

Notes to the Basic Financial Statements, JUNE 30, 2007

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Santa Ana (the “City”) was incorporated on June 1, 1886 and operates under a Council/Manager form of government. The Council is composed of an elected Mayor and six Council members. As required by generally accepted accounting principles, these financial statements present the government and its component units for which the government is considered financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government’s operations and so data from these units are combined with the data of the primary government. Each blended component unit as described below has a June 30 year-end.

Blended Component Units

Community Redevelopment Agency of the City of Santa Ana

The Redevelopment Agency (RDA) was originally established in 1973 to eliminate blighted areas through the redevelopment of six project areas under provisions of the California Community Development Law. Effective September 1, 2004, the RDA amended its project area plans to create one merged project area within the City. The City’s Council members serve as the Agency’s Directors, designate management, and have full accountability for the Agency’s fiscal matters. The RDA’s financial data and transactions are included with the Debt Service Funds, and Capital Projects Funds. The Redevelopment Agency prepares a separate Component Unit Financial Report (CUFR) and a copy can be obtained from the City’s Finance and Management Services Agency.

Housing Authority of the City of Santa Ana

The Housing Authority (the “Authority”) was established in 1972 pursuant to Housing Authority Laws of California to provide rental assistance programs to low-income families and senior citizens, and to operate a Housing Rehabilitation Loan Program. The Authority is governed by a commission of seven members comprised of the City Council, which designates management and has full accountability for the Authority’s fiscal affairs. The Authority’s financial data and transactions are included with the Special Revenue Funds. There is no separate Component Unit Financial Report (CUFR) prepared for the Housing Authority.

Santa Ana Financing Authority

The Santa Ana Financing Authority was organized in August 1993, for the primary purpose of assisting in the financing and refinancing of certain redevelopment activities of the RDA and certain public programs and projects of the City. The Financing Authority is administered by a board whose members shall be, at all times, the Mayor of the City and the members of the City Council. The Financing Authority’s board has full accountability for the Financing Authority’s fiscal affairs. The Financing Authority’s financial data and transactions are included with the Debt Service Funds and the Water Enterprise Fund. There is no separate Component Unit Financial Report (CUFR) prepared for the Santa Ana Financing Authority.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its blended component units. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The City has no discretely presented component units.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentations

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The Agency funds, however, are unlike all other types of funds, reporting only assets and liabilities. Therefore the Agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, utility user's taxes, hotel visitors' taxes, interest and business taxes are susceptible to accrual. Sales taxes collected and held by the state at year-end on behalf of the City are also recognized as revenue. Other receipts and taxes become measurable and available when cash is received by the City and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Grant funds received before the revenue recognition criteria have been met are reported as deferred revenues.

The City reports the following major governmental funds:

General Fund. The General Fund is the City's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund.

Special Revenue Grants Fund. These funds account for revenue sources awarded to the City by the Federal, State and local governments not otherwise accounted for in the General Fund or Capital Projects Funds.

Housing Authority Special Revenue Fund. This fund accounts for the receipt and disbursement of funds received from the U.S. Department of Housing and Urban Development to provide rental assistance under Section 8 of the Federal Housing Act as amended. The City has elected to treat this fund as a major governmental fund.

Community Redevelopment Agency Projects Fund. This fund accounts for the receipts and expenditures relating to the City's merged redevelopment project area in accordance with the California Health and Safety Code.

Street Construction Fund – This fund is used to account for the receipts and disbursements of funds for right-of-way acquisition, construction and improvements related to the City's street system. These projects are funded by gas taxes, Measure M, Intermodal Surface Transportation Efficiency Act and improvement fees.

Community Redevelopment Agency Debt Service Funds. This fund accounts for the receipt of tax increment revenues which by State of California Law regulating redevelopment Agencies, must be used for the payment of debt.

Santa Ana Financing Authority Debt Service Fund. This fund accounts for the receipt of revenues and payment of debt service related to the Police Administration and Holding Facility Lease Revenue and the 1998 refunding Revenue Bonds.

The City reports the following major proprietary funds:

Water Enterprise Fund. This fund is used to account for the provision of water services to the residential, commercial and industrial segments of the City.

Parking Enterprise Fund. This fund is used to account for the provision of the parking meter program and the downtown parking structures operation of the City.

Additionally, the City reports the following fund types:

Internal Service Funds. These funds account for fleet services, facilities management, the administration of the self-insurance programs, installation and maintenance of all data networking and financial management systems, engineering, designing, project management and construction services,

and training and support services provided to other departments or agencies of the City, on a cost reimbursement basis.

Agency Funds. These funds are used to account for money and property held by the City as trustee or custodian. Among the activities are the disposition of funds charged to departments for the payment of salaries and retirement benefits to City employees, deposits made for the account of other governmental agencies, developers, tax increment pass-through and others under the terms of agreements for which the deposits were made.

Private sector standards of accounting and financial reporting issued by Financial Accounting Standards Board (FASB) prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the *option* of following subsequent private-sector guidance for their business type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and other enterprise functions, and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds, and of the City's internal service funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets or Equity

Cash and Investments. For purposes of the statement of cash flows, the City considered cash and cash equivalents as short term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The City follows the practice of pooling the cash and investments of all funds, including the City's Enterprise and Internal Service Funds. As amounts are available to

these funds on demand, all cash and investments are considered to be cash and cash equivalents for statement of cash flows purposes.

Investments are reported in the accompanying balance sheet at fair value, except for certain 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 rates. Changes in fair value that occur during the fiscal year are recognized as revenue from investment income (Governmental Funds) and interest income (Proprietary Funds). These revenues include interest earnings, changes in fair value, rentals, leases and any gains or losses realized upon liquidation, maturity, or sale of investments.

The City carries certain investments, which include money market securities (such as short-term, highly liquid debt instruments including commercial paper, bankers' acceptances, U.S. Treasury and agency obligations) that have a remaining maturity at the time of purchase of one year or less, at amortized cost.

Cash and investments are pooled to maximize investment yields. The net change in fair value and interest earned on the investments is allocated monthly to the respective funds based on each fund's daily average cash and investments balance.

Cash and Investments with Fiscal Agents. This account includes unexpended bond proceeds, and amounts set aside for payment of debt service.

Receivables and Payables. Interagency current receivables and payables are classified as amounts "due from" and "due to" other funds. The City considers interagency long-term loans to be operating transfers. Accordingly, "loans receivable" are classified as "transfers out" while "loans payable" are "transfers in". Interest on such loans is recorded only when due. Loan amounts, including interest, are noted in Note 3B. When these loans are repaid, such transactions are also recorded as "transfers out" (typically from the Debt Service Funds) and "transfers in", and the loan balance is reduced in the footnotes. Residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "Internal Balances."

Property Taxes. Property taxes attach as an enforceable lien on property as of March 1. Taxes are levied on July 1 and are payable in two installments on December 10 and April 10. The County of Orange, California bills and collects the property taxes and remits them to the City in installments during the year. City property tax revenues are recognized when levied to the extent that they result in current receivables within 60 days.

The County is permitted by State law (Proposition 13) to levy taxes at 1% of full market value (at time of purchase) and can increase the property tax rate no more than 2% per year. The City receives a share of this basic levy proportionate to what it received in the 1976 to 1978 period.

Inventories and Prepaid Items. Inventories of materials and supplies are valued at average cost. The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Land Held for Resale. Land held for resale is carried at the lower of cost or estimated net realizable value when a sales contract has been entered into with a purchasing party.

Restricted Assets. In the Balance Sheet presentation of assets and liabilities in the proprietary funds “Restricted Assets” are classified within the current and noncurrent caption where applicable, in compliance with current GAAP.

Capital Assets. Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$10,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the City during the current fiscal year was \$13,927,618. No interest amount was included as part of the cost of capital assets under construction.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and Parking Structures	30-50
Building Improvements	20
Public domain infrastructure	50
Storm Drain Pipe, Catch Basins	75
Sewer System	75
Water System	50
Vehicles	5
Office Equipment	3-5
Computer Equipment	3-5

Arbitrage Liability. Any liability for arbitrated interest is recorded in the fund incurring the liability and interest income is reduced by the amount of liability incurred during the year. There is no liability for arbitrage at June 30, 2007.

Compensated Absences. It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. A liability for unpaid accumulated sick leave is accrued for employees who have attained ten (10) years or more of continuous service equivalent to one-third (1/3) of up to 200 days of accrued sick leave for each employee. All vacation, compensated time, and vested sick leave pay is accrued when incurred in the government- wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example as a result of employee resignations and retirements.

Long-term Obligations. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities

in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund equity. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Difference between Governmental Funds Balance Sheet and the Statement of Net Assets

The "total fund balances" of the City's governmental funds \$171,690,266 differs from "net assets" of governmental activities \$765,102,213 reported in the statement of net assets. This difference primarily results from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets.

Capital Related Items

When capital assets (property, plant, equipment) that are to be used in governmental activities are purchased or constructed, the cost of those assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the City as a whole.

Cost of capital assets	\$	1,101,745,381
Accumulated depreciation		<u>(298,784,286)</u>
Total capital assets, net	\$	<u><u>802,961,095</u></u>

Long-Term Debt Transactions

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities (both current and long-term) are reported in the statement of net assets.

Tax allocation bonds payable	\$ (19,510,000)
Tax allocation refunding bonds	(27,760,000)
Lease revenue bonds payable	(96,585,000)
Refunding revenue bonds	(78,695,000)
Certificates of participation	(10,455,000)
Long-term loans payable	(7,054,737)
Compensated absences payable	(30,617,074)
Capitalized lease obligations payable	(4,087,758)
Bond premium	(3,958,656)
Less: Deferred amount on refunding costs	<u>4,071,575</u>
Total Governmental Activities Long-term Debt	<u>\$ (274,651,650)</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 added	\$ <u>(4,522,207)</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.

Internal service - net assets	\$ <u>36,196,377</u>
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Reclassifications and Eliminations

Interfund balances must generally be eliminated in the government-wide statements, except for net residual amounts due between governmental activities. Amounts involving fiduciary funds should be reported as external transactions. Any allocations must reduce the expenses 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. Various home loans and RDA Housing Rehabilitation loans guaranteed by deeds of trust deferred in revenue in the fund financials were eliminated in the government wide financial statements.

Net reclassifications	\$ <u>33,428,332</u>
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B. Explanation of Differences between Governmental Funds Operating Statements and the Statement of Activities

The “net change in fund balances” for governmental funds \$5,254,754 differs from the “change in net assets” for governmental activities \$64,715,197 reported in the statement of activities. The differences arise primarily from the long-term economic focus of the statement of activities versus the current financial resources focus of the governmental funds. The effect of the differences is illustrated below.

Capital Related Items

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

Capital outlay	\$	54,307,148
Depreciation expense		<u>(19,065,142)</u>
Difference	\$	<u><u>35,242,006</u></u>

Long-term Debt Transactions

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Net change in compensated absences	\$	<u><u>(2,527,892)</u></u>
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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.

Principal payments made:	
Refunding revenue bonds	\$ 4,155,000
Tax allocation bonds	2,040,000
Police administrative and Holding Facility lease revenue bids	3,610,000
C.O.P. 1998 City Hall Expansion	290,000
Countywide PFA lease revenue bonds	820,000
Capitalized lease obligations	606,495
Long-term loans payable	<u>1,823,639</u>
Total principal repayments	<u>13,345,134</u>
Amortization of bond premium	429,201
Amortization of deferred charges	<u>(441,111)</u>
Net change	\$ <u><u>13,333,224</u></u>

Accrued Interest

Beginning net assets in the statement of activities has been restated to reflect the retroactive recording of accrued interest on outstanding debt payable.

Accrued interest	\$ <u><u>994,391</u></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 adjustments for internal service funds “closes” those funds by charging additional amounts to participating governmental activities to completely cover the internal service funds’ cost for the year.

Net change in net assets - internal service funds	\$ <u><u>9,994,319</u></u>
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Reclassifications and Eliminations

Interfund balances must generally be eliminated in the government-wide statements, except for net residual amounts due between governmental activities. Amounts involving fiduciary funds should be reported as external transactions. Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund.

Revenue adjustment	\$ <u><u>2,424,395</u></u>
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C. Fund Deficits

At June 30, 2007, the Worker Compensation Internal Service Fund had an accumulated deficit of \$4,508,227, is primarily attributable to accruals for outstanding reported claims and actuarial estimates for incurred but not reported claims (IBNR) at year end. The City’s cash projections indicate that future annual revenue will be sufficient to cover insurance premiums, claim payments and administrative expenses in the Worker Compensation program in future years.

At June 30, 2007, the RDA Debt Service fund has accumulated deficits of \$73,371,710. The deficit in the RDA Debt Service Fund is attributable to the recognition of intra-entity liability reflected in the fund financials as “obligations to the Financing authority”. The deficit of \$2,083,322 in the nonmajor Capital Grants and \$440,511, in Civic Center Maintenance, a nonmajor Special Revenue Fund are due to the deferral of revenues due from granting agencies, which did not meet the revenue criteria in accordance with GASB Statement 33. Subsequent collection of the receivables from the granting agencies will clear up the deficits.

Note 3.DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Cash and investments as of June 30, 2007 are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and investments	\$ 216,812,074
Cash and investments with fiscal agents	17,213,749
Restricted assets:	
Cash and investments	1,428,779
Cash and investments with fiscal agents	1,641,699
Statement of Fiduciary Assets and Liabilities:	
Cash and investments	<u>30,351,066</u>
Total cash and investments	<u>\$ 267,447,367</u>

Cash and investments as of June 30, 2007 consist of the following:

Cash on hand	\$ 477,111
Deposits with financial institutions	(3,914,138)
Investments	<u>270,884,394</u>
Totals	<u>\$ 267,447,367</u>

Investments Authorized by the California Government Code and the City of Santa Ana’s Investment Policy

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

<u>Investment Types Authorized by State Law</u>	<u>Authorized By Investment Policy</u>	<u>*Maximum Maturity</u>	<u>*Maximum Percentage Of Portfolio</u>	<u>*Maximum Investment In One Issuer</u>
Local Agency Bonds	Yes	5 years	None	None
U.S. Treasury Obligations	Yes	5 years	None	None
Federal Agency Securities	Yes	5 years	None	None
Banker's Acceptances	Yes	180 days	40%	30%
Commercial Paper	Yes	270 days	25%	10%
Negotiable Certificates of Deposit	Yes	5 years	30%	None
Repurchase Agreements	Yes	90 days	30%	None
Reverse Repurchase Agreements	No	92 days	20% of base value	None
Medium-Term Notes	Yes	3 years	15%	5%
Mutual Funds	Yes	N/A	20%	10%
Money Market Mutual Funds	Yes	N/A	20%	10%
Mortgage Pass-Through Securities	Yes	5 years	20%	None
County Pooled Investment Funds	No	N/A	None	None
Local Agency Investment Fund (LAIF)	Yes	N/A	None	None
JPA Pools (other investment pools)	No	N/A	None	None

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

Investments Authorized by Debt Agreements

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

<u>Authorize Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Notes	None	None	None
Federal Agency Securities	None	None	None
Banker's Acceptances	180-365 Days	None	None
Certificates of Deposit	None	None	None
Commercial Paper	270 days	None	None
Municipal Obligations	None	None	None
Corporate bonds and notes	3 years	None	None
Money Market Mutual Funds	N/A	None	None
State of California Investment Pool	N/A	None	None
Savings accounts	N/A	None	None
Money market deposit accounts	N/A	None	None
Deposit accounts	N/A	None	None
Investment Contracts	30 years	None	None
Repurchase agreements	30 days	None	None

NOTES TO THE BASIC FINANCIAL STATEMENTS

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity (for purposes of the schedule shown below, any callable securities are assumed to be maturing at the next call date):

Investment Type	Remaining Maturity (in months)			
	12 Months or Less	13 to 24 Months	25-60 Months	More than 60 Months
U.S. Treasury Strips	\$ 187,981	\$ 187,981	\$ -	\$ -
Federal Agency Securities	205,467,236	144,679,046	33,881,790	26,906,400
Commercial Paper	6,000,000	6,000,000	-	-
Mortgage-backed Securities	259,250	-	-	259,250
Repurchase Agreement	3,406,600	3,406,600	-	-
State Investment Pool	37,437,565	37,437,565	-	-
Held by Fiscal Agent:				
Money Market Funds	10,678,022	10,678,022	-	-
U.S. Treasury Note	1,205,076	1,205,076	-	-
Local Agency Investment	1,409,728	1,409,728	-	-
Investment Contracts	4,832,936	-	-	4,832,936
	<u>\$ 270,884,394</u>	<u>\$ 205,004,018</u>	<u>\$ 33,881,790</u>	<u>\$ 26,906,400</u>
				<u>\$ 5,092,186</u>

The City's investments (including investments held by bond trustees) include the following investments that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above):

Highly Sensitive Investments	Year End
Callable agencies securities with interest rates that increase in ranges from 2 percent to 7 percent	\$ 2,992,500

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the City's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

Investment Type		Minimum Legal Rating	Exempt From Disclosure	Rating as of Year End		
				AAA	Aa	Not Rated
U.S. Treasury Strips	\$ 187,981	N/A	\$ 187,981	\$ -	\$ -	\$ -
Federal Agency Securities	205,467,236	N/A	-	205,467,236	-	-
Commercial Paper	6,000,000	A	-	6,000,000	-	-
Mortgage-backed Securities	259,250	AA	-	-	-	259,250
Repurchase Agreement	3,406,600	N/A	-	-	-	3,406,600
State Investment Pool	37,437,565	N/A	-	-	-	37,437,565
Held by Fiscal Agent:						
Money Market Funds	10,678,022	A	-	-	10,678,022	-
U.S. Treasury Note	1,205,076	N/A	1,205,076	-	-	-
Local Agency Investment	1,409,728	N/A	-	-	-	1,409,728
Investment Contracts	4,832,936	N/A	-	-	4,832,936	-
	<u>\$ 270,884,394</u>		<u>\$ 1,393,057</u>	<u>\$ 211,467,236</u>	<u>\$ 15,510,958</u>	<u>\$ 42,513,143</u>

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total City investments are as follows:

Issuer	Investment Type	Reported Amount
Federal Farm Credit Bank	Federal agency securities	\$ 27,950,534
Federal Home Loan Bank Agency	Federal agency securities	78,503,102
Federal Home Loan Mortgage Corp. Agency	Federal agency securities	44,089,120
Federal National Mortgage Association Agency	Federal agency securities	54,924,480

Investments in any one issuer that represents 5% or more of total investments by reporting unit (governmental activities, major fund, nonmajor fund in the aggregate, etc.) are as follows:

\$4,832,936 of the cash and investments (including amounts held by bond trustee) reported in the Santa Ana Financing Authority Debt Service Fund (a major fund of the City) is held in the form of an investment contract issued by AIG Financial.

\$8,748,346 of the cash and investments (including amounts held by bond trustee) reported in the Redevelopment Agency Debt Service Fund (a major fund of the City) is held in the form of money market funds issued by Federated Treasury.

\$1,205,076 of the cash and investments (including amounts held by bond trustee) reported in the Nonmajor Enterprise Funds is held in the form of a U.S. Treasury Note that matures on October 18, 2007.

\$1,428,799 of the cash and investments (including amounts held by bond trustee) reported in the Water Enterprise Fund (a major fund of the City) is held in the form of Federal Agency Securities.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City’s investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2007, none of the City’s deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts. As of June 30, 2007, City investments in the following investment types were held by the same broker-dealer (counterparty) that was used by the City to buy the securities:

<u>Investment Type</u>	<u>Reported Amount</u>
Repurchase Agreement	\$ <u><u>3,406,600</u></u>

For investments identified herein as held by bond trustee, the bond trustee selects the investment under the terms of the applicable trust agreement, acquires the investment, and holds the investment on behalf of the reporting government.

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the 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.

- B. Interagency Long-Term Debt.** As required by GASB No. 34, certain intra-entity obligations have been eliminated from both the government-wide financial statements and the fund financial statements because repayment is not expected within a reasonable period of time. The balances of these legal obligations as of June 30, 2007 are as follows:

	Loans Receivable	Loans Payable
City of Santa Ana	\$ 425,123,349	\$ -
Redevelopment Agency:		
Merged Project	-	425,123,349
Total	<u>\$ 425,123,349</u>	<u>\$ 425,123,349</u>

C. Capital Assets. Capital asset activity for the year ended June 30, 2007 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 9,717,376	\$ 2,032,378	\$ -	\$ 11,749,754
Rights of way	399,183,367	27,339,857	-	426,523,224
Street trees	5,887,599	-	-	5,887,599
Construction in progress	30,748,604	26,978,028	(20,206,299)	37,520,333
Total capital assets not being depreciated	<u>445,536,946</u>	<u>56,350,263</u>	<u>(20,206,299)</u>	<u>481,680,910</u>
Capital assets being depreciated:				
Buildings	192,327,713	945,919	-	193,273,632
Improvements	57,672,038	4,101,125	-	61,773,163
Equipment	49,744,911	4,951,647	(2,212,277)	52,484,281
Infrastructure	328,355,448	9,955,195	(325,931)	337,984,712
Library materials	7,412,762	455,557	(790,769)	7,077,550
Total capital assets being depreciated	<u>635,512,872</u>	<u>20,409,443</u>	<u>(3,328,977)</u>	<u>652,593,338</u>
Less: accumulated depreciation for:				
Buildings	(78,782,289)	(5,888,583)	-	(84,670,872)
Improvements	(25,761,956)	(2,053,015)	1,027	(27,813,944)
Equipment	(33,235,530)	(3,594,456)	2,093,276	(34,736,710)
Infrastructure	(159,832,348)	(9,723,927)	322,956	(169,233,319)
Library materials	(6,979,887)	(65,320)	790,491	(6,254,716)
Total accumulated depreciation	<u>(304,592,010)</u>	<u>(21,325,301)</u>	<u>3,207,750</u>	<u>(322,709,561)</u>
Capital assets being depreciated, net	<u>330,920,862</u>	<u>(915,858)</u>	<u>(121,227)</u>	<u>329,883,777</u>
Governmental activities capital assets, net	<u>\$ 776,457,808</u>	<u>\$ 55,434,405</u>	<u>\$ (20,327,526)</u>	<u>\$ 811,564,687</u>

NOTES TO THE BASIC FINANCIAL STATEMENTS

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 7,987,084	\$ -	\$ -	\$ 7,987,084
Construction in progress	1,267,315	2,618,559	(2,348,019)	1,537,855
Total capital assets not being depreciated	9,254,399	2,618,559	(2,348,019)	9,524,939
Capital assets being depreciated:				
Buildings	8,831,492	-	-	8,831,492
Water system and other improvements	136,054,060	545,934	(128,438)	136,471,556
Equipment	22,391,545	134,491	-	22,526,036
Parking structures	19,565,851	-	-	19,565,851
Total capital assets being depreciated	186,842,948	680,425	(128,438)	187,394,935
Less: accumulated depreciation for:				
Buildings	(4,742,660)	(218,482)	-	(4,961,142)
Improvements other than buildings	(63,830,059)	(2,404,755)	115,867	(66,118,947)
Equipment	(17,253,943)	(507,494)	-	(17,761,437)
Parking structures	(5,906,455)	(390,822)	-	(6,297,277)
Total accumulated depreciation	(91,733,117)	(3,521,553)	115,867	(95,138,803)
Capital assets being depreciated, net	95,109,831	(2,841,128)	(12,571)	92,256,132
Business-type capital assets, net	\$ 104,364,230	\$ (222,569)	\$ (2,360,590)	\$ 101,781,071

Governmental activities:

General government	\$ 1,179,029
Human resources	4,568
Finance and management services	1,399
Museum	432,447
Library	80,823
Recreation and community services	1,694,443
Police	4,672,515
Fire	496,242
Planning & Building	5,477
Public works	10,171,639
Community development	326,560
Capital assets held by the City's internal services	
Funds are charged to the various functions based on their usage of the assets	2,260,159

Total depreciation expense-governmental activities \$ 21,325,301

Business-type activities:	
Water	\$ 1,998,995
Parking	312,647
Refuse Collection	305,440
Transportation Center	425,027
Sewer	474,281
Sanitation	<u>5,163</u>
Total depreciation expense - business-type activities	<u>\$ 3,521,553</u>

Construction commitments

The City has active construction projects as of June 30, 2007. The projects include street widening and improvements, various park improvements, improvements to the water system, sewer improvements and storm drain improvements.

<u>Projects:</u>	<u>Spent-to date</u>	<u>Remaining Commitment</u>	<u>Total Project Budget</u>
Street widening and improvements	\$ 39,486,332	\$ 25,007,165	\$ 64,493,497
Park Improvements	4,812,893	3,654,244	8,467,137
Water System Improvements	3,706,531	8,631,517	12,338,048
Sewer Improvements	11,922,225	5,010,493	16,932,718
Other Improvements	8,099,468	1,199,105	9,298,573

D. Interfund Receivables, Payables, Transfers, and Advances. The composition of interfund balances as of and for the year ended June 30, 2007 was as follows:

<u>Due To Other Funds (Payable)</u>	<u>Due From Other Funds (Receivable)</u>			
	<u>General Fund</u>	<u>RDA Capital Projects Fund</u>	<u>Nonmajor Enterprise Funds</u>	<u>Total</u>
Special Revenue Grants Fund	\$ 720,345	\$ -	\$ -	\$ 720,345
Debt Service Redevelopment Agency	-	258,853	-	258,853
Street Construction Fund	-	-	121,206	121,206
Nonmajor Governmental Funds	<u>2,064,650</u>	<u>-</u>	<u>-</u>	<u>2,064,650</u>
Total	<u>\$ 2,784,995</u>	<u>\$ 258,853</u>	<u>\$ 121,206</u>	<u>\$ 3,165,054</u>

NOTES TO THE BASIC FINANCIAL STATEMENTS

Due to/from other funds:

The Special Revenue Grants Fund, the non-major Capital Project Grant Funds, and the Civic Center & Maintenance (a non-major Special Revenue Fund) received temporary advances from the General Fund to cover deficit cash balances in the amounts of \$720,345, \$2,058,645, and \$6,005 respectively. The RDA Capital Projects Fund received \$258,853 from RDA Debt Service Fund presenting its share of tax increment monies received in July 2007. The Street Construction Capital Projects Fund has reflected a payable to the Refuse Collection Fund, a nonmajor Enterprise Fund for \$121,206 representing the return of a revenue from the former fund to the later.

Interfund transfers:

Transfers Out	Transfers In								Total
	General Fund	Special Revenue Grants Fund	Capital Projects Redevelopment Agency	Debt Service Redevelopment Agency	Debt Service SA Financing Authority	Street Construction Fund	Nonmajor Governmental Funds	Internal Service Funds	
General Fund	\$ -	\$ 37,400	\$ -	\$ -	\$ 9,126,626	\$ -	\$ 1,509,745	\$ 3,662,229	\$ 14,336,000
Capital Projects Redevelopment Agency	-	-	-	-	367,125	-	-	-	367,125
Debt Service Redevelopment Agency	5,830,200	-	19,942,348	-	-	-	-	-	25,772,548
Debt Service SA Financing Authority	-	-	-	1,183,465	-	-	-	-	1,183,465
Nonmajor Governmental Funds	197,999	-	-	-	-	714,900	-	10,000	922,899
Internal Service Funds	501,360	-	-	-	-	-	-	46,492	547,852
	<u>\$ 6,529,559</u>	<u>\$ 37,400</u>	<u>\$ 19,942,348</u>	<u>\$ 1,183,465</u>	<u>\$ 9,493,751</u>	<u>\$ 714,900</u>	<u>\$ 1,509,745</u>	<u>\$ 3,718,721</u>	<u>\$ 43,129,889</u>

The transfer into the General Fund in the amount of \$5,830,200 represents loan repayments from the RDA Debt Service Fund. The \$197,999 was received from the nonmajor Special Revenue Civic Center Maintenance Fund to support the Recreation and Parks related expenditures in the General Fund. The amount of \$365,462 was received from the Public Works Engineering and Administrative Internal Service Funds to its share in the energy conservation capital lease payment. The amount of \$135,898 was received from the Building Maintenance for its share in the City Hall Expansion Certificates of Participation payment.

The Special Revenue Grants Fund received transfers of \$37,400 representing the General Fund's support for matching requirements.

The RDA Capital Projects Fund received a transfer of \$19,942,348 from the RDA Debt Service for the low and moderate housing share of tax increment 20% set-aside monies.

The RDA Debt Service Fund received from the SAFA Debt Service Fund the amount of \$1,183,465 representing savings from the issuance of the SAFA Refunding Revenue Bonds.

The SAFA Debt Service Fund received a transfer of \$9,126,626 from the General Fund for payment of the police lease revenue bonds debt service. Also it received \$367,125 from the RDA Capital Projects Fund and for payment of the Hutton Project capital lease debt service.

The amount of \$714,900 was received in the Street Construction Fund from nonmajor Special Gas Tax Fund to reimburse the Street Construction Fund for eligible street related construction and maintenance costs. The nonmajor Special Revenue Funds received transfers of \$1,509,745

representing the General Fund’s support for Civic Center and Centennial Park maintenance.

The Communications Internal Service Fund received a transfer of \$3,662,229 from the General Fund representing the General Fund’s share in the implementation of the City’s Communications Strategic Plan. The Public Works Engineering and Administrative Internal Service Fund received \$10,000 from Special Revenue Gas Tax Fund representing Engineering Cost Allocation from the State. The amount of \$46,492 represents the equipments’ cost sharing from Public Works Engineering and Administrative Funds and the Communications Service Fund, the Internal Service Funds to another Internal Service Equipment Maintenance Fund.

Advances to/from other funds:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
Internal Service Fund	General Fund	\$ 3,140,000
Water-Enterprise Fund	General Fund	2,000,000
Capital Projects Redevelopment Agency	Debt Service Redevelopment Agency	8,562,812
		<u>\$ 13,702,812</u>

This amount represent advances made by the Self-Insurance Internal Service Fund to the General Fund for the construction of Fire Station #1 in the amount of \$2,920,000 and the balance of \$220,000 to partially fund the construction of the Children’s’ Zoo. The loan from the Water Enterprise Fund to the General Fund in the amount of \$2,000,000 is due on demand. The advances made to the RDA Capital Projects Fund to the RDA Debt Service Fund of \$8,562,812 were used for ERAF payments as mandated by the State to balance the State of California 2005-06, 2004-05 and 2003-04 budgets.

NOTES TO THE BASIC FINANCIAL STATEMENTS

E. Long-Term Liabilities. The following is a summary of changes in long-term liabilities for the fiscal year ended June 30, 2007:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Tax allocation bonds	\$ 19,990,000	\$ -	\$ 480,000	\$ 19,510,000	\$ 490,000
Tax allocation refunding bonds	29,320,000	-	1,560,000	27,760,000	1,600,000
Capital leases	4,511,149	400,000	823,391	4,087,758	639,826
Certificates of participation	10,745,000	-	290,000	10,455,000	305,000
Lease revenue bonds	101,015,000	-	4,430,000	96,585,000	3,755,000
Refunding revenue bonds	82,850,000	-	4,155,000	78,695,000	4,360,000
Long-term loans	8,878,376	-	1,823,639	7,054,737	540,670
Less: Deferred amounts	(4,512,686)	-	(441,111)	(4,071,575)	-
Add: Bond premium	4,387,857	-	429,201	3,958,656	-
Total bonds payable, long-term loans and capital leases	<u>257,184,696</u>	<u>400,000</u>	<u>13,550,120</u>	<u>244,034,576</u>	<u>11,690,496</u>
Compensated absences payable	30,205,965	11,443,026	8,470,834	33,178,157	8,294,539
Claims payable - Worker's Comp	20,071,521	4,375,249	3,843,908	20,602,862	5,250,000
Claims payable - Liability Insurance	5,710,797	782,239	684,291	5,808,745	2,625,000
Governmental activities long-term liabilities	<u>\$ 313,172,979</u>	<u>\$ 17,000,514</u>	<u>\$ 26,549,153</u>	<u>\$ 303,624,340</u>	<u>\$ 27,860,035</u>
Business-type activities:					
Revenue bonds payable	\$ 19,370,000	\$ -	\$ 750,000	\$ 18,620,000	\$ 770,000
Certificate of participation (COP)	3,460,000	-	1,100,000	2,360,000	2,360,000
Refunding COP	11,745,000	-	1,425,000	10,320,000	835,000
Notes payable	1,878,899	-	135,282	1,743,617	140,058
Less: Deferred amounts	(1,119,958)	-	(109,762)	(1,010,196)	-
Total bonds payable and long-term notes payable	<u>35,333,941</u>	<u>-</u>	<u>3,300,520</u>	<u>32,033,421</u>	<u>4,105,058</u>
Compensated absences payable	1,977,296	1,578,528	1,995,147	1,560,677	418,979
Business-type activities long-term liabilities	<u>\$ 37,311,237</u>	<u>\$ 1,578,528</u>	<u>\$ 5,295,667</u>	<u>\$ 33,594,098</u>	<u>\$ 4,524,037</u>

Internal service funds predominantly serve the governmental funds. Accordingly, \$26.41 million of claims payable is included as part of the above totals for governmental activities.

At year-end, \$2.56 million of internal service funds compensated absences are included in the above amounts. Also for governmental activities, claims and judgments and compensated absences are generally liquidated by the General fund.

Outstanding
Balance
June 30, 2007

The governmental-wide statement of net assets includes \$4.52 million of long-term liabilities due within one year for business-type activities. The remaining amount of \$29.07 million is displayed as “noncurrent liabilities, due in over one year” on that same statement.

A description of each long-term debt obligation follows:

TAX ALLOCATION BONDS

The proceeds of the Tax allocation bonds and Tax allocation refunding bonds were used to fund certain redevelopment activities of benefit to public properties within the Agency’s Santa Ana South Main Street Redevelopment Project Area.

2003A Tax Allocation Bonds. The Community Redevelopment Agency of the City of Santa Ana issued the South Main Street Redevelopment Project Tax Allocation Bonds in the amount of \$20.945 million on May 14, 2003 to fund redevelopment activities of benefit to the Agency’s Santa Ana South Main Street Redevelopment Project. Bonds totaling \$13,295,000 mature serially on September 1 beginning 2004 through 2024 in amounts ranging from \$475,000 to \$910,000 and pay interest at rates varying from 1.10 percent to 4.5 percent. \$4,075,000 4.50 percent term bonds mature on September 1, 2028 while \$3,575,000 4.50 percent bonds mature on September 1, 2031.

19,510,000

Total Tax Allocation Bonds

\$ 19,510,000

Tax allocation bonds debt service requirements to maturity are as follows:

Period ending June 30	Principal	Interest
2008	\$ 490,000	\$ 784,348
2009	500,000	773,823
2010	510,000	761,185
2011	525,000	746,298
2012	545,000	729,566
2013-2017	3,020,000	3,345,963
2018-2022	3,660,000	2,700,228
2023-2027	4,555,000	1,814,098
2028-2032	5,705,000	664,763
Total	<u>\$ 19,510,000</u>	<u>\$ 12,320,272</u>

2003B Tax Allocation Refunding Bonds. On May 14, 2003 the Redevelopment Agency issued the South Main Street Redevelopment Project Tax Allocation Refunding Bonds, Series 2003B in the amount of \$34,145,000 to current refund the 1993 South Main Tax Allocation Refunding Bonds. The bonds mature serially starting on September 1, 2003 through 2019 in amounts ranging from \$1,820,000 to \$2,820,000 and pay interest at rates varying from 2 percent to 5 percent.

NOTES TO THE BASIC FINANCIAL STATEMENTS

Outstanding
Balance
June 30, 2007

The 2003 Bonds Series A and B are not a debt of the City of Santa Ana, the State of California, nor any of its political subdivisions, and neither the City, the State nor any of its political subdivision is liable therefore, not in any event shall the bonds be payable out of funds or properties other than those of the Redevelopment Agency as set forth in the bond indenture.

Payment of the principal and interest on both Series A and B bonds is guaranteed by Financial Guaranty Insurance Company under a Municipal Bond New Issue Insurance Policy.

27,760,000

Total Tax Allocation Refunding Bonds

\$ 27,760,000

Tax allocation bonds debt service requirements to maturity are as follows:

Period ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 1,600,000	\$ 1,288,475
2009	1,660,000	1,229,200
2010	1,730,000	1,157,163
2011	1,810,000	1,084,200
2012	1,890,000	1,000,750
2013-2017	11,015,000	3,445,875
2018-2020	<u>8,055,000</u>	<u>617,625</u>
Total	<u>\$ 27,760,000</u>	<u>\$ 9,823,288</u>

CAPITALIZED LEASE OBLIGATIONS

Phillips Hutton Building Project - In October 29, 2002, the City entered into a lease financing related to the renovation of the historical Philips Hutton Building with Zions First National Bank. The minimum lease payments required during the nine and half year term of the agreement are \$3,495,690. The lease payments discounted at an estimated rate of 4.2 percent provide a present value of \$2.8 million, which approximates the value of the asset and is the amount that will be capitalized after the completion of the project in the City's capital assets used in the operation of governmental funds. The future minimum lease payments required under the terms of the lease at June 30, 2007 totaled \$2,023,415.

1,790,000

Energy Conservation Project - In February 24, 2003, the City entered into a lease purchase agreement related to the upgrade of several buildings with lighting and HVAC improvements and direct digital control systems with SunTrust. The minimum lease payments required during the ten and half year term of the agreement are \$3,504,024. The lease payments discounted at an estimated interest rate of 3.4252 percent provide a present value of \$2,887,120, which approximates the value of the improvements and is the amount that will be capitalized after the completion of the project in the City's capital assets used in the operation of governmental funds. The future minimum lease payments required under the terms of the lease at June 30, 2007 totaled \$2,201,665.

1,957,267

Outstanding
Balance
June 30, 2007

On April 25, 2006, the City entered into a lease-purchase agreement to purchase modular building for Fire training classroom. The minimum lease payments required during the five-year term of this agreement are \$507,600. The lease payment discounted at an estimated rate of 9.8 percent provide a present value of \$400,000 which approximates the value of the equipment plus taxes and is the amount capitalized in the City's capital assets used in the operation of governmental funds. The future minimum lease payments required under the terms of the lease at June 30, 2007 totaled \$414,540.

340,491

Total Capitalized Lease Obligations

\$ 4,087,758

The future minimum lease obligations and the net present value of these minimum leases payments as of June 30, 2007 were as follows:

Period ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 639,826	\$ 167,526
2009	670,654	138,160
2010	700,564	107,147
2011	733,642	74,439
2012	672,032	43,773
2013-2014	671,040	20,816
Total	<u>\$ 4,087,758</u>	<u>\$ 551,861</u>

CERTIFICATES OF PARTICIPATION (COP)

Certificates of Participation (City Hall Expansion Project). On January 13, 1998, Certificates of Participation amounting to \$12,450,000 were issued by the Santa Ana Financing Authority to finance the construction of an expansion to the City of Santa Ana City Hall building. Certificates totaling \$4,435,000 mature serially on January 1, beginning 2000 through 2014 in amounts ranging from \$215,000 to \$400,000 and pay interest at rates varying from 4.5% to 4.7%. \$1,315,000 term certificates are due on January 1, 2017; \$980,000 term certificates are due on January 1, 2019; and the balance of \$5,720,000 term certificates are due on January 1, 2028.

NOTES TO THE BASIC FINANCIAL STATEMENTS

	Outstanding Balance <u>June 30, 2007</u>
The City is required under the lease agreement (between the City and Authority) to make lease payments every year for the use and occupancy of the building, in an amount sufficient to pay the annual principal and interest on the Certificates. Payment of principal and interest represented by the Certificates is guaranteed by a municipal bond insurance policy issued by Financial Security Assurance Inc. (FSA). A reserve fund surety bond was issued by FSA in lieu of the reserve requirement of \$796,705.	<u>10,455,000</u>
Total Certificates of Participation	<u>\$ 10,455,000</u>

COP debt service requirements to maturity are as follows:

Period ending	Principal	Interest
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 305,000	\$ 484,218
2009	315,000	469,648
2010	330,000	454,490
2011	345,000	438,627
2012	365,000	421,943
2013-2017	2,095,000	1,829,827
2018-2022	2,630,000	1,276,755
2023-2027	3,310,000	581,625
2028	<u>760,000</u>	<u>17,860</u>
Total	<u>\$ 10,455,000</u>	<u>\$ 5,974,993</u>

LEASE REVENUE BONDS

Police Lease Revenue Bonds. On March 23, 1994, the Santa Ana Financing Authority (SAFA) issued the Police Administration and Holding Facility Lease Revenue Bonds in the amount of \$107.4 million to provide funds for the construction and equipping of a police administration and holding facility. The bonds were issued in the following portfolio mix: \$1.47 million Capital Appreciation Bonds with accreted values of \$270,000 due July 1, 2001, \$770,000 due July 1, 2002 and \$1,285,000 due July 1,

Outstanding
Balance
June 30, 2007

2003; \$17.63 million of Current Interest Serial Bonds are due in amounts ranging from \$1.82 million starting July 1, 2004 to \$3.61 million ending in July 1, 2009; \$21.2 million of Auction Inverse Rate Securities Term Bonds (AIRS), due in amounts ranging from \$3.8 million starting in July 1, 2010, to \$4.7 million ending July 1, 2014; \$28.5 million of noncallable Premium Serial Bonds due in amounts ranging from \$5.03 million starting July 1, 2015 to \$6.41 million ending July 1, 2019 and \$38.6 million of noncallable Premium Term Bonds due in amounts ranging from \$6.815 million starting July 1, 2020, to \$8.7 million ending July 1, 2024.

In February 4, 2004, the SAFA issued the Lease Revenue Refunding Bonds, Series 2004A to partial current refund \$38,830,000 of the Lease Revenue Bonds, Series 1994A representing the Current Interest Serial Bonds maturing in July 1, 2004 through July 1, 2014. The face value of the Lease Revenue Refunding Bonds, Series 2004A was \$38,845,000. The refunding was issued with interest rates ranging from 2.5% to 5%.

The bonds are payable from revenues of the Financing Authority, consisting principally of base rental payments by the City pursuant to a lease agreement between the City and the Authority. The City agreed to make all base rental payments sufficient to permit the Authority to pay principal and interest on all the bonds described in the preceding paragraph. The amount in the reserve account at June 30, 2007 is approximately \$5 million. Payment of principal and interest on the Bonds is covered by a municipal bond insurance policy issued by Municipal Bond Investors Assurance Company (MBIA).

96,585,000

Total Lease Revenue Bonds

\$ 96,585,000

Combined lease revenue bonds debt service requirements to maturity are as follows:

Period ending	Principal	Interest
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 3,755,000	\$ 5,372,225
2009	3,870,000	5,259,575
2010	4,030,000	5,085,425
2011	4,190,000	4,904,075
2012	4,370,000	4,694,576
2013-2017	25,325,000	20,541,215
2018-2022	34,190,000	11,936,562
2023-2024	16,855,000	1,596,250
Total	<u>\$ 96,585,000</u>	<u>\$ 59,389,903</u>

Outstanding
Balance
June 30, 2007

REFUNDING REVENUE BONDS

The proceeds of Refunding Revenue bonds were used to fund a Program Fund in order to purchase the Community Redevelopment Agency’s 1989 Tax Allocation Bonds. The proceeds of the 1989 Tax Allocation Bonds were used to fund certain redevelopment activities of benefit to public properties within the Agency’s Santa Ana Intercity, Downtown and South Harbor Street Redevelopment Project Area.

1998 Refunding Revenue Bonds Series A. On June 3, 1998 the Santa Ana Financing Authority issued refunding bonds in the amount of \$65,330,000. The proceeds were used to fund a Program Fund in order to purchase on September 1, 1999, the Community Redevelopment Agency’s 1989 Tax Allocation Bonds, Series B and Series C. Bonds totaling \$38.75 million mature serially through September 1, 2013 in amounts ranging from \$2.025 million to \$3.725 million; \$26.58 million term bonds mature on September 1, 2019. Interest rates vary from 4.25% to 5.375%.

The Bonds are limited obligations of the Authority and are payable solely from and secured by, a pledge and assignment under the Indenture of a portion of the Revenues, consisting of (i) all amounts derived from or in respect of the 1989 B Bonds and the 1989 C Bonds purchased with the proceeds of the Bonds, including principal prepayments and other payments of principal thereof and interest thereon, other than any Surplus Payments (as defined in the Indenture), (ii) Lease Payments, if any, paid by the City under a Lease Agreement between the City and the Authority (the “Lease Agreement”), and (iii) investment earnings on amounts on deposit in certain funds and accounts established under the Indenture, other than the Surplus Account and the Costs of Issuance Fund.

Payment of the principal and interest on the bonds is guaranteed by a municipal bond guaranty insurance policy issued by Municipal Bond Investors Assurance Company (MBIA). \$ 49,115,000

1998 Refunding Revenue Bonds Series B. On July 15, 1999 the Santa Ana Financing Authority issued refunding revenue bonds in the amount of \$11,485,000. The proceeds were used to make an additional deposit to the Program Fund to purchase on September 1, 1999 the remaining outstanding principal amount of the Community Redevelopment Agency’s 1989 Tax Allocation Bonds Series B and to make an additional deposit to the Cost of Issuance Fund. The \$11,485,000 term bonds mature serially in annual amounts ranging from \$270,000 starting September 1, 2000 to \$890,000 through September 1, 2019. Interest rate is 5.125%.

Outstanding
Balance
June 30, 2007

The bonds are limited obligations of the Authority and are payable solely from, and are secured by, a pledge and assignment under the Indenture of a portion of the Revenues, consisting of (i) all amounts derived from or in respect of the 1989 B Bonds and the 1989 C Bonds purchased with the proceeds of the Bonds, including principal prepayments and other payments of principal thereof and interest thereon, other than any Surplus Payments (as defined in the Indenture), (ii) Lease Payments, if any paid by the City under a Lease Agreement between the City and Authority (the "Lease Agreement"), and (iii) investment earnings on amounts on deposit in certain funds and accounts established under the Indenture, other than the Surplus Account and the Costs of Issuance Fund.

Payment of the principal and interest on the bonds is guaranteed by a municipal bond guaranty insurance policy issued by Municipal Bond Investors Assurance Company (MBIA).

8,740,000

1998 Refunding Revenue Bonds Series C. On June 3, 1998 the Santa Ana Financing Authority issued refunding revenue bonds in the amount of \$8,100,000. The proceeds of the Bonds were used to fund a Program Fund in order to purchase, on September 1, 1999, the Community Redevelopment Agency's 1989 Tax Allocation Bonds, Series A. Bonds totaling \$4.29 million mature serially through September 1, 2012 in amounts ranging from \$245,000 to \$435,000; \$3.81 million term bonds mature serially through September 1, 2019. Interest rates vary from 4.4% to 5.6%.

The Series C Bonds are limited obligations of the Authority and are payable solely from, and are secured by, a pledge and assignment under the Indenture of a portion of the Revenues, consisting of (i) all amounts derived from or in respect of the 1989 A Bonds purchased with the proceeds of the Bonds, including principal prepayments and other payments of principal thereof and interest thereon, other than Agency Surplus Payments, and (ii) investment earnings on amounts on deposit in certain funds and accounts established under the Indenture, other than the Surplus Account and the Costs of Issuance Fund.

6,125,000

NOTES TO THE BASIC FINANCIAL STATEMENTS

Outstanding
Balance
June 30, 2007

1998 Refunding Revenue Bonds Series D. On September 15, 1998 the Santa Ana Financing Authority issued refunding revenue bonds in the amount of \$19,105,000. The proceeds of the Bonds were used to fund a Program Fund in order to purchase, on September 1, 1999, the Agency's 1989 Tax Allocation Bonds, Series E. Bonds totaling \$8.735 million mature serially through September 1, 2011 in amounts ranging from \$0.53 million to \$0.97 million; \$4.535 million term bonds mature on September 1, 2015 while \$5.835 million term bonds mature serially through September 1, 2019. Interest rates vary from 4.2% to 5.6%.

The Bonds are limited obligations of the Authority and are payable solely from, and are secured by, a pledge and assignment under the Indenture of the Revenues, consisting of (i) all amounts derived from or in respect of the Agency Bonds purchased with the proceeds of the Bonds, including principal prepayments and other payments of principal thereof and interest thereon, other than Surplus Payments (as defined in the Indenture), and (ii) investment earnings on amounts on deposit in certain funds and accounts established under the Indenture, other than the Surplus Account and the Costs of Issuance Fund.

14,715,000

Total Refunding Revenue Bonds

\$ 78,695,000

Period Ending	<u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2008	\$	4,360,000	\$ 3,956,673
2009		4,585,000	3,731,434
2010		4,820,000	3,487,701
2011		5,080,000	3,224,157
2012		5,360,000	2,951,463
2013-2017		31,355,000	10,201,478
2018-2020		<u>23,135,000</u>	<u>1,841,584</u>
Total	\$	<u><u>78,695,000</u></u>	<u><u>\$ 29,394,490</u></u>

The Authority's purchase of these bonds has been accounted for in the fund financial statements as an asset called *investment in Redevelopment Agency Bonds* reported on the balance sheet of the Financing Authority Debt Service Fund. The Redevelopment Agency's obligation to the Authority for the funds provided by the Authority have been recorded as an intra-entity liability of the balance sheet of the Redevelopment Agency Debt Service Fund obligated for repayment. This intra-entity liability is reflected in the fund financial statements as *obligations to Financing Authority*.

Outstanding
Balance
June 30, 2007

LONG-TERM LOANS

Santa Ana Venture Loan. In April 1984, the Redevelopment Agency entered into a participation agreement with the Santa Ana Venture, a joint venture between JMB/Federated Realty Association and Henry Segerstrom (the “Participants”), to provide for the rehabilitation and redevelopment of the Main Place project. This agreement provided for the Redevelopment Agency to acquire land within the project area and to sell it to the Participants subject to restrictive terms, conditions, and provisions set forth in the agreement. To fund the Redevelopment Agency’s acquisition of land and other related costs above the funding level made available by the Agency the Participants agreed to advance the Participant’s purchase price and to make available an unsecured loan of up to \$13.5 million to the extent total Agency costs exceeded \$29 million. The loan accrues interest at 10 percent per annum and is to be repaid solely from the annual tax increment accruing to the Agency from the project site, each year that the increment is in excess of the tax increment accruing in fiscal 1984. As of June 30, 2007 the unpaid accrued interest for the Santa Ana Venture Loan is \$3,172,978. \$ 6,220,687

CHFA Loan. On November 1, 1999, the Redevelopment Agency and the California Housing Finance Agency (CHFA) entered into a commitment and loan agreement for Housing Enabled by Local Partnership (HELP) loan program, in connection with the Cornerstone Village Façade Courtyard Improvement Project situated in the City of Santa Ana. CHFA has made available to the RDA, the amount of \$2.6 million. Interest accrues at 3% per annum on the balance outstanding, and repayment including accrued interest, is deferred for ten years. Currently, the loan outstanding at June 30, 2007 totaled \$742,645. 742,645

County of Orange Loan. The Redevelopment Agency owes the County of Orange the balance of \$107,160, which bears interest of 7.5% as of June 30, 1998 for a property in the Downtown project area. The monthly payment of \$887 extends to the year 2021. 91,405

Total Long-Term Loans \$ 7,054,737

Outstanding
Balance
June 30, 2007

Compensated Absences. Accrued vacation (\$16,063,297) represents total vested vacation benefits for all City employees in the governmental funds. Sick leave benefits (\$14,553,777) are payable to employees for illnesses during employment; or upon termination after 10 years, the employee is entitled to payment equal to 1/3 of up to 200 days of accrued sick leave. The sick leave liability included herein represents those amounts payable to employees with over 10 years of employment as of June 30, 2007. Also included herein is \$2,561,083 representing accrued vacation and sick leave benefits for employees in the Internal Service Funds. \$ 33,178,157

LONG-TERM DEBT DEFEASED IN PRIOR YEARS

In prior years, the City has defeased various bond issues of which \$385,302 are outstanding as of June 30, 2007. The investments in U.S. government securities, which are held in various escrow funds, are sufficient to fully service the defeased bonds until the bonds are called or mature. For financial reporting purposes, the bonds are considered defeased and therefore, have been removed as a liability from the City's long-term debt.

- F. Water Revenue Bonds.** On February 5, 2004, the City through the Santa Ana Financing Authority (SAFA) issued the Water Revenue Refunding Bonds, Series 2004 with a face value of \$20,110,000 with maturities starting Sept. 1, 2005 through September 1, 2025 at interest rates ranging from 2% to 5%. The proceeds of the 2004 Bonds will be used to current refund the 1994 Bonds. The remaining proceeds will be used to purchase the Reserve Surety Bond, finance certain capital improvements to the Water System and to pay costs of issuance. The 2004 Bonds are payable solely from installment payments made by the City from Net System Revenues pursuant to the installment Purchase Agreement. Payment of principal and interest represented by the certificates is covered against nonpayment by a municipal bond insurance policy issued by the Municipal Bond Investors Assurance Corporation with principal offices at Armonk, New York, NY 10504.

Water revenue bonds debt service requirements to maturity are as follows:

Period ending June 30	Principal	Interest
2008	\$ 770,000	\$ 749,137
2009	790,000	728,650
2010	810,000	708,169
2011	830,000	687,656
2012	855,000	664,472
2013-2017	4,675,000	2,877,997
2018-2022	5,730,000	1,768,437
2023-2025	4,160,000	318,750
Total	<u>\$ 18,620,000</u>	<u>\$ 8,503,268</u>

Among other provisions of the bond resolutions, the city covenants that revenue from the water utility operation will be sufficient to provide net revenues of at least 1.20 times the principal and interest (or minimum term bond payment of the bonds as they become due and payable). This provision has been complied with as shown in the following analysis:

Operating Revenue	\$ 42,233,309
Operating expenses (net of depreciation expense of \$ 1,998,995)	<u>36,326,502</u>
Net Revenue	5,906,807
Amount required for payment of principal and interest payable for the year ended June 30, 2008 (\$1,519,137 x 1.20)	<u>1,822,964</u>
Excess of net revenue over amount required	<u>\$ 4,083,843</u>

Notes Payable. The City of Santa Ana (“The City”) and the Orange County Water District (OCWD), in order to increase the pumping capacity and to optimize participation in the Metropolitan Water District Seasonal Storage Program and to sustain adequate water deliveries during drought and emergency conditions, had entered into an agreement for the acquisition, construction, installation and operation of certain well facilities, particularly described as Wells 35, 37 and 38.

The agreement was entered into in June 19, 1991 and amended in May 11, 1995. After the project was completed, the City executed a promissory note in favor of OCWD for \$2,857,558, at an interest rate of 3.50 percent, payable semi-annually in the amount of \$99,935 beginning March 15, 1998 and ending September 15, 2017. The balance of the note as of June 30, 2007 is \$1,743,617. The note is a liability of the City’s Water Enterprise Fund.

Water notes payable debt service requirements to maturity are as follows:

Period ending	Principal	Interest
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 140,058	\$ 59,812
2009	145,003	54,867
2010	150,122	49,747
2011	155,423	44,447
2012	160,910	38,960
2013-2017	893,885	105,462
2018	98,216	1,719
Total	<u>\$ 1,743,617</u>	<u>\$ 355,014</u>

G. Certificates of Participation (COP) - Refuse Enterprise Fund. On June 1, 1996, the California Environmental Finance Corporation for the account of the City of Santa Ana issued the 1996 Series A COP, in the amount of \$11.99 million with maturities starting May 1, 1997 through May 1, 2008 in amounts ranging from \$730,000 to \$2.36 million, with interest rates ranging from 3.9 percent to 5.7 percent. Interest and principal are payable semi-annually on May 1 and November 1. Proceeds from the sale of the certificates were used by the City to pay the costs of acquiring certain equipment to implement a fully automated curbside recycling program and to expand the City’s bin service collection system. Part of the proceeds was used to fund a reserve account and to pay the cost of issuance. At June 30, 2007, the reserve balance is \$1,639,883.

The certificates represent proportionate interests in the right to receive Installment Payments to be made by the City under the Installment Purchase Contract. The obligation of the City to pay the installment payments is a special obligation payable from and secured solely by a pledge of and first lien on revenues of the City’s refuse collection system. The installment purchase contract provides that the obligation of the City to make installment payments from revenues is absolute and unconditional. The balance outstanding as of June 30, 2007 is \$2,360,000.

Certificates of Participation (COP) - Parking Fund. On April 2, 2003, Certificates of Participation 2003 Series A amounting to \$16.985 million were issued to current refund the \$16,875,000 City of Santa Ana Certificates of Participation (Parking Facilities Refunding Project) Series 1993A, the \$1,945,000 City of Santa Ana Certificates of Participation (Commercial Facilities Refunding Project), Series 1993B and the \$5,005,000 City of Santa Ana Certificates of Participation (Mass Commuting Facility Refunding Project), Series 1993C. The Certificates mature serially through June 1, 2016 in amounts ranging from \$555,000 to \$1,895,000 and pay interest at rates varying from 2.5% to 5%. The City has covenanted in the Lease Agreement to make the Lease Payments for the Leased Property as provided for therein, Payments of the principal and interest is insured by a financial guaranty insurance policy issued by Ambac Assurance Corporation. The balance outstanding as of June 30, 2007 is \$10,320,000.

COP debt service requirements to maturity are as follows:

Year ending June 30	REFUSE		PARKING		TOTAL	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 2,360,000	\$ 129,800	\$ 835,000	\$ 464,563	\$ 3,195,000	\$ 594,363
2009			805,000	439,512	805,000	439,512
2010			925,000	407,313	925,000	407,313
2011			1,060,000	361,063	1,060,000	361,063
2012			1,215,000	318,663	1,215,000	318,663
2013-2016			5,480,000	595,262	5,480,000	595,262
Total	\$ <u>2,360,000</u>	\$ <u>129,800</u>	\$ <u>10,320,000</u>	\$ <u>2,586,376</u>	\$ <u>12,680,000</u>	\$ <u>2,716,176</u>

H. Other Bond and Loan Programs. The City has entered into a number of bond and loan programs to provide low interest financing for various residential and commercial developments within the City. Although the City has arranged these financing programs, these debts are not payable from any revenues or assets of the City. Neither the faith and credit nor the taxing power of the City, nor any political subdivision of the City, is pledged to repay the indebtedness. Generally, the bond or loan holders may look only to assets held by trustees for security on the indebtedness. Accordingly, since these debts do not constitute obligations of the City, they are not reflected as a liability in the accompanying statement of net assets. A short description of each program follows:

Residential Mortgage Revenue Bond Programs:

Through June 30, 2007, the City and the Housing Authority of the City of Santa Ana issued residential mortgage revenue bonds totaling \$99,003,283. The proceeds of these bonds were used to purchase mortgage loans made to homeowners and developers for the purpose of financing single-family and multi-family dwellings.

The bonds, secured by first trust deeds and private mortgage insurance, are as follows:

Issue Date	Interest Rate	Amount
July 12,1985	5.75-9.5%	\$ 18,499,040
October 1,1996	Variable	15,225,000
December 1,1996	Variable	10,425,000
December 12,1995	Variable	5,300,000
February 14,1996	Variable	7,900,000
July 1, 2001	4.00-6.50%	4,159,250
November 1, 2001	6.05%	3,306,407
December 23, 2004	Variable	5,225,000
June 25, 2002	6.00%	1,035,778
November 1, 2003	5.24%	5,100,000
May 1, 2006	5.88%	7,343,904
November 16, 2006	Variable	8,140,000
December 18, 2006	Variable	7,343,904
		\$ <u>99,003,283</u>

The bonds are payable solely from payments made on the mortgage loans, proceeds of the bonds, and other amounts held in funds or accounts established by the trustee pursuant to the indentures.

Industrial Development Bond (IDB) Program:

The IDB Program encourages industrial and commercial development by arranging financing and assisting in the acquisition and development of authorized projects. The chief goals of the IDB Program are the creation and retention of jobs, and expansion of the tax base. The City has three avenues through which developers can pursue IDB financing: City Charter Authority, Health Facility Revenue Bonds, and Industrial Development Authority. This program has resulted in the retention or creation of 8,200 jobs in the City. As of June 30, 2007, sixteen issues totaling \$146,175,000 are outstanding:

<u>Issuing Authority</u>	<u>Number of Issues</u>	<u>Amount</u>
City Charter Authority	2	\$ 6,418,000
Health Facility Revenue Bond	2	48,800,000
Industrial Development Authority	<u>12</u>	<u>90,957,000</u>
	<u>16</u>	<u>\$146,175,000</u>

Commercial Rehabilitation Loan Program:

Housing Rehabilitation Loan Programs. The City and Housing Authority have established a number of housing rehabilitation loan programs using Community Development Block Grant (CDBG) funds as authorized by the U.S. Department of Housing and Urban Development (HUD).

To implement these programs, the City and the Housing Authority have entered into agreements with various lending institutions to provide funding for loans at below-market rates of interest. The property owners' notes and deeds of trust are pledged as collateral for the loans.

In addition to loans made available by the lending institutions, the City and the Housing Authority have elected to make other direct deferred payment rehabilitation loans made available from CDBG funds, and from funds borrowed from the State Department of Housing and Community Development.

Under the program, loans made using CDBG funds accrue interest at rates varying from 0 to 6 percent and are due when the property is sold. Funds borrowed from the state are loaned to participants at an annual rate of 3 percent and become due in five years.

The City accounts for these programs in the Housing Rehabilitation Loan Program Agency Fund where amounts due to other governmental agencies of \$195,889 are reflected at June 30, 2007. The Fund's primary assets consist of the non-interest bearing deposits pledged as collateral, and participant note receivables, which originated from City and/or State funds. Loans to participants made by the outside lending institutions are not reflected in the financial statements.

Self-Funding Residential Rehabilitation Loan Program. During April 1983, the City Council implemented a self-funding residential loan program to replace the aforementioned interest rate buy-down programs implemented through banks and savings and loan associations. The program makes direct loans to qualifying persons for both single-family and multiple units in amounts up to \$30,000 at 5 to 8 percent interest amortized over 15 years for single-family units, and up to \$40,000 for 1 to 3 multiple units amortized over 10 years. Generally, all loans are due upon sale and are secured by a deed of trust. The program is funded by CDBG, HOME, other grant funds and property tax increment revenues in the redevelopment project areas, from which 20 percent of such revenues must be set aside for low and moderate income housing related activities per State law. At June 30, 2007 loans totaling \$26,051,467 and \$28,612,338 were recorded as "notes receivable" in the Special Revenue Grants Fund and Redevelopment Agency Capital Projects Fund, respectively.

I. Commitments

On October 27, 2005, the Santa Ana Financing Authority entered the Lease Agreement with the City of Santa Ana to lease the City's property at the blocks A, B, C and D on Ross Street for construction of the three-level parking facility. The term of the Site lease commenced on October 27, 2005 and shall end on May 1, 2046. Under the lease, the authority agreed to advance rental payment in the amount of \$5,970,000 to the City.

On October 27, 2005, the Authority re-leased the Site to the City and assigned its right to receive lease payment and its right to enforce payment of the Lease Payments to All Points Public Funding, LLC. The term of the lease Agreement commenced on October 25, 2005, and shall end on May 1, 2026, unless such term is extended until there has been deposited with the assignee an amount sufficient to pay all obligations due under the Lease Agreement. In no event shall the term of the lease Agreement extend beyond May 1, 2046.

On March 30, 2007, both parties, the Santa Ana Financing Authority and the City of Santa Ana amended the October 27, 2005 Lease and Release Agreements. The amended term of the site lease commenced on October 27, 2005 and shall end on May 1, 2026 or may be extended for a certain period, but in no event shall the term of the Lease Agreement extend beyond May 1, 2036. Under the amended Lease and Release Agreements, the Authority agreed to advance rental payment in the amount of \$8,470,000 to the City.

On March 30, 2007, the Santa Ana Financing Authority and All Points Public Funding, LLC amended the Assigned Agreement to read the lease amount of \$8,470,000.

The amended Lease Payment schedule was computed at 4.78% per annum on \$8,470,000 as follows. The future minimum lease payments required under the term of the lease at June 30, 2007 totaled \$8,424,201.

NOTES TO THE BASIC FINANCIAL STATEMENTS

Period Ending June 30	Principal Component	Interest Component	Total Lease Payment
2008	\$ 280,295	\$ 399,527	679,822
2009	293,859	385,963	679,822
2010	308,079	371,743	679,822
2011	322,987	356,835	679,822
2012	338,617	341,205	679,822
2013-2017	1,955,316	1,443,791	3,399,107
2018-2022	2,476,470	922,638	3,399,108
2023-2026	2,448,578	270,708	2,719,286
	<u>\$ 8,424,201</u>	<u>\$ 4,492,410</u>	<u>12,916,611</u>

On February 6, 2006, the Redevelopment Agency entered the agreement with the Charles W. Bowers Museum Corporation to guaranty the payment of the Obligation Amount in form of a guaranty of a standby line of credit to be issued by the bank in the amount of \$1,000,000. The agreement is to give financial assistance to the Bowers Museum Corporation for its expansion and redevelopment of the Museum. This Guaranty Agreement constituted a continuing agreement between the Agency and the East West Bank to secure the full and final repayment of the Obligation.

- J. Segment Information.** The City issued Certificates of Participation for \$11.99 million of which \$3.5 million remains outstanding to finance the implementation of a fully automated recycling program and to expand the City’s bin collection service. In this issue, investors rely solely on the revenue generated by the refuse activity for repayment. Summary financial information for the Refuse Collections Enterprise Fund as of June 30, 2007 is presented below.

CONDENSED STATEMENT OF NET ASSETS:

Assets:	Refuse Collections
Current assets	\$ 1,919,514
Noncurrent assets	1,639,883
Capital assets	<u>36,152</u>
Total assets	<u>3,595,549</u>
Liabilities:	
Current liabilities	2,402,897
Noncurrent liabilities	<u>23,842</u>
Total liabilities	<u>2,426,739</u>
Net assets (deficit):	
Invested in capital assets, net of related debt	(2,323,848)
Restricted	1,639,883
Unrestricted	<u>1,852,775</u>
Total net assets (deficit)	<u>\$ 1,168,810</u>

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	<u>Refuse Collections</u>
Operating revenues	\$ 13,958,896
Depreciation expense	(305,440)
Other operating expense	<u>(12,462,095)</u>
Operating income	<u>1,191,361</u>
Nonoperating revenues (expenses)	
Investment earnings	105,752
Interest expense	(179,300)
Other	<u>(31,117)</u>
Total nonoperating revenues (expenses)	<u>(104,665)</u>
Change in net assets	1,086,696
Net assets (deficit) - beginning	<u>82,114</u>
Net assets (deficit) - ending	<u><u>\$ 1,168,810</u></u>

CONDENSED STATEMENT OF CASH FLOWS

	<u>Refuse Collections</u>
Net cash provided by	
Operating activities	\$ 1,266,262
Capital and related financing activities	(1,289,200)
Investing activities	<u>105,752</u>
Net increase	82,814
Beginning cash and cash equivalents	<u>1,923,043</u>
Ending cash and cash equivalents	<u><u>\$ 2,005,857</u></u>

Note 4. OTHER INFORMATION

- A. Risk Management.** The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. In July 1975, the City established a Self-Insurance Internal Service Fund for the administration of the City's self-insurance programs and the payment of health and dental benefits, workers' compensation and liability claims. The City's Liability and Workers' compensation programs are self-administered (staffed by City employees). The City's claim staff estimate total losses for each claim and determine reserve requirements for the Liability and Workers' Compensation claims programs.

Under these programs, the City is self-insured for workers' compensation up to \$500,000 each occurrence and liability up to \$1 million each occurrence. Furthermore, the City is a member of the Big Independent Cities Excess Pool (BICEP), a public entity risk pool established to pool resources, share risks, and purchase excess insurance. BICEP's excess liability program began October 1, 1988.

Each BICEP member city assumes the first \$1 million of each occurrence, as above mentioned. All BICEP members share risk starting with first layer of \$1 million to \$2 million and from \$22 million to \$25 million, BICEP's limit. Excess insurance covers amounts from \$2 million to \$22 million. In 1993, the City became a charter member of the Public Entity Property Insurance Program (PEPIP). Current PEPIP limits are \$750 million per occurrence for "all risks" and \$82.5 million for flood coverage. The City carries commercial insurance to cover claims of employees participating in the dental program. Also the City has contracted with the Public Employees Retirement System (PERS) Health Insurance Program to cover claims of employees participating in the HMO plans contracted by PERS. Settled claims have not exceeded commercial coverage during the last three years.

All funds of the City participate in the program and make payments to the Self-Insurance Internal Service Fund based on actuarial estimates of the amounts needed to pay prior and current claims in the liability and workers' compensation programs. In the health and dental programs, contributions to the Self-Insurance Internal Service Fund represent estimated premiums payable to PERS and the dental insurance carriers.

Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of loss can be reasonably estimated. The losses include an estimate of claims that have been incurred but not reported. At June 30, 2007, the outstanding losses for the workers' compensation and liability programs are reported at their discounted present value. The outstanding losses are discounted at a 3 percent annual interest rate to reflect future investment earnings. The present value computations were performed by an independent casualty actuary, in connection with their actuarial study of the City's self-insured workers' compensation and liability programs undertaken as of June 30, 2007. Changes in the balances of claims liabilities since July 1, 2005 resulted from the following:

	Workers'		
	<u>Compensation</u>	<u>Liability</u>	<u>Total</u>
Net Unpaid Claims - July 1, 2005	\$ 19,681,837	\$ 5,589,294	\$ 25,271,131
Claims and Changes in Estimate	7,488,347	890,274	8,378,621
Claims Payments	<u>(4,625,091)</u>	<u>(414,386)</u>	<u>(5,039,477)</u>
Unpaid Claims - June 30, 2006	22,545,093	6,065,182	28,610,275
Less Discount Taken	<u>(2,473,572)</u>	<u>(354,385)</u>	<u>(2,827,957)</u>
Net Unpaid Claims - June 30, 2006	<u>\$ 20,071,521</u>	<u>\$ 5,710,797</u>	<u>\$ 25,782,318</u>

	Workers'		
	<u>Compensation</u>	<u>Liability</u>	<u>Total</u>
Unpaid Claims - July 1, 2006	\$ 20,071,521	\$ 5,710,797	\$ 25,782,318
Claims and Changes in Estimate	6,904,302	1,134,892	8,039,194
Claims Payments	<u>(3,843,908)</u>	<u>(684,291)</u>	<u>(4,528,199)</u>
Unpaid Claims - June 30, 2007	23,131,915	6,161,398	29,293,313
Less Discount Taken	<u>(2,529,053)</u>	<u>(352,653)</u>	<u>(2,881,706)</u>
Net Unpaid Claims - June 30, 2007	<u>\$ 20,602,862</u>	<u>\$ 5,808,745</u>	<u>\$ 26,411,607</u>

- B. Related Party Transactions.** As explained in Note 1A., this report includes the accounts of the Redevelopment Agency, the Housing Authority, and the Financing Authority, each of which are considered component units of the primary government. Each of these units are operated by City employees, some of whom provide services for (or exert management influence over) more than one of these units. Charges to these units for labor, materials and overhead are made directly at the City's standard rate per formal agreements with the City. Real property transfers are executed at appraised value usually net of cost incurred by the acquiring unit. Projects performed by the City on behalf of the Redevelopment Agency are charged at cost, for which the Redevelopment Agency assumes a long-term obligation to pay from future tax increment revenues. As of June 30, 2007, the total obligations for project costs is \$425,123,349 were assumed by the Redevelopment Agency. See also Note 3B.
- C. Contingent Liabilities. Commitments and Contingencies.** Numerous claims and suits have been filed against the City in the normal course of business. To the extent that information available indicates that it is probable a liability has been incurred as of June 30, 2007 and where the amount of loss could be reasonably estimated, the obligation has been accrued as an expense of the City's self-insurance program (see Note 4A).

Federally Assisted Programs. Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

D. Joint Ventures. The Orange County Civic Center Authority (the "Authority") was created in January 1966 under a Joint Exercise of Powers Agreement between the City of Santa Ana and the County of Orange. The purpose of the Authority is to provide, through the issuance of revenue bonds, financing necessary to construct a county courthouse and certain City buildings, located on land contributed to the Authority by the County and the City. Upon completion of construction, the Authority leased the facilities to the County, the City and the State of California. The City took title to its City Hall facilities when it exercised an early defeasance of the corresponding revenue bonds in FY 93-94. The Authority is governed by a five-member board to which the Orange County Board of Supervisors and the Santa Ana City Council each appoint two members. These four members select the fifth member. The City and the County have contracted with the Authority to administer the Civic Center parking lot and the Parking/Maintenance Fund. Parking revenue is retained by the Authority and must be used to pay the parking lot concessionaire, to pay any taxes related to the parking lot, and to reimburse the City for the cost of maintaining the Civic Center. No provision has been made for disposition of excess funds remaining after authorized expenditures have been made.

The Agreement specifies a term of existence of 50 years; however, the Agreement cannot be terminated until all revenue bonds issued and interest thereon has been paid in full or are adequately provided. Upon termination of the Agreement, title to all properties of the Authority shall be conveyed to the State, the County and the City, as applicable. Audited financial information of the Authority is available at the office of the Auditor-Controller, County of Orange, Finance Building, 630 North Broadway P.O. Box 567, Santa Ana, California 92702-0567.

The Countywide Public Financing Authority ("CPFA") was created under a Joint Powers Agreement (the "Agreement"), dated June 19, 1996, by and among the cities of Brea, Buena Park, Fullerton, Garden Grove, Orange, Santa Ana, Seal Beach, Stanton and Tustin (collectively, the "Members"). The purpose of this Agreement is to provide for the financing of public capital improvements for, and working capital requirements of, the Members through the acquisition by CPFA of such public capital improvements and/or the purchase by the Authority of obligations of a Member pursuant to Bond Purchase Agreements and/or the lending of funds by CPFA to a Member and/or the leasing of public capital improvements to a Member.

CPFA shall be administered by a Board of nine (9) Directors, unless and until changed by amendment of the Agreement. One Director shall be appointed by the governing body of each of the Members. Each Director shall hold office until the governing body of his or her related Member shall have appointed a successor. All voting power of CPFA shall reside in the Board. The Agreement which became effective on June 19, 1996 will continue to be in full force and effect so long as any bonds remaining outstanding, or so long as CPFA shall own any interest in public capital improvements. Upon termination of the Agreement, all property of CPFA, both real and personal, shall be divided among the parties in such manner as shall be agreed upon by the Members.

Current financial information of CPFA is available at the office of BNY Western Trust Company at 700 South Flower St, Suite 500, Los Angeles, CA 90017-4104.

E. Defined Benefit Pension Plan.

(A) *Plan Description.* The City of Santa Ana contributes to the California Public Employees Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and city ordinance. Copies of CalPERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814.

(B) *Funding Policy.* 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. As an employer, the City is required to contribute an actuarially determined percentage rate of annual covered payroll. The fiscal year 2006-07 rate was 24.499% for the safety employees and 8.214% for non-safety employees. The contribution requirements of plan members and the City are established and may be amended by CalPERS.

(C) *Annual Pension Cost.* For fiscal year 2006-07, the City's annual pension cost of \$19,086,002 for CalPERS was equal to the City's required and actual contributions. For fiscal year 2006-07, total member's contribution to Calpers, including contributions on behalf of employees, was \$29,029,332. The required contribution was determined as part of the June 30, 2005 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases from 3.25% to 13.15% that vary by duration of service, age and type of employment. Also included is an inflation component of 3% and payroll growth of 3.25%. The actuarial value of CalPERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value). CalPERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The amortization period of the unfunded actuarial liability ends by June 30, 2036.

Three-year trend information for CalPERS (dollar amount in thousands):

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
06/30/05	\$ 12,338	100%	0
06/30/06	17,282	100%	0
06/30/07	19,086	100%	0

F. Retirement Health Benefits. Article XIV, Section 6, of the Memorandum of Understanding between the City and the Santa Ana Firemen's Benevolent Association (FBA) through June 30, 2007 provides that the City shall administer a "flat rate" retiree Health Insurance Premium Reduction Program, available to retirees of the FBA. Employees who are members of the FBA retiring on or after July 1, 1989 are eligible to participate regardless of whether or not they are participating in a City-sponsored medical plan on their date of retirement. If retirees do not elect coverage on their date of retirement,

NOTES TO THE BASIC FINANCIAL STATEMENTS

they will not be eligible for coverage at any other time in the future. In addition, to be eligible, employees must have at least ten years of service on the date they retire. This requirement will be waived for any employees retiring due to disability.

The City's monthly contribution is based on a flat dollar amount per year of service. Beginning in 1989, the flat dollar levels were \$2.20 for single coverage and \$5.50 for family coverage. These amounts increase by 5% each year. When the employee dies, the City's contribution ceases regardless of whether or not the dependents are still living. Currently, there are seventy-six (76) retirees participating in the program. The program is advance funded and the City has annually made available (beginning October 1, 1990) an amount equal to one percent of the FBA unit's current salary base. Effective October 1, 2007 this amount will remain the same as last fiscal year, 1.75%. Contributions made to the fund in fiscal year 2006-07 totaled \$365,232. The balance available at June 30, 2007 totaled \$1,404,131, which is reported in the Retiree Health Insurance Subsidy Trust account.

During fiscal year 2001-02, the City expanded the post employment health benefits to cover other represented associations such as the Police Management Association (PMA), the Fire Management Association (FMA), the Santa Ana City Employee's Chapter 1939/SEIU Local 347, the Mid/Administrative Managers' Association (SAMA), and the Unclassified (UC) employees.

The respective programs are advanced funded and the City has annually made available an amount equal to one half percent of the respective bargaining units salary base. Eligibility and benefits varies depending upon the pertinent provisions as embodied in each bargaining units' Memorandum of Understanding (MOU) with the City. Contributions made by the City to each respective bargaining unit in fiscal year 2006-07 and the respective units' fund balances at June 30, 2007 were as follows:

		<u>Contribution</u>		<u>Fund Balance</u>
PMA	\$	14,207	\$	70,986
SEIU		295,544		454,409
FMA		24,200		13,706
SAMA		80,571		284,122
UC		40,767		139,807
Total	\$	<u>455,289</u>	\$	<u>963,030</u>

The respective bargaining units funds are reported in the Retiree Health Insurance Subsidy Trust account. Currently there are 70 retirees receiving benefits in the SEIU program, 12 in PMA, 7 in the FMA, 8 in the SAMA and 2 in UC.

G. Fund Balance Designations

As of June 30, 2007, the following governmental fund of the City had designations of fund balances as follows:

	General Fund	Street Construction Fund	Nonmajor Special Revenue Funds	Capital Projects Funds
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Designated for authorized projects \$	6,931,377	\$ 18,600,770	\$ 8,845,261	\$ 8,282,349
Designated for subsequent year expenditures	13,268,555	-	532,263	-
Designated for stabilizatn fund	<u>16,238,396</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 36,438,328</u>	<u>\$ 18,600,770</u>	<u>\$ 9,377,524</u>	<u>\$ 8,282,349</u>