

**COSTA MESA PUBLIC  
FINANCING AUTHORITY**

**COMPONENT UNIT  
FINANCIAL STATEMENTS**

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

**JUNE 30, 2012**

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, 2012, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the financial statements of the Costa Mesa Public Financing Authority for the year ended June 30, 2011, which were audited by other auditors, whose report dated December 8, 2011 expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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.

In our opinion, the 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, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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 Dick Evans LLP*

Irvine, California  
January 9, 2013

COSTA MESA PUBLIC FINANCING AUTHORITY

STATEMENT OF NET ASSETS

June 30, 2012

(With comparative totals for June 30, 2011)

	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
<b>ASSETS:</b>		
Cash and investments with fiscal agent (Note 2)	\$ 5,570,698	\$ 5,543,708
Leases receivable (Notes 3a, 3b and 3d)	29,089,546	32,357,045
Investment in bonds (Note 2)	<u>1,505,000</u>	<u>1,615,000</u>
 TOTAL ASSETS	 <u>36,165,244</u>	 <u>39,515,753</u>
 <b>LIABILITIES:</b>		
Interest payable	386,660	424,188
Noncurrent liabilities (Note 3):		
Due within one year	3,615,000	3,460,000
Due in more than one year	<u>32,015,000</u>	<u>35,630,000</u>
 TOTAL LIABILITIES	 <u>36,016,660</u>	 <u>39,514,188</u>
 <b>NET ASSETS:</b>		
Restricted for debt service	<u>148,584</u>	<u>1,565</u>
 TOTAL NET ASSETS	 <u><u>\$ 148,584</u></u>	 <u><u>\$ 1,565</u></u>

See independent auditors' report and notes to the basic financial statements.

COSTA MESA PUBLIC FINANCING AUTHORITY

STATEMENT OF ACTIVITIES

For the year ended June 30, 2012  
 (With comparative totals for the year ended June 30, 2011)

Functions/programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets Governmental Activities	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	2012	2011
Governmental activities:						
Interest on long-term debt	\$ 1,526,535	\$ -	\$ -	\$ -	\$ (1,526,535)	\$ (1,669,933)
Total governmental activities	<u>\$ 1,526,535</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(1,526,535)</u>	<u>(1,669,933)</u>
General revenues:						
					1,673,554	1,754,041
					<u>1,673,554</u>	<u>1,754,041</u>
					147,019	84,108
NET ASSETS (DEFICIT) AT BEGINNING OF YEAR						
					<u>1,565</u>	<u>(82,543)</u>
NET ASSETS AT END OF YEAR						
					<u>\$ 148,584</u>	<u>\$ 1,565</u>

See independent auditors' report and notes to the basic financial statements.

COSTA MESA PUBLIC FINANCING AUTHORITY

BALANCE SHEET  
GOVERNMENTAL FUNDS

June 30, 2012

(With comparative totals for June 30, 2011)

	Revenue Refunding Bonds 1998 Series A	Refunding Certificates of Participation 2003	Revenue Refunding Bonds 2006 Series A	Certificates of Participation 2007	Total Governmental Funds	
					2012	2011
<b>ASSETS</b>						
Cash and investments						
with fiscal agents	\$ 1,312,501	\$ 1,273,250	\$ 687,743	\$ 2,297,204	\$ 5,570,698	\$ 5,543,708
Leases receivable	-	6,246,750	-	22,842,796	29,089,546	32,357,045
Investment in bonds	-	-	1,505,000	-	1,505,000	1,615,000
<b>TOTAL ASSETS</b>	<b>\$ 1,312,501</b>	<b>\$ 7,520,000</b>	<b>\$ 2,192,743</b>	<b>\$ 25,140,000</b>	<b>\$ 36,165,244</b>	<b>\$ 39,515,753</b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>LIABILITIES:</b>						
Deferred revenue	\$ -	\$ 6,246,750	\$ -	\$ 22,842,796	\$ 29,089,546	\$ 32,357,045
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>6,246,750</b>	<b>-</b>	<b>22,842,796</b>	<b>29,089,546</b>	<b>32,357,045</b>
<b>FUND BALANCES:</b>						
Nonspendable:						
Noncurrent investment	-	-	1,505,000	-	1,505,000	1,615,000
Restricted for:						
Debt service	1,312,501	1,273,250	687,743	2,297,204	5,570,698	5,543,708
<b>TOTAL FUND BALANCES</b>	<b>1,312,501</b>	<b>1,273,250</b>	<b>2,192,743</b>	<b>2,297,204</b>	<b>7,075,698</b>	<b>7,158,708</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,312,501</b>	<b>\$ 7,520,000</b>	<b>\$ 2,192,743</b>	<b>\$ 25,140,000</b>	<b>\$ 36,165,244</b>	<b>\$ 39,515,753</b>

See independent auditors' report and notes to the basic financial statements.

COSTA MESA PUBLIC FINANCING AUTHORITY

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

June 30, 2012

Fund balances for governmental funds \$ 7,075,698

Amounts reported for governmental activities in the Statement of Net Assets 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 Assets.

Revenue bonds	(2,970,000)
Certificates of participation	(32,660,000)

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	(50,693)
Interest payable - certificates of participation	(335,967)

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

29,089,546

Net assets of governmental activities

\$ 148,584

See independent auditors' report and notes to the basic financial statements.



COSTA MESA PUBLIC FINANCING AUTHORITY

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

June 30, 2012  
(With comparative totals for June 30, 2011)

	Revenue Refunding Bonds 1998 Series A	Refunding Certificates of Participation 2003	Revenue Refunding Bonds 2006 Series A	Certificates of Participation 2007	Total Governmental Funds	
					2012	2011
<b>REVENUES:</b>						
Interest from bonds	\$ -	\$ -	\$ 134,045	\$ -	\$ 134,045	\$ 142,345
Other interest	26	134	-	234	394	551
Lease principal payments	1,190,000	925,000	-	1,215,000	3,330,000	3,200,000
Lease interest payments	92,250	328,250	-	1,056,114	1,476,614	1,611,145
<b>TOTAL REVENUES</b>	<b>1,282,276</b>	<b>1,253,384</b>	<b>134,045</b>	<b>2,271,348</b>	<b>4,941,053</b>	<b>4,954,041</b>
<b>EXPENDITURES:</b>						
Current:						
Banking services	26	134	-	234	394	546
Debt service:						
Principal	1,190,000	925,000	130,000	1,215,000	3,460,000	3,325,000
Interest	92,250	328,250	87,055	1,056,114	1,563,669	1,703,778
<b>TOTAL EXPENDITURES</b>	<b>1,282,276</b>	<b>1,253,384</b>	<b>217,055</b>	<b>2,271,348</b>	<b>5,024,063</b>	<b>5,029,324</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>						
	-	-	(83,010)	-	(83,010)	(75,283)
<b>FUND BALANCES AT BEGINNING OF YEAR</b>						
	1,312,501	1,273,250	2,275,753	2,297,204	7,158,708	7,233,991
<b>FUND BALANCES AT END OF YEAR</b>						
	<u>\$ 1,312,501</u>	<u>\$ 1,273,250</u>	<u>\$ 2,192,743</u>	<u>\$ 2,297,204</u>	<u>\$ 7,075,698</u>	<u>\$ 7,158,708</u>

See independent auditors' report and 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, 2012

Net change in fund balances - total governmental funds \$ (83,010)

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 Assets and do not result in an expense in the Statement of Activities.

Debt service principal - revenue bonds 1,320,000  
Debt service principal - certificates of participation 2,140,000

The Statement of Net Assets includes accrued interest on long-term debt. The net change in accrued interest for the current period is reported on the Statement of Activities. 37,528

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. (3,267,499)

Change in net assets of governmental activities \$ 147,019

See independent auditors' report and notes to the basic financial statements.

COSTA MESA PUBLIC FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2012

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 Costa Mesa Redevelopment Agency ("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 and Agency.

The Authority is an integral part of the reporting entity of the City of Costa Mesa. 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 of Costa Mesa, California.

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 to the governmental and business-type activities of the primary government (including its blended component units), as well as its discretely presented component units. The Costa Mesa Public Financing Authority has no business-type activities or discretely presented component units. Eliminations have been made in the Statement of Activities so that certain allocated expenses are recorded only once (by the function to which they were allocated).

See independent auditors' report.

COSTA MESA PUBLIC FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

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 transaction 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 an expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as an expenditure.

When both restricted and unrestricted resources are combined in a fund, expenditures 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, 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.

See independent auditors' report.

COSTA MESA PUBLIC FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

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, proprietary, 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 and enterprise 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 net current assets. *Measurable* means that the amounts can be estimated, or otherwise determined. *Available* means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The Authority uses a sixty day availability period.

Revenue recognition is subject to the *measurable* and *availability* criteria for the governmental funds in the fund financial statements. *Exchange transactions* are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). *Locally imposed derived tax revenues* are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. *Imposed 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.

See independent auditors' report.

COSTA MESA PUBLIC FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

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

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

Governmental Funds (Continued)

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

Non-current portions of long-term receivables due to governmental funds are reported on their 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 net current assets. Recognition of governmental fund type revenues represented by noncurrent receivables are deferred until they become current receivables. Noncurrent portions of other long-term receivables are offset by fund balance restricted accounts.

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

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

See independent auditors' report.

COSTA MESA PUBLIC FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

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

C. Activities in Major Funds:

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

Revenue Refunding Bonds 1998 Series A Fund - To account for the accumulation of resources for the payment of debt service for bond principal and interest relating to the 1998 Series A Revenue Bonds.

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

Revenue Refunding 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.

D. Cash and Investments:

Investments are reported in the accompanying balance sheet at fair value, except for nonparticipating certificates of deposit and investment contracts that are reported at cost because they are not transferable and they have terms that are not affected by changes in market interest rates.

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, a component unit of the City of Costa Mesa.

See independent auditors' report.

COSTA MESA PUBLIC FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

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

F. Budgetary Reporting:

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

G. Fund Equity:

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

Nonspendable Fund Balance - this includes amounts that cannot be spent because they are either not spendable in form (such as inventory) or legally or contractually required to be maintained intact (such as endowments).

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.

Committed Fund Balance - this includes amounts that can be used only for the specific purposes determined by a formal action of the Board. It includes legislation (Board action) that can only be overturned by new legislation requiring the same type of voting consensus that created the original action. Therefore, if the Board action limiting the use of the funds is separate from the action (legislation) that created (enables) the funding source, then it is committed, not restricted. The Board considers a resolution, an ordinance, or a minutes action to constitute a formal action of the Board for the purposes of establishing committed fund balance.

Assigned Fund Balance - this includes amounts that are designated or expressed by the Board, but does not require a formal action like a resolution or ordinance. The Board may delegate the ability of an employee or committee to assign uses of specific funds, for specific purposes. Such delegation of authority has not yet been granted to persons or bodies other than the Board.

Unassigned Fund Balance - this includes the remaining spendable amounts which are not included in one of the other classifications.

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

See independent auditors' report.



COSTA MESA PUBLIC FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

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

H. Use of Estimates:

The preparation of financial statements in conformity 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.

I. 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 government's prior year financial statements, from which this selected financial data was derived.

J. Subsequent Events:

In preparing these financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through January 9, 2013, the date the financial statements were available to be issued.

2. CASH AND INVESTMENTS:

**Cash and Investments**

Cash and investments at June 30, 2012 are classified in the accompanying Statement of Net Assets as follows:

Cash and investments with fiscal agent	\$ 5,570,698
Investments in bonds	<u>1,505,000</u>
Total Cash and Investments	<u>\$ 7,075,698</u>

Cash and investments held at June 30, 2012 consisted of the following:

Investments:	
Costa Mesa Community Facilities District Bonds	\$ 1,505,000
Money market mutual funds	<u>5,570,698</u>
Total Cash and Investments	<u>\$ 7,075,698</u>

See independent auditors' report.

COSTA MESA PUBLIC FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

2. CASH AND INVESTMENTS (CONTINUED):

**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 Costa Mesa Public Financing Authority by the California Government Code (or the City of Costa Mesa's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or 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 Costa Mesa Public Financing Authority, rather than the general provisions of the California Government Code or the City of Costa Mesa's investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio*</u>	<u>Maximum Investment in One Issuer</u>
<b>Specifically Authorized by Authority's Investment Policy:</b>			
United States Treasury Obligations	5 years	None	None
United States Government Sponsored Agency Securities	5 years	None	60%
Banker's Acceptances	180 days	40%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Commercial Paper	270 days	25%	10%
Medium-Term Corporate Notes	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	10% of base value	None
Local Agency Investment Fund (LAIF)	N/A	\$ 40 million	N/A
Orange County Treasurer's Pool	N/A	None	None
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
<b>Additional Investments Authorized by the California Government Code:</b>			
Local Agency Bonds	5 years	None	None
JPA Pools (other investment pools)	N/A	None	None

N/A - Not Applicable

\* - Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.

See independent auditors' report.

COSTA MESA PUBLIC FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

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 of Costa Mesa'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 Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment in One Issuer</u>
United States Treasury Obligations	None	None	None
United States Government Sponsored			
Agency Securities	None	None	None
Banker's Acceptances	365 days	None	None
Commercial Paper	365 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	None	None	None
Interest-Bearing Time Deposits	None	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

N/A - Not Applicable

**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 Costa Mesa Public Financing 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.

See independent auditors' report.

COSTA MESA PUBLIC FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

2. CASH AND INVESTMENTS (CONTINUED):

**Disclosures Relating to Interest Rate Risk (Continued)**

Information about the sensitivity of the fair values of the Costa Mesa Public Financing 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 Costa Mesa Public Financing 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	\$ -	\$ 1,505,000	\$ 1,505,000
Money Market Mutual Funds	<u>5,570,698</u>	<u>-</u>	<u>5,570,698</u>
Total	<u>\$ 5,570,698</u>	<u>\$ 1,505,000</u>	<u>\$ 7,075,698</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 Costa Mesa Public Financing Authority'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>AAA</u>	<u>Unrated</u>
	Costa Mesa Community Facilities			
District Bonds	N/A	\$ 1,505,000	\$ -	\$ 1,505,000
Money Market Mutual Funds	AA-m	<u>5,570,698</u>	<u>5,570,698</u>	<u>-</u>
Total		<u>\$ 7,075,698</u>	<u>\$ 5,570,698</u>	<u>\$ 1,505,000</u>

N/A - Not Applicable

See independent auditors' report.

COSTA MESA PUBLIC FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

2. CASH AND INVESTMENTS (CONTINUED):

**Concentration of Credit Risk**

The investment policy of the Costa Mesa Public Financing Authority 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 CFD	Investment in Bonds	\$ 1,505,000	21.27 %

**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 of Costa Mesa'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 Agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

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COSTA MESA PUBLIC FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

3. LONG-TERM LIABILITIES:

The following is a summary of changes in long-term liabilities of the Authority for the year ended June 30, 2012:

	Balance			Balance	Due	Due in
	<u>July 1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2012</u>	<u>Within</u>	<u>More Than</u>
					<u>One Year</u>	<u>One Year</u>
1998 Refunding Bonds	\$ 2,440,000	\$ -	\$ (1,190,000)	\$ 1,250,000	\$ 1,250,000	\$ -
2003 Refunding Certificates of Participation	8,445,000	-	(925,000)	7,520,000	960,000	6,560,000
2006A Refunding Bonds	1,850,000	-	(130,000)	1,720,000	140,000	1,580,000
2007 Certificates of Participation	<u>26,355,000</u>	<u>-</u>	<u>(1,215,000)</u>	<u>25,140,000</u>	<u>1,265,000</u>	<u>23,875,000</u>
Totals	<u>\$ 39,090,000</u>	<u>\$ -</u>	<u>\$ (3,460,000)</u>	<u>\$ 35,630,000</u>	<u>\$ 3,615,000</u>	<u>\$ 32,015,000</u>

A. 1998 Revenue Refunding Bonds:

The Authority issued \$13,715,000 of 1998 Revenue Refunding Bonds on May 1, 1998. The bonds mature serially from October 1, 1998 through October 1, 2012 in annual principal payments ranging from \$580,000 to \$1,250,000 and bear interest rates ranging from 4.00% to 5.00%. The bonds were issued in denominations of \$5,000. There is a reserve requirement of \$1,312,500 which is the maximum annual debt service requirement of the bond issue. At June 30, 2012, the Authority had \$1,312,501 on reserve with the fiscal agent. The principal balance outstanding on the bonds as of June 30, 2012 is \$1,250,000.

The bonds were issued in connection with the lease and leaseback of the Los Lagos and Mesa Linda Golf Courses (the "Project") currently owned by the City of Costa Mesa (the "City"). The Project will be leased by the City to the Authority, and the Authority will lease back the Project to the City. The Authority used the proceeds from the issuance of these 1998 Refunding Revenue Bonds to advance refund \$12,665,000 of the Authority's outstanding 1990 Lease Revenue Bonds.

The Authority's source of payment on the bonds will be from lease payments received from its lease with the City of Costa Mesa. The lease agreement requires the City to make lease payments to the Authority five business days preceding each interest payment date. During the year ended June 30, 2012, the City made the required payments before the semi-annual interest payment dates.

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COSTA MESA PUBLIC FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

3. LONG-TERM LIABILITIES (CONTINUED):

A. 1998 Revenue Refunding Bonds (Continued):

The City receives a credit against lease payments due equal to any amounts on deposit with the fiscal agent that are in excess of the reserve requirement. At June 30, 2012 the cash and investments with fiscal agents in the related debt service fund exceeds the remaining debt service and no future lease payments are required.

Future debt requirements for the 1998 Revenue Refunding Bonds are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ <u>1,250,000</u>	\$ <u>31,250</u>	\$ <u>1,281,250</u>

B. 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, 2012, the Authority had \$1,273,250 on reserve with the fiscal agent. The principal balance outstanding on the bonds as of June 30, 2012 is \$7,520,000.

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.

See independent auditors' report.

COSTA MESA PUBLIC FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

3. LONG-TERM LIABILITIES (CONTINUED):

B. 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 of Costa Mesa. This lease receivable has been recorded on the balance sheet of the related debt service fund. Deferred 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:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 960,000	\$ 295,863	\$ 1,255,863
2014	990,000	261,719	1,251,719
2015	1,025,000	223,275	1,248,275
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>\$ 7,520,000</u>	<u>\$ 1,223,645</u>	<u>\$ 8,743,645</u>

C. 2006A Series Revenue Refunding Bonds:

On June 1, 2006, Costa Mesa Public Financing Authority issued \$2,365,000 of Revenue Refunding Bonds, Series 2006A, that were to advance refund \$2,075,000 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%.

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COSTA MESA PUBLIC FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

3. LONG-TERM LIABILITIES (CONTINUED):

C. 2006A Series Revenue Refunding Bonds (Continued):

There is a reserve requirement of \$224,755 on the 2006A Revenue Refunding Bonds. The Authority has \$224,755 on reserve with the fiscal agent at June 30, 2012. The principal balance outstanding at June 30, 2012 is \$1,720,000.

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 20, 2011 and April 24, 2012, and the City remitted payment 16 and 6 days later, respectively.

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

Year Ending June 30,	Principal	Interest	Total
2013	\$ 140,000	\$ 81,011	\$ 221,011
2014	145,000	74,526	219,526
2015	150,000	67,666	217,666
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>\$ 1,720,000</u>	<u>\$ 462,032</u>	<u>\$ 2,182,032</u>

D. 2007 Certificates of Participation:

On January 18, 2007, the Costa Mesa Public Financing 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%.

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COSTA MESA PUBLIC FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

3. LONG-TERM LIABILITIES (CONTINUED):

D. 2007 Certificates of Participation (Continued):

There is a reserve requirement of \$2,297,204 on the 2007 Certificates of Participation. The Authority has \$2,297,204 on reserve with the fiscal agent at June 30, 2012. The principal outstanding at June 30, 2012 is \$25,140,000.

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.

The Authority's source of payment on the certificates will be from lease payments received from its lease with the City of Costa Mesa. This lease receivable has been recorded on the balance sheet of the related debt service fund. Deferred 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 2006A Series Revenue Refunding Bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2013	\$ 1,265,000	\$ 1,006,504	\$ 2,271,504
2014	1,315,000	954,904	2,269,904
2015	1,365,000	901,304	2,266,304
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	<u>\$ 25,140,000</u>	<u>\$ 8,593,568</u>	<u>\$ 33,733,568</u>

See independent auditors' report.