmajor Governmental Funds	General Fund	<u>541,689</u>	(d)
		<u>\$3,984,713</u>	

(a) The General Fund transferred the following:

- \$177,130 to the Capital Improvements Fund for the City Monument Project;
- \$200,000 to the Capital Improvements Fund for the 800MhZ project at South Coast Plaza;
- \$20,000 to the Capital Improvements Fund for the Underground Storage Tank Project;
- \$27,000 to the Capital Improvements Fund for the Fairview Road Wall Project;
- \$2,492,884 to the Financing Authority Debt Service Fund for the payment of debt service payments.

CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

(Continued)

(5) Transfers In and Out, (Continued)

- (b) The Equipment Replacement and Self Insurance Funds (Internal Service) transferred investment earnings back to the General Fund.
- (c) The 1974 Open Space Bond Fund and Vehicle Parking District #1 and #2 (Nonmajor Governmental) transferred investment earnings back to the General Fund.
- (d) The Gas Tax Fund transferred \$449,689 to the General Fund for reimbursement of various projects. In addition, Prop 172 Fund Reimbursed General Fund for Paramedic's assignment pay in the amount of \$27,000 and the Capital Improvement Fund reimbursed the General Fund for the NPDES Basin Insert project in the amount of \$65,000.

(6) Capital Assets

A summary of changes in capital assets follows:

	Balance at July 1, 2003, As restated (Note 18)	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2004</u>
<u>Governmental Activities</u>				
Capital assets not being depreciated:				
Land	\$ 28,949,103	-	-	28,949,103
Land rights related to streets	29,291,575	-	-	29,291,575
Construction in progress	<u>12,094,826</u>	<u>8,206,677</u>	<u>(1,448,306)</u>	<u>18,853,197</u>
Total capital assets not being depreciated	<u>70,335,504</u>	<u>8,206,677</u>	<u>(1,448,306)</u>	<u>77,093,875</u>
Capital assets being depreciated:				
Landscaping and sprinklers	9,384,960	24,244	-	9,409,204
Building improvements and structures	29,085,140	-	-	29,085,140
Automotive equipment	10,050,668	1,048,322	(400,254)	10,698,736
Office furniture	417,905	4,310	(3,377)	418,838
Office machines	7,305,813	6,732	(150,698)	7,161,847
Other equipment	8,068,555	424,571	(95,422)	8,397,704
Park system	1,431,046	1,168,306	-	2,599,352
Infrastructure – roads	219,291,816	8,325,087	(663,482)	226,953,421
Infrastructure – storm drains	<u>90,666,506</u>	<u>-</u>	<u>-</u>	<u>90,666,506</u>
Total capital assets being depreciated	<u>375,702,409</u>	<u>11,001,572</u>	<u>(1,313,233)</u>	<u>385,390,748</u>

CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

(Continued)

(6) Capital Assets, (Continued)

	Balance at July 1, 2003, As restated (Note 18)	Additions	Deletions	Balance at June 30, 2004
Less accumulated depreciation for:				
Landscaping and sprinkler	(9,050,539)	(39,102)	-	(9,089,641)
Building improvements and structure	(21,167,215)	(292,751)	-	(21,459,966)
Automotive equipment	(5,872,498)	(539,615)	359,395	(6,052,718)
Office furniture	(185,327)	(34,283)	1,013	(218,597)
Office machines	(5,964,912)	(270,983)	150,699	(6,085,196)
Other equipment	(5,279,449)	(822,224)	82,476	(6,019,197)
Park system	(604,345)	(123,467)	-	(727,812)
Infrastructure – roads	(116,460,828)	(5,429,323)	663,483	(121,226,668)
Infrastructure – storm drain	<u>(56,794,384)</u>	<u>(2,464,502)</u>	<u>-</u>	<u>(59,258,886)</u>
Total accumulated depreciation	<u>(221,379,497)</u>	<u>(10,016,250)</u>	<u>1,257,066</u>	<u>(230,138,681)</u>
Total capital assets being depreciated, net	<u>154,322,912</u>	<u>985,322</u>	<u>(56,167)</u>	<u>155,252,067</u>
Governmental activities capital assets, net	<u>\$224,658,416</u>	<u>9,191,999</u>	<u>(1,504,473)</u>	<u>232,345,942</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, 2004:

General government	\$1,758,521
Protection of persons and property	213,530
Community programs	135,251
Public services	<u>7,908,948</u>
Total	<u>\$10,016,250</u>

The City has active construction projects as of June 30, 2004. The projects include the following:

<u>Construction Project</u>	<u>Total Budget</u>	<u>Spent to date</u>	<u>Remaining commitment</u>
Seismic retrofit	\$3,500,000	3,451,590	48,410
Public safety hardware and software	3,400,000	2,507,689	892,311
Fairview park improvement	1,500,000	1,056,443	443,557
Roadway rehabilitation of 17 th Street	1,200,000	1,009,610	190,390
Bristol street improvement project	<u>4,000,000</u>	<u>3,442,262</u>	<u>557,738</u>
Total	<u>\$13,600,000</u>	<u>11,467,594</u>	<u>2,132,406</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, 2004 is as follows:

	Balance at July 1, 2003	Additions	Reductions	Balance at June 30, 2004	Portion Due Within One Year	Portion Due Beyond One Year
<u>Governmental Activities</u>						
Bonds:						
City General Obligation Redevelopment Agency 1993 Tax Allocation Refunding Bonds	\$ 250,000	-	(250,000)	-	-	-
Redevelopment Agency 2003 Tax Allocation Refunding Bonds	7,570,000	-	(7,570,000)	-	-	-
Public Financing Authority 1991 Lease Revenue Bonds	-	7,470,000	-	7,470,000	450,000	7,020,000
Public Financing Authority 1993 Refunding Revenue Bonds	2,445,000	-	(65,000)	2,380,000	70,000	2,310,000
Public Financing Authority 2003 Refunding Certificate of Participation	14,595,000	-	(14,595,000)	-	-	-
Public Financing Authority 1998 Refunding Revenue Bonds	-	14,340,000	-	14,340,000	805,000	13,535,000
	<u>10,175,000</u>	<u>-</u>	<u>(820,000)</u>	<u>9,355,000</u>	<u>860,000</u>	<u>8,495,000</u>
Total bonds payable	<u>35,035,000</u>	<u>21,810,000</u>	<u>(23,300,000)</u>	<u>33,545,000</u>	<u>2,185,000</u>	<u>31,360,000</u>
Other liabilities:						
Claims payable	10,936,311	1,821,921	(3,389,042)	9,369,190	2,795,216	6,573,974
Employee leave benefits payable	<u>5,349,013</u>	<u>1,062,045</u>	<u>(1,090,658)</u>	<u>5,320,400</u>	<u>1,050,250</u>	<u>4,270,150</u>
Total other liabilities	<u>16,285,324</u>	<u>2,883,966</u>	<u>(4,479,700)</u>	<u>14,689,590</u>	<u>3,845,466</u>	<u>10,844,124</u>
Capital leases:						
P.D. Computer System Municipal Finance Corp. Lease #01-073-AF	3,400,000	-	(516,687)	2,883,313	535,718	2,347,595
OCE Copier Lease	593,359	14,120	(60,041)	547,438	64,701	482,737
Avaya Telephone Lease	87,061	-	(23,782)	63,279	25,987	37,292
	<u>272,909</u>	<u>-</u>	<u>(71,436)</u>	<u>201,473</u>	<u>75,931</u>	<u>125,542</u>
Total capital leases payable	<u>4,353,329</u>	<u>14,120</u>	<u>(671,946)</u>	<u>3,695,503</u>	<u>702,337</u>	<u>2,993,166</u>
Total	<u>\$55,673,653</u>	<u>24,708,086</u>	<u>(28,451,646)</u>	<u>51,930,093</u>	<u>6,732,803</u>	<u>45,197,290</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 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 net proceeds of \$7,635,471 (after payment of \$275,700 in underwriting fees, insurance and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on these bonds. As a result, the 1993 Series bonds are considered to be defeased and the liability for those bonds has been removed from the government-wide statement of net assets.

The amount required for the bond reserve for the 2003 Tax Allocation Refunding Bonds is \$704,300. The City has \$704,877 on reserve with the fiscal agent at June 30, 2004. The principal balance outstanding at June 30, 2004 is \$7,470,000.

The advance refunding resulted in a decrease in debt service payments of \$814,071 and an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$632,501.

The annual debt service requirements for the Redevelopment Agency 2003 Tax Allocation Refunding Bonds as of June 30, 2004 are as follows:

CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

(Continued)

(8) Bonds Payable, (Continued)

Costa Mesa Redevelopment Agency Bonds, (Continued)

Year Ending June 30,	Governmental Activities	
	Principal	Interest
2005	450,000	253,800
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>\$7,470,000</u>	<u>2,224,000</u>

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 \$238,245 which is the maximum annual debt service requirement of the bond issue. The City has \$386,485 on reserve with the fiscal agent at June 30, 2004. The principal outstanding on the bonds as of June 30, 2004 is \$2,380,000. 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

CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

(Continued)

(8) Bonds Payable, (Continued)

Costa Mesa Public Financing Authority Bonds, (Continued)

remitted taxes on December 19, 2003 and April 20, 2004, the City remitted payment 28 and 31 days later, respectively.

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 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 net proceeds of \$14,415,794 (after payment of \$162,995 in underwriting fees, insurance and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on these bonds. As a result, the 1993A revenue bonds are considered to be defeased and the liability for those bonds has been removed from the government-wide statement of net assets.

The amount required for the bond reserve for the 2003 Refunding Certificate of Participation is \$1,273,250. The City has \$1,277,173 on reserve with the fiscal agent at June 30, 2004. The principal balance outstanding at June 30, 2004 is \$14,340,000.

The advance refunding resulted in a decrease in debt service payments of \$1,478,881 and an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1,143,965.

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 \$1,312,500 which is the maximum annual debt service requirement of the bond issue. At June 30, 2004, the City had \$1,313,961 on reserve with the fiscal agent. The principal balance outstanding on the bonds as on June 30, 2004 is \$9,355,000.

CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

(Continued)

(8) Bonds Payable, (Continued)

Costa Mesa Public Financing Authority Bonds, (Continued)

The 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.

The annual debt service requirements for the Public Financing Authority Revenue Bonds as of June 30, 2004 are as follows:

Year Ending June 30	<u>1991 Lease Revenue</u>		<u>Governmental Activities</u>		<u>1998 Refunding Revenue</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$70,000	165,135	805,000	474,175	860,000	423,997
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	220,000	7,810	-	-	-	-
Total	<u>\$2,380,000</u>	<u>1,815,645</u>	<u>14,340,000</u>	<u>4,501,050</u>	<u>9,355,000</u>	<u>2,183,308</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, 2004 is expected to be paid primarily by the general fund in future years.

\$ 5,320,400

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, 2004, 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, 2004 for general liability amounted to \$2,779,405 and workers' compensation was \$6,589,785.

9,369,190

Total other liabilities

\$ 14,689,590

(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.

\$ 2,883,313

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%.

547,438

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%.

63,279

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%.

201,473

Total capital leases payable \$3,695,503

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
2005	\$ 535,718	100,397	64,701	19,396	25,987	4,589
2006	555,450	80,665	67,084	17,013	28,396	2,179
2007	575,909	60,206	69,556	14,542	8,896	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>\$2,883,313</u>	<u>297,259</u>	<u>547,438</u>	<u>83,293</u>	<u>63,279</u>	<u>8,064</u>

Year Ending June 30	Governmental Activities	
	Avaya Telephone Lease	
	Principal	Interest
2005	\$ 75,931	9,629
2006	80,710	4,850
2007	44,832	539
2008	-	-
2009	-	-
2010	-	-
2011	-	-
2012	-	-
Totals	<u>\$201,473</u>	<u>15,018</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, 2004 was \$3,200,000.

The City of Costa Mesa Community Facilities District No. 91-1, issued \$2,965,000 of District 91-1 Special Tax Bonds on November 1, 1991. All of the bonds were acquired by the Costa Mesa Public Financing Authority. The bonds mature from August 1, 1992 through August 1, 2021 in annual principal payments ranging from \$25,000 to \$265,000 and bear an interest rate of 8.30%. The bonds were issued to acquire certain improvements to the Anton/Bristol intersection, street improvements to Anton Boulevard and repay certain costs incurred by third parties with respect to the construction of the Metro Fire Station and the I-405 Access Study. The City is not liable for repayment of these bonds, but is only acting as an agent for the property owners in collecting the assessments, forwarding the collections to the bondholders, and initiating foreclosure proceedings. The outstanding balance at June 30, 2004 was \$2,435,000.

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, 2004 was \$8,945,000.

(12) Fund Balances

The following funds had deficits at June 30, 2004:

Redevelopment Agency Fund	\$(12,736,361)
Redevelopment Projects Fund	(174,231)

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, 2003 to June 30, 2004 has been determined by an actuarial valuation of the plan as of June 30, 2001. The contribution rate indicated for the period is 11.884% for safety fire and 21.049% for safety police and 0.000% 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, 2004, this contribution rate would be multiplied by the payroll of covered employees that was actually paid during the period July 1, 2003 to June 30, 2004.

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, 2001
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	19 and 18 Years as of the Valuation Date for safety fire and safety police respectively, and 23 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>
6/30/00	147,447	144,138	3,309	98.35%	18,621	17.8%
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	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>
6/30/00	74,370	98,700	(24,330)	132.7%	17,609	(138.2%)
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	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>
6/30/02	\$1,881,527	\$1,286,757	100%	-
6/30/03	1,940,430	1,447,842	100%	-
6/30/04	1,915,076	1,490,302	100%	-

CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

(Continued)

(15) Post-Employment Benefits

In addition to providing pension benefits, the City provides certain health care and life insurance benefits for retired employees. These benefits are provided under Council Policy No. 300-1 and the City's contractual agreement with the Costa Mesa City Employees Association, the Costa Mesa Police Association, and the Costa Mesa Firefighters Association, Inc. Substantially all of the City's employees may become eligible for those benefits if they reach normal retirement age while working for the City. Those and similar benefits for active employees are provided through an insurance company whose premiums are based on the benefits paid during the year. As of June 30, 2004, approximately 234 retired employees were receiving benefits. The City pays up to 100% of these benefits, 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, 2004, approximately \$618,240 of post-employment benefit expenditures were recognized.

(16) Expenditures in Excess of Appropriations

Excess of expenditures over appropriations in individual funds at the function level (level of budgetary control) are as follows at June 30, 2004:

	<u>Function</u>	<u>Expenditures</u>	<u>Appropriations</u>	<u>Excess</u>
Special Revenue Funds:				
Air Quality Improvement	Public services	\$ 134,167	102,001	32,166
Park Development Fees	Community program	446,023	-	446,023
Traffic Impact Fees	Public services	2,393,103	2,190,000	203,103
Rental Rehabilitation Program	Community program	52,379	-	52,379
Fire System Development Fees	Protection of person and property	1,386	-	1,386
Debt Service Funds:				
1974 Open Space Bond	Debt service	262,603	261,250	1,353
Redevelopment Debt Service	Debt service	2,767,247	2,088,825	678,422
Capital Project Funds:				
Capital Improvements	Public services	4,056,974	2,511,220	1,545,754
Financing Authority Construction	Public services	318	-	318
Redevelopment Projects	Redevelopment	282,020	-	282,020

CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

(Continued)

(17) Risk Management

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

In the Self-Insurance Workers’ Compensation/General Liability/Unemployment Internal Service Fund, the City has recorded liabilities of \$9,369,190 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 \$6,589,785 for workers’ compensation and \$2,779,405 for general liability. Losses for claims incurred but not reported are recorded when the probable amount of loss can be reasonably estimated. These amounts represent estimates of amounts to be paid for reported claims and incurred but not yet reported claims based upon past experience, modified for current trends and information. While the ultimate amount of losses incurred through June 30, 2004 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 \$100,000 to \$325,000 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>
2002-2003	\$ 10,737,660	3,149,978	(2,951,327)	10,936,311
2003-2004	10,936,311	1,821,921	(3,389,042)	9,369,190

CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

(Continued)

(18) Prior Period Adjustment

The beginning fund balance of the Redevelopment Projects Capital Project Fund (a nonmajor governmental fund) has been restated to reflect land that was not owned by the City at the beginning of the year. The following summarizes the effects of the restatement to the beginning fund balance as of July 1, 2003:

	<u>Capital Project Redevelopment Projects Fund</u>
Fund balance at beginning of the year, as previously reported	\$ 1,805,454
To remove land not owned by the City at the beginning of the year	<u>(1,697,665)</u>
Fund balance at beginning of the year, as restated	<u>\$ 107,789</u>

The beginning net assets on the Government-wide financial statements have been restated to reflect a reevaluation of infrastructure capital assets that were previously under reported and the capitalization of land held for resale. The following summarizes the effects of the restatement to the beginning net assets as of July 1, 2003:

	<u>Governmental Activities</u>
Total net assets at beginning of the year, as previously reported	\$ 272,370,517
To adjust previously reported historical costs, land rights and various reclassifications of other capital assets	18,466,011
To remove land not owned by the City at the beginning of the year	<u>(1,697,665)</u>
Total net assets at beginning of the year, as restated	<u>\$289,138,863</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, 2004, ABLE did not experience any fiscal stress as indicated by year-end net assets of \$1,097,080. This year each member City contributed \$309,292 to the operation. Upon completion, separate financial statements of ABLE can be obtained at Costa Mesa City Hall.



Required Supplementary Information

GENERAL FUND

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

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, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes:					
Sales tax	\$ 37,500,000	38,500,000	40,244,632	1,744,632	35,527,005
Property tax	14,897,000	15,613,490	15,757,926	144,436	14,831,878
Transient occupancy tax	4,100,000	4,128,400	4,221,661	93,261	3,799,682
Franchise tax	2,440,000	2,320,000	2,329,340	9,340	2,308,683
Business license tax	842,500	842,500	830,794	(11,706)	854,580
Total taxes	<u>59,779,500</u>	<u>61,404,390</u>	<u>63,384,353</u>	<u>1,979,963</u>	<u>57,321,828</u>
Licenses and permits	<u>1,890,000</u>	<u>1,974,100</u>	<u>2,143,839</u>	<u>169,739</u>	<u>1,766,850</u>
Fines and forfeits	<u>1,867,000</u>	<u>2,105,000</u>	<u>3,098,176</u>	<u>993,176</u>	<u>1,971,320</u>
Investment income	<u>3,110,000</u>	<u>2,732,000</u>	<u>567,624</u>	<u>(2,164,376)</u>	<u>2,644,724</u>
Intergovernmental:					
Motor vehicle in-lieu	6,547,540	4,399,400	5,104,594	705,194	6,396,327
Grants and other reimbursements	<u>1,532,642</u>	<u>1,855,036</u>	<u>1,597,189</u>	<u>(257,847)</u>	<u>1,544,375</u>
Total intergovernmental	<u>8,080,182</u>	<u>6,254,436</u>	<u>6,701,783</u>	<u>447,347</u>	<u>7,940,702</u>
Charges for services	<u>2,504,810</u>	<u>2,628,120</u>	<u>2,882,211</u>	<u>254,091</u>	<u>2,671,359</u>
Rental	<u>2,441,160</u>	<u>2,553,380</u>	<u>2,730,378</u>	<u>176,998</u>	<u>2,607,667</u>
Miscellaneous	<u>76,000</u>	<u>185,110</u>	<u>288,421</u>	<u>103,311</u>	<u>265,558</u>
Total revenues	<u>79,748,652</u>	<u>79,836,536</u>	<u>81,796,785</u>	<u>1,960,249</u>	<u>77,190,008</u>
Expenditures:					
Current:					
General government:					
City council	244,773	246,053	211,663	34,390	295,193
City manager	763,150	853,485	749,408	104,077	731,657
City clerk	247,768	247,768	234,169	13,599	296,428
City attorney	881,311	882,387	738,150	144,237	858,145
Financial services	<u>2,055,661</u>	<u>2,069,301</u>	<u>1,943,158</u>	<u>126,143</u>	<u>2,005,207</u>
Administrative services:					
Administration	632,998	633,345	591,683	41,662	259,118
Personnel services	728,408	761,954	633,036	128,918	711,578
Central services	496,090	496,090	499,063	(2,973)	507,037
Risk management services	1,477,084	1,477,377	1,293,634	183,743	1,154,001
Communication services	2,861,293	2,894,371	2,776,675	117,696	2,583,484
Computer services	<u>1,847,128</u>	<u>2,182,011</u>	<u>1,853,202</u>	<u>328,809</u>	<u>1,719,153</u>
Development services:					
Administration	492,248	497,640	472,781	24,859	382,475
Facilities and equipment maintenance	<u>8,468,790</u>	<u>8,696,913</u>	<u>7,509,123</u>	<u>1,187,790</u>	<u>8,508,299</u>
Total general government	<u>21,196,702</u>	<u>21,938,695</u>	<u>19,505,745</u>	<u>2,432,950</u>	<u>20,011,775</u>

(Continued)

CITY OF COSTA MESA, CALIFORNIA

(Continued)

General Fund

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

For the fiscal year ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance - Favorable (Unfavorable)	Prior Year Actual
Protection of persons and property:					
Police protection	29,912,355	30,137,388	29,701,326	436,062	28,887,007
Fire protection	16,296,733	16,375,846	15,932,032	443,814	15,496,569
Building and safety	2,247,604	2,287,921	2,008,554	279,367	2,273,799
Total protection of persons and property	<u>48,456,692</u>	<u>48,801,155</u>	<u>47,641,912</u>	<u>1,159,243</u>	<u>46,657,375</u>
Community programs:					
Community recreation	3,829,558	3,892,619	3,304,990	587,629	3,397,768
Sanitation	1,154,442	1,154,442	914,546	239,896	927,695
Planning	922,634	943,221	827,352	115,869	857,850
Total community programs	<u>5,906,634</u>	<u>5,990,282</u>	<u>5,046,888</u>	<u>943,394</u>	<u>5,183,313</u>
Public services:					
Administration	1,512,509	1,491,713	1,402,110	89,603	1,527,249
Engineering	2,173,200	2,303,417	1,756,444	546,973	1,179,481
Transportation	2,320,354	2,370,566	2,106,124	264,442	2,257,533
Total public services	<u>6,006,063</u>	<u>6,165,696</u>	<u>5,264,678</u>	<u>901,018</u>	<u>4,964,263</u>
Debt service:					
Principal	574,502	574,502	576,728	(2,226)	-
Interest and fiscal charges	290,692	290,692	145,330	145,362	-
Total debt service	<u>865,194</u>	<u>865,194</u>	<u>722,058</u>	<u>143,136</u>	<u>-</u>
Total expenditures	<u>82,431,285</u>	<u>83,761,022</u>	<u>78,181,281</u>	<u>5,579,741</u>	<u>76,816,726</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,682,633)</u>	<u>(3,924,486)</u>	<u>3,615,504</u>	<u>7,539,990</u>	<u>373,282</u>
Other financing sources (uses):					
Transfers in	1,145,089	1,210,089	1,067,699	(142,390)	260,943
Transfers out	(2,492,884)	(2,917,014)	(2,917,014)	-	(4,560,058)
Lease proceeds	-	-	14,120	14,120	-
Total other financing sources (uses)	<u>(1,347,795)</u>	<u>(1,706,925)</u>	<u>(1,835,195)</u>	<u>(128,270)</u>	<u>(4,299,115)</u>
Net change in fund balance	<u>(4,030,428)</u>	<u>(5,631,411)</u>	<u>1,780,309</u>	<u>7,411,720</u>	<u>(3,925,833)</u>
Fund balance at beginning of year	<u>59,819,921</u>	<u>59,819,921</u>	<u>59,819,921</u>	<u>-</u>	<u>63,745,754</u>
Fund balance at end of year	<u>\$ 55,789,493</u>	<u>54,188,510</u>	<u>61,600,230</u>	<u>7,411,720</u>	<u>59,819,921</u>



CITY OF COSTA MESA, CALIFORNIA
Notes to Required Supplementary Information
Year ended June 30, 2004

(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
- Debt Service Fund:
 - Financing Authority Debt Service
- Capital Projects Fund:
 - Parking Districts

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, 2004, several supplementary appropriations were made totaling \$19,021,886. 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

CITY OF COSTA MESA, CALIFORNIA

Nonmajor Governmental Funds

Combining Balance Sheet

June 30, 2004

	Special Revenue	Debt Service	Capital Projects	Totals	
				2004	2003
<u>Assets</u>					
Cash and investments	\$ 20,388,179	2,735,608	15,975,466	39,099,253	42,321,074
Cash and investments with fiscal agent	-	2,977,979	1,513,376	4,491,355	6,335,188
Due from other governments	1,148,148	5,698	304,663	1,458,509	1,560,239
Accounts receivable	-	480,153	193,085	673,238	119,243
Interest receivable	151,937	2,870	864,353	1,019,160	960,119
Loans receivable	4,734,870	-	62,000	4,796,870	4,967,980
Rent receivable	-	-	970,278	970,278	970,278
Due from other funds	176,877	-	-	176,877	48,651
Loan deposit	201,552	-	-	201,552	547,218
Advances to other funds	1,061,363	-	-	1,061,363	1,109,011
Prepaid items	-	-	-	-	5,625
Land held for resale	-	-	-	-	1,697,665
Total assets	<u>\$ 27,862,926</u>	<u>6,202,308</u>	<u>19,883,221</u>	<u>53,948,455</u>	<u>60,642,291</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ 1,171,767	-	686,784	1,858,551	1,969,579
Accrued liabilities	148,894	3,291	-	152,185	179,421
Retentions payable	331,187	-	374,108	705,295	381,627
Deposits payable	-	-	-	-	473,695
Due to other funds	335,913	-	176,042	511,955	111,632
Deferred revenue	4,956,429	-	2,412,855	7,369,284	7,318,405
Total liabilities	<u>6,944,190</u>	<u>3,291</u>	<u>3,649,789</u>	<u>10,597,270</u>	<u>10,434,359</u>
Fund balances:					
Reserved for:					
Encumbrances	2,244,449	-	2,789,914	5,034,363	5,329,231
Loan deposit	201,552	-	-	201,552	547,218
Advances to other funds	1,061,363	-	-	1,061,363	1,109,011
Prepaid items	-	-	-	-	5,625
Land held for resale	-	-	-	-	1,697,665
Debt service	-	6,199,017	-	6,199,017	6,327,040
Unreserved, reported in:					
Special revenue funds	17,411,372	-	-	17,411,372	20,302,732
Capital projects funds	-	-	13,443,518	13,443,518	14,889,410
Total fund balances	<u>20,918,736</u>	<u>6,199,017</u>	<u>16,233,432</u>	<u>43,351,185</u>	<u>50,207,932</u>
Total liabilities and fund balances	<u>\$ 27,862,926</u>	<u>6,202,308</u>	<u>19,883,221</u>	<u>53,948,455</u>	<u>60,642,291</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, 2004

	Special Revenue	Debt Service	Capital Projects	Totals	
				2004	2003
Revenues:					
Taxes	\$ 1,371,344	279,678	795	1,651,817	1,548,633
Fines and forfeits	260,292	-	-	260,292	362,333
Intergovernmental	5,594,404	-	3,784,040	9,378,444	17,653,012
Charges for services	288,358	-	-	288,358	805,911
Rental	86,278	-	-	86,278	78,669
Investment income	633,137	200,970	465,502	1,299,609	1,909,689
Miscellaneous	371,293	-	514,230	885,523	710,054
Total revenues	8,605,106	480,648	4,764,567	13,850,321	23,068,301
Expenditures:					
Current:					
General government	1,680,083	-	-	1,680,083	1,207,241
Protection of persons and property	1,323,865	-	-	1,323,865	964,984
Community programs	1,168,559	-	-	1,168,559	1,642,470
Public services	6,885,877	-	6,729,140	13,615,017	12,714,099
Redevelopment	206,823	-	282,020	488,843	528,350
Debt service:					
Advanced refunding escrow	-	1,373,003	-	1,373,003	-
Cost of issuance	-	318,983	-	318,983	-
Principal	-	1,745,000	-	1,745,000	1,665,000
Interest and fiscal charges	-	1,248,185	-	1,248,185	1,512,696
Total expenditures	11,265,207	4,685,171	7,011,160	22,961,538	20,234,840
Excess (deficiency) of revenues over (under) expenditures	(2,660,101)	(4,204,523)	(2,246,593)	(9,111,217)	2,833,461
Other financing sources (uses):					
Transfers in	-	2,492,884	424,130	2,917,014	4,976,974
Transfers out	(476,689)	(8,943)	(66,181)	(551,813)	(451,663)
Proceeds of long-term debt	-	14,578,060	-	14,578,060	-
Payment to bond escrow agent	-	(12,991,126)	-	(12,991,126)	-
Lease proceeds	-	-	-	-	3,400,000
Total other financing sources (uses)	(476,689)	4,070,875	357,949	3,952,135	7,925,311
Net change in fund balances	(3,136,790)	(133,648)	(1,888,644)	(5,159,082)	10,758,772
Fund balances at beginning of year, as restated	24,055,526	6,332,665	18,122,076	48,510,267	39,449,160
Fund balances at end of year	\$ 20,918,736	6,199,017	16,233,432	43,351,185	50,207,932

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

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, 2004

	Special Gas Tax	Proposition 172	Air Quality Improvement	HOME Program	Community Development	Park Development Fees	Drainage Fees
<u>Assets</u>							
Cash and investments	\$ 7,552,244	1,654,092	587,697	115,315	-	1,351,142	337,501
Due from other governments	-	156,154	35,126	185,511	707,719	-	-
Accounts receivable	-	-	-	-	-	-	-
Interest receivable	59,922	13,199	4,663	-	-	10,719	2,678
Loans receivable	-	-	-	1,532,978	605,508	-	-
Due from other funds	-	-	-	15,880	10,204	-	-
Loan deposit	-	-	-	-	-	-	-
Advances to other funds	-	-	-	-	194,980	-	-
 Total assets	 <u>\$ 7,612,166</u>	 <u>1,823,445</u>	 <u>627,486</u>	 <u>1,849,684</u>	 <u>1,518,411</u>	 <u>1,361,861</u>	 <u>340,179</u>
 <u>Liabilities and Fund Balances</u>							
Liabilities:							
Accounts payable	\$ 605,803	-	5,000	47,941	67,638	43,736	-
Accrued liabilities	-	14,584	-	5,014	7,925	-	-
Retentions payable	264,821	-	6,503	-	42,952	14,710	2,201
Due to other funds	-	-	-	-	265,669	-	-
Deferred revenue	-	-	-	1,536,040	824,005	-	-
 Total liabilities	 <u>870,624</u>	 <u>14,584</u>	 <u>11,503</u>	 <u>1,588,995</u>	 <u>1,208,189</u>	 <u>58,446</u>	 <u>2,201</u>
Fund balances:							
Reserved for:							
Encumbrances	594,451	-	-	-	44,796	55,812	-
Loan deposit	-	-	-	-	-	-	-
Advances to other funds	-	-	-	-	194,980	-	-
Unreserved, reported in special revenue funds	<u>6,147,091</u>	<u>1,808,861</u>	<u>615,983</u>	<u>260,689</u>	<u>70,446</u>	<u>1,247,603</u>	<u>337,978</u>
 Total fund balances	 <u>6,741,542</u>	 <u>1,808,861</u>	 <u>615,983</u>	 <u>260,689</u>	 <u>310,222</u>	 <u>1,303,415</u>	 <u>337,978</u>
 Total liabilities and fund balances	 <u>\$ 7,612,166</u>	 <u>1,823,445</u>	 <u>627,486</u>	 <u>1,849,684</u>	 <u>1,518,411</u>	 <u>1,361,861</u>	 <u>340,179</u>

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	
								2004	2003
1,086	223,461	5,871,488	120,655	436,596	331,474	1,756,633	48,795	20,388,179	23,559,726
-	-	-	-	32,238	-	31,400	-	1,148,148	969,811
-	-	-	-	-	-	-	-	-	19,959
-	1,789	46,582	957	3,464	2,629	4,947	388	151,937	130,915
-	-	-	126,508	-	-	2,469,876	-	4,734,870	4,804,730
-	-	-	-	-	-	150,793	-	176,877	48,651
-	-	-	-	-	-	201,552	-	201,552	207,668
-	-	-	-	-	-	866,383	-	1,061,363	1,109,011
<u>1,086</u>	<u>225,250</u>	<u>5,918,070</u>	<u>248,120</u>	<u>472,298</u>	<u>334,103</u>	<u>5,481,584</u>	<u>49,183</u>	<u>27,862,926</u>	<u>30,850,471</u>
-	-	353,795	225	44,489	-	3,140	-	1,171,767	1,415,871
-	5,901	-	-	115,470	-	-	-	148,894	175,040
-	-	-	-	-	-	-	-	331,187	110,701
-	-	-	32,771	-	-	37,473	-	335,913	70,106
-	-	-	126,508	-	-	2,469,876	-	4,956,429	5,023,227
-	5,901	353,795	159,504	159,959	-	2,510,489	-	6,944,190	6,794,945
-	5,671	1,492,683	-	-	-	-	51,036	2,244,449	2,436,115
-	-	-	-	-	-	201,552	-	201,552	207,668
-	-	-	-	-	-	866,383	-	1,061,363	1,109,011
<u>1,086</u>	<u>213,678</u>	<u>4,071,592</u>	<u>88,616</u>	<u>312,339</u>	<u>334,103</u>	<u>1,903,160</u>	<u>(1,853)</u>	<u>17,411,372</u>	<u>20,302,732</u>
<u>1,086</u>	<u>219,349</u>	<u>5,564,275</u>	<u>88,616</u>	<u>312,339</u>	<u>334,103</u>	<u>2,971,095</u>	<u>49,183</u>	<u>20,918,736</u>	<u>24,055,526</u>
<u>1,086</u>	<u>225,250</u>	<u>5,918,070</u>	<u>248,120</u>	<u>472,298</u>	<u>334,103</u>	<u>5,481,584</u>	<u>49,183</u>	<u>27,862,926</u>	<u>30,850,471</u>

CITY OF COSTA MESA, CALIFORNIA
 Nonmajor Special Revenue Funds
 Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 For the fiscal year ended June 30, 2004

	Special Gas Tax	Proposition 172	Air Quality Improvement	HOME Program	Community Development	Park Development Fees	Drainage Fees
Revenues:							
Taxes	\$ -	782,427	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Intergovernmental	2,366,066	91,709	140,583	692,687	1,692,380	26,000	-
Charges for services	-	-	-	-	-	54,393	46,776
Rental	-	-	-	-	86,278	-	-
Investment income	248,953	52,268	17,048	-	5,874	43,890	10,466
Miscellaneous	2,048	-	-	-	83,937	-	-
Total revenues	2,617,067	926,404	157,631	692,687	1,868,469	124,283	57,242
Expenditures:							
Current:							
General government	-	-	-	-	1,680,083	-	-
Protection of persons and property	-	1,028,886	-	-	-	-	-
Community programs	-	-	-	648,025	-	446,023	22,132
Public services	4,358,607	-	134,167	-	-	-	-
Redevelopment	-	-	-	-	-	-	-
Total expenditures	4,358,607	1,028,886	134,167	648,025	1,680,083	446,023	22,132
Excess (deficiency) of revenues over (under) expenditures	(1,741,540)	(102,482)	23,464	44,662	188,386	(321,740)	35,110
Other financing sources (uses):							
Transfers in	-	-	-	-	-	-	-
Transfers out	(449,689)	(27,000)	-	-	-	-	-
Total other financing sources (uses)	(449,689)	(27,000)	-	-	-	-	-
Net change in fund balances	(2,191,229)	(129,482)	23,464	44,662	188,386	(321,740)	35,110
Fund balances at beginning of year	8,932,771	1,938,343	592,519	216,027	121,836	1,625,155	302,868
Fund balances at end of year	\$ 6,741,542	1,808,861	615,983	260,689	310,222	1,303,415	337,978

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	
								2004	2003
-	-	-	-	-	-	588,917	-	1,371,344	1,278,263
-	-	-	-	260,292	-	-	-	260,292	362,333
-	166,094	323,396	-	44,453	-	-	51,036	5,594,404	14,032,320
-	-	-	-	-	187,189	-	-	288,358	805,911
-	-	-	-	-	-	-	-	86,278	-
-	6,719	196,437	3,529	8,900	10,746	26,896	1,411	633,137	998,650
-	-	-	2,458	-	-	282,850	-	371,293	329,975
-	172,813	519,833	5,987	313,645	197,935	898,663	52,447	8,605,106	17,807,452
-	-	-	-	-	-	-	-	1,680,083	1,207,241
-	127,407	-	-	74,078	1,387	-	92,107	1,323,865	964,984
-	-	-	52,379	-	-	-	-	1,168,559	1,642,470
-	-	2,393,103	-	-	-	-	-	6,885,877	6,032,833
-	-	-	-	-	-	206,823	-	206,823	159,778
-	127,407	2,393,103	52,379	74,078	1,387	206,823	92,107	11,265,207	10,007,306
-	45,406	(1,873,270)	(46,392)	239,567	196,548	691,840	(39,660)	(2,660,101)	7,800,146
-	-	-	-	-	-	-	-	-	86,503
-	-	-	-	-	-	-	-	(476,689)	(358,247)
-	-	-	-	-	-	-	-	(476,689)	(271,744)
-	45,406	(1,873,270)	(46,392)	239,567	196,548	691,840	(39,660)	(3,136,790)	7,528,402
1,086	173,943	7,437,545	135,008	72,772	137,555	2,279,255	88,843	24,055,526	16,527,124
1,086	219,349	5,564,275	88,616	312,339	334,103	2,971,095	49,183	20,918,736	24,055,526

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, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Fines and forfeits	-	-	-	-	-
Intergovernmental	6,818,850	7,159,321	2,366,066	(4,793,255)	2,323,964
Charges for services	-	-	-	-	-
Rental	-	-	-	-	-
Investment income	338,000	284,000	248,953	(35,047)	373,013
Miscellaneous	-	-	2,048	2,048	5,648
Total revenues	7,156,850	7,443,321	2,617,067	(4,826,254)	2,702,625
Expenditures:					
Current:					
General government	-	-	-	-	-
Protection of persons and property	-	-	-	-	-
Community programs	-	-	-	-	-
Public services	8,153,471	8,153,471	4,358,607	3,794,864	1,441,561
Total expenditures	8,153,471	8,153,471	4,358,607	3,794,864	1,441,561
Excess (deficiency) of revenues over (under) expenditures	(996,621)	(710,150)	(1,741,540)	(1,031,390)	1,261,064
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	(449,689)	(449,689)	(449,689)	-	-
Total other financing sources (uses)	(449,689)	(449,689)	(449,689)	-	-
Net change in fund balance	(1,446,310)	(1,159,839)	(2,191,229)	(1,031,390)	1,261,064
Fund balance at beginning of year	8,932,771	8,932,771	8,932,771	-	7,671,707
Fund balance at end of year	\$ 7,486,461	7,772,932	6,741,542	(1,031,390)	8,932,771

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, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ 750,000	750,000	782,427	32,427	728,102
Fines and forfeits	-	-	-	-	-
Intergovernmental	-	91,700	91,709	9	-
Charges for services	-	-	-	-	-
Rental	-	-	-	-	-
Investment income	66,200	58,000	52,268	(5,732)	73,516
Miscellaneous	-	-	-	-	-
Total revenues	816,200	899,700	926,404	26,704	801,618
Expenditures:					
Current:					
General government	-	-	-	-	-
Protection of persons and property	1,063,796	1,063,796	1,028,886	34,910	591,858
Community programs	-	-	-	-	-
Public services	-	-	-	-	-
Total expenditures	1,063,796	1,063,796	1,028,886	34,910	591,858
Excess (deficiency) of revenues over (under) expenditures	(247,596)	(164,096)	(102,482)	61,614	209,760
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	(27,000)	(27,000)	(27,000)	-	-
Total other financing sources (uses)	(27,000)	(27,000)	(27,000)	-	-
Net change in fund balance	(274,596)	(191,096)	(129,482)	61,614	209,760
Fund balance at beginning of year	1,938,343	1,938,343	1,938,343	-	1,728,583
Fund balance at end of year	\$ 1,663,747	1,747,247	1,808,861	61,614	1,938,343

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, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Fines and forfeits	-	-	-	-	-
Intergovernmental	130,000	120,000	140,583	20,583	147,766
Charges for services	-	-	-	-	-
Rental	-	-	-	-	-
Investment income	19,500	17,000	17,048	48	22,026
Miscellaneous	-	-	-	-	-
Total revenues	149,500	137,000	157,631	20,631	169,792
Expenditures:					
Current:					
General government	-	-	-	-	-
Protection of persons and property	-	-	-	-	-
Community programs	-	-	-	-	-
Public services	5,000	102,001	134,167	(32,166)	40,947
Total expenditures	5,000	102,001	134,167	(32,166)	40,947
Excess (deficiency) of revenues over (under) expenditures	144,500	34,999	23,464	(11,535)	128,845
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	(20,000)
Total other financing sources (uses)	-	-	-	-	(20,000)
Net change in fund balance	144,500	34,999	23,464	(11,535)	108,845
Fund balance at beginning of year	592,519	592,519	592,519	-	483,674
Fund balance at end of year	\$ 737,019	627,518	615,983	(11,535)	592,519

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, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Fines and forfeits	-	-	-	-	-
Intergovernmental	792,922	835,422	692,687	(142,735)	1,644,906
Charges for services	-	-	-	-	-
Rental	-	-	-	-	-
Investment income	-	-	-	-	-
Miscellaneous	-	-	-	-	328
Total revenues	792,922	835,422	692,687	(142,735)	1,645,234
Expenditures:					
Current:					
General government	-	-	-	-	-
Protection of persons and property	-	-	-	-	-
Community programs	792,922	792,922	648,025	144,897	1,479,226
Public services	-	-	-	-	-
Total expenditures	792,922	792,922	648,025	144,897	1,479,226
Excess (deficiency) of revenues over (under) expenditures	-	42,500	44,662	2,162	166,008
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balance	-	42,500	44,662	2,162	166,008
Fund balance at beginning of year	216,027	216,027	216,027	-	50,019
Fund balance at end of year	\$ 216,027	258,527	260,689	2,162	216,027

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, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Fines and forfeits	-	-	-	-	124,728
Intergovernmental	1,724,615	1,780,500	1,692,380	(88,120)	1,178,162
Charges for services	-	-	-	-	-
Rental	-	-	86,278	86,278	-
Investment income	-	-	5,874	5,874	1,000
Miscellaneous	-	112,800	83,937	(28,863)	9,515
Total revenues	1,724,615	1,893,300	1,868,469	(24,831)	1,313,405
Expenditures:					
Current:					
General government	835,589	1,816,796	1,680,083	136,713	1,207,241
Protection of persons and property	-	-	-	-	-
Community programs	-	-	-	-	-
Public services	-	-	-	-	-
Total expenditures	835,589	1,816,796	1,680,083	136,713	1,207,241
Excess (deficiency) of revenues over (under) expenditures	889,026	76,504	188,386	111,882	106,164
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	78,669
Total other financing sources (uses)	-	-	-	-	78,669
Net change in fund balance	889,026	76,504	188,386	111,882	184,833
Fund balance (deficit) at beginning of year	121,836	121,836	121,836	-	(62,997)
Fund balance at end of year	\$ 1,010,862	198,340	310,222	111,882	121,836

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, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Fines and forfeits	-	-	-	-	-
Intergovernmental	-	-	26,000	26,000	-
Charges for services	414,000	58,700	54,393	(4,307)	740,029
Rental	-	-	-	-	-
Investment income	38,900	41,300	43,890	2,590	50,685
Miscellaneous	-	-	-	-	-
Total revenues	<u>452,900</u>	<u>100,000</u>	<u>124,283</u>	<u>24,283</u>	<u>790,714</u>
Expenditures:					
Current:					
General government	-	-	-	-	-
Protection of persons and property	-	-	-	-	-
Community programs	-	-	446,023	(446,023)	150,116
Public services	-	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>446,023</u>	<u>(446,023)</u>	<u>150,116</u>
Excess (deficiency) of revenues over (under) expenditures	<u>452,900</u>	<u>100,000</u>	<u>(321,740)</u>	<u>(421,740)</u>	<u>640,598</u>
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	(19,700)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(19,700)</u>
Net change in fund balance	452,900	100,000	(321,740)	(421,740)	620,898
Fund balance at beginning of year	<u>1,625,155</u>	<u>1,625,155</u>	<u>1,625,155</u>	<u>-</u>	<u>1,004,257</u>
Fund balance at end of year	<u><u>\$ 2,078,055</u></u>	<u><u>1,725,155</u></u>	<u><u>1,303,415</u></u>	<u><u>(421,740)</u></u>	<u><u>1,625,155</u></u>

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, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Fines and forfeits	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Charges for services	10,000	44,000	46,776	2,776	15,000
Rental	-	-	-	-	-
Investment income	11,460	9,650	10,466	816	12,623
Miscellaneous	-	-	-	-	-
Total revenues	21,460	53,650	57,242	3,592	27,623
Expenditures:					
Current:					
General government	-	-	-	-	-
Protection of persons and property	-	-	-	-	-
Community programs	-	25,000	22,132	2,868	-
Public services	-	-	-	-	-
Total expenditures	-	25,000	22,132	2,868	-
Excess (deficiency) of revenues over (under) expenditures	21,460	28,650	35,110	6,460	27,623
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balance	21,460	28,650	35,110	6,460	27,623
Fund balance at beginning of year	302,868	302,868	302,868	-	275,245
Fund balance at end of year	\$ 324,328	331,518	337,978	6,460	302,868

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, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Fines and forfeits	-	-	-	-	-
Intergovernmental	232,000	166,100	166,094	(6)	219,948
Charges for services	-	-	-	-	-
Rental	-	-	-	-	-
Investment income	21,500	9,480	6,719	(2,761)	13,825
Miscellaneous	-	-	-	-	-
Total revenues	<u>253,500</u>	<u>175,580</u>	<u>172,813</u>	<u>(2,767)</u>	<u>233,773</u>
Expenditures:					
Current:					
General government	-	-	-	-	-
Protection of persons and property	160,308	165,979	127,407	38,572	167,519
Community programs	-	-	-	-	-
Public services	-	-	-	-	-
Total expenditures	<u>160,308</u>	<u>165,979</u>	<u>127,407</u>	<u>38,572</u>	<u>167,519</u>
Excess (deficiency) of revenues over (under) expenditures	<u>93,192</u>	<u>9,601</u>	<u>45,406</u>	<u>35,805</u>	<u>66,254</u>
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	(318,547)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(318,547)</u>
Net change in fund balance	93,192	9,601	45,406	35,805	(252,293)
Fund balance at beginning of year	<u>173,943</u>	<u>173,943</u>	<u>173,943</u>	<u>-</u>	<u>426,236</u>
Fund balance at end of year	<u><u>\$ 267,135</u></u>	<u><u>183,544</u></u>	<u><u>219,349</u></u>	<u><u>35,805</u></u>	<u><u>173,943</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, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Fines and forfeits	-	-	-	-	-
Intergovernmental	400,000	416,770	323,396	(93,374)	8,413,860
Charges for services	-	-	-	-	-
Rental	-	-	-	-	-
Investment income	322,370	274,000	196,437	(77,563)	412,608
Miscellaneous	-	-	-	-	-
Total revenues	<u>722,370</u>	<u>690,770</u>	<u>519,833</u>	<u>(170,937)</u>	<u>8,826,468</u>
Expenditures:					
Current:					
General government	-	-	-	-	-
Protection of persons and property	-	-	-	-	-
Community programs	-	2,190,000	2,393,103	(203,103)	-
Public services	-	-	-	-	4,550,325
Total expenditures	<u>-</u>	<u>2,190,000</u>	<u>2,393,103</u>	<u>(203,103)</u>	<u>4,550,325</u>
Excess (deficiency) of revenues over (under) expenditures	<u>722,370</u>	<u>(1,499,230)</u>	<u>(1,873,270)</u>	<u>(374,040)</u>	<u>4,276,143</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	722,370	(1,499,230)	(1,873,270)	(374,040)	4,276,143
Fund balance at beginning of year	<u>7,437,545</u>	<u>7,437,545</u>	<u>7,437,545</u>	<u>-</u>	<u>3,161,402</u>
Fund balance at end of year	<u><u>\$ 8,159,915</u></u>	<u><u>5,938,315</u></u>	<u><u>5,564,275</u></u>	<u><u>(374,040)</u></u>	<u><u>7,437,545</u></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, 2004

	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	5,560	4,970	3,529	(1,441)	6,681
Miscellaneous	-	2,500	2,458	(42)	4,854
Total revenues	5,560	7,470	5,987	(1,483)	11,535
Expenditures:					
Current:					
General government	-	-	-	-	-
Protection of persons and property	-	-	-	-	-
Community programs	-	-	52,379	(52,379)	13,128
Public services	-	-	-	-	-
Total expenditures	-	-	52,379	(52,379)	13,128
Excess (deficiency) of revenues over (under) expenditures	5,560	7,470	(46,392)	(53,862)	(1,593)
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balance	5,560	7,470	(46,392)	(53,862)	(1,593)
Fund balance at beginning of year	135,008	135,008	135,008	-	136,601
Fund balance at end of year	\$ 140,568	142,478	88,616	(53,862)	135,008

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, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Fines and forfeits	25,000	195,000	260,292	65,292	237,605
Intergovernmental	186,000	36,000	44,453	8,453	33,209
Charges for services	-	-	-	-	-
Rental	-	-	-	-	-
Investment income	-	2,000	8,900	6,900	5,263
Miscellaneous	-	-	-	-	-
Total revenues	211,000	233,000	313,645	80,645	276,077
Expenditures:					
Current:					
General government	-	-	-	-	-
Protection of persons and property	112,568	112,568	74,078	38,490	124,725
Community programs	-	-	-	-	-
Public services	-	-	-	-	-
Total expenditures	112,568	112,568	74,078	38,490	124,725
Excess (deficiency) of revenues over (under) expenditures	98,432	120,432	239,567	119,135	151,352
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balance	98,432	120,432	239,567	119,135	151,352
Fund balance at beginning of year	72,772	72,772	72,772	-	(78,580)
Fund balance at end of year	\$ 171,204	193,204	312,339	119,135	72,772

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, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Fines and forfeits	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Charges for services	-	187,200	187,189	(11)	50,882
Rental	-	-	-	-	-
Investment income	4,020	5,200	10,747	5,547	4,360
Miscellaneous	-	-	-	-	-
Total revenues	4,020	192,400	197,936	5,536	55,242
Expenditures:					
Current:					
General government	-	-	-	-	-
Protection of persons and property	-	-	1,386	(1,386)	17,751
Community programs	-	-	-	-	-
Redevelopment	-	-	-	-	-
Total expenditures	-	-	1,386	(1,386)	17,751
Excess (deficiency) of revenues over (under) expenditures	4,020	192,400	196,550	4,150	37,491
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balance	4,020	192,400	196,550	4,150	37,491
Fund balance at beginning of year	137,555	137,555	137,555	-	100,064
Fund balance at end of year	\$ 141,575	329,955	334,105	4,150	137,555

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, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ 436,800	436,800	588,917	152,117	550,161
Fines and forfeits	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Charges for services	-	-	-	-	-
Rental	-	-	-	-	-
Investment income	164,365	164,365	26,896	(137,469)	18,621
Miscellaneous	8,736	8,736	282,850	274,114	309,630
Total revenues	609,901	609,901	898,663	288,762	878,412
Expenditures:					
Current:					
General government	-	-	-	-	-
Protection of persons and property	-	-	-	-	-
Community programs	-	-	-	-	-
Redevelopment	179,570	825,464	206,823	618,641	159,778
Total expenditures	179,570	825,464	206,823	618,641	159,778
Excess (deficiency) of revenues over (under) expenditures	430,331	(215,563)	691,840	907,403	718,634
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balance	430,331	(215,563)	691,840	907,403	718,634
Fund balance at beginning of year	2,279,255	2,279,255	2,279,255	-	1,560,621
Fund balance at end of year	\$ 2,709,586	2,063,692	2,971,095	907,403	2,279,255

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, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Fines and forfeits	-	-	-	-	-
Intergovernmental	50,000	51,040	51,036	(4)	70,505
Charges for services	-	-	-	-	-
Rental	-	-	-	-	-
Investment income	4,460	3,040	1,411	(1,629)	4,429
Miscellaneous	-	-	-	-	-
Total revenues	<u>54,460</u>	<u>54,080</u>	<u>52,447</u>	<u>(1,633)</u>	<u>74,934</u>
Expenditures:					
Current:					
General government	-	-	-	-	-
Protection of persons and property	-	111,115	92,107	19,008	63,131
Community programs	-	-	-	-	-
Redevelopment	-	-	-	-	-
Total expenditures	<u>-</u>	<u>111,115</u>	<u>92,107</u>	<u>19,008</u>	<u>63,131</u>
Excess (deficiency) of revenues over (under) expenditures	<u>54,460</u>	<u>(57,035)</u>	<u>(39,660)</u>	<u>17,375</u>	<u>11,803</u>
Other financing sources (uses):					
Transfers in	-	-	-	-	7,834
Transfers out	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,834</u>
Net change in fund balance	54,460	(57,035)	(39,660)	17,375	19,637
Fund balance at beginning of year	<u>88,843</u>	<u>88,843</u>	<u>88,843</u>	<u>-</u>	<u>69,206</u>
Fund balance at end of year	<u><u>\$ 143,303</u></u>	<u><u>31,808</u></u>	<u><u>49,183</u></u>	<u><u>17,375</u></u>	<u><u>88,843</u></u>



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, 2004

	1974 Open Space Bond	Financing Authority Debt Service	Totals	
			2004	2003
<u>Assets</u>				
Cash and investments	\$ 360,790	2,374,818	2,735,608	2,706,805
Cash and investments with fiscal agents	-	2,977,979	2,977,979	3,394,674
Due from other governments	5,698	-	5,698	133,051
Accounts receivable	-	480,153	480,153	95,000
Interest receivable	2,870	-	2,870	1,891
Prepaid items	-	-	-	5,625
Total assets	<u>\$ 369,358</u>	<u>5,832,950</u>	<u>6,202,308</u>	<u>6,337,046</u>
 <u>Liabilities and Fund Balances</u>				
Liabilities:				
Accrued liabilities	\$ 3,291	-	3,291	4,381
Total liabilities	<u>3,291</u>	<u>-</u>	<u>3,291</u>	<u>4,381</u>
Fund balances:				
Reserved for:				
Prepaid items	-	-	-	5,625
Debt service	366,067	5,832,950	6,199,017	6,327,040
Total fund balances	<u>366,067</u>	<u>5,832,950</u>	<u>6,199,017</u>	<u>6,332,665</u>
Total liabilities and fund balances	<u>\$ 369,358</u>	<u>5,832,950</u>	<u>6,202,308</u>	<u>6,337,046</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, 2004

	1974 Open Space Bond	Financing Authority Debt Service	Totals	
			2004	2003
Revenues:				
Taxes	\$ 279,678	-	279,678	269,576
Investment income	9,922	191,048	200,970	273,329
Total revenues	<u>289,600</u>	<u>191,048</u>	<u>480,648</u>	<u>542,905</u>
Expenditures:				
Debt service:				
Advanced refunding escrow	-	1,373,003	1,373,003	-
Cost of issuance	-	318,983	318,983	-
Principal	250,000	1,495,000	1,745,000	1,665,000
Interest and fiscal charges	12,603	1,235,582	1,248,185	1,512,696
Total expenditures	<u>262,603</u>	<u>4,422,568</u>	<u>4,685,171</u>	<u>3,177,696</u>
Excess (deficiency) of revenues over (under) expenditures	<u>26,997</u>	<u>(4,231,520)</u>	<u>(4,204,523)</u>	<u>(2,634,791)</u>
Other financing sources (uses):				
Proceeds of long-term debt	-	14,578,060	14,578,060	-
Payment to bond escrow agent	-	(12,991,126)	(12,991,126)	-
Transfers in	-	2,492,884	2,492,884	2,633,949
Transfers out	(8,943)	-	(8,943)	(13,025)
Total other financing sources (uses)	<u>(8,943)</u>	<u>4,079,818</u>	<u>4,070,875</u>	<u>2,620,924</u>
Net change in fund balances	18,054	(151,702)	(133,648)	(13,867)
Fund balances at beginning of year	<u>348,013</u>	<u>5,984,652</u>	<u>6,332,665</u>	<u>6,346,532</u>
Fund balances at end of year	<u>\$ 366,067</u>	<u>5,832,950</u>	<u>6,199,017</u>	<u>6,332,665</u>

CITY OF COSTA MESA, CALIFORNIA

1974 Open Space Bond Fund

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

For the fiscal year ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ 275,800	272,600	279,678	7,078	269,576
Investment income	10,610	10,430	9,922	(508)	13,018
Total revenues	<u>286,410</u>	<u>283,030</u>	<u>289,600</u>	<u>6,570</u>	<u>282,594</u>
Expenditures:					
Debt service:					
Principal	250,000	250,000	250,000	-	240,000
Interest and fiscal charges	11,250	11,250	12,603	(1,353)	26,958
Total expenditures	<u>261,250</u>	<u>261,250</u>	<u>262,603</u>	<u>(1,353)</u>	<u>266,958</u>
Excess (deficiency) of revenues over (under) expenditures	<u>25,160</u>	<u>21,780</u>	<u>26,997</u>	<u>5,217</u>	<u>15,636</u>
Other financing sources (uses):					
Transfers out	-	-	(8,943)	(8,943)	(13,025)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(8,943)</u>	<u>(8,943)</u>	<u>(13,025)</u>
Net change in fund balance	25,160	21,780	18,054	(3,726)	2,611
Fund balance at beginning of year	<u>348,013</u>	<u>348,013</u>	<u>348,013</u>	-	<u>345,402</u>
Fund balance at end of year	<u>\$ 373,173</u>	<u>369,793</u>	<u>366,067</u>	<u>(3,726)</u>	<u>348,013</u>

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, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ 2,184,000	2,184,000	2,198,902	14,902	2,200,644
Investment income	43,680	43,680	10,986	(32,694)	41,345
Miscellaneous	25,510	25,510	-	(25,510)	-
Total revenues	2,253,190	2,253,190	2,209,888	(43,302)	2,241,989
Expenditures:					
Debt service:					
Advanced refunding escrow	-	-	762,586	(762,586)	-
Cost of issuance	-	-	275,700	(275,700)	-
Principal	607,090	607,090	340,000	267,090	629,953
Interest and fiscal charges	1,481,735	1,481,735	1,388,961	92,774	1,484,903
Total expenditures	2,088,825	2,088,825	2,767,247	(678,422)	2,114,856
Excess (deficiency) of revenues over (under) expenditures	164,365	164,365	(557,359)	(721,724)	127,133
Other financing sources (uses):					
Transfers out	164,365	164,365	-	(164,365)	-
Issuance of long-term debt	-	-	7,635,471	7,635,471	-
Payment to bond escrow agent	-	-	(6,654,153)	(6,654,153)	-
Total other financing sources (uses)	164,365	164,365	981,318	816,953	-
Net change in fund balance	328,730	328,730	423,959	95,229	127,133
Fund balance (deficit) at beginning of year	(13,160,320)	(13,160,320)	(13,160,320)	-	(13,287,453)
Fund balance (deficit) at end of year	\$ (12,831,590)	(12,831,590)	(12,736,361)	95,229	(13,160,320)



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, 2004

<u>Assets</u>	<u>Capital Improvements</u>	<u>Measure "M" Construction</u>	<u>CENTROCCS</u>	<u>Financing Authority Construction</u>
Cash and investments	\$ 7,669,884	6,857,813	738	1,405,382
Cash and investments with fiscal agents	1,513,376	-	-	-
Due from other governments	-	495,066	-	-
Accounts receivable	-	-	-	-
Interest receivable	60,850	54,407	6	11,150
Loans receivable	62,000	-	-	-
Rent receivable	-	-	-	-
Loan deposit	-	-	-	-
Land held for resale	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 9,306,110</u>	<u>7,407,286</u>	<u>744</u>	<u>1,416,532</u>
 <u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ 544,508	141,432	-	-
Accrued liabilities	-	-	-	-
Retentions payable	210,582	163,526	-	-
Deposits payable	-	-	-	-
Due to other funds	-	-	-	-
Deferred revenue	597,957	107,011	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	<u>1,353,047</u>	<u>411,969</u>	<u>-</u>	<u>-</u>
Fund balances:				
Reserved for:				
Encumbrances	1,300,917	1,397,338	-	91,659
Loan deposit	-	-	-	-
Land held for resale	-	-	-	-
Unreserved, reported in capital projects funds	6,652,146	5,597,979	744	1,324,873
	<hr/>	<hr/>	<hr/>	<hr/>
Total fund balances (deficit)	<u>7,953,063</u>	<u>6,995,317</u>	<u>744</u>	<u>1,416,532</u>
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances	<u>\$ 9,306,110</u>	<u>7,407,286</u>	<u>744</u>	<u>1,416,532</u>

Parking Districts	Redevelopment Projects	Totals	
		2004	2003
41,649	-	15,975,466	16,054,543
-	-	1,513,376	2,940,514
27	2,655	497,748	457,377
-	-	-	4,284
331	737,609	864,353	827,313
-	-	62,000	163,250
-	970,278	970,278	970,278
-	-	-	339,550
-	-	-	1,697,665
<u>42,007</u>	<u>1,710,542</u>	<u>19,883,221</u>	<u>23,454,774</u>
-	844	686,784	553,708
-	-	-	-
-	-	374,108	270,926
-	-	-	473,695
-	176,042	176,042	41,526
-	1,707,887	2,412,855	2,295,178
-	1,884,773	3,649,789	3,635,033
-	-	2,789,914	2,893,116
-	-	-	339,550
-	-	-	1,697,665
<u>42,007</u>	<u>(174,231)</u>	<u>13,443,518</u>	<u>14,889,410</u>
<u>42,007</u>	<u>(174,231)</u>	<u>16,233,432</u>	<u>19,819,741</u>
<u>42,007</u>	<u>1,710,542</u>	<u>19,883,221</u>	<u>23,454,774</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, 2004

	Capital Improvements	Measure "M" Construction	CENTROCCS	Financing Authority Construction
Revenues:				
Taxes	\$ -	-	-	-
Intergovernmental	637,439	3,146,601	-	-
Rental	-	-	-	-
Investment income	200,898	218,946	1,272	43,103
Miscellaneous	491,808	22,422	-	-
Total revenues	<u>1,330,145</u>	<u>3,387,969</u>	<u>1,272</u>	<u>43,103</u>
Expenditures:				
Current:				
Public services	4,056,974	2,287,098	384,750	318
Redevelopment	-	-	-	-
Total expenditures	<u>4,056,974</u>	<u>2,287,098</u>	<u>384,750</u>	<u>318</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,726,829)</u>	<u>1,100,871</u>	<u>(383,478)</u>	<u>42,785</u>
Other financing sources (uses):				
Transfers in	424,130	-	-	-
Transfers out	(65,000)	-	-	-
Lease proceeds	-	-	-	-
Total other financing sources (uses)	<u>359,130</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>(2,367,699)</u>	<u>1,100,871</u>	<u>(383,478)</u>	<u>42,785</u>
Fund balance at beginning of year, as restated	<u>10,320,762</u>	<u>5,894,446</u>	<u>384,222</u>	<u>1,373,747</u>
Fund balance (deficit) at end of year	<u><u>\$ 7,953,063</u></u>	<u><u>6,995,317</u></u>	<u><u>744</u></u>	<u><u>1,416,532</u></u>

Parking Districts	Redevelopment Projects	Totals	
		2004	2003
795	-	795	794
-	-	3,784,040	3,620,692
-	-	-	78,669
1,283	-	465,502	637,710
-	-	514,230	380,079
<u>2,078</u>	<u>-</u>	<u>4,764,567</u>	<u>4,717,944</u>
-	-	6,729,140	6,681,266
-	282,020	282,020	368,572
<u>-</u>	<u>282,020</u>	<u>7,011,160</u>	<u>7,049,838</u>
<u>2,078</u>	<u>(282,020)</u>	<u>(2,246,593)</u>	<u>(2,331,894)</u>
-	-	424,130	2,256,522
(1,181)	-	(66,181)	(80,391)
-	-	-	3,400,000
<u>(1,181)</u>	<u>-</u>	<u>357,949</u>	<u>5,576,131</u>
897	(282,020)	(1,888,644)	3,244,237
<u>41,110</u>	<u>107,789</u>	<u>18,122,076</u>	<u>16,575,504</u>
<u>42,007</u>	<u>(174,231)</u>	<u>16,233,432</u>	<u>19,819,741</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, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Intergovernmental	530,590	967,144	637,439	(329,705)	28,127
Rental	-	-	-	-	-
Investment income	284,900	243,170	200,898	(42,272)	308,114
Miscellaneous	-	385,153	491,808	106,655	380,055
Total revenues	<u>815,490</u>	<u>1,595,467</u>	<u>1,330,145</u>	<u>(265,322)</u>	<u>716,296</u>
Expenditures:					
Current:					
Public services	-	2,511,220	4,056,974	(1,545,754)	3,970,988
Redevelopment	-	-	-	-	-
Total expenditures	<u>-</u>	<u>2,511,220</u>	<u>4,056,974</u>	<u>(1,545,754)</u>	<u>3,970,988</u>
Excess (deficiency) of revenues over (under) expenditures	<u>815,490</u>	<u>(915,753)</u>	<u>(2,726,829)</u>	<u>(1,811,076)</u>	<u>(3,254,692)</u>
Other financing sources (uses):					
Transfers in	-	424,130	424,130	-	2,256,522
Transfers out	-	(65,000)	(65,000)	-	-
Lease proceeds	-	-	-	-	3,400,000
Total other financing sources (uses)	<u>-</u>	<u>359,130</u>	<u>359,130</u>	<u>-</u>	<u>5,656,522</u>
Net change in fund balance	815,490	(556,623)	(2,367,699)	(1,811,076)	2,401,830
Fund balance at beginning of year	<u>10,320,762</u>	<u>10,320,762</u>	<u>10,320,762</u>	<u>-</u>	<u>7,918,932</u>
Fund balance at end of year	<u>\$ 11,136,252</u>	<u>9,764,139</u>	<u>7,953,063</u>	<u>(1,811,076)</u>	<u>10,320,762</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, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Intergovernmental	2,803,864	3,805,924	3,146,601	(659,323)	3,592,565
Rental	-	-	-	-	-
Investment income	216,400	191,820	218,946	27,126	247,032
Miscellaneous	-	22,422	22,422	-	-
Total revenues	<u>3,020,264</u>	<u>4,020,166</u>	<u>3,387,969</u>	<u>(632,197)</u>	<u>3,839,597</u>
Expenditures:					
Current:					
Public services	45,000	2,788,585	2,287,098	501,487	2,683,514
Redevelopment	-	-	-	-	-
Total expenditures	<u>45,000</u>	<u>2,788,585</u>	<u>2,287,098</u>	<u>501,487</u>	<u>2,683,514</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,975,264</u>	<u>1,231,581</u>	<u>1,100,871</u>	<u>(130,710)</u>	<u>1,156,083</u>
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Lease proceeds	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>2,975,264</u>	<u>1,231,581</u>	<u>1,100,871</u>	<u>(130,710)</u>	<u>1,156,083</u>
Fund balance at beginning of year	<u>5,894,446</u>	<u>5,894,446</u>	<u>5,894,446</u>	<u>-</u>	<u>4,738,363</u>
Fund balance at end of year	<u>\$ 8,869,710</u>	<u>7,126,027</u>	<u>6,995,317</u>	<u>(130,710)</u>	<u>5,894,446</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, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Intergovernmental	-	-	-	-	-
Rental	-	-	-	-	-
Investment income	14,800	11,590	1,272	(10,318)	15,948
Miscellaneous	-	-	-	-	-
Total revenues	14,800	11,590	1,272	(10,318)	15,948
Expenditures:					
Current:					
Public services	-	384,750	384,750	-	-
Redevelopment	-	-	-	-	-
Total expenditures	-	384,750	384,750	-	-
Excess (deficiency) of revenues over (under) expenditures	14,800	(373,160)	(383,478)	(10,318)	15,948
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Lease proceeds	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balance	14,800	(373,160)	(383,478)	(10,318)	15,948
Fund balance at beginning of year	384,222	384,222	384,222	-	368,274
Fund balance at end of year	\$ 399,022	11,062	744	(10,318)	384,222

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, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Intergovernmental	-	-	-	-	-
Rental	-	-	-	-	-
Investment income	53,840	43,960	43,103	(857)	57,274
Miscellaneous	-	-	-	-	-
Total revenues	<u>53,840</u>	<u>43,960</u>	<u>43,103</u>	<u>(857)</u>	<u>57,274</u>
Expenditures:					
Current:					
Public services	-	-	318	(318)	26,764
Redevelopment	-	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>318</u>	<u>(318)</u>	<u>26,764</u>
Excess (deficiency) of revenues over (under) expenditures	<u>53,840</u>	<u>43,960</u>	<u>42,785</u>	<u>(1,175)</u>	<u>30,510</u>
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Lease proceeds	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	53,840	43,960	42,785	(1,175)	30,510
Fund balance at beginning of year	<u>1,373,747</u>	<u>1,373,747</u>	<u>1,373,747</u>	<u>-</u>	<u>1,343,237</u>
Fund balance at end of year	<u>\$ 1,427,587</u>	<u>1,417,707</u>	<u>1,416,532</u>	<u>(1,175)</u>	<u>1,373,747</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, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes	\$ -	-	-	-	-
Intergovernmental	-	-	-	-	-
Rental	80,000	80,000	-	(80,000)	78,669
Investment income	7,500	7,500	-	(7,500)	7,622
Miscellaneous	-	-	-	-	24
Total revenues	87,500	87,500	-	(87,500)	86,315
Expenditures:					
Current:					
Public services	-	-	-	-	-
Redevelopment	306,935	306,935	282,020	24,915	368,572
Total expenditures	306,935	306,935	282,020	24,915	368,572
Excess (deficiency) of revenues over (under) expenditures	(219,435)	(219,435)	(282,020)	(62,585)	(282,257)
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	(80,000)	(80,000)	-	80,000	(78,669)
Lease proceeds	-	-	-	-	-
Total other financing sources (uses)	(80,000)	(80,000)	-	80,000	(78,669)
Net change in fund balance	(299,435)	(299,435)	(282,020)	17,415	(360,926)
Fund balance at beginning of year, as restated	107,789	107,789	107,789	-	2,166,380
Fund balance (deficit) at end of year	\$ (191,646)	(191,646)	(174,231)	17,415	1,805,454

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, 2004

	Equipment Replacement	Self-Insurance Workers' Compensation/ General Liability/ Unemployment	Totals	
			2004	2003
<u>Assets</u>				
Current assets:				
Cash and investments	\$ 7,619,167	9,860,537	17,479,704	17,189,122
Accounts receivable	-	-	-	5,025
Interest receivable	60,660	78,465	139,125	96,391
Inventories	76,547	-	76,547	57,912
Prepaid items	74	-	74	403,515
Total current assets	7,756,448	9,939,002	17,695,450	17,751,965
Capital assets:				
Automotive equipment	8,396,063	-	8,396,063	7,568,961
Other equipment	291,233	-	291,233	288,983
Accumulated depreciation	(4,051,567)	-	(4,051,567)	(3,691,097)
Net capital assets	4,635,729	-	4,635,729	4,166,847
Total assets	12,392,177	9,939,002	22,331,179	21,918,812
<u>Liabilities and Net Assets</u>				
Current liabilities:				
Accounts payable	151,021	328,525	479,546	139,916
Accrued liabilities	13,025	4,390	17,415	20,107
Claims payable	-	2,795,216	2,795,216	2,951,327
Total current liabilities	164,046	3,128,131	3,292,177	3,111,350
Long-term liabilities:				
Claims payable	-	6,573,974	6,573,974	7,984,984
Total long-term liabilities	-	6,573,974	6,573,974	7,984,984
Total liabilities	164,046	9,702,105	9,866,151	11,096,334
Net assets:				
Invested in capital assets, net of related debt	4,635,729	-	4,635,729	4,166,847
Unrestricted	7,592,402	236,897	7,829,299	6,655,631
Total net assets	\$ 12,228,131	236,897	12,465,028	10,822,478

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, 2004

	Equipment Replacement	Self-Insurance Workers' Compensation/ General Liability/ Unemployment	Totals	
			2004	2003
Operating revenues:				
Charges for services	\$ 3,750,135	3,072,472	6,822,607	6,200,408
Total operating revenues	3,750,135	3,072,472	6,822,607	6,200,408
Operating expenses:				
Allocated administrative costs	845,975	-	845,975	1,006,470
Depreciation	542,400	-	542,400	523,348
Automotive fuel and parts	671,142	-	671,142	632,706
Claims and premiums	-	3,136,253	3,136,253	3,389,042
Total operating expenses	2,059,517	3,136,253	5,195,770	5,551,566
Operating income (loss)	1,690,618	(63,781)	1,626,837	648,842
Nonoperating revenues (expenses):				
Investment income	238,812	319,807	558,619	718,496
Loss on sale of equipment	(27,020)	-	(27,020)	(8,372)
Total nonoperating revenues (expenses)	211,792	319,807	531,599	710,124
Income (loss) before transfers	1,902,410	256,026	2,158,436	1,358,966
Transfers in	-	-	-	20,000
Transfers out	(213,360)	(302,526)	(515,886)	(246,196)
Total transfers	(213,360)	(302,526)	(515,886)	(226,196)
Change in net assets	1,689,050	(46,500)	1,642,550	1,132,770
Net assets at beginning of year	10,539,081	283,397	10,822,478	9,689,708
Net assets at end of year	\$ 12,228,131	236,897	12,465,028	10,822,478

CITY OF COSTA MESA, CALIFORNIA
Internal Service Funds
Combining Statement of Cash Flows
For the fiscal year ended June 30, 2004

	Equipment Replacement	Self-Insurance Workers' Compensation/ General Liability/ Unemployment	Totals	
			2004	2003
Cash flows from operating activities:				
Cash received from customers and user departments	\$ 3,755,160	3,072,472	6,827,632	6,195,383
Cash payments to suppliers for goods and services	(844,400)	(3,910,845)	(4,755,245)	(4,354,441)
Cash payments to employees for services	(559,230)	(211,292)	(770,522)	(833,800)
Net cash provided by (used for) operating activities	<u>2,351,530</u>	<u>(1,049,665)</u>	<u>1,301,865</u>	<u>1,007,142</u>
Cash flows from noncapital financing activities:				
Cash received from other funds	-	-	-	20,000
Cash paid to other funds	(213,360)	(302,526)	(515,886)	(246,196)
Net cash provided by (used for) noncapital financing activities	<u>(213,360)</u>	<u>(302,526)</u>	<u>(515,886)</u>	<u>(226,196)</u>
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(1,011,282)	-	(1,011,282)	(819,544)
Net cash provided by (used for) capital and related financing activities	<u>(1,011,282)</u>	<u>-</u>	<u>(1,011,282)</u>	<u>(819,544)</u>
Cash flows from investing activities:				
Investment income received	213,359	302,526	515,885	717,593
Net cash provided by (used for) investing activities	<u>213,359</u>	<u>302,526</u>	<u>515,885</u>	<u>717,593</u>
Net increase (decrease) in cash and cash equivalents	1,340,247	(1,049,665)	290,582	678,995
Cash and cash equivalents at beginning of year	<u>6,278,920</u>	<u>10,910,202</u>	<u>17,189,122</u>	<u>16,510,127</u>
Cash and cash equivalents at end of year	<u>\$ 7,619,167</u>	<u>9,860,537</u>	<u>17,479,704</u>	<u>17,189,122</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ 1,690,618	(63,781)	1,626,837	648,842
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	542,400	-	542,400	523,348
Loss on sale of equipment	(27,020)	-	(27,020)	(8,372)
(Increase) decrease in accounts receivable	5,025	-	5,025	(5,025)
(Increase) decrease in inventories	(18,635)	-	(18,635)	11,475
(Increase) decrease in prepaid items	72,100	331,341	403,441	(339,932)
Increase (decrease) in accounts payable	89,904	249,726	339,630	(23,497)
Increase (decrease) in accrued liabilities	(2,862)	170	(2,692)	1,652
Increase (decrease) in claims payable	-	(1,567,121)	(1,567,121)	198,651
Net cash provided by (used for) operating activities	<u>\$ 2,351,530</u>	<u>(1,049,665)</u>	<u>1,301,865</u>	<u>1,007,142</u>

AGENCY FUNDS

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

Deposits Fund

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

Community Facilities District Fund

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

Costa Mesa Community Foundation Fund

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

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

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

CITY OF COSTA MESA, CALIFORNIA
Agency Funds
Combining Statement of Fiduciary Assets and Liabilities
June 30, 2004

	<u>Deposits</u>	<u>Community Facilities District</u>	<u>Costa Mesa Community Foundation</u>	<u>Airborne Law Enforcement</u>	<u>Totals</u>	
					<u>2004</u>	<u>2003</u>
<u>Assets</u>						
Cash and investments	\$ 2,264,915	2,201	92,657	801,842	3,161,615	4,394,847
Due from other governments	-	-	-	263,454	263,454	171,660
Accounts receivable	79,399	-	-	2,833	82,232	36,161
Interest receivable	1,529	-	735	6,361	8,625	13,039
Inventories	-	-	-	135,651	135,651	7,754
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 2,345,843</u>	<u>2,201</u>	<u>93,392</u>	<u>1,210,141</u>	<u>3,651,577</u>	<u>4,623,461</u>
<u>Liabilities</u>						
Accounts payable	\$ 339,381	-	2,150	112,031	453,562	83,190
Deposits payable	2,006,462	-	91,242	1,030	2,098,734	2,276,614
Due to other governments	-	-	-	1,097,080	1,097,080	2,139,297
Held for bondholders	-	2,201	-	-	2,201	124,360
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>\$ 2,345,843</u>	<u>2,201</u>	<u>93,392</u>	<u>1,210,141</u>	<u>3,651,577</u>	<u>4,623,461</u>

CITY OF COSTA MESA, CALIFORNIA

Agency Funds

Combining Statement of Changes in Fiduciary Assets and Liabilities

Year ended June 30, 2004

	<u>Balance at July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2004</u>
<u>DEPOSITS</u>				
<u>Assets</u>				
Cash and investments	\$ 2,260,090	29,334,815	29,329,990	2,264,915
Accounts receivable	35,023	228,470	184,094	79,399
Interest receivable	<u>1,765</u>	<u>1,529</u>	<u>1,765</u>	<u>1,529</u>
Total assets	<u>\$ 2,296,878</u>	<u>29,564,814</u>	<u>29,515,849</u>	<u>2,345,843</u>
<u>Liabilities</u>				
Accounts payable	\$ 21,094	16,957,385	16,639,098	339,381
Deposits payable	<u>2,275,784</u>	<u>30,062,679</u>	<u>30,332,001</u>	<u>2,006,462</u>
Total liabilities	<u>\$ 2,296,878</u>	<u>47,020,064</u>	<u>46,971,099</u>	<u>2,345,843</u>
<u>COMMUNITY FACILITIES DISTRICT</u>				
<u>Assets</u>				
Cash and investments	\$ 124,360	497,093	619,252	2,201
Total assets	<u>\$ 124,360</u>	<u>497,093</u>	<u>619,252</u>	<u>2,201</u>
<u>Liabilities</u>				
Held for bondholders	\$ 124,360	870,228	992,387	2,201
Total liabilities	<u>\$ 124,360</u>	<u>870,228</u>	<u>992,387</u>	<u>2,201</u>
<u>COSTA MESA COMMUNITY FOUNDATION</u>				
<u>Assets</u>				
Cash and investments	\$ -	115,459	22,802	92,657
Interest receivable	-	735	-	735
Total assets	<u>\$ -</u>	<u>116,194</u>	<u>22,802</u>	<u>93,392</u>
<u>Liabilities</u>				
Accounts payable	\$ -	11,888	9,738	2,150
Deposits payable	-	133,109	41,867	91,242
Total liabilities	<u>\$ -</u>	<u>144,997</u>	<u>51,605</u>	<u>93,392</u>

(Continued)

CITY OF COSTA MESA, CALIFORNIA

(Continued)

Agency Funds

Combining Statement of Changes in Fiduciary Assets and Liabilities

Year ended June 30, 2004

	<u>Balance at July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2004</u>
<u>AIRBORNE LAW ENFORCEMENT</u>				
<u>Assets</u>				
Cash and investments	\$ 2,010,397	1,491,975	2,700,530	801,842
Due from other governments	171,660	1,050,287	958,493	263,454
Accounts receivable	1,138	10,333	8,638	2,833
Interest receivable	11,274	6,361	11,274	6,361
Inventories	7,754	134,411	6,514	135,651
Total assets	<u>\$ 2,202,223</u>	<u>2,693,367</u>	<u>3,685,449</u>	<u>1,210,141</u>
<u>Liabilities</u>				
Accounts payable	\$ 62,096	2,609,411	2,559,476	112,031
Deposits payable	830	200	-	1,030
Due to other funds	750	-	750	-
Due to other governments	2,138,547	1,635,376	2,676,843	1,097,080
Total liabilities	<u>\$ 2,202,223</u>	<u>4,244,987</u>	<u>5,237,069</u>	<u>1,210,141</u>
<u>TOTALS - ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and investments	\$ 4,394,847	31,439,342	32,672,574	3,161,615
Due from other governments	171,660	1,050,287	958,493	263,454
Accounts receivable	36,161	238,803	192,732	82,232
Interest receivable	13,039	8,625	13,039	8,625
Inventories	7,754	134,411	6,514	135,651
Total assets	<u>\$ 4,623,461</u>	<u>32,871,468</u>	<u>33,843,352</u>	<u>3,651,577</u>
<u>Liabilities</u>				
Accounts payable	\$ 83,190	19,578,684	19,208,312	453,562
Deposits payable	2,276,614	30,195,988	30,373,868	2,098,734
Due to other funds	750	-	750	-
Due to other governments	2,138,547	1,635,376	2,676,843	1,097,080
Held for bondholders	124,360	870,228	992,387	2,201
Total liabilities	<u>\$ 4,623,461</u>	<u>52,280,276</u>	<u>53,252,160</u>	<u>3,651,577</u>



Statistical Section

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 (2)</u>	<u>Public Services (3)</u>
1994-95	9,478,267	32,900,523	3,443,861	4,960,734
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

<u>Fiscal Year</u>	<u>Leisure and Community Development</u>	<u>Redevelopment</u>	<u>Debt Service</u>	<u>TOTAL</u>
1994-95	5,047,529	-	7,756,998	63,588,012
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

(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

<u>Fiscal Year</u>	<u>Taxes</u>	<u>Licenses and Permits</u>	<u>Fines and Forfeitures</u>	<u>Inter-governmental</u>	<u>Charges for Services</u>
1994-95	42,726,257	720,185	1,373,248	7,152,034	2,741,086
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

<u>Fiscal Year</u>	<u>Special Assessments</u>	<u>Rental</u>	<u>Interest</u>	<u>Miscellaneous</u>	<u>TOTAL</u>
1994-95	1,231,932	1,655,702	2,628,048	462,158	60,690,650
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

(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>
1994-95	12,700,259	25,497,172	2,640,750
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

<u>Fiscal Year</u>	<u>Franchise Taxes</u>	<u>Business License Taxes</u>	<u>Total Taxes</u>
1994-95	1,575,636	755,051	43,168,868
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

(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, 2004

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>
1995 (2)	-	-	-	-	-
1996	-	-	-	-	-
1997	-	-	-	-	-
1998	-	-	-	-	-
1999	-	-	-	-	-
2000	-	-	-	-	-
2001	-	-	-	-	-
2002	-	-	-	-	-
2003	-	-	-	-	-
2004	-	-	-	-	-

Expenses by Type

<u>Fiscal Year</u>	<u>Benefits</u>	<u>Withdrawals</u>	<u>Administrative Expenses</u>	<u>TOTAL</u>
1995 (2)	-	-	-	-
1996	-	-	-	-
1997	-	-	-	-
1998	-	-	-	-
1999	-	-	-	-
2000	-	-	-	-
2001	-	-	-	-
2002	-	-	-	-
2003	-	-	-	-
2004	-	-	-	-

(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, 2004

2003-04 Assessed Valuation: \$ 9,720,426,181 (after deducting \$ 358,638,423 Redevelopment incremental valuation)

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 6/30/04</u>
Orange County Teeter Plan Obligations	3.751	\$ 4,667,182
Metropolitan Water District	0.796	3,561,901
Coast Community College District	14.644	16,108,400
Rancho Santiago Community College District	1.831	1,760,049
Newport Mesa Unified School District	28.754	31,366,301
Santa Ana Unified School District	4.494	6,409,485
Huntington Beach School District	0.002	598
City of Costa Mesa Community Facilities District No. 91-1	100.000	2,670,000
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$ 66,543,916
<u>DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>		
Orange County General Fund Obligations	3.751	\$ 34,746,226
Orange County Pension Obligations	3.751	4,380,136
Orange County Transit District Authority	3.751	185,299
Orange County Board of Education Certificates of Participation	3.751	748,325
Municipal Water District of Orange County Water Facilities Corporation	4.480	1,868,832
Orange County Sanitation District Certificates of Participation	5.155	7,704,921
Coast Community College District Certificates of Participation	14.644	1,123,195
Huntington Beach Union High School District Certificates of Participation	0.001	170
Newport Mesa School District Certificates of Participation	28.754	779,233
Santa Ana Unified School District Certificates of Participation	4.494	2,183,531
Huntington Beach School District Certificates of Participation	0.002	90
Irvine Ranch Water District Certificates of Participation	1.842	898,896
City of Costa Mesa General Fund Obligations	100.000	23,340,000
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$ 77,958,854
Less: Orange County Transit District Authority (80% self-supporting)		148,240
MWDOC Water Facilities Corporation (100% self-supporting)		1,868,832
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$ 75,941,782
GROSS COMBINED TOTAL DEBT		\$ 144,502,770 (1)
NET COMBINED TOTAL DEBT		\$ 142,485,698

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

Ratios to 2003-04 Assessed Valuation:

Total Direct and Overlapping Tax and Assessment Debt 0.66%

Ratios to Adjusted Assessed Valuation:

Combined Direct Debt (\$ 23,340,000) 0.24%
Gross Combined Total Debt 1.49%
Net Combined Total Debt 1.47%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/04: \$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

Fiscal Year	(1) Population	(2) Assessed Value	Gross Bonded Debt	
1994-95	103,823	7,179,275,787	1,840,000	
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	-	

Fiscal Year	(3) Less Debt Service Fund	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt Per Capita
1994-95	233,842	1,606,158	0.0002	15.73
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

(1) Costa Mesa 2004 Community Economic Profile

(2) Assessed Valuation - Source: HdL Coren & Cone, Orange County Assessor 2003/04 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, 2004**

ASSESSED VALUE		<u>\$ 10,803,463,598</u>
DEBT LIMIT: 3.75 Percent of Assessed Value		\$ 405,129,885
Amount of Debt applicable to Debt Limit:		
Total Bonded Debt	<u>\$ -</u>	
	\$ -	
LESS: Assets in Debt Service Fund (Net)	<u>366,067</u>	
TOTAL AMOUNT OF DEBT APPLICABLE TO DEBT LIMIT		<u>\$ (366,067)</u>
LEGAL DEBT MARGIN		<u><u>\$ 405,495,952</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>
1994-95	160,000	107,845	267,845	63,588,012	0.42
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

(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>
1994-95	-	1.0000	.0096	.0044	1.0140
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

(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 levy 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>
1994-95	10,841,397	9,962,524	91.9%
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%

<u>Fiscal Year</u>	<u>Delinquent Tax Collections</u>	<u>Total Tax Collections</u>	<u>Total Collections as Percent of Current Levy</u>
1994-95	223,152	10,185,676	94.0%
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%

(1) Source: Orange County Assessor 2003/04 Combined Tax Rolls.

TABLE 11

**CITY OF COSTA MESA, CALIFORNIA
PRINCIPAL PROPERTY TAXPAYERS
Fiscal Year Ended June 30, 2004**

<u>Property Owner</u>	<u>2004 Assessed Valuation (1)</u>	<u>Percentage of Total Assessed Valuation</u>
1. South Coast Plaza	\$ 273,632,525	2.53%
2. Sakioka Farms	221,056,325	2.05%
3. Fifth Street Properties LLC	179,138,862	1.66%
4. CJ Segerstrom & Sons	149,259,686	1.38%
5. City of Costa Mesa	134,512,651	1.25%
6. Los Angeles Times Communications LLC	118,848,788	1.10%
7. Orange County Performing Arts Center	116,378,886	1.08%
8. Interinsurance Exchange of Auto Club	103,356,835	0.96%
9. Casden Lakes Limited Partnership	102,710,057	0.95%
10. Riverville Family Associates LLC	85,177,898	0.79%
	<u>\$ 1,484,072,513</u>	<u>13.74%</u>

(1) Source: HdL Coren & Cone, Orange County Assessor 2003/04 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
1994-95	1,529,059	1,506,500	98.5%	65
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%	-

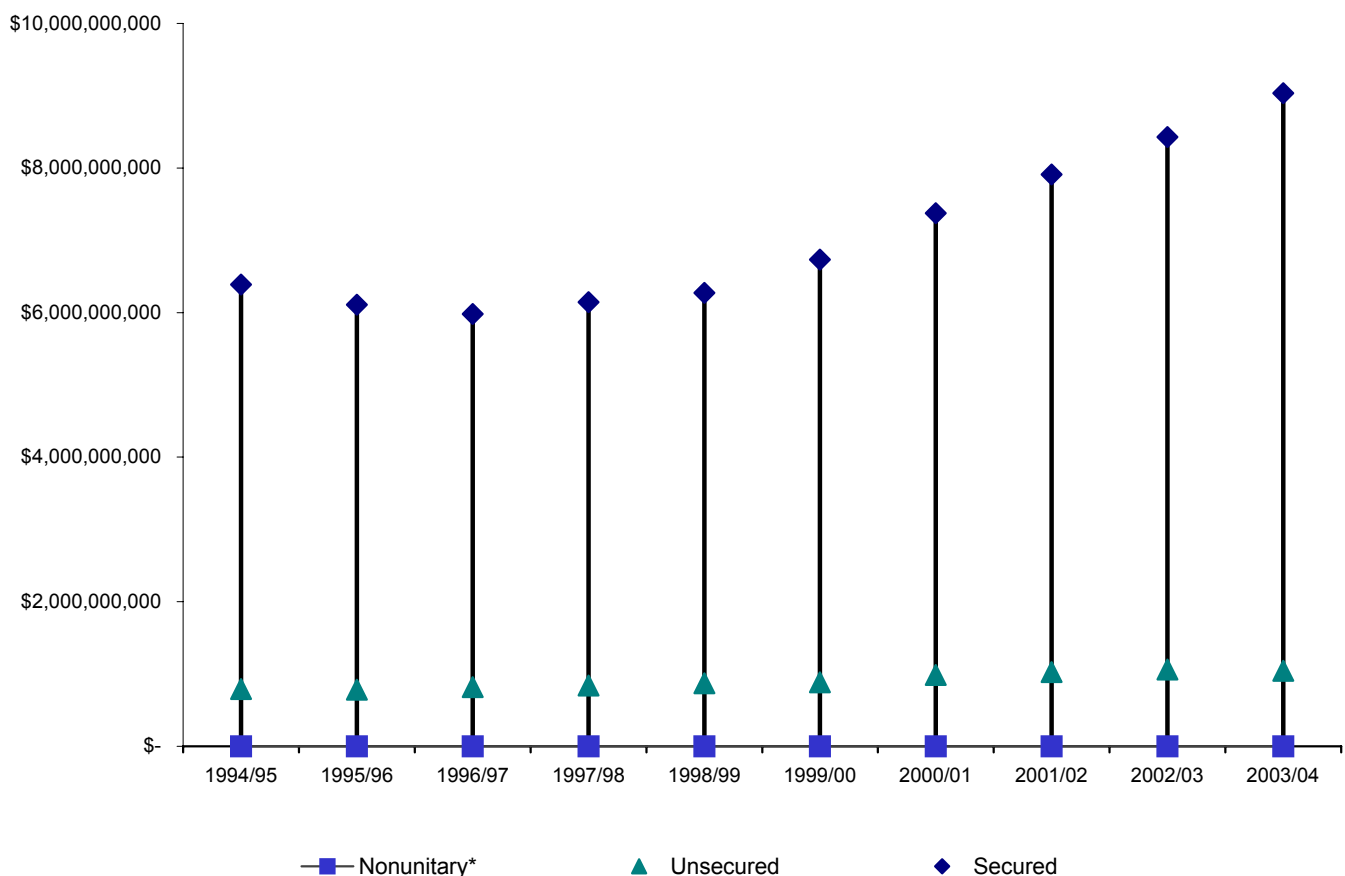
(1) Source: Orange County Assessor Tax Ledger.

TABLE 13

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

Lien Year:	1994/95	1995/96	1996/97	1997/98	1998/99
Secured	\$6,388,705,318	\$6,111,102,140	\$5,981,565,797	\$6,144,988,121	\$6,272,401,475
Nonunitary *	\$2,723	\$3,971	\$3,595	\$4,530	\$3,973
Unsecured	\$790,567,746	\$782,178,605	\$818,048,351	\$841,840,246	\$871,529,318
Net Total AV	\$7,179,275,787	\$6,893,284,716	\$6,799,617,743	\$6,986,832,897	\$7,143,934,766

Lien Year:	1999/00	2000/01	2001/02	2002/03	2003/04
Secured	\$6,731,312,359	\$7,375,600,479	\$7,912,343,814	\$8,429,239,852	\$9,035,782,660
Nonunitary *	\$2,714	\$2,510	\$2,747	\$2,645	\$3,020
Unsecured	\$884,454,174	\$988,790,310	\$1,025,597,352	\$1,063,118,800	\$1,043,278,924
Net Total AV	\$7,615,769,247	\$8,364,393,299	\$8,937,943,913	\$9,492,361,297	\$10,079,064,604



**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>
1994-95	2,881,148	3,514,491	235,369
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

- (1) FY 1994-95 through 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 2003-04, HdL Coren & Cone, Orange County Assessor Combined Tax Rolls.

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

<u>Fiscal Year</u>	<u>Commercial (1)</u>		<u>Residential (1)</u>	
	<u>Number of Permits</u>	<u>Construction Value</u>	<u>Number of Permits</u>	<u>Construction Value</u>
1994-95	-	27,022	-	8,695
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

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

TABLE 16

**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>
1994-95	103,823	18,900	31	9,939	5.5%
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%

(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
---------------------------------	-----

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