

CALIFORNIA MUNICIPAL FINANCE AUTHORITY

**FINANCIAL STATEMENTS AND
ACCOUNTANTS' REVIEW REPORT**

For the Period from
January 1, 2004 (Inception Date) through June 30, 2005

CALIFORNIA MUNICIPAL FINANCE AUTHORITY

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Accountants' Review Report

To the Board of Directors
California Municipal Finance Authority

We have reviewed the accompanying statement of net assets of California Municipal Finance Authority (the "Authority") as of June 30, 2005 and the related statements of revenues, expenses, and changes in net assets and cash flows for the period from January 1, 2004 (inception date) through June 30, 2005, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of California Municipal Finance Authority.

A review consists principally of inquiries of Company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Stephens, Reidinger + Beller LLP

Newport Beach, California
January 5, 2006

CALIFORNIA MUNICIPAL FINANCE AUTHORITY

STATEMENT OF NET ASSETS

June 30, 2005

ASSETS

Current Assets	
Cash in bank	\$ 126,893
Prepaid insurance	<u>1,064</u>
Total current assets	<u>127,957</u>
Total assets	<u><u>\$ 127,957</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities	
Accrued expenses	\$ 16,515
Refundable deposits	<u>103,000</u>
Total current liabilities	<u>119,515</u>
Net assets	
Unrestricted	<u>8,442</u>
Total net assets	<u>8,442</u>
Total liabilities and net assets	<u><u>\$ 127,957</u></u>

See accompanying notes and accountants' review report.

CALIFORNIA MUNICIPAL FINANCE AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

For the Period from January 1, 2004 (Inception Date) through June 30, 2005

Operating Revenues	
Application fees	\$ 17,500
Issuance fees	<u>94,750</u>
Total operating revenues	<u>112,250</u>
Operating Expenses	
Bank service charges	219
Charitable grants	24,188
Insurance	6,736
Marketing	4,077
Profession advisory fees	44,900
Transaction fees	<u>23,688</u>
Total expenses	<u>103,808</u>
Change in net assets	8,442
Net assets - beginning of the year	<u>-</u>
Net assets - end of the year	<u>\$ 8,442</u>

See accompanying notes and accountants' review report.

CALIFORNIA MUNICIPAL FINANCE AUTHORITY

STATEMENT OF CASH FLOWS

For the Period from January 1, 2004 (Inception Date) through June 30, 2005

	<u>Total</u>
Cash flows from operating activities	
Increase in net assets	\$ 8,442
Adjustments to reconcile net income to net cash used by operating activities	
Changes in operating assets and liabilities:	
Increase in prepaid insurance	(1,064)
Increase in accrued expenses	16,515
Increase in refundable deposits	<u>103,000</u>
Total adjustments	<u>118,451</u>
Net cash provided by operating activities	<u>126,893</u>
Net increase in cash	126,893
Cash - beginning	<u>-</u>
Cash - ending	<u><u>\$ 126,893</u></u>

See accompanying notes and accountants' review report.

CALIFORNIA MUNICIPAL FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

California Municipal Finance Authority (the "Authority") was organized on January 1, 2004 under the provisions of the Joint Exercise of Powers Act of the Government Code of the State of California. The purpose of the Authority is to strengthen local communities by assisting with the financing of economic development and charitable activities throughout the State of California. With the goal of giving back to the member communities in which it operates, the Authority assists local governments, non-profits and business with the issuance of taxable and tax-exempt financing aimed at improving the standard of living in California.

Members of the Authority currently include the cities of Oakland, Santa Clarita and Vallejo, as well as the County of San Diego.

As part of its commitment to its member communities, the Authority shares 25% of all issuance fees directly with its member communities. In addition, a grant equal to 25% of the issuance fee is made to the California Foundation for Stronger Communities to fund charities designated by the member communities.

The following is a summary of the significant accounting policies of the Authority:

Basis of accounting

The Authority is a proprietary entity and uses an enterprise fund format to report its activities for financial statement purposes. Enterprise funds are used for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing is that the costs and expenses of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

An enterprise fund is used to account for activities similar to those in the private sector, where the proper matching of revenues and costs is important and the full accrual basis of accounting is required. With this measurement focus, all assets and liabilities of the enterprise are recorded on its balance sheet, all revenues are recognized when earned and all expenses, are recognized when incurred.

The Authority applies all applicable Governmental Accounting Standards Board (GASB) pronouncements in accounting and reporting for proprietary operations as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedure.

CALIFORNIA MUNICIPAL FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Revenue Recognition

Revenue is recognized upon the initial issuance of taxable and tax-exempt bonds that the Authority authorizes and issues. The revenues consists mainly of transaction fees and annual fees from the issuance of the bond for corporations, governmental entities, and non-profit institutions. An application fee of \$2,500 is collected from the applicant when an application is submitted. Issuance fees are based on the types of project, rating and the amount of financing. Annual fee are based on bond amounts outstanding on the anniversary of each issue. There were no annual fees collected during the year.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash in bank and certificates of deposits with original maturities of three months or less.

NOTE 2: ADVISORY FEES

The Authority has entered a professional services agreement with a professional advisory company (the "Advisor") on February 25, 2005 to provide professional advisory services for the Authority with respect to taxable and tax-exempt financing for corporations, governmental entities, and non-profit institutions. According to the agreement, the Authority is obligated to pay the Advisor several payments of fees and expenses as follows: (1) minimum fee for services for each completed financing transaction of 50 basis points or 25 basis points based on the type of project; (2) issuance fee equal to 40% of the gross amount of issuance fee for each initial issuance of tax-exempt bonds authorized and issued by the Authority; (3) Annual fee equal to 50% of ongoing, periodic fees received by the Authority with respect to tax-exempt bonds previously issued through the Authority, and (4) 40% of all application fees received by the Authority as compensation for administrative activities performed by the Advisor.