

**COSTA MESA
FINANCING AUTHORITY
(A Component Unit of the
City of Costa Mesa)
Financial Statements
Year Ended June 30, 2023**

COSTA MESA FINANCING AUTHORITY

Table of Contents

Year Ended June 30, 2023

	<u>Page Number</u>
Independent Auditor's Report	1 - 3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	4
Statement of Activities	5
Fund Financial Statements:	
Balance Sheet - Governmental Fund	6
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position	7
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Fund	8
Reconciliation of the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	9
Notes to the Basic Financial Statements	10 - 17
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 <i>Government Auditing Standards</i>	18 - 19

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Costa Mesa Financing Authority
Costa Mesa, California

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the governmental activities and the major fund of the Costa Mesa Financing Authority (the Authority), a component unit of the City of Costa Mesa, California, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Authority, as of June 30, 2023, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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.

Responsibilities of Management for the Financial Statements

The Authority's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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.

Report on Summarized Comparative Information

We have previously audited the Authority’s 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 30, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2023, 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 solely 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 the effectiveness of 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 21, 2023

COSTA MESA FINANCING AUTHORITY

Statement of Net Position

June 30, 2023

(With comparative totals for June 30, 2022)

	Governmental Activities	
	<u>2023</u>	<u>2022</u>
ASSETS:		
Cash and investments with fiscal agent (Note 2)	\$ 7,278	\$ 4
Lease interest receivable	254,763	254,763
Leases receivable (Note 3)	<u>21,280,000</u>	<u>23,110,000</u>
 TOTAL ASSETS	 <u>21,542,041</u>	 <u>23,364,767</u>
 LIABILITIES:		
Interest payable	254,763	254,763
Noncurrent liabilities:		
Due within one year (Note 3)	2,067,767	1,977,767
Due in more than one year (Note 3)	<u>22,056,745</u>	<u>24,124,512</u>
 TOTAL LIABILITIES	 <u>24,379,275</u>	 <u>26,357,042</u>
 NET POSITION:		
Restricted for debt service	7,278	4
Unrestricted	<u>(2,844,512)</u>	<u>(2,992,279)</u>
 TOTAL NET POSITION	 <u>\$ (2,837,234)</u>	 <u>\$ (2,992,275)</u>

See accompanying notes to financial statements.

COSTA MESA FINANCING AUTHORITY

Statement of Activities

**Year Ended June 30, 2023
(With comparative totals for the year ended June 30, 2022)**

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	2023	2022
Governmental Activities:						
Interest on long-term debt	\$ 825,533	-	-	-	\$ (825,533)	(914,783)
Total governmental activities	\$ 825,533	-	-	-	(825,533)	(914,783)
		General revenues:				
		Investment income			980,574	1,062,553
		Total general revenues			980,574	1,062,553
		Changes in net position			155,041	147,770
		NET POSITION AT BEGINNING OF YEAR			(2,992,275)	(3,140,045)
		NET POSITION AT END OF YEAR			\$ (2,837,234)	(2,992,275)

See accompanying notes to financial statements.

COSTA MESA FINANCING AUTHORITY

**Balance Sheet
Governmental Fund**

**June 30, 2023
(With comparative totals for June 30, 2022)**

	Total Government Fund	
	<u>2023</u>	<u>2022</u>
ASSETS:		
Cash and investments with fiscal agent	\$ 7,278	\$ 4
Leases receivable	<u>21,280,000</u>	<u>23,110,000</u>
TOTAL ASSETS	<u>\$ 21,287,278</u>	<u>\$ 23,110,004</u>
DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE:		
DEFERRED INFLOWS OF RESOURCES:		
Unavailable lease revenue	<u>\$ 21,280,000</u>	<u>\$ 23,110,000</u>
TOTAL DEFERRED INFLOW OF RESOURCES	<u>21,280,000</u>	<u>23,110,000</u>
FUND BALANCE:		
Restricted for debt service	<u>7,278</u>	<u>4</u>
TOTAL FUND BALANCE	<u>7,278</u>	<u>4</u>
TOTAL DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	<u>\$ 21,287,278</u>	<u>\$ 23,110,004</u>

See accompanying notes to financial statements.

COSTA MESA FINANCING AUTHORITY

**Reconciliation of the Governmental Fund Balance Sheet
to the Statement of Net Position**

June 30, 2023

Fund balances for governmental fund	\$ 7,278
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Accrued interest receivable for the current portion of interest due on lease payments has not been reported in the governmental funds.	
Interest receivable	254,763
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	(21,280,000)
Premium on bonds	(2,844,512)
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	(254,763)
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.	<u>21,280,000</u>
Net position of governmental activities	<u>\$ (2,837,234)</u>

See accompanying notes to financial statements.

COSTA MESA FINANCING AUTHORITY

**Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund**

**Year Ended June 30, 2023
(With comparative totals for the year ended June 30, 2022)**

	Total Governmental Fund	
	2023	2022
REVENUES:		
Other interest	\$ 7,274	\$ 4
Lease payments	2,803,300	2,802,549
TOTAL REVENUES	2,810,574	2,802,553
EXPENDITURES:		
Debt service:		
Principal	1,830,000	1,740,000
Interest	973,300	1,062,550
TOTAL EXPENDITURES	2,803,300	2,802,550
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	7,274	3
NET CHANGE IN FUND BALANCE	7,274	3
FUND BALANCE AT BEGINNING OF YEAR	4	1
FUND BALANCE AT END OF YEAR	\$ 7,278	\$ 4

See accompanying notes to financial statements.

COSTA MESA FINANCING AUTHORITY

Reconciliation of the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities

Year Ended June 30, 2023

Net change in fund balances - total governmental fund	\$ 7,274
Amounts reported for governmental activities in the Statement of Activities are different because:	
The Statement of Net Position includes accrued interest on leases receivable. The net change in accrued interest for the current period is reported on the Statement of Activities.	254,763
Repayment of long-term principal is an expenditures in the governmental and, thus, has the effect of reducing the fund balances because current funds resources have been used. For the Authority as a whole, however, the principal financial 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	1,830,000
Amortization of bond premium	147,767
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.	(254,763)
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.	<u>(1,830,000)</u>
Change in net position of governmental activities	<u>\$ 155,041</u>

See accompanying notes to financial statements.

COSTA MESA FINANCING AUTHORITY

Notes to the Basic Financial Statements

Year Ended June 30, 2023

1. Reporting Entity and Summary of Significant Accounting Policies

A. Description of the Reporting Entity:

The Costa Mesa Financing Authority (the Authority) was created by a joint powers agreement between the City of Costa Mesa (the City) and the Costa Mesa Housing Authority (the Housing Authority), dated August 1, 2017. It was created pursuant to Article 1 (commencing with Section 6500) of Chapter 5 of Division 7 of Title of the Government Code of the State of California (the "JPA Act").

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.

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.

COSTA MESA FINANCING AUTHORITY

Notes to the Basic Financial Statements

(Continued)

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

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.

Fund financial statements for the primary government's governmental 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.

COSTA MESA FINANCING AUTHORITY

Notes to the Basic Financial Statements

(Continued)

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

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.

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:

2017 Lease Revenue Bonds Fund - To account for the accumulation of resources for the payments of debt service for lease revenue bond principal and interest relating to the 2017 Lease Revenue 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.

COSTA MESA FINANCING AUTHORITY
Notes to the Basic Financial Statements
(Continued)

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

E. Net Position:

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

F. 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 in the governmental fund.

G. Budgetary Reporting:

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

H. 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.

I. Long Term Obligations:

In the government-wide financial statements, long term debt and other long term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts, as well as prepaid insurance costs related to bond issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount.

COSTA MESA FINANCING AUTHORITY
Notes to the Basic Financial Statements
(Continued)

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

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.

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.

COSTA MESA FINANCING AUTHORITY
Notes to the Basic Financial Statements
(Continued)

2. Cash and Investments:

Cash and investments at June 30, 2023 are classified in the accompanying Statement of Net Position as follows:

Cash and investments with fiscal agent \$ 7,278

Cash and investments held at June 30, 2023 consisted of the following:

Investments:
 Money market mutual funds \$ 7,278

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 on the following page 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	1 year	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.

COSTA MESA FINANCING AUTHORITY

Notes to the Basic Financial Statements

(Continued)

2. Cash and Investments (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:

Investment Type	Remaining Maturity (in Months)		Total
	12 Months or Less	13 Months or More	
Money market mutual funds	\$ 7,278	\$ -	\$ 7,278

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:

Investment Type	Minimum Legal Rating	Total	Rating
			AAA
Money market mutual funds	AAA	\$ 7,278	\$ 7,278

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. No investments in anyone issuer (other than mutual funds and external investment pools) represent 5% or more of total investments by reporting unit (governmental activities or major fund).

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 FINANCING AUTHORITY

Notes to the Basic Financial Statements

(Continued)

3. Long-Term Liabilities:

The following is a summary of changes in long-term liabilities of the Authority for the year ended June 30, 2023:

	Balance at July 1, 2022	Additions	Reductions	Balance at June 30, 2023	Amount Due Within One Year	Amount Due Beyond One Year
2017 Lease Revenue						
Bonds	\$ 23,110,000	\$ -	\$ (1,830,000)	\$ 21,280,000	\$1,920,000	\$19,360,000
2017 Bond Premium	2,992,279	-	(147,767)	2,844,512	147,767	2,696,745
 Total	 \$ 26,102,279	 \$ -	 \$ (1,977,767)	 \$ 24,124,512	 \$2,067,767	 \$22,056,745

2017 Lease Revenue Bonds:

On October 1, 2017, the Authority issued \$29,735,000 in 2017 Lease Revenue Bonds to finance certain capital improvements of the City of Costa Mesa and to advance refund \$16,765,000 of outstanding Costa Mesa Public Financing Authority 2007 Certificates of Participation (2007 Certificates). The bond issue also included a bond premium of \$3,694,172. The bonds mature from October 1, 2018 through October 1, 2042 in annual installments ranging from \$570,000 to \$2,220,000. Interest is payable semi-annually on April 1 and October 1 of each year, commencing on April 1, 2018 at a rate ranging from 2.0% to 5.0%. As of June 30, 2023, the principal outstanding is \$21,280,000 and the unamortized bond premium balance is \$2,844,512.

The lease agreement requires the City to make lease payments to the Authority on each April 1 and October 1 preceding the debt service payment date, commencing April 1, 2018. 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. 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 2017 Lease Revenue Bonds are as follows:

Year Ending June 30	Principal	Interest	Total
2024	\$ 1,920,000	\$ 879,550	\$ 2,799,550
2025	2,015,000	781,175	2,796,175
2026	2,115,000	677,925	2,792,925
2027	2,220,000	569,550	2,789,550
2028	570,000	499,800	1,069,800
2029-2033	3,320,000	2,029,000	5,349,000
2034-2038	4,185,000	1,166,531	5,351,531
2039-2043	4,935,000	411,206	5,346,206
Total	<u>\$ 21,280,000</u>	<u>\$ 7,014,737</u>	<u>\$ 28,294,737</u>

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

Board of Directors
Costa Mesa 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 Financing Authority (the Authority), as of and for the year ended June 30, 2023, and the related notes to the basic financial statements, which collectively comprise of the Authority's basic financial statements, and have issued our report thereon dated December 21, 2023.

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) as a basis for designing 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 entity'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 or significant deficiencies 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 financial statements. 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 Fan" followed by a stylized flourish.

Irvine, California
December 21, 2023