COSTA MESA HOUSING AUTHORITY

(A Component Unit of the City of Costa Mesa)

Financial Statements

Year ended June 30, 2018

COSTA MESA HOUSING AUTHORITY

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Board of Directors
Costa Mesa Housing Authority
Costa Mesa, California

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Costa Mesa Housing Authority (Authority), a component unit of the City of Costa Mesa, California, as of and for the year ended June 30, 2018, and the related notes to the basic financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these basic financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Authority as of June 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As described further in note 8 to the financial statements, during the year ended June 30, 2018, the Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 75, which resulted in a prior period adjustment. The financial statements for the year ended June 30, 2018 also reflect other prior period adjustments as described further in note 8 to the financial statements.

As described more fully in Note 1A, the basic component unit financial statements present only the Authority and are not intended to present fairly the financial position and results of operations of the City of Costa Mesa, California in conformity with accounting principles generally accepted in the United States of America.

Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedule of proportionate share of the net pension liability and related ratios, the schedule of pension plan contributions, the schedule of proportionate share of the OPEB liability and related ratios, and the schedule of revenues, expenditures and changes in fund balance - budget and actual, identified as required supplementary information (RSI) in the accompanying table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the RSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinions on the basic financial statements are not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2018, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Davis Farr LLP

Irvine, California
December 21, 2018

Costa Mesa Housing Authority
Statement of Net Position
June 30, 2018

	Governmental Activities
ASSETS:	
Cash and investments (Note 2)	$ 1,736,821
Cash and investments with fiscal agent (Note 2)	25,605
Accounts receivable	63,560
Interest receivable	4,092
Rent receivable	12,369
Loans receivable, net of allowance (Note 3)	1,445,607
Capital assets (Note 4):	
Not depreciated	2,063,865
Being depreciated, net	2,966,220
TOTAL ASSETS	8,318,139
DEFERRED OUTFLOWS OF RESOURCES:	
Pension related (Note 6)	190,590
OPEB related (Note 7)	7,243
TOTAL DEFERRED OUTFLOWS OF RESOURCES	197,833
LIABILITIES:	
Accounts payable	68,796
Deposits	21,605
Net pension liability (Note 6)	1,095,223
OPEB liability (Note 7)	208,922
TOTAL LIABILITIES	1,394,546
DEFERRED INFLOWS OF RESOURCES:	
Unearned revenue	4,000
Pension related (Note 6)	10,228
OPEB related (Note 7)	10,321
TOTAL DEFERRED INFLOWS OF RESOURCES	24,549
NET POSITION:	
Net investment in capital assets	5,030,085
Restricted for community programs	2,066,792
TOTAL NET POSITION	$ 7,096,877

See accompanying notes to financial statements.

Costa Mesa Housing Authority
Statement of Activities
Year ended June 30, 2018

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities
Governmental Activities:					
Community programs	$ 1,196,787	$ 380,711	$ -	$ -	$ (816,076)
Total governmental activities	$ 1,196,787	$ 380,711	$ -	$ -	(816,076)
	General revenues:				
	Repayment of Successor Agency advance				185,019
	Investment income				15,618
	Other income				105,944
	Total general revenues				306,581
	CHANGE IN NET POSITION				(509,495)
	NET POSITION AT BEGINNING OF YEAR, AS RESTATED (NOTE 8)				7,606,372
	NET POSITION AT END OF YEAR				$ 7,096,877

See accompanying notes to financial statements.

Costa Mesa Housing Authority
Balance Sheet
Governmental Fund
June 30, 2018

ASSETS:		
Cash and investments	$	1,736,821
Cash and investments with fiscal agent		25,605
Accounts receivable		63,560
Interest receivable		4,092
Rent receivable		12,369
Loans receivable, net of allowance		1,445,607
TOTAL ASSETS	$	3,288,054
LIABILITIES:		
Accounts payable	$	68,796
Deposits		21,605
TOTAL LIABILITIES		90,401
DEFERRED INFLOWS OF RESOURCES:		
Unearned revenue		4,000
TOTAL DEFERRED INFLOWS OF RESOURCES		4,000
FUND BALANCE:		
Restricted for community programs		3,193,653
TOTAL FUND BALANCES		3,193,653
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE	$	3,288,054

See accompanying notes to financial statements.

Costa Mesa Housing Authority
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2018

Fund balance - total governmental fund	$ 3,193,653
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital Related Items	
When capital assets (property, plant, equipment) that are to be used in governmental activities are purchased or constructed, the cost of those assets are reported as expenditures in governmental funds. However, the Statement of Net Position includes those capital assets among the assets of the Authority as whole:	
Capital assets	5,359,665
Accumulated depreciation	(329,580)
Pension and OPEB Related Transactions	
Long-term liabilities applicable to the Authority'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 Position. Also, deferred outflows of resources and deferred inflows of resources related to the long term liaiblities do not provide current financial resources and are therefore not presented in the governmental funds:	
Deferred outflows of resources related to pensions	190,590
Deferred outflows of resources related to OPEB	7,243
Deferred inflows of resources related to pensions	(10,228)
Deferred inflows of resources related to OPEB	(10,321)
CalPERS pension liability	(1,095,223)
OPEB liability	(208,922)
Net position of governmental activities	$ 7,096,877

See accompanying notes to financial statements.

Costa Mesa Housing Authority

Statement of Revenues, Expenditures and
Changes in Fund Balance
Governmental Fund
Year ended June 30, 2018

REVENUES:		
Rental income	$	380,711
Repayment of Successor Agency advance		185,019
Investment income		15,618
Miscellaneous		105,944
TOTAL REVENUES		687,292
EXPENDITURES:		
Current:		
Community programs		651,875
TOTAL EXPENDITURES		651,875
EXCESS OF REVENUES OVER EXPENDITURES		35,417
FUND BALANCE - BEGINNING OF YEAR, AS RESTATED		3,158,236
FUND BALANCE - END OF YEAR	$	3,193,653

See accompanying notes to financial statements.

Costa Mesa Housing Authority
Reconciliation of the Goernmental Funds Statement of
Revenues, Expenditures and Changes in Fund Balances
to the Statement of Acivities
Year ended June 30, 2018

Net change in fund balances - total governmental fund	$	35,417
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital Related Items		
Governmental funds report capital outlay as expenditures. However, in Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation charged to the program in the Statement of Activities in the current period:		
Depreciation expense		(164,790)
Pension		
Pension expense reported in the governmental funds includes the annual required contributions. In the Statement of Activities, pension expenses includes the change in the net pension liability, and related changes in pension amounts for deferred outflows of resources and deferred inflows of resources.		(377,361)
OPEB		
OPEB expense reported in the governmental funds includes the annual required contributions. In the Statement of Activities, OPEB expense includes the change in the net pension liability, and related changes in OPEB amounts for deferred outflows of resources and deferred inflows of resources.		(2,761)
Change in net position of governmental activities	$	(509,495)

1. Reporting Entity and Summary of Significant Accounting Policies:

The accounting policies of the Costa Mesa Housing Authority (Authority) conform to accounting principles generally accepted in the United States of America as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for governmental accounting and financial reporting principles. The following is a summary of the Authority's significant accounting policies:

A. Description of the Reporting Entity:

The Authority was established on January 17, 2012, pursuant to City Council Resolution No. 12-3. The primary purpose of the Authority is to promote affordable housing for families of low and moderate income within the City of Costa Mesa, California (City). Pursuant to Assembly Bill 1484, the housing assets and obligations of the former Redevelopment Agency's Low and Moderate Income Housing Fund were transferred to the Authority. The Authority is an integral part of the reporting entity of the City. The fund of the Authority has been included within the scope of the basic financial statements of the City because the City Council exercises oversight responsibility over the operations of the Authority.

Only the fund of the Authority is included herein, therefore, these financial statements do not purport to represent the financial position or results of operations of the City.

B. Fund Accounting:

The basic accounting and reporting entity is a "fund". A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts, recording resources, related liabilities, obligations, reserves and equities segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The accounting records of the Authority are organized on the basis of funds. Currently, the Authority only utilizes one fund.

C. Basis of Accounting and Measurement Focus:

The *basic financial statements* of the Authority are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

1. Reporting Entity and Summary of Significant Accounting Policies (Continued):

C. Basis of Accounting and Measurement Focus (Continued):

Government-wide Financial Statements

Government-wide financial statements display information about the Authority as a whole. All activities of the Authority are classified as governmental activities. Government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. *Measurement focus* indicates the type of resources being measured. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. *Basis of accounting* refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33.

Program revenues include charges for services, and payments made by parties outside of the reporting government's citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the statement of activities to present the net cost of each program.

Amounts paid to acquire capital assets are capitalized assets in the government-wide financial statements, rather than reported as expenditures.

Fund Financial Statements

The underlying accounting system of the Authority is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of the fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in the individual fund based upon the purposes for which it is to be spent and the means by which spending activities are controlled.

Fund financial statements for the Authority's governmental fund are presented after the government-wide financial statements. These statements display information about the governmental major fund individually.

1. Reporting Entity and Summary of Significant Accounting Policies (Continued):

C. Basis of Accounting and Measurement Focus (Continued):

Governmental Funds

In the fund financial statements, governmental funds are presented using the *modified-accrual basis of accounting.* Their revenues are recognized when they become *measurable* and *available* as fund balances. *Measurable* means that the amounts can be estimated, or otherwise determined. *Available* means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The Authority generally considers revenues collected within sixty days after the fiscal year-end to be available, which includes loan repayments and rental income.

Revenue recognition is subject to the measurable and availability criteria for the governmental funds in the fund financial statements. Exchange transactions are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). Imposed nonexchange transactions are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. Government-mandated and voluntary nonexchange transactions are recognized as revenues when all applicable eligibility requirements have been met.

In the fund financial statements, governmental funds are presented using the *current financial resources measurement focus.* This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance is considered to be a measure of "available spendable resources". Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in fund balances. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Noncurrent portions of long-term receivables due to governmental funds are reported on the balance sheet in spite of their spending measurement focus.

Amounts expended to acquire capital assets are recorded as *expenditures* in the year that resources were expended, rather than as fund assets. The proceeds of long-term indebtedness are recorded as *other financing sources* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

1. Reporting Entity and Summary of Significant Accounting Policies (Continued):

D. New Accounting Pronouncements:

Current Year Standards

GASB 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for fiscal years beginning after June 15, 2017.

GASB 81 - *Irrevocable Split-Interest Agreements*, effective for periods beginning after December 15, 2016. This statement does not impact the Authority.

GASB 82 - *Pension Issues*, effective for periods beginning after June 15, 2016, except for certain provisions on selection of assumptions, which are effective in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. This statement does not impact the Authority.

Pending Accounting Standards

GASB has issued the following statements, which may impact the Authority's financial reporting requirements in the future:

GASB 83 - *Certain Asset Retirement Obligations*, effective for the fiscal year ending June 30, 2019.

GASB 84 - *Fiduciary Activities*, effective for the fiscal year ending June 30, 2020.

GASB 87 – *Leases,* effective for the fiscal year ending June 30, 2021.

E. Cash and Investments:

Investments are reported in the accompanying financial statements at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Changes in fair value that occur during a fiscal year are recognized as *investment income* reported for that fiscal year. *Investment income* includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation, maturity, or sale of investments.

F. Capital Assets:

Capital assets are recorded at historical cost at the time of purchase. Assets acquired from gifts or contributions are recorded at acquisition value on the date contributed. Generally, capital asset purchases in excess of $5,000 are capitalized if they have an expected useful life of

1. Reporting Entity and Summary of Significant Accounting Policies (Continued):

F. Capital Assets (Continued):

two years or more. Capital assets used in operations are generally depreciated in the government- wide financial statements. It is the Authority's policy not to depreciate assets in its first year of service. A full year of depreciation is charged at final year of asset life or upon disposal. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective statement of net position. The range of lives used for computing depreciation for building improvements and structures is 10 to 20 years.

G. Net Position:

Net position of the Authority can be classified into three components - net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

Net investment in capital assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted - This component of net position consists of net position that does not meet the definition of "net investment in capital assets" or "restricted". The Authority has no unrestricted net position.

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

H. Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of net position and the governmental fund balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/

1. Reporting Entity and Summary of Significant Accounting Policies (Continued):

H. Deferred Outflows/Inflows of Resources (Continued):

expenditure) until that time. The Authority has two items that qualify for reporting in this category. The items are deferred outflows related to pensions and deferred outflows related to OPEB.

In addition to liabilities, the statement of net position and the governmental fund balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The Authority has two items that qualify for reporting in this category. The items are deferred inflows related to pensions and deferred inflows related to OPEB.

I. Fund Balance:

Fund balance classifications are defined as follows:

Nonspendable - This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted - This classification includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers or through enabling legislation.

Committed - This classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority.

Assigned - This classification includes amounts to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

Unassigned - The classifications include the residual balance for the government's general fund and includes all spendable amounts not contained in other classifications.

It is the Authority's policy that restricted resources will be applied first, followed by (in order of application) committed, assigned, and unassigned resources, in the absence of a formal policy adopted by the Board.

1. Reporting Entity and Summary of Significant Accounting Policies (Continued):

J. Pensions:

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis. For the purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframe. For this report, the following timeframes are used:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Measurement Period	July 1, 2016 to June 30, 2017

K. Other Post Employment Benefits (OPEB):

For purposes of measuring the OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense and information about the plan (OPEB Plan), have been determined by an independent actuary. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms.

Generally accepted accounting principles require that the reported results must pertain to liability information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2017
Measurement Period	July 1, 2016 to June 30, 2017

L. Use of Estimates:

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

2. Cash and Investments:

Equity in Cash and Investment Pool of the City of Costa Mesa

The Authority does not have a separate bank account; however, the Authority's cash and investments are maintained in an investment pool managed by the City. The Authority is a voluntary participant in that pool. This pool is governed by and under the regulatory oversight of the Investment Policy adopted by the City Council of the City. The Authority has not adopted an investment policy separate from that of the City. The fair value of the Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the Authority's pro-rata share of the fair value calculated by the City for the entire City portfolio. The balance available for withdrawal is based on the accounting records maintained by the City, which are recorded on an original cost basis. At June 30, 2018, the Authority had a cash balance of $1,762,426.

3. Loans Receivable:

	Amount
The first-time homebuyer program provides loans to first-time homebuyers for purchases of homes in the City of Costa Mesa. For loans made before 2007, loan repayments were deferred for 10 years and for loans made in 2007 and after, repayments of the loan are deferred for 30 years.	$ 1,523,362
The single-family rehabilitation loan program provides loans to homeowners to make home improvements and repair code violations. There were 3 loans made under this program in 2009. The loans do not pay interest and are not due until the property is sold.	142,500
Loan receivable to a developer to construct a 36-unit senior-rental project for low-income residents. The loan repayment is deferred until 2062 and no interest is to be paid on the loan. The Authority is to receive residual receipts if the projects has net profits, on an annual basis, until 2062.	583,073
The rental rehabilitation program is for deferred loans to owners of multi-family properties to make improvements and repair code violations. There are 3 remaining loans under this program and repayment is deferred until sale, transfer or default. Interest of 4 percent is due on these loans.	139,621
There are 5 loans made to underwrite land to a developer to build 5 single-family homes to be maintained in perpetuity for affordable housing. The Authority maintains enforceable covenants on the property. The loans are to be repaid only upon default of affordable housing covenants.	681,283

3. Loans Receivable (Continued):

There are 2 loans made to eligible homebuyers under the Federal Neighborhood Stabilization Program (NSP) administered by the State of California. The NSP program consists of acquisition, rehabilitation, and subsequent sale of foreclosed homes. Borrowers met income and affordability qualifications set by the HUD HOME Program and California Community Redevelopment law.	181,250
Total loans receivable	3,251,089
Less allowance for doubtful accounts	(1,805,482)
Loans receivable, net of allowance of doubtful accounts	$ 1,445,607

4. Capital Assets:

The following is a summary of the capital asset activity for the year ended June 30, 2018:

	Balance at July 1, 2017	Additions	Deletions	Balance at June 30, 2018
Capital assets, not being depreciated:				
Land	$ 2,063,865	$ -	$ -	$ 2,063,865
Capital assets, being depreciated:				
Building improvements and structures	3,295,800	-	-	3,295,800
Less accumulated depreciation for:				
Building improvements and structures	(164,790)	(164,790)	-	(329,580)
Total capital assets, being depreciated, net	3,131,010	(164,790)	-	2,966,220
Capital assets, net	$ 5,194,875	$ (164,790)	$ -	$ 5,030,085

Depreciation expense of $164,790 was charged to the community programs function on the Statement of Activities.

5. Contingencies:

In 2012, all California redevelopment agencies were dissolved, including the City of Costa Mesa Redevelopment agency. In the dissolution process, the State of California Department of Finance (DOF) disallowed a loan in the amount of $9,278,545 from the City's General Fund to the former Redevelopment Agency as an enforceable obligation. The City wrote-off the outstanding loan balance in fiscal year 2012-13. The Department of Finance Finding of Completion on May 24, 2013 allowed the placement of these loan agreements on the recognized obligation payment schedule (ROPS), provided the oversight board made a finding that the loan was for legitimate redevelopment purposes pursuant to Health and Safety Code section 34191.4. On October 9, 2013, the City filed a lawsuit in the Sacramento Superior Court, Case No. 34-2013-80001675, against the DOF and the Orange County Auditor- Controller.

The lawsuit sought, among other relief, orders requiring the DOF to approve annual loan repayments to the City on future ROPS submitted by the Successor Agency and requiring the Orange County Auditor-Controller to refund the $2,492,747 payment the City made on May 1, 2013. Based on the uncertainty of DOF reinstatement of the loan, the City wrote off the outstanding balance of the loan in the fiscal year 2012-13. At this time, the lawsuit is still active.

On April 17, 2014, the local Oversight Board approved the finding that the loan was for legitimate redevelopment purposes pursuant to Health and Safety Code Section 34191.4. On May 6, 2014, the DOF sent a letter affirming the Oversight Board's decision that the loan was for legitimate redevelopment purpose and reestablishing the loan under an Amended and Restated Agreement. Subsequent to the write-off of the loan, the City has adjusted the loan for principal additions, interest additions and principal received after the loan was recognized as an enforceable obligation. As of June 30, 2018, the loan balance is estimated to be $8,648,181. The Housing Authority is entitled to receive 20% of this amount, which is $1,729,636. In the current fiscal year, the Housing Authority received $185,019 on this loan. The loan balance continues to be written down as certain assurances from the DOF need to occur before the City will formally reinstate the loan.

6. Defined Benefit Pension Plan (CalPERS):

Plan Description

All qualified permanent and probationary Authority employees are eligible to participate in the City's separate Miscellaneous Plan, an agent multiple-employer defined benefit pension plan, administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plan are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

6. Defined Benefit Pension Plan (CalPERS) (Continued):

For further details regarding this plan, including funding progress, refer to the City of Costa Mesa's Comprehensive Annual Financial Report.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 to 62 with statutorily reduced benefits. For employees hired into a plan with the 1.5% at 65 formula, eligibility for service retirement is age 55 with at least 5 years of service. PEPRA miscellaneous members become eligible for service retirement upon attainment of age 52 with at least 5 years of service. All members are eligible for non-duty disability benefits after 5 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. Safety members can receive a special death benefit if the member dies while actively employed and the death is job-related. The cost of living adjustments are applied as specified by the Public Employees' Retirement Law.

The Plan's provisions and benefits in effect at June 30, 2018, are summarized as follows:

	Miscellaneous (Agent Multiple-Employer)		
Hire date	Prior to March 11, 2012	On or After March 11, 2012	On or After January 1, 2013
Benefit formula	2.5%@55	2.0%@60	2%@62
Benefit vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 55	50 - 63	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.092% to 2.418%	1.0% to 2.5%
Required employee contribution rates	8%	7%	6.75%
Required employer contribution rates	32.76%	32.76%	5.75%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Employer contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contributions requirements are classified as plan member contributions.

6. Defined Benefit Pension Plan (CalPERS) (Continued):

Contributions (Continued)

For the year ended June 30, 2018, the Authority's total contributions for the Miscellaneous Plan were $75,706.

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

The total pension liabilities in the June 30, 2018 financial statements were determined using the following actuarial assumptions:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Actuarial cost method	Entry-Age Normal in accordance with the requirements of GASB 68
Actuarial assumptions:	
Discount rate	7.15%
Inflation	2.75%
Salary increases	Varies by Entry Age and Service
Mortality Rate Table[1]	Derived using CalPERS Membership Data for all Funds
Postretirement benefit increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

[1] The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

Change of Assumptions

In 2017, the accounting discount rate was reduced from 7.65 % to 7.15 %.

6. Defined Benefit Pension Plan (CalPERS) (Continued):

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. The tests revealed the assets would not run out. Therefore, the current 7.15 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15 percent is applied to all plans in the Public Employees Retirement Fund (PERF). The cash flows used in the testing were developed assuming both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained at CalPERS’ website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Taking into account historical returns of all the Public Employees Retirement Funds’ (PERF) asset classes (which includes the agent plan and two cost-sharing plans or PERF A, B and C funds), except compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each PERF fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

6. Defined Benefit Pension Plan (CalPERS) (Continued):

Discount Rate (Continued)

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the Board effective on July 1, 2014.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11 + (b)
Global Equity	47.00%	4.90%	5.38%
Global Fixed Income	19.00%	0.80%	2.27%
Inflation Sensitive	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infratructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	0.90%
Total	100.00%		

(a) An expected inflation of 2.5% used for this period
(b) An expected inflation of 3.0% used for this period

The following table shows the Authority's proportionate share of the net pension liability over the measurement period:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (c) = (a) - (b)
Balance at: 6/30/2016 (VD)	$ 1,805,141	$ 1,172,220	$ 632,922
Balance at: 6/30/2017 (MD)	3,056,790	1,961,567	1,095,223
Net Changes during 2016-17	1,251,649	789,347	462,301

The Authority's net pension liability for the plan is measured as the proportionate share of the net pension liability. The net pension liability of the plan is measured as of June 30, 2017, and the total pension liability for the plan used to calculate the net pension liability was determined by an actuarial valuation of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

6. Defined Benefit Pension Plan (CalPERS) (Continued):

Discount Rate (Continued)

The Authority's proportionate share of the net pension liability for the plan as of June 30, 2016 and 2017 was as follows:

	Miscellaneous Plan
Proportion – June 30, 2016	1.095%
Proportion – June 30, 2017	0.703%
Change – Increase (Decrease)	0.392%

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Plan as of the Measurement Date, calculated using the discount rate of 7.15 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.15 percent) or 1 percentage-point higher (8.15 percent) than the current rate:

	Discount Rate – 1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate + 1% (8.15%)
Authority's proportionate share of the Net Pension Liability	$1,501,011	$1,095,223	$762,243

Subsequent Events

In December 2016, the CalPERS Board of Administration voted to lower the discount rate from 7.5 percent to 7.0 percent over the next three years. For public agencies, the discount rate changes approved by the Board for the next three fiscal years ending June 30, 2019, 2020, and 2021 are 7.375%, 7.25%, and 7.00%, respectively. In February 2018, the CalPERS Board approved the reduction of the amortization period from 30 years to 20 years effective June 30, 2019.

6. Defined Benefit Pension Plan (CalPERS) (Continued):

Amortization of Deferred Outflows and Deferred Inflows of Resources

Under GASB 68, actuarial gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time. The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred inflows and deferred outflows to be recognized in future pension expense. The amortization period differs depending on the source of the gain or loss:

Net difference between projected and actual earnings on pension plan investments	5 year straight-line amortization
All other amounts	Straight-line amortization over the expected average remaining service lifetime (EARSL) of all members that are provided with pensions (active, inactive, and retired) as of the beginning of the measurement period

The EARSL for the Plan for the June 30, 2017 measurement date is 2.2 years, which was obtained by dividing the total services years by the total number of participants (active, inactive, and retired) in the Plan. Inactive employees and retirees have remaining service lifetimes equal to 0. Total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

6. Defined Benefit Pension Plan (CalPERS) (Continued):

Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended June 30, 2018, the Authority recognized pension expense of $453,068. At June 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to the CalPERS pension as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to the measurement date	$ 75,706	$ -
Changes in assumptions	92,484	-
Differences between expected and actual experience	-	10,228
Net difference between projected and actual earnings on pension plan investments	22,400	-
Totals	$ 190,590	$ 10,228

The Authority reported $75,706 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred inflows or outflows of resources related to pensions will be recognized as pension expense as follows:

Measurement period Ended June 30:	Deferred Outflows/(Inflows) of Resources
2018	$ 65,347
2019	44,553
2020	10,380
2021	(15,625)
2022	-
Thereafter	-

7. Other Post-Employment Benefits (OPEB):

Plan Description

The City administers a single-employer defined benefit plan, which provides medical insurance benefits to eligible retirees and their spouses in accordance with various labor agreements. The plan covers employees hired before January 1, 2004 who retire directly from the City with 10 or more years of City service. The City provides a contribution up to a percentage of the lesser of $500 per month or the premium for the most popular medical plan elected by the employees. The percentage varies by retirement date and years of City service. For employees hired on or after January 1, 2004, the City will only pay for the PEMHCA subsidy once they meet the definition of a retiree under CalPERS. The City provides retiree life insurance of $1,000 for the retiree and $500 for the retiree's spouse.

Contributions

The contribution requirements of plan members and the Authority are established and may be amended by City Council. The required contribution is made on a pay-as-you-go basis (i.e., as medical insurance premiums become due). Neither the City or the Authority has established a trust for the purpose of holding assets accumulated for plan benefits.

Actuarial Methods and Assumptions Used to Determine Total OPEB Liability

The Authority's total OPEB liability was measured as of June 30, 2017 by an actuarial valuation based on the following actuarial methods and assumptions:

Discount Rate: 3.40% per annum. This discount rate is the average, rounded to 5 basis points, of the range of 3-20 year municipal bond rate indices: S&P Municipal Bond 20 Year High Grade Rate Index, Bond Buyer 20-Bond GO index, Fidelity GO AA 20 Year Bond Index.

Inflation Rate: 2.75% per year

Aggregate Payroll Increases: 3.00% per year; this assumption is used to amortize the unfunded actuarial accrued liability and to determine the Entry Age Normal actuarial liabilities.

Mortality Rate: Based on rates used in the most recent CalPERS pension valuation.

Turnover Rate: Assumption used to project terminations (voluntary and involuntary) prior to meeting minimum retirement eligibility for retiree health coverage. The rates represent the probability of termination in the next 12 months. The termination rates are based on those used in the most recent CalPERS pension valuation.

7. Other Post-Employment Benefits (OPEB) (Continued):

Actuarial Methods and Assumptions Used to Determine Total OPEB Liability (Continued)

Retirement Rate: Annual retirement rates are based on those used in the most recent CalPERS pension valuation.

The following table shows the Authority's proportionate share of the total OPEB liability over the measurement period:

	Increase (Decrease) Total OPEB Liability
Balance at: 6/30/2016	$ 209,239
Balance at: 6/30/2017	208,922
Net Changes during 2016-17	(317)

The Authority's total OPEB liability for the plan is measured as the proportionate share of the plan's total OPEB liability. The total OPEB liability of the plan is measured as of June 30, 2017, and the total OPEB liability for the plan used to calculate the net pension liability was determined by an actuarial valuation of June 30, 2017. The Authority's proportion of the total OPEB liability was based on a projection of the Authority's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. The Authority's proportionate share of the total OPEB liability for the plan as of June 30, 2016 and 2017 was as follows:

	OPEB Plan
Proportion – June 30, 2016	0.368%
Proportion – June 30, 2017	0.391%
Change – Increase (Decrease)	0.023%

7. Other Post-Employment Benefits (OPEB) (Continued):

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the Plan as of the Measurement Date, calculated using the discount rate of 3.40 percent, as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1 percentage-point lower (2.40 percent) or 1 percentage-point higher (4.40 percent) than the current rate:

	Discount Rate – 1% (2.40%)	Current Discount Rate (3.40%)	Discount Rate + 1% (4.40%)
Authority's proportionate share of the total OPEB liability	$238,503	$208,922	$184,895

The following presents the total OPEB liability, as well as what the total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage-point lower or 1 percentage-point higher than the current healthcare cost trend rates:

	Discount Rate – 1% (5.00% HMO/ 5.50% PPO decreasing to 4.00% HMO/ 4.00% PPO)	Trend Rate (6.00% HMO/ 6.50% PPO) decreasing to 5.00% HMO/ 5.00% PPO)	Discount Rate + 1% (7.00% HMO/ 7.50%PPO decreasing to 6.00% HMO/ 6.00%PPO)
Authority's proportionate share of the total OPEB liability	$196,455	$208,922	$226,443

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the Authority recognized OPEB expense of $5,993. At June 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to the OPEB plan as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to the measurement date	$ 7,243	$ -
Changes in assumptions	-	10,321
Totals	$ 7,243	$10,321

7. Other Post-Employment Benefits (OPEB) (Continued):

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB (Continued)

The Authority reported $7,243 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the total OPEB liability in the year ending June 30, 2019.

Other amounts reported as deferred inflows or outflows of resources related to pensions will be recognized as pension expense as follows:

Measurement period Ended June 30:	Deferred Outflows/(Inflows) of Resources
2018	$ (5,160)
2019	(5,161)
2020	-
2021	-
2022	-
Thereafter	-

8. Prior Period Adjustments:

The beginning fund balance and net position of the governmental fund and governmental activities were restated as follows:

	General Fund	Governmental Activities
Fund balance/net position at beginning of year, as previously reported	$ 5,064,767	$10,259,642
Implementation of GASB Statement 75 (OPEB)	-	(209,239)
Adjustment to reflect activity related to the pension plan	-	(537,500)
Adjustment to record an allowance for certain loans receivable	(1,902,288)	(1,902,288)
Adjustment to record accrued payroll	(4,243)	(4,243)
Fund balance/net position at beginning of year, as restated	$ 3,158,236	$ 7,606,372

Costa Mesa Housing Authority
Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability and Related Ratios
CalPERS Miscellaneous Plan

Last Ten Fiscal Years*

Measurement date	June 30, 2014	June 30, 2015	June 30, 2016	June 30, 2017
Plan's proportion of the net pension liability	0.703%	0.703%	0.703%	1.095%
Plan's proportionate share of the net pension liability	$ 536,746	$ 561,947	$ 632,922	$ 1,095,223
Plan's covered payroll	$ 129,116	$ 126,041	$ 139,833	$ 213,885
Plan's proportionate share of the net pension liability as a percentage of covered payroll	415.71%	445.84%	452.63%	512.06%
Plan's proportionate share of the fiduciary net position as a percentage of the Plan's total pension liability	69.49%	68.26%	64.94%	64.17%
Plan's proportionate share of aggregate employer contributions	$ 36,704	$ 42,575	$ 45,855	$ 75,706

Notes to schedule:

Benefit changes:
There were no changes in benefits terms.

Changes in assumptions:
From fiscal year June 30, 2015 to June 30, 2016:

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% was used for the June 30, 2015 measurement date.

From fiscal year June 30, 2016 to June 30, 2017:
There were no changes in assumptions.

From fiscal year June 30, 2017 to June 30, 2018:
The accounting discount rate reduced from 7.65 % to 7.15 %.

* - Fiscal year 2015 was the first year of implementation, therefore only four years are shown.

Costa Mesa Housing Authority
Required Supplementary Information
Schedule of Pension Plan Contributions
CalPERS Miscellaneous Plan
Last Ten Fiscal Years*

Fiscal year ended	June 30, 2015	June 30, 2016	June 30, 2017	June 30, 2018
Contractually required contribution (acturially determined)	$ 36,704	$ 42,575	$ 45,855	$ 75,706
Contributions in relation to the actuarially determined contributions	(36,704)	(42,575)	(45,855)	(75,706)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered payroll	$ 126,041	$ 139,854	$ 137,316	$ 219,736
Contributions as a percentage of covered payroll	29.12%	30.44%	33.39%	34.45%

Notes to schedule:

Valuation date	6/30/2012	6/30/2013	6/30/2014	6/30/2015

Methods and assumptions used to determine contribution r\ates:

Single and agent employers	Entry Age Normal
Amortization method/period	For details, see June 30, 2015 Funding Valuation Report.
Asset valuation method	Market Value of Assets. For details, see June 30, 2015 Funding Valuation Report.
Inflation	2.75%
Salary increases	Varies by Entry Age and Service
Payroll growth	3.00%
Investment rate of return	7.50%, net of pension plan investment and administrative expense; including inflation.
Retirement age	The probabilities of Retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.
Mortality	The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and Post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries.

Other information:

For changes to previous year's information, refer to past GASB 68 reports.

* - Fiscal year 2015 was the first year of implementation, therefore only four years are shown.

Costa Mesa Housing Authority

Required Supplementary Information

Schedule of Proportionate Share of OPEB Liability and Related Ratios

Last Ten Fiscal Years*

Measurement date	June 30, 2017
Plan's proportion of the total OPEB liability	0.391%
Plan's proportionate share of the total OPEB liability	$ 208,922
Plan's covered payroll	$ 160,415
Plan's proportionate share of the OPEB liability as a percentage of covered employee payroll	130.24%
Plan's proportionate share of the fiduciary net position as a percentage of the Plan's total OPEB liability	0.00%

Notes to schedule:

Changes in assumptions. The discount rate as of the June 30, 2016 measurement date was 2.85%. The discount rate as of the June 30, 2017 measurement date was 3.40%.

Historical information is required only for measurement periods for which GASB 75 is applicable. Future years' information will be displayed up to 10 years as information becomes available.

* - Fiscal year 2018 was the first year of implementation, therefore only one year is shown.

Costa Mesa Housing Authority
Required Supplementary Information
Housing Authority Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Year ended June 30, 2018
(With Comparative Data for Prior Year)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Repayment of Successor Agency advance	$ 139,212	$ 139,212	$ 185,019	$ 45,807	$ 139,212
Investment income	10,000	10,000	15,618	5,618	31,035
Other income	388,000	388,000	380,711	(7,289)	400,671
Charges for services	100,000	100,000	105,944	5,944	352,076
Total revenues	637,212	637,212	687,292	50,080	922,994
Expenditures:					
Current:					
Community programs	677,150	677,150	651,875	25,275	471,127
Total expenditures	677,150	677,150	651,875	25,275	471,127
Excess (deficiency) of revenues over (under) expenditures	(39,938)	(39,938)	35,417	75,355	451,867
Net change in fund balance	(39,938)	(39,938)	35,417	75,355	451,867
Fund balance at beginning of year, as restated	3,158,236	3,158,236	3,158,236	-	4,612,900
Fund balance at end of year	$ 3,118,298	$ 3,118,298	$ 3,193,653	$ 75,355	$ 5,064,767

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Board of Directors
Costa Mesa Housing Authority
Costa Mesa, California

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, financial statements of the governmental activities and the major fund of the Costa Mesa Housing Authority (Authority), as of and for the year ended June 30, 2018, and the related notes to the basic financial statements, which collectively comprise of the Authority's basic financial statements, and have issued our report thereon dated December 21, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Davis Farr LLP

Irvine, California
December 21, 2018