

COSTA MESA REDEVELOPMENT AGENCY

Basic Financial Statements  
and Supplemental Data

Year ended June 30, 2009

(With Independent Auditors' Report Thereon)

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COSTA MESA REDEVELOPMENT AGENCY  
Basic Financial Statements and Supplemental Data  
Year ended June 30, 2009

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COSTA MESA REDEVELOPMENT AGENCY  
Basic Financial Statements and Supplemental Data  
(Continued)

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Board of Directors  
Costa Mesa Redevelopment Agency  
Costa Mesa, California

## INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of the Costa Mesa Redevelopment Agency (the "Agency"), a component unit of the City of Costa Mesa, California, as of and for the year ended June 30, 2009, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Costa Mesa Redevelopment Agency. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the Agency's basic financial statements for the year ended June 30, 2008 and, in our report dated November 21, 2008, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Costa Mesa Redevelopment Agency as of June 30, 2009, and the respective changes in financial position of the Costa Mesa Redevelopment Agency for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Agency has not presented *management's discussion and analysis* that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Costa Mesa Redevelopment Agency's basic financial statements. The *required supplementary information* is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. The *required supplementary information* and *supplementary schedules* are presented for purposes of additional analysis and are also not a required part of the basic financial statements. These *supplementary schedules* have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Board of Directors  
Costa Mesa Redevelopment Agency  
Costa Mesa, California  
Page Two

In accordance with *Government Auditing Standards*, we have also issued a report dated November 18, 2009 on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Nayer Hoffman McLann P.C.*

Irvine, California  
November 18, 2009

GOVERNMENT-WIDE FINANCIAL STATEMENTS

COSTA MESA REDEVELOPMENT AGENCY

Statement of Net Assets

June 30, 2009

(With Comparative Data for Prior Year)

	<u>Governmental Activities</u>	
	<u>2009</u>	<u>2008</u>
Assets:		
Cash and investments (note 3)	\$ 4,651,313	5,130,245
Cash and investments with fiscal agent (note 3)	704,300	706,045
Due from other governments	52,736	24,725
Due from the City of Costa Mesa	16,250	15,000
Interest receivable (note 10)	1,212,700	1,130,455
Loans receivable	5,157,902	4,551,760
Rent receivable (note 10)	1,090,330	1,079,985
Loan deposit	-	904
Total assets	<u>12,885,531</u>	<u>12,639,119</u>
Liabilities:		
Accounts payable	15,629	93,799
Interest payable	51,175	1,009,347
Due to City of Costa Mesa	57,117	46,367
Long-term liabilities:		
Portion due within one year:		
Advances from the City of Costa Mesa (notes 6 and 8)	414,769	384,273
Bonds payable (notes 6 and 7)	495,000	485,000
Portion due beyond one year:		
Advances from the City of Costa Mesa (notes 6 and 8)	10,881,911	11,296,656
Bonds payable (notes 6 and 7)	4,650,000	5,145,000
Total liabilities	<u>16,565,601</u>	<u>18,460,442</u>
Net assets:		
Restricted for:		
Low and moderate income housing	7,350,205	6,835,407
Unrestricted	<u>(11,030,275)</u>	<u>(12,656,730)</u>
Total net assets (deficit)	<u>\$ (3,680,070)</u>	<u>(5,821,323)</u>

See accompanying notes to the basic financial statements.

COSTA MESA REDEVELOPMENT AGENCY

Statement of Activities

Year ended June 30, 2009

(With Comparative Data for Prior Year)

Functions/Programs	Expenses	Program Revenues			Net Governmental Activities	
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	2009	2008
Governmental activities:						
Redevelopment	\$ 365,845	99,309	-	-	(266,536)	(107,197)
Low and moderate income housing	523,280	-	-	-	(523,280)	(710,940)
Interest expense on long-term debt	1,142,161	-	-	-	(1,142,161)	(824,682)
Total governmental activities	<u>\$ 2,031,286</u>	<u>99,309</u>	<u>-</u>	<u>-</u>	<u>(1,931,977)</u>	<u>(1,642,819)</u>
General revenues:						
Property taxes					4,124,964	3,996,875
Investment income					118,001	210,507
Miscellaneous					186,294	15,000
Total general revenues					<u>4,429,259</u>	<u>4,222,382</u>
Change in net assets					2,497,282	2,579,563
Net assets (deficit) at beginning of year, as restated (note 11)					<u>(6,177,352)</u>	<u>(8,400,886)</u>
Net assets (deficit) at end of year					<u>\$ (3,680,070)</u>	<u>(5,821,323)</u>

See accompanying notes to the basic financial statements.

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FUND FINANCIAL STATEMENTS

COSTA MESA REDEVELOPMENT AGENCY  
Governmental Funds  
Balance Sheet  
June 30, 2009  
(With Comparative Data for Prior Year)

	Special Revenue	Debt Service	Capital Projects	Totals	
	Low and Moderate Income Housing	Redevelopment Debt Service	Redevelopment Projects	2009	2008
<u>Assets</u>					
Cash and investments	\$ 2,215,006	955,481	1,480,826	4,651,313	5,130,245
Cash and investments with fiscal agent	-	704,300	-	704,300	706,045
Due from other governments	10,547	42,189	-	52,736	24,725
Due from City of Costa Mesa	-	16,250	-	16,250	15,000
Interest receivable	7,414	7,644	1,197,642	1,212,700	1,130,455
Loans receivable	5,157,902	-	-	5,157,902	4,551,760
Rent receivable	-	-	1,090,330	1,090,330	1,079,985
Loan deposit	-	-	-	-	904
Advances to other funds	-	-	-	-	368,111
Total assets	<u>\$ 7,390,869</u>	<u>1,725,864</u>	<u>3,768,798</u>	<u>12,885,531</u>	<u>13,007,230</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ 4,840	8,257	2,532	15,629	93,799
Interest payable	-	-	-	-	955,141
Due to City of Costa Mesa	35,824	-	21,293	57,117	46,367
Advances from other funds	-	-	-	-	368,111
Deferred revenue	5,157,902	-	2,282,131	7,440,033	6,724,928
Total liabilities	<u>5,198,566</u>	<u>8,257</u>	<u>2,305,956</u>	<u>7,512,779</u>	<u>8,188,346</u>
Fund balances:					
Reserved for:					
Advances to other funds	-	-	-	-	368,111
Loan deposit	-	-	-	-	904
Unreserved, undesignated - reported in:					
Special revenue fund	2,192,303	-	-	2,192,303	1,914,632
Debt service fund	-	1,717,607	-	1,717,607	1,636,717
Capital projects fund	-	-	1,462,842	1,462,842	898,520
Total fund balances	<u>2,192,303</u>	<u>1,717,607</u>	<u>1,462,842</u>	<u>5,372,752</u>	<u>4,818,884</u>
Total liabilities and fund balances	<u>\$ 7,390,869</u>	<u>1,725,864</u>	<u>3,768,798</u>	<u>12,885,531</u>	<u>13,007,230</u>

See accompanying notes to the basic financial statements.

COSTA MESA REDEVELOPMENT AGENCY  
Governmental Funds

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets  
June 30, 2009

Fund balances (deficit) of governmental funds	\$ 5,372,752
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
<u>Long-Term Debt Transactions</u>	
Long-term liabilities applicable to the Agency'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 Assets:	
Advances from the City of Costa Mesa	(11,296,680)
2003 Tax Allocation Bonds	(5,145,000)
<u>Accrued Interest</u>	
Accrued liabilities in the Statement of Net Assets differ from the amount reported in governmental funds due to accrued interest on outstanding debt payable.	(51,175)
<u>Deferred Revenue</u>	
Revenues relating to loans, interest and rents receivable are measurable but not available and, accordingly, are recorded as deferred revenue in the governmental funds under the modified accrual basis of accounting. Revenues are recognized when earned under the full accrual basis of accounting and, accordingly, deferred revenue has been eliminated from the Statement of Net Assets	<u>7,440,033</u>
Net assets (deficit) of governmental activities	<u>\$ (3,680,070)</u>

See accompanying notes to the basic financial statements.

COSTA MESA REDEVELOPMENT AGENCY

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

Year ended June 30, 2009

(With Comparative Data for Prior Year)

	Special Revenue	Debt Service	Capital Projects	Totals	
	Low and Moderate Income Housing	Redevelopment Debt Service	Redevelopment Projects	2009	2008
<b>Revenues:</b>					
Tax increment	\$ 825,167	3,299,797	-	4,124,964	3,996,875
Investment income	42,844	35,336	39,821	118,001	210,457
Miscellaneous	170,065	16,250	-	186,315	15,000
Rental	-	-	99,309	99,309	92,009
<b>Total revenues</b>	<u>1,038,076</u>	<u>3,351,383</u>	<u>139,130</u>	<u>4,528,589</u>	<u>4,314,341</u>
<b>Expenditures:</b>					
<b>Current:</b>					
Redevelopment	1,129,420	-	375,499	1,504,919	1,168,763
<b>Debt service:</b>					
Principal	-	869,272	-	869,272	475,000
Interest and fiscal charges	-	1,145,192	-	1,145,192	1,183,652
<b>Total expenditures</b>	<u>1,129,420</u>	<u>2,014,464</u>	<u>375,499</u>	<u>3,519,383</u>	<u>2,827,415</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(91,344)</u>	<u>1,336,919</u>	<u>(236,369)</u>	<u>1,009,206</u>	<u>1,486,926</u>
<b>Other financing sources (uses):</b>					
Transfers to City of Costa Mesa	-	-	(99,309)	(99,309)	(92,009)
Transfers in (note 4)	-	-	900,000	900,000	1,055,000
Transfers out (note 4)	-	(900,000)	-	(900,000)	(1,055,000)
<b>Total other financing     sources (uses)</b>	<u>-</u>	<u>(900,000)</u>	<u>800,691</u>	<u>(99,309)</u>	<u>(92,009)</u>
<b>Net change in fund balances</b>	<u>(91,344)</u>	<u>436,919</u>	<u>564,322</u>	<u>909,897</u>	<u>1,394,917</u>
<b>Fund balances</b>					
at beginning of year, as restated (note 11)	2,283,647	1,280,688	898,520	4,462,855	3,423,967
<b>Fund balances at end of year</b>	<u>\$ 2,192,303</u>	<u>1,717,607</u>	<u>1,462,842</u>	<u>5,372,752</u>	<u>4,818,884</u>

See accompanying notes to the basic financial statements.

COSTA MESA REDEVELOPMENT AGENCY  
Governmental Funds  
Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances of Governmental Funds to the Statement of Activities  
Year ended June 30, 2009

Net changes in fund balances - total governmental funds \$ 909,897

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

Long-Term Debt Transactions

Repayment of long-term debt principal is an expenditure in governmental funds and, thus, has the effect of reducing fund balances because current financial resources have been used. For the Agency as a whole, however, the principal payments reduce the liabilities in the Statement of Net Assets and do not result in an expense in the Statement of Activities.

Repayment of Advance to City of Costa Mesa	384,272
Repayment of 2003 Tax Allocation Bonds	485,000

Accrued Interest

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

3,031

Deferred Revenue

Earned revenue has been deferred in the fund financial statements if it is collectible after the availability period. However, revenue is recognized when earned in the Statement of Activities.

715,082

Changes in net assets of governmental activities	<u><u>\$ 2,497,282</u></u>
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See accompanying notes to the basic financial statements.

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# COSTA MESA REDEVELOPMENT AGENCY

## Notes to the Basic Financial Statements

Year ended June 30, 2009

### (1) Summary of Significant Accounting Policies

The accounting policies of the Costa Mesa Redevelopment Agency (the "Agency") conform to generally accepted accounting principles.

#### (a) Measurement Focus and Basis of Accounting

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

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

Financial reporting is based upon all GASB pronouncements, as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedure that were issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. FASB Pronouncements issued after November 30, 1989 are not followed in the preparation of the accompanying financial statements.

#### Government-wide Financial Statements

Government-wide financial statements display information about the Agency as a whole. The Agency has no business-type activities. These statements include separate columns for the governmental funds of the Agency. Eliminations have been made in the Statement of Activities so that certain allocated expenses are recorded only once (by the function to which they were allocated).

Government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. *Basis of accounting* refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Under the *accrual basis of accounting*, revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33.

Program revenues include charges for services, special assessments and payments made by parties outside of the reporting Agency'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 REDEVELOPMENT AGENCY

## Notes to the Basic Financial Statements

(Continued)

### (1) Summary of Significant Accounting Policies. (Continued)

#### (a) Measurement Focus and Basis of Accounting. (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 a liability 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 a reduction of the related liability, rather than as expenditures.

#### Fund Financial Statements

The underlying accounting system of the Agency is organized and operated on the basis of separate funds. 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.

Fund financial statements for the Agency's governmental funds are presented after the government-wide financial statements. These statements display information about major governmental funds individually and non-major funds in the aggregate for governmental funds. The Agency has no non-major funds.

#### Governmental Funds

In the fund financial statements, governmental funds are presented using the *modified accrual basis of accounting*. Revenues are recognized when they become *measurable* and *available* as net current assets. *Measurable* means that the amounts can be estimated or otherwise determined. *Available* means that the amounts were collectible within the current period or shortly thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related liabilities are incurred.

# COSTA MESA REDEVELOPMENT AGENCY

## Notes to the Basic Financial Statements

(Continued)

### (1) 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). *Locally imposed derived tax revenues* are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. *Imposed non-exchange* transactions are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. *Government-mandated and voluntary non-exchange transactions* are recognized as revenues when all applicable eligibility requirements have been met.

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

Noncurrent portions of long-term receivables due to governmental funds are reported on the balance sheet in spite of their spending measurement focus. Special reporting treatments are used to indicate, however, that they should not be considered "available spendable resources," since they do not represent net current assets. Recognition of governmental fund type revenue represented by non-current receivables are deferred until they become current receivables. Non-current portions of other long-term receivables are offset by fund balance reserve accounts. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transaction are recognized in accordance with the requirements of GASB Statement No. 33.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by non-current 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 *other financing sources* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

COSTA MESA REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

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

(b) Major Funds

The following have been presented in the accompanying fund financial statements as major funds:

Low and Moderate Income Housing Fund – This special revenue fund is used to account for that portion of the Agency’s tax increment revenue or note proceeds that is legally restricted or earmarked for increasing or improving housing for low or moderate income households.

Redevelopment Debt Service Fund – This debt service fund is used to account for that portion of the Agency’s tax increment revenue that is set aside for interest and principal payments associated with all debts of the Agency.

Redevelopment Projects Fund – This capital projects fund is used to account for the financial resources for the development and redevelopment of the project areas, including acquisition of properties, cost of site improvements, other costs of benefit to the project area, and the portion of the Agency’s tax increment revenue that is legally restricted for increasing or improving housing for low or moderate income households and administrative expenses incurred in sustaining the Agency.

(c) Cash and Investments

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

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

# COSTA MESA REDEVELOPMENT AGENCY

## Notes to the Basic Financial Statements

(Continued)

### (1) Summary of Significant Accounting Policies. (Continued)

The Agency's cash and investments held by fiscal agents are pledged to the payment or security of certain long-term issuances. The California Government Code provides that these monies, in the absence of specific statutory provisions governing the issuance of bonds, may be invested in accordance with the ordinance, resolutions or indentures specifying the types of investments its trustees or fiscal agents may make.

The Agency pools cash and investments of all funds, except for assets held by fiscal agents. Each fund's share in this pool is displayed in the accompanying financial statements as *cash and investments*. Investment income earned by the pooled investments is allocated to the various funds based on each fund's average cash and investment balance.

#### (d) Deferred Revenue

Deferred revenue consists of the outstanding principal and interest on the loan to the Costa Mesa Family Village that is measurable but not considered available to finance current operations. Also included in deferred revenue are outstanding rehabilitation loans for the Rental Rehabilitation Loan Program. Similar to the loan to the Costa Mesa Family Village, these loans are considered to be measurable but not available to finance current operations.

#### (e) Relationship to the City of Costa Mesa

The Costa Mesa Redevelopment Agency is an integral part of the reporting entity of the City of Costa Mesa. The financial activity of the Agency has been included within the scope of the financial statements of the City because the City Council of the City of Costa Mesa is the governing body and exercises responsibility over the operations of the Agency. Only the financial activity of the Agency is included herein, therefore, these financial statements do not purport to represent the financial position or results of operations of the City of Costa Mesa, California.

#### (f) Capital Assets

Capital assets (including infrastructure) are recorded at cost where historical records are available and at an estimated original cost where no historical records exist. Contributed capital assets are valued at their estimated fair market value at the date of the contribution. Generally, capital asset purchases in excess of \$5,000 are capitalized if they have an expected useful life of three years or more.

COSTA MESA REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method in the government-wide financial statements. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective statement of net assets. The range of lives used for depreciation purposes for each capital asset class are as follows:

Office furniture	5-15 years
------------------	------------

(g) Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's prior year financial statements, from which this selected financial data was derived.

(2) Creation of the Costa Mesa Redevelopment Agency

The Agency was created by Ordinance No. 72-2 of the Costa Mesa City Council, adopted on January 17, 1972. The Agency was established pursuant to the Community Redevelopment Law of California as codified in Section 33000 of the State of California Health and Safety Code.

The principal objectives of the Agency are to prepare and carry out plans for the improvement, rehabilitation and development of blighted areas within the territorial limits of the City of Costa Mesa. The principal project of the Agency is known as the Downtown Redevelopment Project which was approved by Ordinance No. 73-44 at the meeting of the Costa Mesa City Council on December 24, 1973. The plan was amended to add area No. 2 by Ordinance No. 77-27 approved on July 5, 1977. Ordinance No. 77-36, approved on August 1, 1977, amended the plan to resolve inconsistencies between the plan and the City's general plan and improve the procedures for processing combined Agency and City permits. Ordinance No. 80-22, approved on November 17, 1980, amended the plan to add area No. 3.

COSTA MESA REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(3) Cash and Investments

Cash and investments are classified in the accompanying Statement of Net Assets at June 30, 2009 as follows:

Cash and investments	\$4,651,313
Cash and investments with fiscal agent	<u>704,300</u>
Total	<u>\$5,355,613</u>

Cash and investments at June 30, 2009 consisted of the following:

Deposits with financial institutions	\$ <u>20,872</u>
Money market mutual funds	704,300
State investment pool (LAIF)	<u>4,630,441</u>
Subtotal – investments	<u>5,334,741</u>
Total	<u>\$5,355,613</u>

**Investments Authorized by the California Government Code and the Costa Mesa Redevelopment Agency's Investment Policy**

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

COSTA MESA REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(3) Cash and Investments, (Continued)

**Investments Authorized by the California Government Code and the Costa Mesa Redevelopment Agency's Investment Policy, (Continued)**

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio *</u>	<u>Maximum Investment In One Issuer</u>
Specifically Authorized by Agency's Investment Policy:			
U.S. Treasury Securities	5 Years	None	None
Federal Agency Securities	5 Years	60%	60%
Banker's Acceptances	180 days	40%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Commercial Paper	270 days	25%	10%
Medium Term Corporate Notes	5 Years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	10%	None
Local Agency Investment Fund	N/A	None	N/A
Orange County Treasurer's Pool	N/A	35%	None
Money Market Mutual Funds	N/A	20%	10%
Asset-backed and Mortgage Backed Securities	5 Years	20%	None
Additional Investments Authorized by the California Government Code:			
Local Agency Bonds	5 Years	None	None
JPA Pools (other investment pools)	N/A	None	None

\* Exclude amounts held by bond trustee that are not subject to California Government Code Restrictions.

COSTA MESA REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(3) Cash and Investments, (Continued)

**Investments Authorized by Debt Agreements**

Investment 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 Costa Mesa Redevelopment Agency's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	30 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	None	None	None
Interest-Bearing Time Deposits	None	None	None
Repurchase Agreements	270 Days	None	None
Local Agency Investment Fund	None	None	None
State Obligations	None	None	None
Pre-refunded Municipal Obligations	None	None	None

**Disclosures Relating to Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Costa Mesa Redevelopment Agency 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 REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(3) Cash and Investments, (Continued)

Information about the sensitivity of the fair values of the Costa Mesa Redevelopment Agency's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the Costa Mesa Redevelopment Agency's investments by maturity:

<u>Investment Type</u>	<u>Total</u>	<u>Remaining Maturity (in Months)</u>		
		<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>
Held by Agency:				
State Investment Pool (LAIF)	\$4,630,441	4,630,441	-	-
Held by fiscal agent:				
Money Market Mutual Funds	<u>704,300</u>	<u>704,300</u>	-	-
Total	<u>\$5,334,741</u>	<u>5,334,741</u>	-	-

**Disclosures Relating to Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the Costa Mesa Redevelopment Agency's investment policy, or debt agreements, and the actual rating as of year end for each investment type:

<u>Investment Type</u>	<u>Total</u>	<u>Minimum Legal Rating</u>	<u>Rating</u>
Held by Agency:			
State Investment Pool (LAIF)	\$4,630,441	N/A	Unrated
Held by Fiscal Agent:			
Money Market Mutual Funds	<u>704,300</u>	AAM	AAA
Total	<u>\$5,334,741</u>		

## COSTA MESA REDEVELOPMENT AGENCY

### Notes to the Basic Financial Statements

(Continued)

#### (3) Cash and Investments, (Continued)

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

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

##### **Investment in State Investment Pool**

The Costa Mesa Redevelopment Agency is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the Costa Mesa Redevelopment Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon the Costa Mesa Redevelopment Agency's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are mortgage-backed securities, other asset-backed securities, loans to certain state funds, securities with interest rates that vary according to changes in rates greater than a one-for-one basis, and structured notes.

##### **Disclosures by Reporting Unit**

The Costa Mesa Redevelopment Agency (including amounts held by bond trustee) had no items requiring disclosure as of June 30, 2009.

COSTA MESA REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(4) Interfund Advances and Transfers

Interfund transfers at June 30, 2009 are recorded between the following Agency funds:

<u>Receiving Fund</u>	<u>Paying Fund</u>	<u>Amount</u>
Redevelopment Projects	Redevelopment Debt Service	<u>\$900,000</u>

The \$900,000 transfer from the Redevelopment Debt Service Fund to the Redevelopment Projects fund is to cover expenditures incurred by the Projects fund.

COSTA MESA REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(5) Capital Assets

A summary of changes in capital assets for the year ended June 30, 2009 is as follows:

	<u>Balance at July 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2009</u>
<u>Governmental Activities</u>				
Capital assets being depreciated:				
Office furniture	<u>\$23,064</u>	<u>-</u>	<u>-</u>	<u>23,064</u>
Total capital assets being depreciated	<u>23,064</u>	<u>-</u>	<u>-</u>	<u>23,064</u>
Less accumulated depreciation for:				
Office furniture	<u>(23,064)</u>	<u>-</u>	<u>-</u>	<u>(23,064)</u>
Total accumulated depreciation	<u>(23,064)</u>	<u>-</u>	<u>-</u>	<u>(23,064)</u>
Total capital assets being depreciated, net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Governmental activities capital assets, net	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>

There was no depreciation expense for the year ended June 30, 2009.

COSTA MESA REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2009 is as follows:

	Balance at <u>July 1, 2008</u>	<u>Additions</u>	<u>Reductions</u>	Balance at <u>June 30, 2009</u>	Portion Due Within <u>One Year</u>	Portion Due Beyond <u>One Year</u>
Bonds:						
2003 Tax Allocation Refunding Bonds	\$ 5,630,000	-	(485,000)	5,145,000	495,000	4,650,000
Advances from the City of Costa Mesa	<u>11,680,952</u>	<u>-</u>	<u>(384,272)</u>	<u>11,296,680</u>	<u>414,769</u>	<u>10,881,911</u>
Total	<u>\$17,310,952</u>	<u>-</u>	<u>(869,272)</u>	<u>16,441,680</u>	<u>909,769</u>	<u>15,531,911</u>

(7) Bonds Payable

On October 1, 2003, the Costa Mesa Redevelopment Agency issued \$7,470,000 Tax Allocation Refunding Bonds to refund the remaining \$9,955,000 Downtown Redevelopment Project 1993 Tax Allocation Refunding Bonds. The bonds issued consist of serial bonds maturing from 2004 to 2017 in annual installments ranging from \$450,000 to \$670,000. Interest is payable on April 1 and October 1, commencing on April 1, 2004 at rates ranging from 2.0% to 5.0%. Bonds maturing on or after October 1, 2014 are subject to optional redemption, in whole or in part from among maturities as selected by the Agency on October 1, 2013. The bonds are secured by tax revenue. The net proceeds of \$7,416,738 (after payment of \$275,700 in underwriting fees, insurance and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on these bonds. As a result, the 1993 Series bonds were considered to be defeased and the liability for those bonds was removed from the government-wide statement of net assets.

The amount required for the bond reserve for the 2003 Tax Allocation Refunding Bonds is \$704,300. The City has \$704,300 on reserve with the fiscal agent at June 30, 2009. The principal balance outstanding at June 30, 2009 is \$5,145,000.

COSTA MESA REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(7) Bonds Payable, (Continued)

The annual minimum requirements to amortize the 2003 Tax Allocation Refunding Bonds are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2010	\$ 495,000	197,275
2011	510,000	182,200
2012	525,000	165,362
2013	545,000	145,276
2014	565,000	123,075
2015	590,000	100,712
2016	610,000	77,450
2017	635,000	49,375
2018	<u>670,000</u>	<u>16,750</u>
Total	<u>\$5,145,000</u>	<u>1,057,475</u>

Pledged Revenue

The City and its component units have debt issuances outstanding that are collateralized by the pledging of certain revenues. The amount and term of the remainder of these commitments are indicated in the debt service to maturity tables presented in the accompanying notes. The purposes for which the proceeds of the related debt issuances were utilized are disclosed in the debt descriptions in the accompanying notes. For the current year, debt service payments as a percentage of the pledged gross revenue (or net of certain expenses where so required by the debt agreement) are indicated in the table below. These percentages also approximate the relationship of debt service to pledged revenue for the remainder of the term of the commitment:

<u>Revenue Pledged</u>	<u>Annual Amount of Pledged Revenue (net of expenses, where required)</u>	<u>Annual Debt Service Payments (of all debt secured by this revenue)</u>	<u>Debt Service as a Percentage of Pledged Revenue</u>
Tax Increment Revenue	\$3,299,797	\$695,762	21.085%

COSTA MESA REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(8) Advances from the City of Costa Mesa

The City of Costa Mesa General Fund has loaned the Agency a total of \$11,124,794 as of June 30, 2009. A portion of the loan from the City's General Fund bears interest at a rate of 8% per year. The remaining portion totaling \$171,886 is a loan from the City's Community Development Block Grant Fund that bears interest at a rate of 3% per year. Repayment of the loans is not expected in the forthcoming year.

The annual minimum requirements to amortize loans payable to the City of Costa Mesa are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2010	\$ 414,769	895,139
2011	447,698	862,210
2012	483,254	826,654
2013	521,647	788,262
2014	563,103	746,806
2015	607,867	702,042
2016	656,204	653,705
2017	708,399	601,510
2018	764,760	545,149
2019	825,621	484,288
2020	891,341	418,567
2021	962,310	347,599
2022	1,038,945	270,964
2023	1,121,701	188,208
2024	1,211,066	98,843
2025	7,865	2,339
2026	8,101	2,103
2027	8,344	1,860
2028	8,594	1,610
2029	8,852	1,352
2030	9,118	1,086
2031	9,391	813
2032	9,673	531
2033	8,057	241
Total	<u>\$11,296,680</u>	<u>8,441,881</u>

## COSTA MESA REDEVELOPMENT AGENCY

### Notes to the Basic Financial Statements

(Continued)

#### (9) Debt Without Government Commitment

The following bond issue is not reflected in the Agency's long-term debt since it is a special obligation of private parties (with no government commitment) payable entirely from and secured by non-Agency resources described in the bond resolution:

On October 1, 1994, the Agency issued \$3,500,000 of Variable Rate Demand Multi-Family Housing Revenue Bonds, 1994 Series A, to advance refund the 1984 Multi-Family Housing Revenue Bonds and to make a loan to the Costa Mesa Family Village (the Developer). The bonds were issued under and secured by an indenture of trust by and between the Agency and First Trust of California National Association as trustee. The Bonds were issued in denominations of \$100,000 and are due November 1, 2014. The outstanding balance at June 30, 2009 was approximately \$3,200,000.

#### (10) Costa Mesa Family Village Rent Receivable

The Redevelopment Agency records a rent receivable and accumulated interest based on a "Ground Lease" with Costa Mesa Family Village. In November, 1984, the Costa Mesa Family Village and the Agency entered into a "Parcel 3 Ground Lease". The Ground Lease provided for the lease of certain real property to the Family Village and the development of certain multi-family rental housing. The term of the lease between the Family Village and the Agency is 55 years.

Under the terms of the lease, Family Village shall pay the Agency each lease year an amount equal to the greater of 8% of the annual gross receipts or \$27,000, which is considered current rent. An amount is also calculated as deferred rent and this is the amount by which \$108,000 exceeds the calculated lease payment. This additional amount is accumulated rent and is considered deferred rent and accrues interest at a compounding rate. The Family Village must pay the accumulated deferred rent plus any accrued interest only if the properties are re-financed, sold or transferred to another owner. At June 30, 2009, the Family Village accumulated rent is \$1,090,330 and the accrued interest is \$1,212,700.

COSTA MESA REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(11) Prior Period Adjustment

The accompanying financial statements reflect an adjustment to beginning equity for Governmental Activities and the Debt Service Fund. The adjustment is to correctly include a liability that was omitted from the component unit financial statements issued for the year ended June 30, 2008. The following schedule summarizes the effect of the prior period adjustment.

	Government-Wide <u>Financials</u>	Fund <u>Financials</u>
	Governmental <u>Activities</u>	Debt Service <u>Fund</u>
Net assets/fund balance at beginning of year, as previously recorded	\$ (5,821,323)	\$ 1,636,717
Adjustment to reflect the liability in the prior year.	<u>(356,029)</u>	<u>(356,029)</u>
Net assets/fund balance at beginning of year, as restated	<u>\$ (6,177,352)</u>	<u>\$ 1,280,688</u>

REQUIRED SUPPLEMENTARY INFORMATION

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COSTA MESA REDEVELOPMENT AGENCY  
Low and Moderate Income Housing Special Revenue Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Year ended June 30, 2009

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Tax increment	\$ 1,098,083	1,098,083	825,167	(272,916)	799,375
Investment income	7,300	7,300	42,844	35,544	68,569
Miscellaneous	-	-	170,065	170,065	-
<b>Total revenues</b>	<u>1,105,383</u>	<u>1,105,383</u>	<u>1,038,076</u>	<u>(67,307)</u>	<u>867,944</u>
Expenditures:					
Current:					
Redevelopment	1,232,462	398,583	1,129,420	(730,837)	953,731
<b>Total expenditures</b>	<u>1,232,462</u>	<u>398,583</u>	<u>1,129,420</u>	<u>(730,837)</u>	<u>953,731</u>
Net change in fund balances	(127,079)	706,800	(91,344)	(798,144)	(85,787)
Fund balances at beginning of year	<u>2,283,647</u>	<u>2,283,647</u>	<u>2,283,647</u>	-	<u>2,369,434</u>
Fund balances at end of year	<u>\$ 2,156,568</u>	<u>2,990,447</u>	<u>2,192,303</u>	<u>(798,144)</u>	<u>2,283,647</u>

COSTA MESA REDEVELOPMENT AGENCY

Notes to the Required Supplementary Information

Year ended June 30, 2009

(1) Budgetary Reporting

The Agency adopted an annual budget prepared on the modified accrual basis for the Low and Moderate Housing, Redevelopment Debt Service and Redevelopment Projects Funds, which is consistent with generally accepted accounting principles.

(2) Expenditures in Excess of Appropriations

The Low and Moderate Income Housing Fund had an excess of expenditures over appropriations of \$730,837 at June 30, 2009.

SUPPLEMENTARY SCHEDULES

COSTA MESA REDEVELOPMENT AGENCY  
Redevelopment Debt Service Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Year ended June 30, 2009

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
<b>Revenues:</b>					
Tax increment	\$ 2,919,890	2,919,890	3,299,797	379,907	3,197,500
Investment income	29,199	29,199	35,336	6,137	99,447
Miscellaneous	15,000	15,000	16,250	1,250	15,000
Total revenues	<u>2,964,089</u>	<u>2,964,089</u>	<u>3,351,383</u>	<u>387,294</u>	<u>3,311,947</u>
<b>Expenditures:</b>					
<b>Debt service:</b>					
Principal	1,237,383	1,237,383	869,272	368,111	475,000
Interest and fiscal charges	1,142,399	1,142,399	1,145,192	(2,793)	1,183,652
Total expenditures	<u>2,379,782</u>	<u>2,379,782</u>	<u>2,014,464</u>	<u>365,318</u>	<u>1,658,652</u>
Excess (deficiency) of revenues over (under) expenditures	<u>584,307</u>	<u>584,307</u>	<u>1,336,919</u>	<u>752,612</u>	<u>1,653,295</u>
<b>Other financing sources and (uses):</b>					
Transfer to other funds	(900,000)	(900,000)	(900,000)	-	(1,055,000)
Total other financing sources and (uses)	<u>(900,000)</u>	<u>(900,000)</u>	<u>(900,000)</u>	<u>-</u>	<u>(1,055,000)</u>
Net change in fund balances	(315,693)	(315,693)	436,919	752,612	598,295
Fund balances at beginning of year, as restated	<u>1,280,688</u>	<u>1,280,688</u>	<u>1,280,688</u>	<u>-</u>	<u>1,038,422</u>
Fund balances at end of year	<u>\$ 964,995</u>	<u>964,995</u>	<u>1,717,607</u>	<u>752,612</u>	<u>1,636,717</u>

COSTA MESA REDEVELOPMENT AGENCY  
Redevelopment Projects Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Year ended June 30, 2009

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
<b>Revenues:</b>					
Rental	\$ 108,669	108,669	99,309	(9,360)	92,009
Investment income	-	-	39,821	39,821	42,441
Total revenues	<u>108,669</u>	<u>108,669</u>	<u>139,130</u>	<u>30,461</u>	<u>134,450</u>
<b>Expenditures:</b>					
Current:					
Redevelopment	<u>350,280</u>	<u>356,180</u>	<u>375,499</u>	<u>(19,319)</u>	<u>215,032</u>
Total expenditures	<u>350,280</u>	<u>356,180</u>	<u>375,499</u>	<u>(19,319)</u>	<u>215,032</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(241,611)</u>	<u>(247,511)</u>	<u>(236,369)</u>	<u>11,142</u>	<u>(80,582)</u>
<b>Other financing sources and (uses):</b>					
Transfers from other funds	900,000	900,000	900,000	-	1,055,000
Transfers to City of Costa Mesa	<u>(108,669)</u>	<u>(108,669)</u>	<u>(99,309)</u>	<u>9,360</u>	<u>(92,009)</u>
Total other financing sources and (uses)	<u>791,331</u>	<u>791,331</u>	<u>800,691</u>	<u>9,360</u>	<u>962,991</u>
Net changes in fund balances	549,720	543,820	564,322	20,502	882,409
Fund balances at beginning of year	<u>898,520</u>	<u>898,520</u>	<u>898,520</u>	<u>-</u>	<u>16,111</u>
Fund balances at end of year	<u>\$ 1,448,240</u>	<u>1,442,340</u>	<u>1,462,842</u>	<u>20,502</u>	<u>898,520</u>

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**Mayer Hoffman McCann P.C.**

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Board of Directors  
Costa Mesa Redevelopment Agency  
Costa Mesa, California

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

We have audited the basic financial statements of the Costa Mesa Redevelopment Agency as of and for the year ended June 30, 2009, and have issued our report thereon dated November 18, 2009. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the basic financial statements of the Costa Mesa Redevelopment Agency are free of material misstatements, 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. Such provisions included those provisions of laws and regulations identified in the *Guidelines for Comptroller Audits of California Redevelopment Agencies*, issued by the State Controller and as interpreted in the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. 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*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Costa Mesa Redevelopment Agency's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

Board of Directors  
Costa Mesa Redevelopment Agency  
Costa Mesa, California

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Entity's financial statements that is more than inconsequential will not be prevented or detected by the Entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

This report is intended for the information and use of the Board of Directors, management of the Agency and the State Controller and is not intended to be and should not be used by anyone other than these specified parties.

*Mayer Hoffman McCann P.C.*

Irvine, California  
November 18, 2009