

**COSTA MESA HOUSING
AUTHORITY**

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

Financial Statements

Year ended June 30, 2020

COSTA MESA HOUSING AUTHORITY

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Costa Mesa Housing Authority
Costa Mesa, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Costa Mesa Housing Authority (Authority), a component unit of the City of Costa Mesa, California, as of and for the year ended June 30, 2020, and the related notes to the basic financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Authority as of June 30, 2020, and the respective changes in financial position 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 financial statements present only the Authority and are not intended to present fairly the financial position and results of operations of the City of Costa Mesa, California, in conformity with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the financial statements of the Authority for the year ended June 30, 2019 and we expressed an unmodified opinion on those audited financial statements in our report dated December 13, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2020, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Davis Fan" followed by a stylized flourish.

Irvine, California
December 21, 2020

Costa Mesa Housing Authority
Statement of Net Position
June 30, 2020
(With comparative totals for June 30, 2019)

| | Governmental Activities | |
|---|-------------------------|---------------------|
| | 2020 | 2019 |
| ASSETS: | | |
| Cash and investments (Note 2) | \$ 3,646,271 | \$ 2,735,225 |
| Cash and investments with fiscal agent (Note 2) | 24,615 | 25,584 |
| Rent receivable | 17,576 | 13,279 |
| Interest receivable | 11,879 | 14,649 |
| Loans receivable, net of allowance (Note 3) | 862,534 | 862,533 |
| Capital assets (Note 4): | | |
| Not depreciated | 2,063,865 | 2,063,865 |
| Being depreciated, net | 2,636,640 | 2,801,430 |
| TOTAL ASSETS | 9,263,380 | 8,516,565 |
| DEFERRED OUTFLOWS OF RESOURCES: | | |
| Pension related (Note 6) | 272,780 | 89,533 |
| OPEB related (Note 7) | 69,557 | 9,345 |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | 342,337 | 98,878 |
| LIABILITIES: | | |
| Accounts payable | 883,687 | 223,005 |
| Accrued liabilities | 11,049 | 8,647 |
| Deposits | 27,523 | 25,584 |
| Net pension liability (Note 6) | 2,221,033 | 783,393 |
| OPEB liability (Note 7) | 627,570 | 271,334 |
| TOTAL LIABILITIES | 3,770,862 | 1,311,963 |
| DEFERRED INFLOWS OF RESOURCES: | | |
| Pension related (Note 6) | 38,904 | 23,841 |
| OPEB related (Note 7) | 2,381 | 9,012 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | 41,285 | 32,853 |
| NET POSITION: | | |
| Investment in capital assets | 4,700,505 | 4,865,295 |
| Restricted for community programs | 1,093,065 | 2,405,332 |
| TOTAL NET POSITION | \$ 5,793,570 | \$ 7,270,627 |

See accompanying notes to financial statements.

Costa Mesa Housing Authority
Statement of Activities
Year ended June 30, 2020
(With comparative totals for the year ended June 30, 2019)

| Functions/Programs | Expenses | Program Revenues | | Net (Expense) Revenue and Changes in Net Position Governmental Activities | | |
|---------------------------------------|---------------------|----------------------|------------------------------------|---|---------------------|---------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | 2020 | 2019 |
| Governmental Activities: | | | | | | |
| Community programs | \$ 4,691,655 | \$ 405,379 | \$ - | \$ - | \$ (4,286,276) | \$ (1,293,083) |
| Total governmental activities | <u>\$ 4,691,655</u> | <u>\$ 405,379</u> | <u>\$ -</u> | <u>\$ -</u> | <u>(4,286,276)</u> | <u>(1,293,083)</u> |
| General revenues: | | | | | | |
| Repayment of Successor Agency advance | | | | | 258,209 | 320,775 |
| Investment income | | | | | 102,263 | 109,584 |
| Other income | | | | | 10,401 | 33,074 |
| Transfer from the City of Costa Mesa | | | | | 2,438,346 | 1,003,400 |
| Total general revenues and transfers | | | | | <u>2,809,219</u> | <u>1,466,833</u> |
| CHANGE IN NET POSITION | | | | | (1,477,057) | 173,750 |
| NET POSITION AT BEGINNING OF YEAR | | | | | <u>7,270,627</u> | <u>7,096,877</u> |
| NET POSITION AT END OF YEAR | | | | | <u>\$ 5,793,570</u> | <u>\$ 7,270,627</u> |

See accompanying notes to financial statements.

Costa Mesa Housing Authority
Balance Sheet
Governmental Fund
June 30, 2020
(with comparative totals for June 30, 2019)

| | 2020 | 2019 |
|--|------------------|------------------|
| ASSETS: | | |
| Cash and investments | \$ 3,646,271 | \$ 2,735,225 |
| Cash and investments with fiscal agent | 24,615 | 25,584 |
| Rent receivable | 17,576 | 13,279 |
| Interest receivable | 11,879 | 14,649 |
| Loans receivable, net of allowance | 862,534 | 862,533 |
| TOTAL ASSETS | \$ 4,562,875 | \$ 3,651,270 |
| LIABILITIES: | | |
| Accounts payable | \$ 883,687 | \$ 223,005 |
| Accrued liabilities | 11,049 | 8,647 |
| Deposits | 27,523 | 25,584 |
| TOTAL LIABILITIES | 922,259 | 257,236 |
| FUND BALANCE: | | |
| Restricted for community programs | 3,640,616 | 3,394,034 |
| TOTAL FUND BALANCE | 3,640,616 | 3,394,034 |
| TOTAL LIABILITIES AND FUND BALANCE | \$ 4,562,875 | \$ 3,651,270 |

See accompanying notes to financial statements.

Costa Mesa Housing Authority
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2020

Fund balance - total governmental fund \$ 3,640,616

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

Capital Related Items

When capital assets (property, plant, equipment) that are to be used in governmental activities are purchased or constructed, the cost of those assets are reported as expenditures in governmental funds. However, the Statement of Net Position includes those capital assets among the assets of the Authority as whole:

| | |
|--------------------------|-----------|
| Capital assets | 5,359,665 |
| Accumulated depreciation | (659,160) |

Pension and OPEB Related Transactions

Long-term liabilities applicable to the Authority's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. All liabilities (both current and long-term) are reported in the Statement of Net Position. Also, deferred outflows of resources and deferred inflows of resources related to the long term liabilities do not provide current financial resources and are therefore not presented in the governmental funds:

| | |
|--|-------------|
| Deferred outflows of resources related to pensions | 272,780 |
| Deferred outflows of resources related to OPEB | 69,557 |
| Deferred inflows of resources related to pensions | (38,904) |
| Deferred inflows of resources related to OPEB | (2,381) |
| CalPERS pension liability | (2,221,033) |
| OPEB liability | (627,570) |

| | |
|---|--------------|
| Net position of governmental activities | \$ 5,793,570 |
|---|--------------|

See accompanying notes to financial statements.

Costa Mesa Housing Authority
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Fund
Year ended June 30, 2020
(with comparative totals for June 30, 2019)

| | 2020 | 2019 |
|--|--------------|--------------|
| REVENUES: | | |
| Rental income | \$ 405,379 | \$ 378,469 |
| Repayment of Successor Agency advance | 258,209 | 320,775 |
| Investment income | 102,263 | 109,584 |
| Miscellaneous | 10,401 | 33,074 |
| TOTAL REVENUES | 776,252 | 841,902 |
| EXPENDITURES: | | |
| Current: | | |
| Community programs | 2,968,016 | 1,644,921 |
| TOTAL EXPENDITURES | 2,968,016 | 1,644,921 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | (2,191,764) | (803,019) |
| OTHER FINANCING SOURCES: | | |
| Transfer from the City of Costa Mesa | 2,438,346 | 1,003,400 |
| Net change in fund balances | 246,582 | 200,381 |
| FUND BALANCE - BEGINNING OF YEAR | 3,394,034 | 3,193,653 |
| FUND BALANCE - END OF YEAR | \$ 3,640,616 | \$ 3,394,034 |

See accompanying notes to financial statements.

Costa Mesa Housing Authority
Reconciliation of the Governmental Funds Statement of
Revenues, Expenditures and Changes in Fund Balances
to the Statement of Activities
Year ended June 30, 2020

| | | |
|--|----|---------------------------|
| Net change in fund balances - total governmental fund | \$ | 246,582 |
| Amounts reported for governmental activities in the Statement of Activities are different because: | | |
| <u>Capital Related Items</u> | | |
| Governmental funds report capital outlay as expenditures. | | |
| However, in the Statement of Activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation charged to the program in the Statement of Activities in the current period: | | |
| Depreciation expense | | (164,790) |
| <u>Pension</u> | | |
| Pension expense reported in the governmental funds includes the annual required contributions. In the Statement of Activities, pension expenses includes the change in the net pension liability, and related changes in pension amounts for deferred outflows of resources and deferred inflows of resources. | | |
| | | (1,269,456) |
| <u>OPEB</u> | | |
| OPEB expense reported in the governmental funds includes the annual required contributions. In the Statement of Activities, OPEB expense includes the change in the net pension liability, and related changes in OPEB amounts for deferred outflows of resources and deferred inflows of resources. | | |
| | | <u>(289,393)</u> |
| Change in net position of governmental activities | \$ | <u><u>(1,477,057)</u></u> |

See accompanying notes to financial statements.

COSTA MESA HOUSING AUTHORITY

Notes to Basic Financial Statements

Year ended June 30, 2020

1. Reporting Entity and Summary of Significant Accounting Policies:

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

A. Description of the Reporting Entity:

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

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

B. Fund Accounting:

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

C. Basis of Accounting and Measurement Focus:

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

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

COSTA MESA HOUSING AUTHORITY

Notes to Basic Financial Statements

(Continued)

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

Government-wide Financial Statements

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

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

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

Fund Financial Statements

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

Fund financial statements for the Authority's governmental fund are presented after the government-wide financial statements. These statements display information about the governmental major fund individually and nonmajor funds in aggregate if applicable.

Governmental Funds

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

COSTA MESA HOUSING AUTHORITY

Notes to Basic Financial Statements

(Continued)

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

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

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

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

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

D. New Accounting Pronouncements:

Current Year Standards

GASB 95 – Postponement of Effective Dates of Certain Authoritative Guidance. The implementation of this statement did not result in financial impact to the Authority.

Pending Accounting Standards

GASB has issued the following pronouncements that have an effective date subsequent to June 30, 2020, which may impact the financial reporting requirements in the future. Unless otherwise noted, management has not determined what, if any, impact implementation of the following Statements may have on future financial statements.

GASB 84 - Fiduciary Activities: Effective for the fiscal year ending June 30, 2021.

GASB 87 – Leases: Effective for the fiscal year ending June 30, 2022.

COSTA MESA HOUSING AUTHORITY

Notes to Basic Financial Statements

(Continued)

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

GASB 90 – Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61: Effective for the fiscal year ending June 30, 2021.

GASB 91 – Conduit Debt Obligations: Effective for the fiscal year ending June 30, 2023.

GASB 92 – Omnibus 2020: Effective for the fiscal year ending June 30, 2022.

GASB 93 – Replacement of Interbank Offered Rates: Effective for the fiscal year ending June 30, 2022.

GASB 94 – Public-Private and Private-Public Partnerships and Availability Payment Arrangements: Effective for the fiscal year ending June 30, 2023.

GASB 96 – Subscription-Based Information Technology Arrangement: Effective for the fiscal year ending June 30, 2023.

GASB 97 – Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans: Effective for the fiscal year ending June 30, 2021.

E. Cash and Investments:

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

F. Capital Assets:

Capital assets are recorded at historical cost at the time of purchase. Assets acquired from gifts or contributions are recorded at acquisition value on the date contributed. Generally, capital asset purchases in excess of \$5,000 are capitalized if they have an expected useful life of two years or more. Capital assets used in operations are generally depreciated in the government-wide financial statements. It is the Authority's policy not to depreciate assets in its first year of service. A full year of depreciation is charged at final year of asset life or upon disposal. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective statement of net position. The range of lives used for computing depreciation for building improvements and structures is 10 to 20 years.

COSTA MESA HOUSING AUTHORITY

Notes to Basic Financial Statements

(Continued)

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

G. Net Position:

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

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

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

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

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

H. Deferred Outflows/Inflows of Resources:

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

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

COSTA MESA HOUSING AUTHORITY

Notes to Basic Financial Statements

(Continued)

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

I. Fund Balance:

Fund balance classifications are defined as follows:

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

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

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

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

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

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

J. Pensions:

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

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

| | |
|--------------------|-------------------------------|
| Valuation Date | June 30, 2018 |
| Measurement Date | June 30, 2019 |
| Measurement Period | July 1, 2018 to June 30, 2019 |

COSTA MESA HOUSING AUTHORITY

Notes to Basic Financial Statements

(Continued)

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

K. Other Post Employment Benefits (OPEB):

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

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

| | |
|--------------------|-------------------------------|
| Valuation Date | June 30, 2019 |
| Measurement Date | June 30, 2019 |
| Measurement Period | July 1, 2018 to June 30, 2019 |

L. Use of Estimates:

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

M. Prior Year Data

The information included in the accompanying financial statements for the prior year has been presented for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Certain minor reclassifications of prior year data have been made in order to enhance their comparability with current year figures.

2. Cash and Investments:

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

The Authority does not have a separate bank account; however, the Authority's cash and investments are maintained in an investment pool managed by the City. The Authority is a voluntary participant in that pool. This pool is governed by and under the regulatory oversight of the Investment Policy adopted by the City Council of the City. The Authority has not adopted an investment policy separate from that of the City. The fair value of the Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the Authority's pro-rata share of the fair value calculated by the City for the entire City portfolio. The balance available for withdrawal is based on the accounting records maintained by the City, which are recorded on an original cost basis. At June 30, 2020, the Authority had a total cash balance of \$3,670,886, of which \$3,646,271 was part of the City's cash and investment pool and the remaining \$24,615 was cash held with a fiscal agent for tenant deposits.

COSTA MESA HOUSING AUTHORITY

Notes to Basic Financial Statements

(Continued)

3. Loans Receivable:

Loans receivable as of June 30, 2020 were comprised of the following:

| | <u>Amount</u> |
|---|--------------------|
| The first-time homebuyer program provides loans to first-time homebuyers for purchases of homes in the City of Costa Mesa. For loans made before 2007, loan repayments were deferred for 10 years and for loans made in 2007 and after, repayments of the loan are deferred for 30 years. | \$ 1,516,119 |
| The single-family rehabilitation loan program provides loans to homeowners to make home improvements and repair code violations. There were 3 loans made under this program in 2009. The loans do not pay interest and are not due until the property is sold. | 142,500 |
| The rental rehabilitation program is for deferred loans to owners of multi-family properties to make improvements and repair code violations. There are 3 remaining loans under this program and repayment is deferred until sale, transfer or default. Interest of 4 percent is due on these loans. | 145,580 |
| There are 5 loans made to underwrite land to a developer to build 5 single-family homes to be maintained in perpetuity for affordable housing. The Authority maintains enforceable covenants on the property. The loans are to be repaid only upon default of affordable housing covenants. | 681,283 |
| There are 2 loans made to eligible homebuyers under the Federal Neighborhood Stabilization Program (NSP) administered by the State of California. The NSP program consists of acquisition, rehabilitation, and subsequent sale of foreclosed homes. Borrowers met income and affordability qualifications set by the HUD HOME Program and California Community Redevelopment law. | <u>181,250</u> |
| Total loans receivable | 2,667,732 |
| Less allowance for doubtful accounts | <u>(1,804,198)</u> |
| Loans receivable, net of allowance of doubtful accounts | <u>\$ 862,534</u> |

COSTA MESA HOUSING AUTHORITY

Notes to Basic Financial Statements

(Continued)

4. Capital Assets:

The following is a summary of the capital asset activity for the year ended June 30, 2020:

| | Balance at July 1, 2019 | Additions | Deletions | Balance at June 30, 2020 |
|---|----------------------------|--------------|-----------|-----------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 2,063,865 | \$ - | \$ - | \$ 2,063,865 |
| Capital assets being depreciated: | | | | |
| Building improvements and structures | 3,295,800 | - | - | 3,295,800 |
| Less accumulated depreciation/amortization: | | | | |
| Building improvements and structures | (494,370) | (164,790) | - | (659,160) |
| Total capital assets being depreciated, net | 2,801,430 | (164,790) | - | 2,636,640 |
| Capital assets, net | \$ 4,865,295 | \$ (164,790) | \$ - | \$ 4,700,505 |

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

5. Repayment of Successor Agency Advance

In 2012, all California redevelopment agencies were dissolved, including the City of Costa Mesa Redevelopment agency. In the dissolution process, the State of California Department of Finance (DOF) disallowed a loan in the amount of \$9,278,545 from the City's General Fund to the former Redevelopment Agency as an enforceable obligation. Subsequently, the Department of Finance (DOF) Finding of Completion on May 24, 2013 allowed the placement of these loan agreements on the Recognized Obligation Payment Schedule (ROPS).

The City has adjusted the loan for repayments and interest additions. The loan repayment, reported on the ROPS, is subject to DOF approval on an annual basis. As of June 30, 2020, the loan balance is estimated to be \$6,212,950. The Housing Authority is entitled to receive 20% of the annual repayment. In the current fiscal year, the Housing Authority received \$258,209 on this loan.

6. Defined Benefit Pension Plan (CalPERS):

Plan Description

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

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

COSTA MESA HOUSING AUTHORITY

Notes to Basic Financial Statements

(Continued)

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

Benefits Provided

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

The Plan's provisions and benefits in effect at June 30, 2020, are summarized as follows:

| | Miscellaneous (Agent Multiple-Employer) | | |
|---|---|-------------------------------|--------------------------------|
| | Prior to March 11, 2012 | On or After March 11, 2012 | On or After January 1, 2013 |
| Hire Date | | | |
| Benefit formula | 2.5% @55 | 2.0%@60 | 2%@62 |
| Benefit vesting schedule | 5 years of service | 5 years of service | 5 years of service |
| Benefit payments | monthly for life | monthly for life | monthly for life |
| Retirement age | 50 - 55 | 50 - 63 | 52 - 67 |
| Monthly benefits, as a % of eligible compensation | 2.0% to 2.5% | 1.092% to 2.418% | 1.0% to 2.5% |
| Required employee contribution rates | 10.469% | 7% | 6.75% |
| Required employer contribution rates | 6.98% | 9.45% | 9.45% |

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Employer contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contributions requirements are classified as plan member contributions. For the year ended June 30, 2019, the Authority's total contributions for the Miscellaneous Plan were \$219,071.

COSTA MESA HOUSING AUTHORITY

Notes to Basic Financial Statements

(Continued)

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

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

The June 30, 2018 valuation was rolled forward to determine the June 30, 2019 total pension liability, based on the following actuarial methods assumptions:

| | |
|-----------------------------------|--|
| Measurement date | June 30, 2019 |
| Actuarial cost method | Entry-Age Normal in accordance with the requirements of GASB 68 |
| Actuarial assumptions: | |
| Discount rate | 7.15% |
| Inflation | 2.50% |
| Salary increases | Varies by Entry Age and Service |
| Mortality Rate Table ¹ | Derived using CalPERS Membership Data for all funds |
| Postretirement benefit increase | The lesser of contract COLA or 2.50% until Purchasing Power Protection Allowance floor on purchasing power applies, 2.50% thereafter |

¹ The mortality table used was developed based on CalPERS' specific data. The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Pre-retirement and Post-retirement mortality rate include 15 years of projected mortality improvement using le includes 15 years of mortality improvements using 90% of Scale MP 2016 published by the Society of Actuaries. For more details on this table, please refer to the CalPERS Experience Study and Review of Actuarial Assumptions report from December 2017 that can be found on the CalPERS website.

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at the statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long term expected rate of return on plan on investment was applied to all periods of projected benefit payments to determine the total pension liability.

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

COSTA MESA HOUSING AUTHORITY

Notes to Basic Financial Statements

(Continued)

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, except compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The expected real rate of returns by asset class are as followed:

| Asset Class ¹ | Assumed asset allocation | Real Return Years 1 – 10 ² | Real Return Years 11+ ³ |
|--------------------------|--------------------------|---------------------------------------|------------------------------------|
| Global Equity | 50.0% | 4.80% | 5.98% |
| Fixed Income | 28.0% | 1.00% | 2.62% |
| Inflation assets | 0.0% | 0.77% | 1.81% |
| Private Equity | 8.0% | 6.30% | 7.23% |
| Real assets | 13.0% | 3.75% | 4.93% |
| Liquidity | 1.0% | 0.00% | (0.92%) |

¹ In the System's CAFR, Fixed Income is included Global Debt Securities; Liquidity is included in Short-term Investment; Inflation Assets are included both Global Equity Securities and Global Debt Securities.

² An expected inflation of 2.00% used for this period

³ An expected inflation of 2.92% used for this period

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

| | Increase (Decrease) | | |
|----------------------------|--------------------------------|------------------------------------|--|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (c) = (a) - (b) |
| Balance at: 6/30/2018 (VD) | \$ 2,340,774 | \$ 1,557,381 | \$ 783,393 |
| Balance at: 6/30/2019 (MD) | 6,506,177 | 4,285,144 | 2,221,033 |
| Net Changes during 2018-19 | 4,165,403 | 2,727,763 | 1,437,640 |

COSTA MESA HOUSING AUTHORITY

Notes to Basic Financial Statements

(Continued)

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

The Authority's net pension liability for the plan is measured as the proportionate share of the net pension liability. The net pension liability of the plan is measured as of June 30, 2019, and the total pension liability for the plan used to calculate the net pension liability was determined by an actuarial valuation of June 30, 2018 rolled forward to June 30, 2019 using standard update procedures. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

The Authority's proportionate share of the net pension liability for the plan as of June 30, 2018 and 2019 was as follows:

| | <u>Miscellaneous Plan</u> |
|------------------------------|---------------------------|
| Proportion – June 30, 2018 | 0.831% |
| Proportion – June 30, 2019 | 2.218% |
| Change – Increase (Decrease) | 1.387% |

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

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

| | <u>Discount Rate – 1% (6.15%)</u> | <u>Current Discount Rate (7.15%)</u> | <u>Discount Rate + 1% (8.15%)</u> |
|--|---|--|---|
| Authority's proportionate share of the Net Pension Liability | \$3,059,321 | \$2,221,033 | \$1,530,660 |

Amortization of Deferred Outflows and Deferred Inflows of Resources

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

COSTA MESA HOUSING AUTHORITY

Notes to Basic Financial Statements

(Continued)

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

Net difference between projected and actual earnings on pension plan investments 5 year straight-line amortization

All other amounts Straight-line amortization over the expected average remaining service lifetime (EARSL) of all members that are provided with pensions (active, inactive, and retired) as of the beginning of the measurement period

The EARSL for the Plan for the June 30, 2019 measurement date is 2.4 years, which was obtained by dividing the total services years by the total number of participants (active, inactive, and retired) in the Plan. Inactive employees and retirees have remaining service lifetimes equal to zero. Total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

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

For the fiscal year ended June 30, 2020, the Authority recognized pension expense of \$1,488,515. At June 30, 2020, the Authority reported deferred outflows of resources and deferred inflows of resources related to the CalPERS pension as follows:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Pension contributions subsequent to the measurement date | \$ 219,059 | \$ - |
| Changes in assumptions | - | (3,100) |
| Differences between expected and actual experience | 53,721 | (11,102) |
| Net difference between projected and actual earnings on pension plan investments | - | (24,702) |
| Totals | <u>\$ 272,780</u> | <u>\$ (38,904)</u> |

COSTA MESA HOUSING AUTHORITY

Notes to Basic Financial Statements

(Continued)

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

The Authority reported \$219,059 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2021. Other amounts reported as deferred inflows or outflows of resources related to pensions will be recognized as pension expense as follows:

| Fiscal Year Ended June 30: | Deferred Outflows/(Inflows) of Resources |
|-------------------------------|--|
| 2021 | \$ 38,672 |
| 2022 | (22,823) |
| 2023 | (6,523) |
| 2024 | 5,491 |
| 2025 | - |
| Thereafter | - |

7. Other Post-Employment Benefits (OPEB):

Plan Description

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

Contributions

The contribution requirements of plan members and the Authority are established and may be amended by the City Council. The required contribution is made on a pay-as-you-go basis (i.e., as medical insurance premiums become due). Neither the City nor the Authority has established a trust for the purpose of holding assets accumulated for plan benefits.

Actuarial Methods and Assumptions Used to Determine Total OPEB Liability

The Authority’s total OPEB liability was measured as of June 30, 2019 by an actuarial valuation based on the following actuarial methods and assumptions:

Discount Rate: 3.51% for accounting disclosure purposes. The rate is based on a yield for 20-year tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale). For the current valuation, the discount rate was selected from the range of indices as shown in the table below:

COSTA MESA HOUSING AUTHORITY

Notes to Basic Financial Statements

(Continued)

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

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

| | As of 06/30/19 |
|---|----------------|
| Bond Buyer Go 20 – Municipal Bond Index | 3.51% |
| S&P Municipal Bond 20-year High Grade Rate Index | 2.79% |
| Fidelity 20-year Go Municipal Bond Index | 3.13% |
| Bond Index Range | 2.79% - 3.51% |
| Actual Discount Rate Used | 3.51% |

Inflation Rate: 2.75% per year

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

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

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

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

The following table shows the Authority’s proportionate share of the total OPEB liability over the measurement period ended June 30, 2019:

| | Increase (Decrease) Total OPEB Liability |
|----------------------------|--|
| Balance at: June 30, 2018 | <u>\$ 271,334</u> |
| Balance at: June 30, 2019 | 627,570 |
| Net Changes during 2018-19 | 356,236 |

COSTA MESA HOUSING AUTHORITY

Notes to Basic Financial Statements

(Continued)

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

The Authority's total OPEB liability for the plan is measured as the proportionate share of the plan's total OPEB liability. The total OPEB liability of the plan is measured as of June 30, 2019, and the total OPEB liability for the plan used to calculate the net pension liability was determined by an actuarial valuation of June 30, 2019. The Authority's proportion of the total OPEB liability was based on a projection of the Authority's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. The Authority's proportionate share of the total OPEB liability for the plan as of June 30, 2018 and 2019 was as follows:

| | <u>OPEB Plan</u> |
|------------------------------|------------------|
| Proportion – June 30, 2018 | 0.510% |
| Proportion – June 30, 2019 | 1.065% |
| Change – Increase (Decrease) | 0.555% |

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

The following presents the total OPEB liability of the Plan as of the Measurement Date, calculated using the discount rate of 3.51 percent, as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1 percentage-point lower (2.51 percent) or 1 percentage-point higher (4.51 percent) than the current rate:

| | <u>Discount Rate – 1% (2.51%)</u> | <u>Current Discount Rate (3.51%)</u> | <u>Discount Rate + 1% (4.51%)</u> |
|---|---|--|---|
| Authority's proportionate share of the total OPEB liability | \$722,525 | \$627,570 | \$551,338 |

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

| | <u>1% Decrease (5.50% decreasing to 3.50%)</u> | <u>Current Healthcare Cost Trend Rates (6.50% decreasing to 4.50%)</u> | <u>1% Increase (7.50% decreasing to 5.50%)</u> |
|---|--|--|--|
| Authority's proportionate share of the total OPEB liability | \$580,042 | \$627,570 | \$696,876 |

COSTA MESA HOUSING AUTHORITY

Notes to Basic Financial Statements

(Continued)

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

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

For the year ended June 30, 2020, the Authority recognized OPEB expense of \$308,392. At June 30, 2020, the Authority reported deferred outflows of resources and deferred inflows of resources related to the OPEB plan as follows:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| OPEB contributions subsequent to the measurement date | \$ 19,326 | \$ - |
| Differences between expected and actual differences | 19,006 | - |
| Changes in assumptions | <u>31,225</u> | <u>(2,381)</u> |
| Totals | <u>\$ 69,557</u> | <u>\$ (2,381)</u> |

The Authority reported \$19,326 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the total OPEB liability in the fiscal year ending June 30, 2021.

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

| <u>Fiscal Year Ended June 30:</u> | <u>Deferred Outflows/(Inflows) of Resources</u> |
|---------------------------------------|---|
| 2021 | \$ 5,990 |
| 2022 | 8,372 |
| 2023 | 8,372 |
| 2024 | 8,372 |
| 2025 | 8,372 |
| Thereafter | 8,372 |

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

Last Ten Fiscal Years*

| Measurement date June 30 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|--|------------|------------|------------|--------------|------------|--------------|
| Plan's proportion of the net pension liability | 0.703% | 0.703% | 0.703% | 1.095% | 0.831% | 2.218% |
| Plan's proportionate share of the net pension liability | \$ 536,746 | \$ 561,947 | \$ 632,922 | \$ 1,095,223 | \$ 783,393 | \$ 2,221,033 |
| Plan's covered payroll | \$ 129,116 | \$ 126,041 | \$ 139,833 | \$ 213,885 | \$ 166,758 | \$ 541,070 |
| Plan's proportionate share of the net pension liability as a percentage of covered payroll | 415.71% | 445.84% | 452.63% | 512.06% | 469.78% | 410.49% |
| Plan's proportionate share of the fiduciary net position as a percentage of the Plan's total pension liability | 69.49% | 68.26% | 64.94% | 64.17% | 66.53% | 65.86% |
| Plan's proportionate share of aggregate employer contributions | \$ 36,704 | \$ 42,575 | \$ 45,855 | \$ 75,706 | \$ 76,921 | \$ 219,059 |

Notes to schedule:

Benefit changes:

The figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2018 valuation date. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes in assumptions:

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

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

In 2018, demographic assumptions and inflation were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017.

None in 2019.

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

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

| Fiscal year ended June 30 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|------------|------------|------------|------------|------------|------------|
| Contractually required contribution (actuarially determined) | \$ 36,704 | \$ 42,575 | \$ 45,855 | \$ 75,706 | \$ 76,921 | \$ 219,059 |
| Contributions in relation to the actuarially determined contributions | (36,704) | (42,575) | (45,855) | (75,706) | (76,921) | (219,059) |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Covered payroll | \$ 126,041 | \$ 139,833 | \$ 213,885 | \$ 166,758 | \$ 202,718 | \$ 532,597 |
| Contributions as a percentage of covered payroll | 29.12% | 30.45% | 21.44% | 45.40% | 37.95% | 41.13% |

Notes to schedule:

| | | | | | | |
|----------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Valuation date | 6/30/2012 | 6/30/2013 | 6/30/2014 | 6/30/2015 | 6/30/2016 | 6/30/2017 |
|----------------|-----------|-----------|-----------|-----------|-----------|-----------|

Methods and assumptions used to determine contribution rates:

| | |
|----------------------------|--|
| Single and agent employers | Entry Age Normal |
| Amortization method/period | For details, see June 30, 2017 Funding Valuation Report. |
| Asset valuation method | Market Value of Assets. For details, see June 30, 2017 Funding Valuation Report. |
| Inflation | 2.625% |
| Salary increases | Varies by Entry Age and Service |
| Payroll growth | 2.875% |
| Investment rate of return | 7.25%, net of pension plan investment and administrative expense; including inflation. |
| Retirement age | The probabilities of Retirement are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. |
| Mortality | The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Pre-retirement and Post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries. |

Other information:

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

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

Costa Mesa Housing Authority
Required Supplementary Information
Schedule of Proportionate Share of OPEB Liability and Related Ratios
Last Ten Fiscal Years*

| Measurement date June 30 | 2017 | 2018 | 2019 |
|--|------------|------------|------------|
| Plan's proportion of the total OPEB liability | 0.391% | 0.510% | 1.065% |
| Plan's proportionate share of the total OPEB liability | \$ 208,922 | \$ 271,334 | \$ 627,570 |
| Plan's covered payroll | \$ 160,415 | \$ 221,304 | \$ 466,770 |
| Plan's proportionate share of the OPEB liability as a percentage of covered employee payroll | 130.24% | 122.61% | 134.45% |
| Plan's proportionate share of the fiduciary net position as a percentage of the Plan's total OPEB liability | 0.00% | 0.00% | 0.00% |

Notes to schedule:

Changes in assumptions. The discount rate as of the June 30, 2016 measurement date was 2.85%. The discount rate as of the June 30, 2017 measurement date was 3.40%. The discount rate as of the June 30, 2018 measurement date was 3.50%. The discount rate as of the June 30, 2019 measurement date was 3.51%.

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

* - Fiscal year 2018 was the first year of implementation, therefore only three years are shown.

Costa Mesa Housing Authority
Required Supplementary Information
Housing Authority Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Year ended June 30, 2020
(With Comparative Data for Prior Year)

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) | Prior Year Actual |
|--|---------------------|---------------------|---------------------|---|----------------------|
| REVENUES: | | | | | |
| Rental income | \$ 370,000 | \$ 370,000 | \$ 405,379 | \$ 35,379 | \$ 378,469 |
| Repayment of Successor Agency advance | 265,204 | 265,204 | 258,209 | (6,995) | 320,775 |
| Intergovernmental | 463,068 | 463,068 | - | (463,068) | - |
| Investment income | 18,000 | 18,000 | 102,263 | 84,263 | 109,584 |
| Miscellaneous | 10,000 | 10,000 | 10,401 | 401 | 33,074 |
| TOTAL REVENUES | 1,126,272 | 1,126,272 | 776,252 | (350,020) | 841,902 |
| EXPENDITURES: | | | | | |
| Current: | | | | | |
| Community programs | 3,217,258 | 3,407,395 | 2,968,016 | 439,379 | 1,644,921 |
| TOTAL EXPENDITURES | 3,217,258 | 3,407,395 | 2,968,016 | 439,379 | 1,644,921 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | (2,090,986) | (2,281,123) | (2,191,764) | 89,359 | (803,019) |
| Other financing sources: | | | | | |
| Transfers from the City of Costa Mesa | 2,000,000 | 2,046,324 | 2,438,346 | 392,022 | 1,003,400 |
| Net change in fund balance | (2,090,986) | (234,799) | 246,582 | 481,381 | 200,381 |
| FUND BALANCE - BEGINNING OF YEAR | 3,394,034 | 3,394,034 | 3,394,034 | - | 3,193,653 |
| FUND BALANCE - END OF YEAR | \$ 1,303,048 | \$ 3,159,235 | \$ 3,640,616 | \$ 481,381 | \$ 3,394,034 |

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

Board of Directors
Costa Mesa Housing 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 Housing Authority (Authority), as of and for the year ended June 30, 2020, 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, 2020.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in blue ink that reads "Davis Fan" followed by a stylized flourish.

Irvine, California
December 21, 2020