

**COSTA MESA PUBLIC
FINANCING AUTHORITY**

**(A COMPONENT UNIT OF
THE CITY OF COSTA MESA)**

FINANCIAL REPORT

**WITH REPORT ON AUDIT
BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

JUNE 30, 2015

COSTA MESA PUBLIC FINANCING AUTHORITY

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INDEPENDENT AUDITORS' 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, 2015, 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.

Auditors' 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 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 each major fund of the Authority as of June 30, 2015, 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 conformity with accounting principles generally accepted in the United States of America.

Other Matters

Prior Year Comparative Information

The statements include summarized prior year comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Authority's financial statements for the year ended June 30, 2014, from which such summarized information was derived.

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 opinion on the basic financial statements is not affected by this missing information.

White Nelson Nick Evans LLP

Irvine, California
December 15, 2015

COSTA MESA PUBLIC FINANCING AUTHORITY

STATEMENT OF NET POSITION

June 30, 2015

(With comparative totals for June 30, 2014)

	<u>Governmental Activities</u>	
	<u>2015</u>	<u>2014</u>
ASSETS:		
Cash and investments with fiscal agent (Note 2)	\$ 4,334,210	\$ 4,307,530
Leases receivable (Notes 3a and 3c)	22,169,546	24,559,546
Investment in bonds (Note 2)	<u>1,115,000</u>	<u>1,255,000</u>
 TOTAL ASSETS	 <u>27,618,756</u>	 <u>30,122,076</u>
 LIABILITIES:		
Interest payable	295,921	322,758
Noncurrent liabilities (Note 3):		
Due within one year	2,650,000	2,540,000
Due in more than one year	<u>24,375,000</u>	<u>27,025,000</u>
 TOTAL LIABILITIES	 <u>27,320,921</u>	 <u>29,887,758</u>
 NET POSITION:		
Restricted for debt service	<u>297,835</u>	<u>234,318</u>
 TOTAL NET POSITION	 <u>\$ 297,835</u>	 <u>\$ 234,318</u>

See accompanying notes to the basic financial statements.

COSTA MESA PUBLIC FINANCING AUTHORITY

STATEMENT OF ACTIVITIES

For the year ended June 30, 2015
 (With comparative totals for the year ended June 30, 2014)

Functions/programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position Governmental Activities	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	2015	2014
Governmental activities:						
Interest on long-term debt	\$ 1,165,644	\$ -	\$ -	\$ -	\$ (1,165,644)	\$ (1,266,686)
Total governmental activities	<u>\$ 1,165,644</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(1,165,644)</u>	<u>(1,266,686)</u>
General revenues:						
					1,229,161	1,332,017
					<u>1,229,161</u>	<u>1,332,017</u>
					63,517	65,331
NET POSITION AT BEGINNING OF YEAR						
					<u>234,318</u>	<u>168,987</u>
NET POSITION AT END OF YEAR						
					<u>\$ 297,835</u>	<u>\$ 234,318</u>

See accompanying notes to the basic financial statements.

COSTA MESA PUBLIC FINANCING AUTHORITY

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2015

(With comparative totals for June 30, 2014)

	Refunding Certificates of Participation 2003	Revenue Refunding Bonds 2006 Series A	Certificates of Participation 2007	Total Governmental Funds	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2014</u>
ASSETS					
Cash and investments					
with fiscal agent	\$ 1,273,314	\$ 763,575	\$ 2,297,321	\$ 4,334,210	\$ 4,307,530
Leases receivable	3,271,750	-	18,897,796	22,169,546	24,559,546
Investment in bonds	-	1,115,000	-	1,115,000	1,255,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u><u>\$ 4,545,064</u></u>	<u><u>\$ 1,878,575</u></u>	<u><u>\$ 21,195,117</u></u>	<u><u>\$ 27,618,756</u></u>	<u><u>\$ 30,122,076</u></u>
 DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
DEFERRED INFLOWS OF RESOURCES:					
Unavailable lease revenue	\$ 3,271,750	\$ -	\$ 18,897,796	\$ 22,169,546	\$ 24,559,546
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>3,271,750</u>	<u>-</u>	<u>18,897,796</u>	<u>22,169,546</u>	<u>24,559,546</u>
 FUND BALANCES:					
Restricted for:					
Debt service	1,273,314	1,878,575	2,297,321	5,449,210	5,562,530
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL FUND BALANCES	<u>1,273,314</u>	<u>1,878,575</u>	<u>2,297,321</u>	<u>5,449,210</u>	<u>5,562,530</u>
 TOTAL DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
	<u><u>\$ 4,545,064</u></u>	<u><u>\$ 1,878,575</u></u>	<u><u>\$ 21,195,117</u></u>	<u><u>\$ 27,618,756</u></u>	<u><u>\$ 30,122,076</u></u>

See accompanying notes to the basic financial statements.

COSTA MESA PUBLIC FINANCING AUTHORITY

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION

June 30, 2015

Fund balances for governmental funds \$ 5,449,210

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	(1,285,000)
Certificates of participation	(25,740,000)

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	(26,726)
Interest payable - certificates of participation	(269,195)

Revenues relating to leases receivable are measurable but not available and, accordingly, are recorded as unavailable revenue in the governmental funds under the modified accrual basis of accounting.

22,169,546

Net position of governmental activities

\$ 297,835

See accompanying notes to the basic financial statements.

COSTA MESA PUBLIC FINANCING AUTHORITY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the year ended June 30, 2015
(With comparative totals for the year ended June 30, 2014)

	Refunding Certificates of Participation 2003	Revenue Refunding Bonds 2006 Series A	Certificates of Participation 2007	Total Governmental Funds	
				2015	2014
REVENUES:					
Interest from bonds	\$ -	\$ 104,165	\$ -	\$ 104,165	\$ 114,955
Other interest	149	-	268	417	440
Lease principal payments	1,025,000	-	1,365,000	2,390,000	2,305,000
Lease interest payments	223,275	-	901,304	1,124,579	1,216,623
TOTAL REVENUES	1,248,424	104,165	2,266,572	3,619,161	3,637,018
EXPENDITURES:					
Current:					
Trustee fees	85	-	151	236	440
Debt service:					
Principal	1,025,000	150,000	1,365,000	2,540,000	2,450,000
Interest	223,275	67,666	901,304	1,192,245	1,291,149
TOTAL EXPENDITURES	1,248,360	217,666	2,266,455	3,732,481	3,741,589
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	64	(113,501)	117	(113,320)	(104,571)
FUND BALANCES AT BEGINNING OF YEAR	1,273,250	1,992,076	2,297,204	5,562,530	5,667,101
FUND BALANCES AT END OF YEAR	\$ 1,273,314	\$ 1,878,575	\$ 2,297,321	\$ 5,449,210	\$ 5,562,530

See accompanying notes to the basic 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

For the year ended June 30, 2015

Net change in fund balances - total governmental funds \$ (113,320)

Amounts reported for governmental activities in the Statement of Activities are different because:

Repayment of long-term debt principal is an expenditures 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.

Debt service principal - revenue bonds 150,000
Debt service principal - certificates of participation 2,390,000

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.

26,837

Revenues relating to leases receivable that do not meet the "availability" criteria for revenue recognition and therefore are not reported as revenue in the funds.

(2,390,000)

Change in net position of governmental activities

\$ 63,517

See accompanying notes to the basic financial statements.

COSTA MESA PUBLIC FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2015

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)

June 30, 2015

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):

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

Government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. *Basis of accounting* refers to when revenues and 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 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, deferred outflows of resources, 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)

June 30, 2015

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):

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

Fund Financial Statements (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 proprietary or 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 resource". 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)

June 30, 2015

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):

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

Governmental Funds (Continued)

Non-current 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 Funds:

The following debt service funds are presented as major funds in the accompanying basic financial statements:

Refunding Certificates of Participation 2003 Fund - To account for the accumulation of resources for the payment of debt service for certificates of participation principal and interest relating to the 2003 Refunding Certificates of Participation.

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.

Certificates of Participation 2007 Fund - To account for the accumulation of resources for the payment of debt service for certificates of participation principal and interest relating to the 2007 Certificates of Participation.

COSTA MESA PUBLIC FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):

D. New Accounting Pronouncements:

Current Year Standards

GASB Statement No. 68 - "*Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27*" was required to be implemented in the current fiscal year and did not impact the Authority.

GASB Statement No. 69 - "*Government Combinations and Disposals of Government Operations*" was required to be implemented in the current fiscal year and did not impact the Authority.

GASB Statement No. 71 - "*Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68*" was required to be implemented in the current fiscal year and did 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 72 - "*Fair Value Measurement and Application*", effective for periods beginning after June 15, 2015.
- GASB 73 - "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*", effective for periods beginning after June 15, 2015 - except for those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for periods beginning after June 15, 2016.
- GASB 74 - "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*", effective for periods beginning after June 15, 2016.
- GASB 75 - "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*", effective for periods beginning after June 15, 2017.
- GASB 76 - "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*", effective for periods beginning after June 15, 2015.

COSTA MESA PUBLIC FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):

E. Cash and Investments:

Investments are reported in the accompanying financial statements at fair value, except for investments in bonds that are reported at cost because they are not transferable and they have terms that are not affected by changes in market interest rates.

Changes in fair value that occur during a fiscal year are recognized as *investment income* reported for that fiscal year. *Investment income* includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation, maturity, or sale of investments.

F. Investment in Bonds:

Investment in bonds represents the Authority's investment in bonds issued by the Costa Mesa Community Facilities District, a component unit of the City of Costa Mesa.

G. 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.

H. 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. 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 reports unavailable lease revenue as deferred inflows of resources.

COSTA MESA PUBLIC FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):

I. Budgetary Reporting:

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

J. 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.

K. Use of Estimates:

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

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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Authority's prior year financial statements, from which this selected financial data was derived.

COSTA MESA PUBLIC FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

2. CASH AND INVESTMENTS:

Cash and Investments

Cash and investments at June 30, 2015 are classified in the accompanying Statement of Net Position as follows:

Cash and investments with fiscal agent	\$ 4,334,210
Investments in bonds	<u>1,115,000</u>
Total Cash and Investments	<u>\$ 5,449,210</u>

Cash and investments held at June 30, 2015 consisted of the following:

Investments:	
Costa Mesa Community Facilities District Bonds	\$ 1,115,000
Money market mutual funds	<u>4,334,210</u>
Total Cash and Investments	<u>\$ 5,449,210</u>

Investment Authorized by the California Government Code and the City of Costa Mesa's Investment Policy

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

COSTA MESA PUBLIC FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

2. CASH AND INVESTMENTS (CONTINUED):

Investment Authorized by the California Government Code and the City of Costa Mesa's Investment Policy (Continued)

<u>Investment Types Authorized by State Law</u>	<u>Authorized by Investment Policy</u>	<u>Maximum Maturity*</u>	<u>Percentage of Portfolio*</u>	<u>Investment In One Issuer*</u>
U.S. Treasury Securities	Yes	5 years	None	None
Federal Agency Securities	Yes	5 years	None	35%
Municipal Securities	Yes	5 years	None	5%
Banker's Acceptances	Yes	180 days	40%	5%
Commercial Paper	Yes	270 days	25%	5%
Federally Insured Time Deposit	Yes	5 Years	None	None
Non-Negotiable Certificates of Deposit	Yes	5 years	20%	None
Certificate of Deposit Placement Service	Yes	5 years	30%	None
Negotiable Certificates of Deposit	Yes	5 years	30%	None
Repurchase Agreements	Yes	1 year	30%	None
Medium-Term Corporate Notes	Yes	5 years	30%	5%
Money Market Mutual Funds	Yes	N/A	20%	None
Mortgage Backed Securities	Yes	5 years	20%	None
County Pooled Investment Funds	Yes	N/A	35%	None
Local Agency Investment Fund	Yes	N/A	\$50 Million	\$50 Million

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

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.

COSTA MESA PUBLIC FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

2. CASH AND INVESTMENTS (CONTINUED):

Investments Authorized by Debt Agreements (Continued)

<u>Authorized Investment Type</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	5 years	None	None
Banker’s Acceptances	270 days	None	None
Commercial Paper	365 days	None	None
Money Market Mutual Funds	5 years	20%	10%
Investment Agreements	None	None	None
Interest-Bearing Time Deposits	30 days	None	None
Repurchase Agreements	270 days	None	None
Local Agency Investment Fund	None	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.

COSTA MESA PUBLIC FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

2. CASH AND INVESTMENTS (CONTINUED):

Disclosures Relating to Interest Rate Risk (Continued)

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:

<u>Investment Type</u>	<u>Remaining Maturity (in Months)</u>		<u>Total</u>
	<u>12 Months or Less</u>	<u>13 Months or More</u>	
Costa Mesa Community Facilities			
District Bonds	\$ 150,000	\$ 965,000	\$ 1,115,000
Money Market Mutual Funds	<u>4,334,210</u>	<u>-</u>	<u>4,334,210</u>
Total	<u>\$ 4,484,210</u>	<u>\$ 965,000</u>	<u>\$ 5,449,210</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 and Poors actual rating as of year end for each investment type:

<u>Investment Type</u>	<u>Minimum Legal Rating</u>	<u>Total</u>	<u>Minimum Rating</u>	
			<u>AAA</u>	<u>Unrated</u>
Costa Mesa Community Facilities				
District Bonds	N/A	\$ 1,115,000	\$ -	\$ 1,115,000
Money Market Mutual Funds	A	<u>4,334,210</u>	<u>4,334,210</u>	<u>-</u>
Total		<u>\$ 5,449,210</u>	<u>\$ 4,334,210</u>	<u>\$ 1,115,000</u>

N/A - Not Applicable

COSTA MESA PUBLIC FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

2. CASH AND INVESTMENTS (CONTINUED):

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 Amount</u>	<u>Percentage</u>
Revenue Refunding Bond Series 2006 A Costa Mesa Community Facilities District	Investment in Bonds	\$ 1, 115,000	20.46 %

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.

COSTA MESA PUBLIC FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

3. LONG-TERM LIABILITIES:

The following is a summary of changes in long-term liabilities of the Authority for the year ended June 30, 2015:

	Balance <u>July 1, 2014</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>June 30, 2015</u>	Due Within <u>One Year</u>	Due in More Than <u>One Year</u>
2003 Refunding Certificates of Participation	\$ 5,570,000	\$ -	\$ (1,025,000)	\$ 4,545,000	\$ 1,070,000	\$ 3,475,000
Series 2006A Refunding Bonds	1,435,000	-	(150,000)	1,285,000	160,000	1,125,000
2007 Certificates of Participation	<u>22,560,000</u>	<u>-</u>	<u>(1,365,000)</u>	<u>21,195,000</u>	<u>1,420,000</u>	<u>19,775,000</u>
Totals	<u>\$ 29,565,000</u>	<u>\$ -</u>	<u>\$ (2,540,000)</u>	<u>\$ 27,025,000</u>	<u>\$ 2,650,000</u>	<u>\$ 24,375,000</u>

A. 2003 Refunding Certificates of Participation:

The Authority issued \$14,340,000 of 2003 Refunding Certificates of Participation on October 1, 2003. The certificates mature serially from October 1, 2004 through October 1, 2018 in annual principal payments ranging from \$805,000 to \$1,210,000 and bear interest rates ranging from 2.00% to 5.00%. The certificates are issued in denominations of \$5,000. There is a reserve requirement of \$1,273,250 which is the lesser of 125% of the remaining average annual aggregate lease payments or the maximum annual debt service requirement of the issue. At June 30, 2015, the Authority had \$1,273,314 on reserve with the fiscal agent. The principal balance outstanding on the bonds as of June 30, 2015 is \$4,545,000.

The certificates were issued in connection with the lease and leaseback of certain real property and improvements thereto comprising the Civic Center (the “Project”) currently owned by the City of Costa Mesa (the “City”). The Project will be leased by the City to the Authority, and the Authority will lease back the Project to the City. The City is required under the lease agreement to make payments in each fiscal year to the Authority in consideration of the use and possession of the Project from any source of available funds in an amount sufficient to pay the annual principal and interest due with respect to the bonds.

The lease agreement requires the City to make lease payments to the Authority on each March 15 and September 15 preceding the debt service payment date, commencing March 15, 2004. Lease payments are paid by the City directly to the Trustee.

COSTA MESA PUBLIC FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

3. LONG-TERM LIABILITIES (CONTINUED):

A. 2003 Refunding Certificates of Participation (Continued):

The Authority's source of payment on the certificates will be from lease payments received from its lease with the City. This lease receivable has been recorded on the balance sheet of the related debt service fund. Unavailable revenue has been recorded in an equal amount in the fund financial statements because this lease revenue, although measurable, is not considered available to finance expenditures of the fiscal year reported upon. Lease revenues are pledged toward payment of these bonds. The amount of anticipated future lease payments is equal to the amount of future principal and interest installments due on the debt.

Future debt requirements for the 2003 Refunding Certificates of Participation are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 1,070,000	\$ 182,713	\$ 1,252,713
2017	1,110,000	140,450	1,250,450
2018	1,155,000	89,375	1,244,375
2019	<u>1,210,000</u>	<u>30,250</u>	<u>1,240,250</u>
Totals	<u>\$ 4,545,000</u>	<u>\$ 442,788</u>	<u>\$ 4,987,788</u>

B. 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 \$224,755 on the 2006A Revenue Refunding Bonds. The Authority has \$763,575 on reserve with the fiscal agent at June 30, 2015. The principal balance outstanding at June 30, 2015 is \$1,285,000.

COSTA MESA PUBLIC FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

3. LONG-TERM LIABILITIES (CONTINUED):

B. Series 2006A Revenue Refunding Bonds (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 19, 2014 and April 24, 2015, and the City remitted payment 17 and 11 days later, respectively.

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

Year Ending June 30,	Principal	Interest	Total
2016	\$ 160,000	\$ 60,301	\$ 220,301
2017	165,000	52,439	217,439
2018	175,000	44,086	219,086
2019	185,000	35,130	220,130
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>
Totals	<u>\$ 1,285,000</u>	<u>\$ 238,829</u>	<u>\$ 1,523,829</u>

C. 2007 Certificates of Participation:

On January 18, 2007, the Authority issued \$29,960,000 of 2007 Certificates of Participation. The certificates are to provide funding for the construction and equipping of certain improvements to the Civic Center complex particularly the expansion of the police facility. The certificates mature from October 1, 2007 through October 1, 2026 in annual installments ranging from \$745,000 to \$2,180,000. Interest is payable semi-annually on April 1 and October 1 of each year, commencing on April 1, 2007 at a rate ranging from 3.75% to 4.30%.

There is a reserve requirement of \$2,297,204 on the 2007 Certificates of Participation. The Authority has \$2,297,318 on reserve with the fiscal agent at June 30, 2015. The principal outstanding at June 30, 2015 is \$21,195,000.

The lease agreement requires the City to make lease payments to the Authority on each October 1 and April 1 preceding the debt service payment date, commencing April 1, 2007. Lease payments are paid by the City directly to the Trustee.

COSTA MESA PUBLIC FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

3. LONG-TERM LIABILITIES (CONTINUED):

C. 2007 Certificates of Participation (Continued):

The Authority's source of payment on the certificates will be from lease payments received from its lease with the City. This lease receivable has been recorded on the balance sheet of the related debt service fund. Unavailable revenue has been recorded in an equal amount in the fund financial statements because this lease revenue, although measurable, is not considered available to finance expenditures of the fiscal year reported upon. Lease revenues are pledged toward payment of these bonds. The amount of anticipated future lease payments is equal to the amount of future principal and interest installments due on the debt.

Future debt requirements for the 2007 Certificates of Participation are as follows:

Year Ending June 30,	Principal	Interest	Total
2016	\$ 1,420,000	\$ 845,604	\$ 2,265,604
2017	1,480,000	787,604	2,267,604
2018	1,530,000	727,404	2,257,404
2019	1,590,000	665,004	2,255,004
2020	1,640,000	600,404	2,240,404
2021	1,710,000	533,404	2,243,404
2022	1,775,000	462,594	2,237,594
2023	1,850,000	387,829	2,237,829
2024	1,925,000	309,248	2,234,248
2025	2,005,000	226,216	2,231,216
2026	2,090,000	138,675	2,228,675
2027	2,180,000	46,870	2,226,870
Totals	\$ 21,195,000	\$ 5,730,856	\$ 26,925,856

4. SUBSEQUENT EVENTS:

In preparing these financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through December 15, 2015, the date the financial statements were available to be issued.