

**COSTA MESA PUBLIC  
FINANCING AUTHORITY**

**(A Component Unit of the  
City of Costa Mesa)**

**Financial Statements**

**Year Ended June 30, 2019**

# COSTA MESA PUBLIC FINANCING AUTHORITY

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Year Ended June 30, 2019

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## **INDEPENDENT AUDITOR'S REPORT**

The Board of Directors  
Costa Mesa Public Financing Authority  
Costa Mesa, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Costa Mesa Public Financing Authority (the Authority), (a component unit of the City of Costa Mesa, California) as of and for the year ended June 30, 2019, 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. 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 auditor's 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 entity'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 entity'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 each major fund of the Authority as of June 30, 2019, 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 a Matter**

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 accordance with accounting principles generally accepted in the United States of America.

## **Report on Summarized Comparative Information**

We have previously audited the financial statements of the Authority for the year ended June 30, 2018 and we expressed an unmodified opinion on those financial statements in our report dated December 21, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

## **Other Matters**

### *Required Supplementary Information*

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 13, 2019, 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.



Irvine, California  
December 13, 2019

**COSTA MESA PUBLIC FINANCING AUTHORITY**  
**Statement of Net Position**  
**June 30, 2019**  
**(With comparative totals for June 30, 2018)**

|   | Governmental Activities |            |
|---|-------------------------|------------|
|   | 2019                    | 2018       |
| <b>ASSETS:</b>                                  |                         |            |
| Cash and investments with fiscal agent (Note 2) | \$ 503,219              | \$ 475,489 |
| Investment in bonds (Note 2)                    | 435,000                 | 625,000    |
| <b>TOTAL ASSETS</b>                             | 938,219                 | 1,100,489  |
| <br><b>LIABILITIES:</b>                         |                         |            |
| Interest payable                                | 12,710                  | 16,565     |
| Noncurrent liabilities:                         |                         |            |
| Due within one year (Note 3)                    | 190,000                 | 185,000    |
| Due in more than one year (Note 3)              | 410,000                 | 600,000    |
| <b>TOTAL LIABILITIES</b>                        | 612,710                 | 801,565    |
| <br><b>NET POSITION:</b>                        |                         |            |
| Restricted for debt service                     | 325,509                 | 298,924    |
| <b>TOTAL NET POSITION</b>                       | \$ 325,509              | \$ 298,924 |

See accompanying notes to financial statements.

**COSTA MESA PUBLIC FINANCING AUTHORITY**  
**Statement of Activities**  
**June 30, 2019**  
**(With comparative totals for the year ended June 30, 2018)**

| Functions/Programs               | Expenses         | Program Revenues                           |  |  | Net (Expenses) Revenues<br>and Changes in Net Position<br>Governmental Activities |                   |
|----------------------------------|------------------|--|--|--|---|-------------------|
|                                  |                  | Charges<br>for<br>Services                 | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions | 2019  | 2018              |
| Governmental Activities:         |                  |  |  |  |   |                   |
| Interest on<br>Long-term debt    | \$ 31,275        | \$ -                                       | \$ -                                     | \$ -                                   | \$ (31,275)   | \$ (301,336)      |
| Total governmental<br>activities | <u>\$ 31,275</u> | <u>\$ -</u>                                | <u>\$ -</u>                              | <u>\$ -</u>                            | <u>\$ (31,275)</u>  | <u>(301,336)</u>  |
|                                  |                  | General revenues:                          |  |  |   |                   |
|                                  |                  | Investment income                          |  |  | 57,860  | 551,650           |
|                                  |                  | Transfer to City of Costa Mesa             |  |  | -   | (365,436)         |
|                                  |                  | Transfer to Costa Mesa Financing Authority |  |  | -   | (520)             |
|                                  |                  | Total general revenues and transfers       |  |  | <u>57,860</u>   | <u>185,694</u>    |
|                                  |                  | Changes in net position                    |  |  | 26,585  | (115,642)         |
|                                  |                  | NET POSITION AT<br>BEGINNING OF YEAR       |  |  | <u>298,924</u>  | <u>414,566</u>    |
|                                  |                  | NET POSITION AT END OF YEAR                |  |  | <u>\$ 325,509</u>   | <u>\$ 298,924</u> |

See accompanying notes to financial statements.

**COSTA MESA PUBLIC FINANCING AUTHORITY**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2019**  
**(with comparative totals for June 30, 2018)**

|  | Total<br>Governmental Funds |                     |
|--|-----------------------------|---------------------|
|  | 2019                        | 2018                |
| <b>ASSETS</b>                          |                             |                     |
| Cash and investments with fiscal agent | \$ 503,219                  | \$ 475,489          |
| Investment in bonds                    | 435,000                     | 625,000             |
| <b>TOTAL ASSETS</b>                    | <b>\$ 938,219</b>           | <b>\$ 1,100,489</b> |
| <b>FUND BALANCES</b>                   |                             |                     |
| <b>FUND BALANCES:</b>                  |                             |                     |
| Restricted for debt service            | \$ 938,219                  | \$ 1,100,489        |
| <b>TOTAL FUND BALANCES</b>             | <b>\$ 938,219</b>           | <b>\$ 1,100,489</b> |

See accompanying notes to financial statements.

**COSTA MESA PUBLIC FINANCING AUTHORITY**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Statement of Net Position**  
**June 30, 2019**

|  |                          |
|--|--------------------------|
| Fund balances for governmental funds   | \$ 938,219               |
| Amounts reported for governmental activities in the Statement of Net Position are different because:   |                          |
| 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 governmental fund liabilities. All liabilities (both current and long-term) are reported in the Statement of Net Position. |                          |
| Revenue bonds  | (600,000)                |
| Accrued interest payable for the current portion of interest due on long-term debt has not been reported in the governmental funds.  |                          |
| Interest payable - revenue bonds   | <u>(12,710)</u>          |
| Net position of governmental activities  | <u><u>\$ 325,509</u></u> |

See accompanying notes to financial statements.



**COSTA MESA PUBLIC FINANCING AUTHORITY**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**Year ended June 30, 2019**  
**(with comparative totals for the year ended June 30, 2018)**

|  | Total              |              |
|--|--------------------|--------------|
|  | Governmental Funds |              |
|  | 2019               | 2018         |
| REVENUES   |                    |              |
| Interest from bonds  | \$ 51,875          | \$ 66,400    |
| Other interest   | 5,985              | 10,175       |
| Lease principal payments                                     | -                  | 2,619,632    |
| Lease interest payments                                      | -                  | 412,178      |
|  | 57,860             | 3,108,385    |
| TOTAL REVENUES   |                    |              |
| EXPENDITURES   |                    |              |
| Debt service:  |                    |              |
| Principal  | 185,000            | 4,070,000    |
| Interest   | 35,130             | 456,264      |
| Payment to bond escrow agent                                 | -                  | 2,302,225    |
|  | 220,130            | 6,828,489    |
| TOTAL EXPENDITURES   |                    |              |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER)<br>EXPENDITURES | (162,270)          | (3,720,104)  |
| OTHER FINANCING SOURCES (USES)                               |                    |              |
| Transfer in from Costa Mesa Financing Authority              | -                  | 14,530,000   |
| Transfer to City of Costa Mesa                               | -                  | (365,436)    |
| Payment to bond escrow agent                                 | -                  | (14,530,520) |
|  | -                  | (365,956)    |
| TOTAL OTHER FINANCING SOURCES (USES)                         |                    |              |
| NET CHANGE IN FUND BALANCE                                   | (162,270)          | (4,086,060)  |
| FUND BALANCES AT BEGINNING OF YEAR                           | 1,100,489          | 5,186,549    |
| FUND BALANCES AT END OF YEAR                                 | \$ 938,219         | \$ 1,100,489 |

See accompanying notes to financial statements.

**COSTA MESA PUBLIC FINANCING AUTHORITY**  
**Reconciliation of the Governmental Funds Statement of**  
**Revenues, Expenditures and Changes in Fund Balances**  
**to the Statement of Activities**  
**Year ended June 30, 2019**

|   |                  |
|---|------------------|
| Net change in fund balances - total governmental funds  | \$ (162,270)     |
| <p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>   |                  |
| <p>Repayment of long-term principal is an expenditure in the governmental funds and, thus, has the effect of reducing the fund balances because current financial resources have been used. For the Authority as a whole, however, the principal payments reduce the liabilities in the Statement of Net Position and do not result in an expense in the Statement of Activities.</p> |                  |
| Debt service principal - revenue bonds  | 185,000          |
| <p>The Statement of Net Position includes accrued interest on long-term debt. The net change in accrued interest for the current period is reported on the Statement of Activities.</p>   |                  |
|   | <u>3,855</u>     |
| Change in net position of governmental activities   | <u>\$ 26,585</u> |

See accompanying notes to financial statements.

# **COSTA MESA PUBLIC FINANCING AUTHORITY**

## **Notes to the Basic Financial Statements**

**Year Ended June 30, 2019**

### **1. Reporting Entity and Summary of Significant Accounting Policies:**

#### **A. Description of the Reporting Entity:**

The Costa Mesa Public Financing Authority (the Authority) was created by a joint powers agreement between the City of Costa Mesa (the City) and the former Costa Mesa Redevelopment Agency (the Agency), dated August 20, 1990. It was created pursuant to Articles 1 through 4 of Chapter 5, Division 7, Title 1 of the Government Code of the State of California in accordance with the provisions of the Mello-Roos Local Bond Pooling Act of 1985. The Authority was created for the purpose of providing financing for capital improvements, acquisition of capital improvements, and the purchase of local obligations. Article 4 authorizes the Authority to borrow money for the purpose of financing the acquisition of capital improvements and to lease capital improvements to the City.

The Authority is an integral part of the reporting entity of the City. The financial activity of the Authority has been included within the scope of the basic financial statements of the City because the City Council of the City of Costa Mesa is the governing board over the operations of the Authority. Only the financial activity 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. 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

Government-wide financial statements display information about the reporting government as a whole, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the primary government (including its blended component units), as well as its discretely presented component units. The Authority has no business-type activities or discretely presented component units.

# COSTA MESA PUBLIC FINANCING AUTHORITY

## Notes to the Basic Financial Statements

(Continued)

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

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 exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of Governmental Accounting Standards Board (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 as assets in the government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as liabilities in the government-wide financial statements, rather than as other financing sources. Amounts paid to reduce long-term indebtedness of the reporting government are reported as reductions of the related liabilities, rather than as expenditures.

When both restricted and unrestricted resources are combined, expenses are considered to be paid first from restricted resources, and then from unrestricted resources.

#### 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 each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, deferred inflows of resources, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

# COSTA MESA PUBLIC FINANCING AUTHORITY

## Notes to the Basic Financial Statements

(Continued)

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

Fund financial statements for the primary government's governmental and fiduciary funds are presented after the government-wide financial statements. These statements display information about major funds individually and other governmental funds in the aggregate for governmental funds. Fiduciary statements include financial information for fiduciary funds and similar component units. Fiduciary funds primarily represent assets held by the Authority in a custodial capacity for other individuals or organizations. The Authority has no fiduciary funds.

#### 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 uses a sixty-day availability period. Unavailable revenues are reported as deferred inflows of resources in the governmental funds.

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 non-exchange* 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 non-exchange 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, current liabilities and deferred inflows of resources 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.

# COSTA MESA PUBLIC FINANCING AUTHORITY

## Notes to the Basic Financial Statements

(Continued)

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

Noncurrent portions of long-term receivables due to governmental funds are reported on the balance sheets in spite of their spending measurement focus. Special reporting treatments are used to indicate, however, that they should not be considered "available spendable resources," since they do not represent available fund balance. Recognition of governmental fund type revenues represented by noncurrent receivables are reported as unavailable revenues. Noncurrent portions of other long-term receivables are offset by deferred inflows of resources - unavailable revenue.

Because of the spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

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

#### C. Activities in Major Fund:

The following debt service fund is presented as a major fund in the accompanying basic financial statements:

Revenue Refunding Bonds 2006 Series A Fund - To account for the accumulation of resources for the payment of debt service for bond principal and interest relating to the 2006 Series A Revenue Refunding Bonds.

#### D. 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.

#### E. Investment in Bonds:

Investment in bonds represents the Authority's investment in bonds issued by the Costa Mesa Community Facilities District No. 91-1.

# COSTA MESA PUBLIC FINANCING AUTHORITY

## Notes to the Basic Financial Statements

(Continued)

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

#### **F. Net Position:**

Net position of the Authority is 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.

#### **G. Deferred Outflow/Inflows of Resources:**

In addition to assets, the statement of net position and the governmental funds 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/expenditure) until that time. The Authority does not have any applicable deferred outflows of resources.

In addition to liabilities, the statement of net position and the governmental funds 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 does not have any applicable deferred inflows of resources.

#### **H. Budgetary Reporting:**

Formal budgetary integration is not employed for the Authority because effective control is alternatively achieved through the debt indenture provisions.

#### **I. Fund Equity:**

The fund balances are reported in the fund statements in the following classification:

Restricted Fund Balance - this includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation. If the Board action limiting the use of funds is included in the same action (legislation) that created (enables) the funding source, then it is restricted.

#### **J. 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.

# **COSTA MESA PUBLIC FINANCING AUTHORITY**

## **Notes to the Basic Financial Statements**

**(Continued)**

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

#### ***K. Fair Value Measurements:***

Certain assets and liabilities are required to be reported at fair value. The fair value framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are described as follows

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly and fair value is determined through the use of models or other valuation methodologies including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in markets that are inactive;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement. These unobservable inputs reflect the Authority's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). These unobservable inputs are developed based on the best information available in the circumstances and may include the Authority's own data.

#### ***L. Prior Year Data:***

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Authority's prior year financial statements, from which this selected financial data was derived. In addition, certain minor reclassifications of the prior year data have been made to enhance their comparability to the current year.



**COSTA MESA PUBLIC FINANCING AUTHORITY**

**Notes to the Basic Financial Statements**

**(Continued)**

**2. Cash and Investments:**

Cash and investments at June 30, 2019 are classified in the accompanying Statement of Net Position as follows:

|  |                   |
|--|-------------------|
| Cash and investments with fiscal agent | \$ 503,219        |
| Investment in bonds                    | <u>435,000</u>    |
| Total Cash and Investments             | <u>\$ 938,219</u> |

Cash and investments held at June 30, 2019 consisted of the following:

Investments:

|  |                   |
|--|-------------------|
| Costa Mesa Community Facilities District Bonds | \$ 435,000        |
| Money market mutual funds                      | <u>503,219</u>    |
| Total Cash and Investments                     | <u>\$ 938,219</u> |

**COSTA MESA PUBLIC FINANCING AUTHORITY**

**Notes to the Basic Financial Statements**

**(Continued)**

**2. Cash and Investments (Continued):**

***Investments Authorized by Debt Agreements***

Investments 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 generally 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>Authorized Investments</u>      | <u>Maximum Maturity</u> | <u>Maximum Percentage Allowed</u> | <u>Maximum Investment in One Issuer</u> |
|------------------------------------|-------------------------|-----------------------------------|---|
| United States Treasury Securities  | None                    | None                              | None                                    |
| Federal Agency Securities          | None                    | None                              | None                                    |
| Banker's Acceptances               | 30 days                 | None                              | None                                    |
| Commercial Paper                   | 270 days                | None                              | None                                    |
| Money Market Mutual Funds          | None                    | None                              | None                                    |
| Investment Agreements              | None                    | None                              | None                                    |
| Interest-Bearing Time Deposits     | 30 days                 | None                              | None                                    |
| Repurchase Agreements              | 270 days                | None                              | None                                    |
| Local Agency Investment Fund       | None                    | None                              | None                                    |
| State Obligations                  | None                    | None                              | None                                    |
| Pre-refunded Municipal Obligations | None                    | None                              | None                                    |

***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 Authority 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 Authority's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity:

**COSTA MESA PUBLIC FINANCING AUTHORITY**

**Notes to the Basic Financial Statements**

**(Continued)**

**2. Cash and Investments (Continued):**

| <u>Investment Type</u>          | <u>Remaining Maturity (in Months)</u> |                              | <u>Total</u>          |
|---------------------------------|---------------------------------------|------------------------------|-----------------------|
|                                 | <u>12 Months<br/>or Less</u>          | <u>13 Months<br/>or More</u> |                       |
| Costa Mesa Community Facilities |                                       |                              |                       |
| District Bonds                  | \$ 210,000                            | \$ 225,000                   | \$ 435,000            |
| Money Market Mutual Funds       | <u>503,219</u>                        | <u>-</u>                     | <u>503,219</u>        |
| <br>Total                       | <br><u>\$ 713,219</u>                 | <br><u>\$ 225,000</u>        | <br><u>\$ 938,219</u> |

***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 Standard & Poor’s actual rating as of year end for each investment type:

| <u>Investment Type</u>          | <u>Minimum<br/>Legal Rating</u> | <u>Total</u>          | <u>AAA</u>            | <u>Unrated</u>        |
|---------------------------------|---------------------------------|-----------------------|-----------------------|-----------------------|
| Costa Mesa Community Facilities |                                 |                       |                       |                       |
| District Bonds                  | N/A                             | \$ 435,000            | \$ -                  | \$ 435,000            |
| Money Market Mutual Funds       | AAA                             | <u>503,219</u>        | <u>503,219</u>        | <u>-</u>              |
| <br>Total                       |                                 | <br><u>\$ 938,219</u> | <br><u>\$ 503,219</u> | <br><u>\$ 435,000</u> |

N/A - Not Applicable

***Concentration of Credit Risk***

The investment policy of the City contains no limitations on the amount that can be invested in anyone issuer beyond that stipulated by the California Government Code. Investments in anyone issuer (other than mutual funds and external investment pools) that represent 5% or more of total investments by reporting unit (governmental activities or major fund) are as follows:

| <u>Major Fund/Issuer</u>      | <u>Investment Type</u> | <u>Reported<br/>Amount</u> | <u>Percentage</u> |
|-------------------------------|------------------------|----------------------------|-------------------|
| Revenue Refunding Bond        |                        |                            |                   |
| Series 2006 A Costa Mesa      |                        |                            |                   |
| Community Facilities District | Investment in Bonds    | \$ 435,000                 | 46.36%            |

# **COSTA MESA PUBLIC FINANCING AUTHORITY**

## **Notes to the Basic Financial Statements**

**(Continued)**

### **2. Cash and Investments (Continued):**

#### ***Custodial Credit Risk***

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by the state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Authority deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

#### ***Fair Value Measurements***

The Authority categorizes its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the assets.

The Authority's investments in the Costa Mesa Community Facilities District Bonds are valued based on cost as these investments are not traded, and therefore, are categorized in Level 3. When valuing Level 3 securities, the inputs or methodology are not necessarily an indication of the risks associated with investing in those securities. Changes in valuation techniques may result in transfers into or out of an assigned level within the disclosure hierarchy.

**COSTA MESA PUBLIC FINANCING AUTHORITY**

**Notes to the Basic Financial Statements**

**(Continued)**

**2. Cash and Investments (Continued):**

| <u>Investment Type</u>                            | <u>Quoted<br/>Prices<br/>Level 1</u> | <u>Observable<br/>Inputs<br/>Level 2</u> | <u>Unobservable<br/>Inputs<br/>Level 3</u> | <u>Total</u>      |
|---|--------------------------------------|--|--|-------------------|
| Costa Mesa Community Facilities<br>District Bonds | \$ -                                 | \$ -                                     | \$ 435,000                                 | \$ 435,000        |
| Total Categorized Investments                     | <u>\$ -</u>                          | <u>\$ -</u>                              | <u>\$ 435,000</u>                          | <u>435,000</u>    |
| Not subject to fair value categorization:         |                                      |  |  |                   |
| Money market mutual funds                         |                                      |  |  | <u>503,219</u>    |
| Total Investments                                 |                                      |  |  | <u>\$ 938,219</u> |

**3. Long Term Liabilities:**

The following is a summary of changes in long-term liabilities of the Authority for the year ended June 30, 2019:

|                 | <u>Balance<br/>July 1, 2018</u> | <u>Additions</u> | <u>Reductions</u>   | <u>Balance<br/>June 30, 2019</u> | <u>Due Within<br/>One Year</u> | <u>Due in<br/>More Than<br/>One Year</u> |
|-----------------|---------------------------------|------------------|---------------------|----------------------------------|--------------------------------|--|
| Series 2006A    |                                 |                  |                     |                                  |                                |  |
| Refunding Bonds | <u>\$ 785,000</u>               | <u>\$ -</u>      | <u>\$ (185,000)</u> | <u>\$ 600,000</u>                | <u>\$ 190,000</u>              | <u>\$ 410,000</u>                        |

**Series 2006A Revenue Refunding Bonds:**

On June 1, 2006, the Authority issued \$2,365,000 of Revenue Refunding Bonds, Series 2006A, that were to advance refund the outstanding amount of 1991 Lease Revenue Bonds issued on November 1, 1991. The bonds were issued to provide monies to enable the Authority to acquire the City of Costa Mesa Community Facilities District 91-1 (Plaza Tower Public Improvements). The \$2,365,000 Revenue Refunding Bonds consist of \$1,955,000 of serial bonds and \$410,000 of term bonds. The serial bonds mature from August 1, 2007 through August 1, 2019 in annual installments ranging from \$120,000 to \$190,000. The term bonds mature from August 1, 2020 through August 1, 2021 in annual installments ranging from \$200,000 to \$210,000. Interest is payable semi-annually on February 1 and August 1 of each year, commencing on February 1, 2007 at rates ranging from 3.85% to 5.10%.

There is a reserve requirement of \$220,910 on the 2006A Revenue Refunding Bonds. The Authority has \$222,624 on reserve with the fiscal agent at June 30, 2019. The principal balance outstanding at June 30, 2019 is \$600,000.

**COSTA MESA PUBLIC FINANCING AUTHORITY**

**Notes to the Basic Financial Statements**

**(Continued)**

**3. Long Term Liabilities (Continued):**

The bonds are secured by special tax levied with CFD 91-1 Plaza Tower Public Improvements. The special taxes are levied and collected for debt service on the bonds are required to be remitted to the fiscal agent for the bonds within 10 business days of receipt. The County remitted taxes on December 21, 2018 and April 19, 2019, and the City remitted payments one and seven days later, respectively.

Future debt requirements for the Series 2006A Revenue Refunding Bonds are as follows:

| Year Ending<br><u>June 30</u> | <u>Principal</u>  | <u>Interest</u>  | <u>Total</u>      |
|-------------------------------|-------------------|------------------|-------------------|
| 2020                          | \$ 190,000        | \$ 25,708        | \$ 215,708        |
| 2021                          | 200,000           | 15,810           | 215,810           |
| 2022                          | <u>210,000</u>    | <u>5,355</u>     | <u>215,355</u>    |
| Total                         | <u>\$ 600,000</u> | <u>\$ 46,873</u> | <u>\$ 646,873</u> |

**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**

The Board of Directors  
Costa Mesa Public Financing Authority  
Costa Mesa, California

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 Public Financing Authority (the Authority), as of and for the year ended June 30, 2019, 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 13, 2019.

**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.

A handwritten signature in blue ink that reads "Davis Sun CP". The signature is written in a cursive style.

Irvine, California  
December 13, 2019