

**CALIFORNIA MUNICIPAL
FINANCE AUTHORITY**

Independent Auditor's Reports,
Management's Discussion and Analysis,
and Basic Financial Statements

For the Year Ended June 30, 2014

CALIFORNIA MUNICIPAL FINANCE AUTHORITY
For the Year Ended June 30, 2014

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
California Municipal Finance Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the California Municipal Finance Authority (CMFA), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the CMFA'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 an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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 auditor considers 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the CMFA, as of June 30, 2014, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-7 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 required supplementary information 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 our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the CMFA's basic financial statements. The CMFA Fee Schedules and Financing Approvals are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2014, on our consideration of the CMFA'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 CMFA's internal control over financial reporting and compliance.



San Diego, California
November 14, 2014

CALIFORNIA MUNICIPAL FINANCE AUTHORITY
Management's Discussion and Analysis
(Unaudited)

This section of the California Municipal Finance Authority (the CMFA) annual financial report presents the Management's Discussion and Analysis (MD&A)¹ of its financial performance during the year ended June 30, 2014. The information in this section should be read in conjunction with the financial statements and the notes following this section.

GENERAL BACKGROUND, OVERVIEW AND PROGRAMS

The CMFA was organized on August 12, 2004 under the provision of the Joint Exercise of Powers Act of the Government Code of the State of California. The CMFA is a joint powers authority created to strengthen local communities by promoting economic development and charitable activities throughout the state of California. With the goal of giving back to California communities, the CMFA assists local governments, non-profits and businesses with the issuance of taxable and tax-exempt financing aimed at improving the standard of living in California. Members of the CMFA include towns, cities, counties and special districts within California.

The CMFA is committed to promoting economic and social programs in its member communities. The CMFA shares a minimum of 25% of all issuance fees collected directly with its member communities, and donates at a minimum another 25% to the California Foundation for Stronger Communities (Foundation), a blended component unit, for the support of local charities designated by its member agencies.

The CMFA acts as a municipal conduit issuer and assists eligible institutions in obtaining financing through the issuance of revenue bonds. The bonds are special, limited obligations of the CMFA, payable solely from the revenues of the projects and other funds of the borrower.

FINANCIAL HIGHLIGHTS FOR THE YEAR ENDED JUNE 30, 2014

- Restricted cash balances for FY 2014 are \$57,522 above prior year due to higher deposit requirements needed for projects seeking California Debt Limit Allocation Committee bond allocation.
- FY 2014 operating revenues are \$147,336 above prior year due to an increase in the number of bond issuances and related transactions.

Operating net loss of (\$55,865) is due mainly to increased charitable payments funded by the collection of accounts receivable.

OVERVIEW OF THE FINANCIAL STATEMENTS

The CMFA's financial statements include the MD&A, financial statements, and accompanying notes to the financial statements. This report also includes other information intended to furnish additional detail to the intended users.

Basis of Presentation: The transactions of the CMFA are accounted for as an enterprise fund utilizing the accrual basis of accounting.

¹ For purposes of this MD&A, "Management's" refers to the Executive Director of the CMFA.

CALIFORNIA MUNICIPAL FINANCE AUTHORITY
Management's Discussion and Analysis (Continued)
(Unaudited)

Blended Component Unit: Financial results for the Foundation are combined with the CMFA's financial statements for FY 2014. MD&A discussions comparing prior year financial results for the CMFA include activity related to the Foundation. Separately audited financial statements for the Foundation can be found on the CMFA's web site, and can also be obtained by contacting CMFA's management.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the CMFA report information using generally accepted accounting principles (GAAP) as applied to governmental agencies. The Government Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. These statements offer both short-term and long-term financial information about the CMFA's activities.

- The *Statement of Net Position* includes all of the CMFA's assets and liabilities as of June 30, 2014 and provides information about the nature and amounts of investments in resources (assets) and the obligations to the CMFA's creditors (liabilities). It also provides the basis for evaluating the capital structure of the CMFA and assessing the liquidity and financial flexibility of the CMFA.
- The *Statement of Revenues, Expenses and Changes in Net Position* accounts for all of the CMFA's revenue and expenses for the year ended June 30, 2014. This statement reflects the results of the CMFA's operations over the year and can be used to determine the CMFA's credit worthiness and its ability to successfully recover all its costs through user fees and other income.
- The *Statement of Cash Flows* provides information about the CMFA's cash receipts and cash payments during the year ended June 30, 2014. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, capital and related financing, noncapital financing and investment activities. The statement provides answers to questions of where cash came from, what cash was used for and what caused changes in cash for the reporting period covered.

The accompanying *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data provided in the financial statements.

CALIFORNIA MUNICIPAL FINANCE AUTHORITY
Management's Discussion and Analysis (Continued)
(Unaudited)

FINANCIAL ANALYSIS OF THE CMFA

The following is a brief discussion of key items contained in the Statement of Net Position.

ASSETS

Cash and Restricted Cash

The composition of cash and restricted cash as of June 30, 2014 and 2013 and changes from the prior year are shown in the table below.

	2014	2013	Change
Cash	\$ 699,651	\$ 584,385	\$ 115,266
Restricted cash	1,083,008	1,025,486	57,522
	\$ 1,782,659	\$ 1,609,871	\$ 172,788

As part of the CMFA's program of giving back to local communities, the CMFA allocates a portion of its fees to the Foundation to be distributed to nonprofit charities throughout California. The timing of the cash receipts as well as these charitable distributions, affects the levels of cash at year-end. During the years ended June 30, 2014 and 2013 charitable payments distributed through the Foundation were \$940,432 and \$889,785, respectively.

Restricted cash relates to deposits and filing fees paid by Project Sponsors (Borrowers) who are requesting Qualified Private Activity Bond Allocations which require performance deposits by the California Debt Limit Allocation Committee (CDLAC). The filing fees are paid to CDLAC on behalf of the Borrower and deposits are either released to the Borrowers when the bonds are issued or they are forfeited and sent to the CDLAC for non-performance.

Accounts Receivable

Accounts Receivable refers to issuance and annual fee receivables which are reported at the amount management expects to collect from outstanding balances. For FY 2014 accounts receivable for the CMFA decreased by \$79,453 to \$4,919 which represents 0.13% of total revenues. The change in accounts receivable is due to a focus on collecting annual administrative fees.

Lease Receivable/Bonds Payable

The CMFA is the lessor in a lease agreement entered into in 2004 under which solid waste disposal vehicles and related equipment were leased for a term of 10 years. The acquisition of the equipment was furnished by a third-party financing agreement in the form of revenue bonds. The bonds matured in September 2014.

Under the terms of the lease, the lessee is required to make rental payments sufficient to pay when due the principal of, premium, if any, and interest on, the Bonds and related expenses. At the end of the lease term, the lessee will obtain title to the leased vehicles and equipment.

CALIFORNIA MUNICIPAL FINANCE AUTHORITY
Management's Discussion and Analysis (Continued)
(Unaudited)

LIABILITIES

Accounts Payable

Accounts payable for the CMFA for FY 2014 is \$135,860 or 3.9% of operating expenses compared to \$45,279 or 1.4% for FY 2013. This increase is due to timing of payments to outside consultants.

Refundable Deposits

The CMFA, on behalf of Borrowers who are requesting Qualified Private Activity Bond Allocations, collects performance deposits and filing fees for the CDLAC. The filing fees are paid when due and the deposits are either released to the borrowers when bonds are issued or they are forfeited and sent to the CDLAC for non-performance. Total performance deposits and fees as of June 30, 2014 and 2013 were \$1,083,008 and \$1,025,486, respectively.

The following is a brief discussion of key items contained in the Statement of Revenues, Expenses and Changes in Net Position.

REVENUE

The CMFA generates operating revenue through issuance fees, annual administrative fees and application fees for activities related to bond financings. During FY 2014, the CMFA issued \$1,056.4 million of new bonds compared to \$785.9 million in FY 2013. Excluding lease related activities, revenues for FY 2014 and FY 2013 were \$3.4 and \$3.3 million respectively.

	Operating Revenue		
	<u>2014</u>	<u>2013</u>	<u>Change</u>
Annual administration fees	\$ 2,021,848	\$ 1,807,439	\$ 214,409
Issuance fees	1,400,672	1,357,745	42,927
Application fees	<u>22,500</u>	<u>132,500</u>	<u>(110,000)</u>
	<u>\$ 3,445,020</u>	<u>\$ 3,297,684</u>	<u>\$ 147,336</u>

Under the fee schedule adopted by the CMFA during FY 2013, application fees are credited against the issuance costs at closing. The application fee revenue is reported net of the application fee credits applied to the closing costs in FY 2014.

EXPENSES

The CMFA's FY 2014 and FY 2013 operating expenses, excluding lease related activity, were \$3.5 and \$3.2 million respectively. In FY 2014, charitable donations made through the Foundation increased by \$50,647 from the prior year. Professional consultant fees increased by \$231,816 and payments to the CMFA's member agencies were \$17,798 higher compared to FY 2013 due to the increased par amount of bonds issued and related transactions in FY 2014.

CALIFORNIA MUNICIPAL FINANCE AUTHORITY
Management's Discussion and Analysis (Continued)
(Unaudited)

NET POSITION

The following table presents a condensed Statement of Revenues, Expenses and Changes in Net Position for the years ended June 30, 2014 and 2013. The items affecting the change in net position were previously detailed in the Revenues and Expenses discussion.

Condensed Statement of Revenues, Expenses and Changes in Net Position

	<u>2014</u>	<u>2013</u>	<u>Change</u>
Revenues	\$ 3,896,108	\$ 3,748,681	\$ 147,427
Expenses	<u>3,950,885</u>	<u>3,667,897</u>	<u>282,988</u>
Changes in net position	(54,777)	80,784	(135,561)
Net position - beginning of year	<u>596,646</u>	<u>515,862</u>	<u>80,784</u>
Net Position - end of year	<u>\$ 541,869</u>	<u>\$ 596,646</u>	<u>\$ (54,777)</u>

ECONOMIC FACTORS

The overall economic environment was positive for the types of programs administered by the CMFA in FY 2014 and has continued to be so through the date of this MD&A. Of particular note is the strength of the CMFA's affordable housing program.

Although the economic environment has been positive, the Borrowers, and not the CMFA, determine the timing and whether or not a transaction will move forward. Therefore, the decisions of the conduit Borrowers will always be a major factor in the financing activity and ultimately the financial results of the CMFA.

CONTACTING THE CMFA'S FINANCIAL MANAGEMENT

This financial report was designed to provide a general overview of the CMFA's finances for all those interested. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Executive Director, California Municipal Finance Authority, 2111 Palomar Airport Road, Suite 320, Carlsbad, CA 92011.

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CALIFORNIA MUNICIPAL FINANCE AUTHORITY

Statement of Net Position

June 30, 2014

ASSETS

Current assets:

Unrestricted assets:

Cash	\$	699,651
Accounts receivable		4,919
Prepaid expenses		5,457
Lease receivable		15,000,000

15,710,027

Restricted assets:

Cash		1,083,008
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1,083,008

Total assets

16,793,035

LIABILITIES

Current liabilities:

Accounts payable		135,860
Accrued expenses		32,298
Refundable deposits		1,083,008
Bonds payable		15,000,000

15,000,000

Total liabilities

16,251,166

NET POSITION

Unrestricted	\$	541,869
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541,869

See accompanying notes to the financial statements.

CALIFORNIA MUNICIPAL FINANCE AUTHORITY
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2014

OPERATING REVENUES:

Annual fees	\$ 2,021,848
Issuance fees	1,400,672
Application fees	22,500
Total operating revenues	3,445,020

OPERATING EXPENSES:

Professional consultant fees	1,967,199
Charitable donations	940,457
Municipal distributions to Joint Powers Authority members	439,539
General and administrative	122,112
Advertising	31,578
Total operating expenses	3,500,885

OPERATING LOSS (55,865)

NONOPERATING REVENUES (EXPENSES):

Other income	450,000
Interest income	1,088
Interest expense	(450,000)
Net nonoperating revenues	1,088

Change in net position (54,777)

Net position - beginning of year	596,646
Net position - end of year	\$ 541,869

See accompanying notes to the financial statements.

CALIFORNIA MUNICIPAL FINANCE AUTHORITY

**Statement of Cash Flows
For the Year Ended June 30, 2014**

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from borrowers	\$ 3,526,821
Cash paid to suppliers for goods and services	(1,853,924)
Cash paid for general and administrative expenses	(121,201)
Cash payments for municipal and charitable distributions	<u>(1,379,996)</u>
Net cash provided by operating activities	<u>171,700</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest income received	<u>1,088</u>
Net increase in cash	172,788

Cash - beginning of year	<u>1,609,871</u>
Cash - end of year	<u><u>\$ 1,782,659</u></u>

**RECONCILIATION OF CASH TO THE
STATEMENT OF NET POSITION:**

Cash	\$ 699,651
Restricted cash	<u>1,083,008</u>
Cash - end of year	<u><u>\$ 1,782,659</u></u>

**RECONCILIATION OF OPERATING LOSS TO NET
CASH PROVIDED BY OPERATING ACTIVITIES:**

Operating loss	\$ (55,865)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Change in assets and liabilities:	
Accounts receivable	79,453
Prepaid expenses	(1,039)
Accounts payable	90,581
Accrued expenses	1,048
Refundable deposits	<u>57,522</u>
Net cash provided by operating activities	<u><u>\$ 171,700</u></u>

See accompanying notes to the financial statements.

CALIFORNIA MUNICIPAL FINANCE AUTHORITY
Notes to the Financial Statements
For the Year Ended June 30, 2014

NOTE 1: ORGANIZATION AND OPERATIONS

The California Municipal Finance Authority (CMFA) was organized on August 12, 2004 under the provision of the Joint Exercise of Powers Act of the Government Code of the State of California. The CMFA is a joint powers authority created to strengthen local communities by promoting economic development and charitable activities throughout the state of California. With the goal of giving back to the California communities, the CMFA 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 CMFA include towns, cities, counties and special districts within California. The CMFA is governed by the Board of Directors of the California Foundation for Stronger Communities (Foundation), a 5 member board.

The CMFA is committed to promoting economic and social programs in its member communities. The CMFA shares a minimum of 25% of all issuance fees directly with its member communities and donates at a minimum another 25% to the Foundation for the support of local charities designated by its member communities.

As further discussed at Note 2, the Foundation is considered a component unit of the CMFA. Therefore, when the term CMFA is used within the footnotes, it is making reference to both the California Municipal Finance Authority and the Foundation (a blended component unit of the CMFA).

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The CMFA's accounting policies and financial reporting conform to accounting principles generally accepted in the United States (GAAP) and are based upon the Governmental Accounting Standards Board (GASB) pronouncements. The following is a summary of the more significant policies:

Reporting Entity

As required by GASB Statement No. 14, *The Financial Reporting Entity*, GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus An Amendment of GASB Statements No. 14 and No. 34*, these financial statements present the CMFA and its component unit. GASB Statement No. 14 defines special criteria for legally separate tax-exempt organizations as potential component units. Specifically, such organizations must be treated as component units if they meet all of the following criteria:

- The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the CMFA, its component unit, or its constituents.
- The CMFA or its component unit is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization, and
- The economic resources an individual organization receives or holds that the CMFA is entitled to, or has the ability to otherwise access, are significant to the CMFA.

CALIFORNIA MUNICIPAL FINANCE AUTHORITY
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2014

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Blended component units, although legally separate entities are, in substance, part of the reporting entity's operations, and so activities from component units are combined with data of the primary government. The CMFA's unit is described as follows:

- The Foundation was established on February 17, 2004, as a California nonprofit public benefit corporation, organized under the Nonprofit Public Benefit Law for public and charitable purposes. The Foundation was formed for the specific purpose of administering, assisting or advising in the administration of the CMFA and to provide financial grants or other financial support or benefits to nonprofit funds, foundations, and corporations to strengthen and enhance charitable activities throughout the State of California. Although the CMFA is governed by the Foundation's Board of Directors, it is deemed that the Foundation is a component unit of the CMFA, since the Foundation relies entirely on the CMFA for its financial support and the governing bodies are the same.

The Foundation issues separate financial statements and these can be obtained from the CMFA's Finance Department, 2111 Palomar Airport Road, Suite 320, Carlsbad, CA 92011.

Basis of Accounting

The financial statements report information on all of the enterprise activities of the CMFA. These financial statements are presented in accordance with GASB Statement No. 34, *Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments* and other related standards.

The financial statements are prepared using the *economic resource* measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included in the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position present increases (revenues) and decreases (expenses) in the CMFA's total net position. Under the accrual basis of accounting, the CMFA recognizes revenue when earned while expenses are recognized when the liability is incurred.

Operating revenues are those revenues that are generated from the CMFA's primary operations. All other revenues are reported as nonoperating revenues. Operating expenses are those expenses that are essential to the primary operations of the CMFA. All other expenses are reported as nonoperating expenses.

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

Cash and Restricted Cash

The CMFA's cash and restricted cash are comprised of demand deposits. Restricted cash relates to refundable deposits, which is further described in Note 3. Cash and restricted cash, both current assets, are considered cash for purposes of the Statement of Cash Flows.

CALIFORNIA MUNICIPAL FINANCE AUTHORITY
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2014

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable

Accounts receivable consist of issuance and annual administration fees which are reported at their net realizable value. The differences between the outstanding amount due and the net realizable value are reported and recognized in the Statement of Revenues, Expenses and Changes in Net Position in the year in which those differences are determined by recognizing a reduction in the CMFA's revenue. Amounts that remain outstanding after management has used reasonable collection efforts are deemed uncollectible and written-off through a charge to the valuation allowance and elimination of the accounts receivable. There is no valuation allowance recorded as of June 30, 2014.

Prepaid Expenses

The CMFA makes certain payments for insurance that reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Management believes that all estimates embodied in the financial statements are reasonable.

NOTE 3: CASH AND RESTRICTED CASH

The carrying amount of the CMFA's cash held in demand deposit accounts was \$1,782,659 at June 30, 2014, while the related bank balance was \$1,857,533. The difference between the carrying value and the bank balance is related to outstanding checks. The bank balances at June 30, 2014, were fully insured or collateralized with securities held by the pledging financial institutions in the CMFA's name.

Custodial Credit Risk and Investment Policy

For deposits, custodial credit risk is the risk that, in the event of the failure of a deposit 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 California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by 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 fair 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 the deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The CMFA may waive collateral requirements for cash deposits, which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation.

CALIFORNIA MUNICIPAL FINANCE AUTHORITY
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2014

NOTE 3: CASH AND RESTRICTED CASH (Continued)

In July 2013, the Board of Directors of the CMFA formally adopted a deposit and investment policy that limits its allowable deposits or investments and addresses the types of risk to which the CMFA is exposed. The CMFA has historically deposited all of its excess cash in demand deposit accounts with a single financial institution, which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation.

NOTE 4: REFUNDABLE DEPOSITS

The CMFA, on behalf of Project Sponsors (borrowers who are requesting Qualified Private Activity Bond Allocations), collects performance deposits on behalf of the California Debt Limit Allocation Committee (CDLAC). These deposits are either released to the borrowers when the bonds are issued or they are forfeited and sent to the CDLAC for non-performance. These amounts are held in a separate bank account by the CMFA and are classified as restricted cash. The CMFA has \$1,083,008 of refundable deposits as of the year ended June 30, 2014.

NOTE 5: LEASE RECEIVABLE / BONDS PAYABLE

The CMFA is the lessor in a lease agreement entered into in 2004 under which solid waste disposal vehicles and related equipment were leased for a term of 10 years. The acquisition of the equipment was furnished through a third-party financing arrangement in the form of revenue bonds. The CMFA issued Solid Waste Disposal Revenue Bonds (Waste Management, Inc. Project) Series 2004 in an aggregate principal amount of \$15,000,000 to finance the acquisition of the equipment to be owned by the CMFA and leased to Waste Management of California, Inc. (Lessee) pursuant to a lease agreement between the two parties. The bonds matured in September 2014 and the bonds payable amount was repaid by the Lessee.

Under the terms of the lease, the Lessee is required to make rental payments sufficient to pay when due the principal of, premium, if any, and interest on, the Bonds and related expenses directly to the Bond Trustee. Revenue from the lease is recorded as income and the payments made by the Lessee are recorded as interest expense in the CMFA's books. Subsequent to June 30, 2014, the lease term ended, at which time the Lessee obtained the title to the leased vehicles and equipment.

The 2004 Bonds are special limited obligations, for which the CMFA is obligated to pay back the liability to the extent of revenues generated from the lease arrangement. The bonds shall not be deemed to constitute an indebtedness or an obligation of any program participant of the CMFA, the State of California or any political subdivision of the State within the purview of any constitutional limitation or provision. No holder of the bonds shall have any right to compel any exercise of the taxing power of the State or any political subdivision of the State to pay the principal or purchase price of the bonds or the interest premium, if any, thereon.

On September 1, 2009, the 2004 Bonds were remarketed (Series 2009). Interest on the bonds is calculated on a term interest rate as determined by the remarketing agent. The interest rate as of June 30, 2014 was 3.00% per annum.

CALIFORNIA MUNICIPAL FINANCE AUTHORITY
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2014

NOTE 5: LEASE RECEIVABLE / BONDS PAYABLE (Continued)

The following is a summary of the bonds payable activity during the year ended June 30, 2014.

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2014</u>
2009 Solid Waste Disposal Revenue Bonds	\$ 15,000,000	\$ -	\$ -	\$ 15,000,000

The annual debt service requirements for the 2009 Bonds are as follows:

Year Ending June 30, 2015	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	\$ 15,000,000	\$ 112,500	\$ 15,112,500

NOTE 6: ADVISORY FEES

The CMFA entered into a professional service agreement with an advisory company in January 2014 to manage the operations of the CMFA with respect to taxable and tax-exempt financing for corporations, governmental entities and non-profit institutions. The CMFA pays the advisory company a percentage of its revenues. Fees for the fiscal year ended June 30, 2014 amounted to \$1,847,199.

NOTE 7: CHARITABLE CONTRIBUTIONS TO THE FOUNDATION

The CMFA allocates a portion of fees collected to the Foundation. The amounts distributed to the Foundation for the year ended June 30, 2014, were \$959,269. In the financial statements of the CMFA the transfers are eliminated for presentation purposes.

NOTE 8: CHARITABLE CONTRIBUTIONS BY THE FOUNDATION

The CMFA donates a portion of fees collected to various charitable activities within California communities through the Foundation. The amounts donated by the CMFA during the year ended June 30, 2014, was \$940,432.

NOTE 9: CONDUIT DEBT

The CMFA is a Joint Powers Authority (JPA) created to strengthen local communities by assisting with the financing of economic development and charitable activities throughout the State of California.

The JPA acts as a municipal conduit issuer and assists eligible institutions in obtaining financing through the issuance of revenue bonds. The bonds are special, limited obligations of the CMFA, payable solely from revenues of the projects and other moneys of the borrowers.

As of June 30, 2014, there was \$4,632,416,355 in conduit financing outstanding. The CMFA assisted with the issuance of financings in the amount of \$1,056,383,301 during the year ended June 30, 2014. In addition, the amount of bonds authorized by the CMFA and unsold was \$277,975,445 as of June 30, 2014.

CALIFORNIA MUNICIPAL FINANCE AUTHORITY
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2014

NOTE 9: CONDUIT DEBT (Continued)

The following is a summary of the amount of bonds authorized by the CMFA and unsold as of June 30, 2014:

<u>Project Name</u>	<u>Authorized Amount</u>
Anaheim Public Utilities	\$ 140,000,000
Campanile Court/ Berkeley Housing Apartments	54,000,000
Independence Oaks	12,805,000
Las Brisas Mobile Home	13,000,000
Monument Arms Apartments	11,000,000
Renaissance Village Apartments	12,170,445
Sycamore Academy	15,000,000
William Penn Manor Apartments	10,000,000
Woodside Priory School	10,000,000
Total	<u><u>\$ 277,975,445</u></u>

NOTE 10: COMBINING FINANCIAL STATEMENT INFORMATION

Combining financial information of the California Municipal Finance Authority and the blended component unit California Foundation for Stronger Communities as of and for the year ended June 30, 2014 is as follows:

Condensed statement of net position:

	<u>CMFA</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>
ASSETS				
Cash	\$ 1,777,627	\$ 5,032	\$ -	\$ 1,782,659
Other assets	<u>15,010,376</u>	<u>10,652</u>	<u>(10,652)</u>	<u>15,010,376</u>
Total assets	<u>16,788,003</u>	<u>15,684</u>	<u>(10,652)</u>	<u>16,793,035</u>
LIABILITIES				
Current	<u>16,251,348</u>	<u>10,470</u>	<u>(10,652)</u>	<u>16,251,166</u>
NET POSITION				
Unrestricted	<u>\$ 536,655</u>	<u>\$ 5,214</u>	<u>\$ -</u>	<u>\$ 541,869</u>

CALIFORNIA MUNICIPAL FINANCE AUTHORITY
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2014

NOTE 10: COMBINING FINANCIAL STATEMENT INFORMATION (Continued)

Condensed statement of revenues, expenses, and net position:

	<u>CMFA</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>
Operating revenues	\$ 3,445,020	\$ 959,269	\$ (959,269)	\$ 3,445,020
Operating expenses	<u>3,500,885</u>	<u>959,269</u>	<u>(959,269)</u>	<u>3,500,885</u>
Operating loss	<u>(55,865)</u>	<u>-</u>	<u>-</u>	<u>(55,865)</u>
Nonoperating revenues	451,011	77	-	451,088
Nonoperating expenses	<u>450,000</u>	<u>-</u>	<u>-</u>	<u>450,000</u>
Net nonoperating revenues	<u>1,011</u>	<u>77</u>	<u>-</u>	<u>1,088</u>
Change in net position	<u>(54,854)</u>	<u>77</u>	<u>-</u>	<u>(54,777)</u>
Net position				
Beginning of year	<u>591,509</u>	<u>5,137</u>	<u>-</u>	<u>596,646</u>
End of year	<u>\$ 536,655</u>	<u>\$ 5,214</u>	<u>\$ -</u>	<u>\$ 541,869</u>

Condensed statement of cash flows:

	<u>CMFA</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>
Net cash provided (used) by:				
Operating activities	\$ 1,126,151	\$ 4,895	\$ (959,346)	\$ 171,700
Noncapital financing activities	(959,269)	-	959,269	-
Investing activities	<u>1,011</u>	<u>-</u>	<u>77</u>	<u>1,088</u>
Net increase in cash	<u>167,893</u>	<u>4,895</u>	<u>-</u>	<u>172,788</u>
Cash				
Beginning of year	<u>1,609,734</u>	<u>137</u>	<u>-</u>	<u>1,609,871</u>
End of year	<u>\$ 1,777,627</u>	<u>\$ 5,032</u>	<u>\$ -</u>	<u>\$ 1,782,659</u>

CALIFORNIA MUNICIPAL FINANCE AUTHORITY
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2014

NOTE 11: SEPARATE JOINT POWERS AUTHORITIES

In the normal course of business, when assisting with the issuance of conduit debt, the CMFA is, from time to time, asked to join with another public agency to form a separate joint powers authority (JPA) which is administered by the public agency. The primary reason for forming this JPA is to permit the separate public agency to access the provisions of the Joint Powers Act. The CMFA joins with the public agency to form the new JPA, however, all of the obligations of the new JPA are limited obligations payable from the actual borrower, which is the public agency that requests the CMFA to become a member. The joint powers agreement which the CMFA executes, contains provisions which protect and indemnify the CMFA from the liabilities of the JPA. There is no ongoing financial responsibility of the CMFA or financial interest related to the JPA.

NOTE 12: COMMITMENTS AND CONTINGENCIES

In the ordinary course of business, the CMFA may be subject to various claims, investigations, proceedings, and legal actions from time to time arising out of the conduct of the CMFA's business. Management believes that, based on current knowledge, there are no such pending matters.

The CMFA does not have any major contractual commitments or contingencies as of the year ended June 30, 2014.

The CMFA maintains insurance policies for general liability, excess liability, directors and officers and environmental liability, with deductibles that vary from \$15,000 to \$26,000. There are no material claims or judgments that would require disclosure or accrual in the accompanying financial statements. During the year ended June 30, 2014, there were no reductions in insurance coverage or settlements.

CALIFORNIA MUNICIPAL FINANCE AUTHORITY
Other Information
(Unaudited)

1: CMFA FEE SCHEDULES

The following fee schedule was effective for all conduit bond issuances after September 1, 2012:

Schedule of Fees ^{(4),(5)}			
Type of Project	Issuance Fees		Annual Fee ⁽³⁾
	\$0 - \$20 Million	Over \$20 Million	
Affordable Housing ^{(1) (2)}	18.75 bps	\$37,500 + 5 bps	5 bps
Nonprofit Corporations ^{(1) (2)}	20 bps on first \$10 million 5 bps on amounts above \$10 million Maximum Fee of \$75,000 per transaction		1.5 bps
Solid Waste Projects ^{(1) (2)}	25 bps	\$50,000 + 10 bps	5 bps
Manufacturing and Other ^{(1) (2)}	25 bps	\$50,000 + 10 bps	10 bps
Government Sponsored or School District Transactions	5 bps	5 bps	None
Public Private Partnerships requiring Ownership through a CMFA affiliate	5 bps	5 bps	1.5bps

Notes:

- 1) CMFA shares 25% of all Issuance Fees with the Host Municipality for each transaction.
- 2) CMFA donates another 25% of Issuance Fees to charitable organizations within the Host Municipality. When the borrower is a Nonprofit Corporation, it is deemed to be the recipient of this donation. The schedule of fees listed above reflects the discounted issuance fees for Affordable Housing and Nonprofit Corporation borrowers.
- 3) Annual Fees, which include compliance monitoring, are due in advance for each year and are based on bond amounts outstanding on the anniversary of each issue (not on the original issue amount). Minimum Annual Fee for Affordable Housing transactions will be \$4,000 per year, (a \$1,000 annual compliance monitoring fee will replace the existing Annual Administration Fee throughout the CDLAC Compliance Period after the Qualified Project Period has expired). Minimum Annual Fee for all other transactions will be \$500.
- 4) An application fee of \$2,500 is required for each transaction and should be included when an application is submitted. The application fee is applied to the issuance fee at closing.
- 5) In addition to the above, the Applicant will be responsible for all costs of issuance.

CALIFORNIA MUNICIPAL FINANCE AUTHORITY
Other Information (Continued)
(Unaudited)

2: FINANCING APPROVALS

The following is a summary of the amount of the financing approvals adopted via initial resolution by the CMFA's Board of Directors during the year ended June 30, 2014:

<u>Project Name</u>	<u>Initial Resolution Amount</u>
615 Manhattan Christ Unity Manor Apartments	\$ 28,000,000
Avila Avenue Apartments	5,000,000
Buchanan Park Apartments	15,000,000
Camarillo Apartments	20,000,000
Camino Esperanza	8,000,000
Camphora Apartments	11,000,000
Cerise Apartments	50,000,000
Davis Scattered Site	8,000,000
East Cliff Village Apartments	13,000,000
Gabilan Plaza Apartments	24,000,000
Garfield Park Village Apartments	25,000,000
Gilroy Apartments	18,000,000
Los Robles Terrace Apartments	4,500,000
Main Street Park Apartments	8,000,000
Maple Park 2	4,000,000
Mill Creek Courtyard Apartments	12,000,000
Monument Arms Apartments	12,000,000
Movietown Square Apartments	22,000,000
Oak Creek Terrace Apartments	12,000,000
Ocean View Apartments	5,000,000
Pacific Pointe at the Shipyard Apartments	20,000,000
Rotary Plaza Apartments	40,000,000
Royal Vista Terrace Apartments	15,000,000
Sharmon Palms Apartment	11,000,000
Stanford Apartments	23,000,000
Stonebridge	13,000,000
Sycamore Terrace Apartments	15,000,000
Triangle Terrace Apartments	11,000,000
Tulare County Pace	100,000,000
Valentine Court Apartments	4,500,000
Villa Primavera	10,000,000
Westridge Apartments	57,000,000
William Penn Manor Apartments	10,000,000
Willows Senior Apartments	8,000,000
Windsor Mobile CC	<u>30,000,000</u>
Total	<u>\$ 672,000,000</u>

CALIFORNIA MUNICIPAL FINANCE AUTHORITY
Other Information (Continued)
(Unaudited)

2: FINANCING APPROVALS (Continued)

The following is a summary of the amount of financing approvals adopted via final resolution by the CMFA's Board of Directors during the year ended June 30, 2014:

<u>Project Name</u>	<u>Final Resolution Amount</u>
615 Manhattan Apartments	\$ 28,000,000
Albert Einstein Academies	20,000,000
AMG Huntington Beach	5,000,000
Andres Duarte Terra II Apartments	10,500,000
Avenida Serra Apartments	5,000,000
Berkeley Scattered Sites	18,500,000
Calden Court Apartments	80,000,000
Caritas Affordable Housing Projects Inc	100,000,000
Casa Veranda / Campanile Court Apartments	54,000,000
City of Anaheim Distribution Systems Assets	140,000,000
Claremont McKenna College	25,000,000
Cochrane Village Apartments	11,250,000
Covenant Manor Apartments	15,000,000
Eden House Apartments	12,310,000
Gabilan Plaza Apartments	22,000,000
Gideon Hausner Jewish Day School	14,000,000
Harvey Mudd College	40,000,000
Holly Court Apartments	4,000,000
Independence Oaks	15,000,000
Las Brisas Mobile Home Park	13,000,000
Launchpad Development Company Rocketship Schools	35,000,000
MacArthur Station / Mural Apartments	26,725,000
Main Street Park I Apartments	6,200,000
Maranatha High School	20,000,000
McCarty Manor	3,400,000
Meadowbrook Apartments	42,000,000
Montgomery Plaza Apartments	5,886,800
Monument Arms Apartments	11,000,000
NorthBay Healthcare Group	60,000,000
Oaks Christian High School	33,000,000
Oxnard Fire Station	15,750,000
Peppertree Senior Apartments	10,116,914
Pitzer College	25,000,000
Point Loma Nazarene University	55,000,000
Pomona College	25,000,000
Red Hill Evangelical Lutheran Church of Tustin	5,000,000

CALIFORNIA MUNICIPAL FINANCE AUTHORITY
Other Information (Continued)
(Unaudited)

2: FINANCING APPROVALS (Continued)

<u>Project Name</u>	<u>Final Resolution Amount</u>
Renaissance Village Apartments	\$ 12,170,445
San Tomas Gardens Apartments	27,262,340
Santa Margarita Catholic School	21,800,000
Sierra Vista Apartments	10,039,545
Sonoma Court Apartments	7,200,000
Southeastern California Conference of Seventh-Day Adventists	32,330,000
St. Francis High School	11,000,000
Strawberry Creek Lodge Apartments	13,325,000
Sycamore Academy of Science and Cultural Arts	15,000,000
The Buckley School	8,000,000
The Willows Community School	17,000,000
Touro University	21,000,000
Trinity School	5,500,000
University of Laverne	15,000,000
Villa Solimar / Cypress Court Apartments	4,500,000
Village Grove Apartments	15,700,000
William Penn Manor Apartments	10,000,000
Willows Senior Apartments	4,750,000
Windsor Mobile Country Club	30,000,000
Woodlands Newell Apartments	11,000,000
Woodside Priory School	<u>10,000,000</u>
Total	<u>\$ 1,314,216,044</u>

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**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***

To the Board of Directors
California Municipal Finance Authority

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, the financial statements of the California Municipal Finance Authority (CMFA), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the CMFA's basic financial statements, and have issued our report thereon dated November 14, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the CMFA'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CMFA's internal control. Accordingly, we do not express an opinion on the effectiveness of the CMFA'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 CMFA'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 CMFA'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 CMFA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Macias Gini & O'Connell LLP

San Diego, California
November 14, 2014