

# California Municipal Finance Authority

Carlsbad, California

*Basic Financial Statements and  
Independent Auditors' Report*

*For the year ended June 30, 2012*

**California Municipal Finance Authority**  
**Basic Financial Statements**  
**For the year ended June 30, 2012**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
of the California Municipal Finance Authority  
Carlsbad, California

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of the California Municipal Authority (the "Authority") as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2012, and the respective changes in financial position, and, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2012, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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* and should be considered in assessing the results of our audit.



To the Board of Directors  
of the California Municipal Finance Authority  
Carlsbad, California  
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Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis 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.

The accompanying Note 9 of the notes to the basic financial statements; disclosures of the amount of bonds the authorized but unsold at the end of the time period of the audit, the amount of debt the Authority has issued during the period covered by the audit, and the amount of debt still outstanding at the end of the time period covered by the audit and Note 1 of the required supplementary information; a disclosure of fees imposed on borrowers by, or on behalf of the Authority; is required by Chapter 10.7 of Division 6 of Title 1 of the California Government Code to be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the California Government Code, 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The Financing Approvals of the Authority for the year ended June 30, 2012 is presented for the purposes of additional analysis and is 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 it.



Marcum LLP  
Certified Public Accountants  
Irvine, California  
December 7, 2012

# CALIFORNIA MUNICIPAL FINANCE AUTHORITY

## MANAGEMENT DISCUSSION AND ANALYSIS FOR FISCAL YEAR ENDED JUNE 30, 2012

This section of the California Municipal Finance Authority ("the CMFA or Authority") annual financial report presents the Management Discussion and Analysis ("MD&A")<sup>1</sup> of its financial performance during the fiscal year ended June 30, 2012. 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 California Municipal Finance Authority ("the CMFA or Authority") was organized on August 12, 2004 under the provision of the Joint Exercise of Powers Act of the Government Code of 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 business with the issuance of taxable and tax-exempt financing aimed at improving the standard of living in California. Members of the authority 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 25% of all issuance fees directly with its member communities and donates another 25% to the California Foundation for Stronger Communities for the support of local charities designated by its member communities.

The Authority 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 moneys of the borrower

### **SUMMARY OF FINANCIAL RESULTS 2012-2011**

- Restricted cash balances for FY2012 are \$113,706 above prior year due to higher deposit requirements needed for projects seeking California Debt Limit Allocation Committee bond allocation.
- FY2012 operating revenues are \$229,971 below prior year due to the expiration of the bond provisions under the American Recovery and Reinvestment Act of 2009 ("ARRA") which positively impacted FY2011.
- Operating Loss of \$273,549 due mainly to an increase in charitable donations totaling \$1.18 million in support of California charities.

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<sup>1</sup> For purposes of this MD&A, "Management" refers to the Audit Committee and Board of Directors of the CMFA.

## OVERVIEW OF THE FINANCIAL STATEMENTS

The Authority's financial statements include the Independent Auditors' Report, Management Discussion & Analysis ("MD&A"), basic financial statements, accompanying notes and supplemental information.

Basis of Presentation: The transactions of the CMFA are accounted for as an enterprise fund utilizing the accrual basis of accounting. Under Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements, Management's Discussion and Analysis, for State and Local Governments*, the CMFA does not apply Financial Accounting Standards Board pronouncements issued after November 30, 1989.

Component Unit ("Unit"): Financial results for the California Foundation for Stronger Communities ("Foundation"), a component unit to the Authority, are combined with the Authority's financials and are included in the totals for FY 2012. MD&A discussions comparing prior year financial results for the Authority include activity related to the Component Unit (Foundation). Separately audited financials for the Foundation can be found on the Authority's web site.

Reclassifications: Certain accounts included in the prior-year financials have been reclassified or combined for comparative purposes to conform to the presentation of the FY 2012 financial statements.

## REQUIRED FINANCIAL STATEMENTS

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

The *Statements of Net Assets* include all of the Authority's assets and liabilities for the year ended June 30, 2012 and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Authority's creditors (liabilities). It also provides the basis for evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority.

The *Statements of Revenues, Expenses, and Changes in Net Assets* accounts for all of the Authority's revenue and expenses for the year ended June 30, 2012. This statement reflects the results of the Authority's operations over the year and can be used to determine the Authority's credit worthiness and its ability to successfully recover all its costs through fee revenue and other income.

The *Statements of Cash Flows* provides information about the Authority's cash receipts and cash payments during the year ended June 30, 2012. 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 financial statements* provide additional information that is essential to a full understanding of the data provided in the financial statements.

In addition to the basic financial statements and accompanying notes, the final section in this report also presents certain *supplementary information*. This supplementary information section contains a summary of the amount of financing approvals, initial and final resolutions, adopted for the year ended June 30, 2012.

## STATEMENT OF NET ASSETS

Following is a brief discussion of key items contained in the Statement of Net Assets.

### ASSETS

#### **Cash and Equivalents**

The composition of cash and investments as of June 30, 2012 and 2011 and changes from the prior year are shown in the table below.

	<b>Cash and Investments</b>		
	<u>2012</u>	<u>2011</u>	<u>Change</u>
Cash	510,025	762,972	(252,947)
Restricted Cash	<u>1,054,320</u>	<u>940,614</u>	<u>113,706</u>
	1,564,345	1,703,586	(139,241)

As part of the Authority's program of giving back to local communities, the Authority allocates a portion of its fees to the Foundation to be distributed to nonprofit charities throughout California. The timing of the cash receipts and as well as these charitable distributions affects the levels of cash at fiscal year-end. During the years ended June 30, 2012 and 2011 charitable payments distributed through the Foundation were \$1,185,280 and \$989,202 respectively.

Restricted Cash relates to deposits made by Project Sponsors (Borrowers) who are requesting Qualified Private Activity Bond Allocations which require performance deposits by the California Debt Limit Allocation Committee. These deposits are either released to the borrowers when bonds are issued or they are forfeited and sent to the California Debt Limit Allocation Committee 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 2012 accounts receivable increased by \$21,732 to \$72,219 which represents 2.46% of total revenues. The increase in receivables is due to the increase in total number of conduit borrowers being billed by the Authority for issuance and annual administrative fees.

### **Lease Receivable**

The Authority 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 in the form of a revenue bond. The bond will mature 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.

## **LIABILITIES**

### **Accounts Payable**

Accounts payable for the Authority for FY2012 is \$55,576 or 1.9% of revenues compared to \$29,096 or 0.9% for FY2011.

### **Refundable Deposits**

The Authority, on behalf of Project Sponsors (Borrowers) who are requesting Qualified Private Activity Bond Allocations, collects performance deposits for the California Debt Limit Allocation Committee. These deposits are either released to the borrowers when bonds are issued or they are forfeited and sent to the California Debt Limit Allocation Committee for non-performance. Total refundable deposits for the fiscal years ended June 30, 2012 and 2011 were \$1,054,320 and \$940,614 respectively.

### **Bonds Payable**

The Authority 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 in the form of a revenue bond. The bond will mature 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.



## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

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

### Revenue

The Authority generates operating revenue through issuance fees, annual administrative fees and application fees for activities related to bond financings. During FY2012, the Authority issued \$746.6 million of new bonds compared to \$1.23 billion in FY2011. Excluding lease related activities, revenues for FY2012 and FY2011 were \$2.94 and \$3.17 million respectively.

	Operating Revenue		
	<u>2012</u>	<u>2011</u>	<u>Change</u>
Annual Fees	1,570,299	1,392,763	177,536
Application Fees	171,000	160,000	11,000
Issuance Fees	<u>1,196,280</u>	<u>1,614,787</u>	<u>(418,507)</u>
	2,937,579	3,167,550	(229,971)

Factors affecting FY2012 revenues include the expiration of the bond provisions under ARRA that expired on December 31, 2010 which benefitted the Authority during FY2011

### Expenses

The Authority's FY2012 and FY2011 expenses, excluding lease related activity, were \$3.21 and \$3.09 million respectively representing an increase of approximately \$117,000. While fees paid to outside consultants were \$73,775 lower in FY2012, charitable donations made through the Foundation increased by \$196,078 for the year. General and Administrative expenses increased by \$111,151 for FY2012 while payments to the Authority's Joint Powers Authority Members were \$126,181 lower due to reduced issuance activity in FY2012.

### Net Assets

The following table presents a condensed Statement of Change in Net Assets as of June 30, 2012 and 2011 and the change from the prior year. The items affecting the change in net assets were previously detailed in the Revenues and Expenses discussion.

### Condensed Statement of Change in Net Assets

	<u>2012</u>	<u>2011</u>
Total Revenues	2,938,317	3,174,291
Total Expenses	<u>3,211,128</u>	<u>3,100,883</u>
Change in Net Assets	(272,811)	75,481
Beginning of Year	788,673	713,192
End of Year	515,862	788,673

### STATEMENT OF CASH FLOWS

The following table presents a condensed Statement of Cash Flows as of June 30, 2012 and 2011 and the change from the prior year.

### Condensed Statement of Cash Flows

	<u>2012</u>	<u>2011</u>
Net Cash From (Used By) Operations	(139,979)	326,183
Net Cash From Investing Activities	<u>738</u>	<u>2,073</u>
Net Increase (Decrease) in Cash	(139,241)	328,256
Beginning of Year	1,703,586	1,368,589
End of Year	1,564,345	1,696,845

### ECONOMIC FACTORS

The overall economic environment was positive for the types of programs administered by the Authority in FY2012 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 Authority 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 Authority.

Since the close of FY2012, the Board of the Authority approved a simplified fee schedule that includes an overall price reduction for issuance and annual fees going forward. Depending on the affect this change has on overall issuance volume this may impact revenues in the future.

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# **BASIC FINANCIAL STATEMENTS**

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**California Municipal Finance Authority**  
**Statement of Net Assets**  
**For the year ended June 30, 2012**

	<u>2012</u>
<b>ASSETS</b>	
<b>Current Assets:</b>	
Cash	\$ 510,025
Accounts receivable	72,219
Prepaid expenses	<u>14,444</u>
Total unrestricted current assets	<u>596,688</u>
<b>Restricted Assets:</b>	
Cash	<u>1,054,320</u>
Total restricted current assets	<u>1,054,320</u>
Total current assets	<u>1,651,008</u>
<b>Noncurrent Assets:</b>	
Lease receivable	<u>15,000,000</u>
Total noncurrent assets	<u>15,000,000</u>
<b>Total assets</b>	<u>16,651,008</u>
<b>LIABILITIES</b>	
<b>Current Liabilities:</b>	
Accounts payable	55,576
Accrued expenses	25,250
Refundable deposits	<u>1,054,320</u>
Total current liabilities	<u>1,135,146</u>
<b>Noncurrent Liabilities:</b>	
Bonds payable	<u>15,000,000</u>
Total noncurrent liabilities	<u>15,000,000</u>
<b>Total liabilities</b>	<u>16,135,146</u>
<b>NET ASSETS</b>	
Unrestricted	<u>515,862</u>
<b>Total net assets</b>	<u>\$ 515,862</u>

See accompanying Notes to Basic Financial Statements.

**California Municipal Finance Authority**  
**Statement of Revenues, Expenses, and Changes in Net Assets**  
**For the year ended June 30, 2012**

	<u>2012</u>
<b>OPERATING REVENUES:</b>	
Annual fees	\$ 1,570,299
Application fees	171,000
Issuance fees	<u>1,196,280</u>
<b>Total operating revenues</b>	<u>2,937,579</u>
<b>OPERATING EXPENSES:</b>	
Advertising	23,808
Outside consultants	1,499,152
General and administrative	136,323
Municipal distributions to Joint Powers Authority members	366,065
Charitable contributions - direct	500
Charitable donations	<u>1,185,280</u>
<b>Total operating expenses</b>	<u>3,211,128</u>
<b>OPERATING LOSS</b>	<u>(273,549)</u>
<b>NON-OPERATING REVENUES:</b>	
Investment income	<u>738</u>
<b>Total non-operating revenues</b>	<u>738</u>
<b>Changes in net assets</b>	(272,811)
<b>NET ASSETS:</b>	
Beginning of year	<u>788,673</u>
End of year	<u>\$ 515,862</u>

See accompanying Notes to Basic Financial Statements.

**California Municipal Finance Authority**  
**Statement of Cash Flows**  
**For the year ended June 30, 2012**

	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash received from customers	\$ 2,915,847
Cash paid to suppliers of goods or services	(1,382,774)
Cash payments for general and administrative expenses	(121,207)
Other cash receipts (payments)	(1,551,845)
	(139,979)
<b>Net cash used by operating activities</b>	<b>(139,979)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Investment income received	738
	738
<b>Net cash provided by investing activities</b>	<b>738</b>
<b>Net decrease in cash</b>	<b>(139,241)</b>
<b>CASH</b>	
Beginning of year	1,703,586
End of year	\$ 1,564,345
<b>RECONCILIATION OF OPERATING LOSS TO NET</b>	
<b>CASH USED BY OPERATING ACTIVITIES:</b>	
Operating loss	(273,549)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Change in assets and liabilities:	
Increase in accounts receivable	(21,732)
Increase in prepaid expenses	(10,134)
Increase in accounts payable	26,480
Increase in accrued expenses	25,250
Increase in refundable deposits	113,706
	113,706
<b>Net cash used by operating activities</b>	<b>\$ (139,979)</b>

See accompanying Notes to Basic Financial Statements.

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# NOTES TO THE BASIC FINANCIAL STATEMENTS

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**California Municipal Finance Authority**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2012**

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**1. THE CALIFORNIA MUNICIPAL FINANCE AUTHORITY**

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 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, a 5 member board.

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

As further discussed at Note 2.A., the California Foundation for Stronger Communities is considered a component unit to the CMFA (the primary government entity). Therefore, when the term "Authority" is used within the footnotes, it is making reference to both the CMFA and the California Foundation for Stronger Communities (a blended component unit of the CMFA).

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the Authority, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government agencies. The Government Accounting Standards Board (GASB) is accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

**A. Reporting Entity**

As required by GASB Statement No. 14, "The Financial Reporting Entity" and GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units", these financial statements present the Authority 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 Basic Financial Statements**  
**For the year ended June 30, 2012**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**A. Reporting Entity, Continued**

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

The California Foundation for Stronger Communities - The California Foundation for Stronger Communities (Foundation) was established on February 17, 2004 as a California non-profit 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 Foundation's Board of Directors it is deemed that the Foundation is a component unit to the CMFA since the Foundation relies entirely on the CMFA for its financial support and the governing body of the two entities is 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.

**B. Basis of Presentation**

The basic financial statements (i.e., the Statement of Net Assets, the Statement of Activities and Changes in Net Assets, and the Statement of Cash Flows) report information on all of the enterprise activities of the Authority. These basic 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 basic financial statements are prepared using the *economic resource* measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or non-current) are included on the Statement of Net Assets. The Statement of Activities and Changes in Net Assets presents increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, the CMFA recognizes revenue when earned while expenses are recognized when the liability is incurred. The Foundation recognizes contributions as revenue when they are received or when they are unconditionally pledged.

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

The Authority applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) 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

**California Municipal Finance Authority**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2012**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

***B. Basis of Presentation, Continued***

Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedure.

***C. Cash and Restricted Cash***

The Authority's cash is considered to be cash on hand and demand deposits.

The Authority's restricted cash relates to refundable deposits at Note 4.

Cash and restricted cash, both short term assets, are displayed as cash on the Statement of Cash Flows.

***D. Accounts Receivable***

The Authority's accounts receivable are issuance and annual fees receivable which are reported at the amount management expects to collect from outstanding balances. The differences between the amount due and the amount management expects to collect are reported in the results of operations of the year in which those differences are determined, with an offsetting entry to a valuation allowance for accounts receivable. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. There was no valuation allowance as of June 30, 2012.

***E. Use of Estimates***

The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. In addition, estimates affect the reported amounts of revenues and expenses. Actual results could differ from these estimates and assumptions.

***F. Use of Restricted and Unrestricted Net Assets***

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Authority's policy is to apply restricted net assets first.

***G. Net Assets***

In the statement of net assets, net assets are classified in the following category:

Invested in Capital Assets, Net of Related Debt - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

**California Municipal Finance Authority**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2012**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*G. Net Assets, Continued*

Restricted Net Assets – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Assets – This amount is all net assets that do not meet the definition of “invested in capital assets”.

There are no “invested in capital assets, net of related debt” for the Authority as of June 30, 2012.

*H. Prepaid Expenses*

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

*I. Advertising Costs*

The Authority’s advertising costs are expensed in the year they are incurred. The Authority incurred \$23,808 in advertising expenses in the year ended June 30, 2012.

**3. CASH AND RESTRICTED CASH**

Cash consisted of the following at June 30, 2012:

	<u>Total</u>
Demand Deposits	\$ 510,025
Restricted Cash	1,054,320
Total	<u>\$ 1,564,345</u>

Cash Deposits

The carrying amounts of the Authority’s cash deposits were \$1,564,345 at June 30, 2012. Bank balances at June 30, 2012 were \$1,564,345 which were fully insured or collateralized with securities held by the pledging financial institutions in the Authority’s name as discussed below.

Custodial Credit Risk

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

**California Municipal Finance Authority**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2012**

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**3. CASH AND RESTRICTED CASH, Continued**

Custodial Credit Risk, Continued

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 Authority's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The Authority may waive collateral requirements for cash deposits, which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation. Although the Authority's cash and restricted cash balances are susceptible to custodial credit risk the Authority has not adopted a formal deposit or investment policy that addresses the extent to which this risk is considered acceptable.

Investment Policy

The Authority has not formally adopted a deposit and investment policy that limits its allowable deposits or investments and addresses the types of risk to which the Authority is exposed to. Although the Authority has not adopted such a policy it has historically deposited all of its excess cash in demand deposits with a single financial institution.

**4. REFUNDABLE DEPOSITS**

The Authority, on behalf of Project Sponsors or borrowers who are requesting Qualified Private Activity Bond Allocations, collects performance deposits for the California Debt Limit Allocation Committee. These deposits are either released to the borrowers when the bonds are issued or they are forfeited and sent to the California Debt Limit Allocation Committee for non-performance. These amounts are held in a separate bank account by the Authority and are classified as restricted cash. The Authority had \$1,054,320 of refundable deposits as of the year ended June 30, 2012.

**5. LEASE RECEIVABLE / LONG TERM DEBT**

The Authority 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 in the form of a revenue bond. The Authority 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 Authority and leased to Waste Management of California, Inc. ("Lessee") pursuant to a lease agreement between the two parties. The bond will mature 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 directly to the Bond Trustee. At the end of the lease term, the Lessee will obtain title to the leased vehicles and equipment. Due to this fact neither payment of the lease nor the interest expense of the bonds are recorded in the Authority's books.

**California Municipal Finance Authority**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2012**

**5. LEASE RECEIVABLE / LONG TERM DEBT, Continued**

The 2004 bonds are special limited obligations, for which the Authority 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 Authority, 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 revenue bonds were remarketed (series 2009). Interest on the bonds is calculated on a term interest rate as determined the remarketing agent. The interest rate as of June 30, 2012 was 3.00% per annum.

The following is a summary of long-term debt transactions for the fiscal year ended June 30, 2012:

	Balance			Classification		
	July 1, 2011	Additions	Deletions	June 30, 2012	Due within One Year	Due in more than One Year
	2009 Solid Waste Disposal Revenue Bonds	\$ 15,000,000	\$ -	\$ -	\$ 15,000,000	\$ -

The annual debt service requirements on these bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2013	\$ -	\$ 450,000	\$ 450,000
2014	-	450,000	450,000
2015	15,000,000	112,500	15,112,500
<b>Total</b>	<b>\$ 15,000,000</b>	<b>\$ 1,012,500</b>	<b>\$ 16,012,500</b>

**6. ADVISORY FEES**

The Authority has entered into a professional service agreement with an advisory company on May 18, 2005 to manage the operations of the Authority with respect to taxable and tax-exempt financing for corporations, governmental entities and non-profit institutions. The Authority pays the advisory company a percentage of its revenues. Fees for the fiscal year ended June 30, 2012 amounted to \$1,499,152.

**California Municipal Finance Authority**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2012**

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**7. CHARITABLE CONTRIBUTIONS TO CALIFORNIA FOUNDATION FOR STRONGER COMMUNITIES**

The CMFA allocates a portion of fees collected to the Foundation. The amounts distributed to the Foundation for the fiscal year ended June 30, 2012 were \$1,188,805 and are recorded as a transfer out of the CMFA and as a transfer in of the Foundation in the combining financial statements as shown in Note 10. In the consolidated financial statements of the Authority the transfers are eliminated for presentation purposes.

**8. CHARITABLE DONATIONS BY THE CALIFORNIA FOUNDATION FOR STRONGER COMMUNITIES**

The Authority donates a portion of fees collected to various charitable activities within California communities through the Foundation. The amounts donated by the Authority for the fiscal year ended June 30, 2012 total \$1,185,280.

**9. CONDUIT DEBT**

The Authority 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 Authority, payable solely from revenues of the projects and other moneys of the borrowers.

As of June 30, 2012 there was \$3,484,946,175 in conduit financing outstanding. The Authority assisted with the issuance of financings in the amount of \$746,682,836 for the year ended June 30, 2012. In addition, the amount of bonds authorized by the Authority and unsold was \$117,550,692 as of June 30, 2012.

The following is a summary of the amount of bonds authorized by the Authority and unsold for the year ended June 30, 2012:

<u>Project Name</u>	<u>Authorized Amount</u>
Children's Day School	\$ 8,000,000
EBALDC Bond 2012 LLC	12,000,000
McCarty Manor Apartments	3,400,000
San Diego Natural History Museum	13,000,000
Shelter Hill Apartments	18,280,030
St. Andrews School	11,000,000
University of San Diego 2012	15,000,000
Vista Terrace Apartments	10,100,000
Westlake Christian Terrace East Apartments	26,770,662
Total	<u>\$ 117,550,692</u>



**California Municipal Finance Authority**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2012**

**10. COMBINING FINANCIAL STATEMENT INFORMATION, Continued**

	California Municipal Finance Authority	California Foundation for Stronger Communities	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	\$ 1,048,880	\$ (1,188,859)	\$ (139,979)
<b>CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES:</b>	(1,188,805)	1,188,805	-
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	695	43	738
Net decrease in cash	(139,230)	(11)	(139,241)
<b>CASH</b>			
Beginning of year	1,698,667	4,919	1,703,586
End of year	<u>\$ 1,559,437</u>	<u>\$ 4,908</u>	<u>\$ 1,564,345</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES:</b>			
Operating income (loss)	915,310	(1,188,859)	(273,549)
Adjustments to reconcile operating loss to net cash used by operating activities:			
Change in assets and liabilities	133,570	-	133,570
<b>Net cash provided (used) by operating activities</b>	<u>\$ 1,048,880</u>	<u>\$ (1,188,859)</u>	<u>\$ (139,979)</u>



**California Municipal Finance Authority**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2012**

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**11. SEPARATE JOINT POWERS AUTHORITIES**

In the normal course of business, when assisting with the issuance of conduit debt, the Authority 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. Authority 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 request the Authority become a member. The joint powers agreement which Authority executes contains provisions which protect and indemnify Authority from the liabilities of the JPA. There is no ongoing financial responsibility of the Authority related to the JPA.

**12. COMMITMENTS AND CONTINGENCIES**

Lawsuits

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

Commitments

The Authority does not have any major contractual commitments or contingencies as of the year ended June 30, 2012.

**13. SUBSEQUENT EVENTS**

Management has evaluated subsequent events occurring through December 7, 2012, the date the basic financial statements were available to be issued. There were no subsequent events that required an adjustment to, or disclosure in the basic financial statements as of the year ended June 30, 2012.

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**REQUIRED SUPPLEMENTARY  
INFORMATION (UNAUDITED)**

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**California Municipal Finance Authority**  
**Required Supplementary Information (Unaudited)**  
**For the year ended June 30, 2012**

**1. AUTHORITY FEE SCHEDULES**

The following fee schedule was effective for all conduit bond issuances from July 1, 2012 - February 2, 2012.

<b>Schedule of Fees</b>				
<b>Type of Project</b>	<b>Rating</b>	<b>Issuance Fees</b>		<b>Annual Fee <sup>(3)</sup></b>
		<b>\$0 - \$20 Million</b>	<b>Over \$20 Million</b>	
Nonprofit Affordable Housing <sup>(2)</sup>	“A” or Better	18.75 bp’s	\$37,500 + 7.5 bp’s	10 bp’s
	Less Than “A”	18.75 bp’s	\$37,500 + 9.375 bp’s	10 bp’s
For Profit Affordable Housing	“A” or Better	25 bp’s	\$50,000 + 10 bp’s	10 bp’s
	Less Than “A”	25 bp’s	\$50,000 + 12.5 bp’s	10 bp’s
Nonprofit Corporations <sup>(2)</sup>	“A” or Better	20 bp’s on first \$10 million 5 bp’s on amounts above \$10 million Maximum Fee of \$75,000 per transaction		1.5 bp’s
	Less Than “A”	20 bp’s on First \$10 million 10 bp’s on amounts above \$10 million Maximum Fee of \$100,000 per transaction		1.5 bp’s
Solid Waste Projects	“A” or Better	25 bp’s	\$50,000 + 10 bp’s	5 bp’s
	Less Than “A”	25 bp’s	\$50,000 + 12.5 bp’s	10 bp’s
Manufacturing and Other	“A” or Better	25 bp’s	\$50,000 + 10 bp’s	10 bp’s
	Less Than “A”	25 bp’s	\$50,000 + 12.5 bp’s	10 bp’s
Government Sponsored or School District Transactions	All Ratings	5 bp’s	5 bp’s	None

Notes:

- 1) The Authority shares 25% of all Issuance Fees with the Host Municipality for each transaction.
- 2) The Authority donates another 25% of Issuance Fees to charitable organizations within the Host community. Where the borrower is a Nonprofit Corporation, they are deemed to be the recipient of this donation. This reduction in the Issuance Fee is included in the above Issuance Fee Schedule for Nonprofit Affordable Housing and Nonprofit Corporation borrowers.
- 3) Annual Fees 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 is \$4,000 per year.
- 4) An application fee of \$2,500 is required for each transaction and should be included when an application is submitted.
- 5) In addition to the above, the Applicant will be responsible for all costs of issuance, including but not limited to, fees of bond counsel, underwriter, trustee, rating agencies, CDLAC (if applicable), any insurer or credit enhancement provider, lender, compliance administrator, and any other parties required to complete the transaction.

Bps = Basis Points

**California Municipal Finance Authority**  
**Required Supplementary Information (Unaudited), Continued**  
**For the year ended June 30, 2012**

**1. AUTHORITY FEE SCHEDULES, Continued**

The following fee schedule was effective for all conduit bond issuances after February 2, 2012.

Schedule of Fees				
Type of Project	Rating	Issuance Fees		Annual Fee (3)
		\$0 - \$20 Million	Over \$20 Million	
Affordable Housing (1) (2)	"A-" or Better	18.75 bps	\$37,500 + 7.5 bps	8 bps
	Less Than "A-"	18.75 bps	\$37,500 + 9.375 bps	8 bps
Nonprofit Corporations (1) (2)	"A-" or Better	20 bps on first \$10 million 5 bps on amounts above \$10 million Maximum Fee of \$75,000 per transaction		1.5 bps
	Less Than "A-"	20 bps on First \$10 million 10 bps on amounts above \$10 million Maximum Fee of \$100,000 per transaction		1.5 bps
Solid Waste Projects (1) (2)	"A-" or Better	25 bps	\$50,000 + 10 bps	5 bps
	Less Than "A-"	25 bps	\$50,000 + 12.5 bps	10 bps
Manufacturing and Other (1) (2)	"A-" or Better	25 bps	\$50,000 + 10 bps	10 bps
	Less Than "A-"	25 bps	\$50,000 + 12.5 bps	10 bps
Government Sponsored or School District Transactions	All Ratings	5 bps	5 bps	None
Public Private Partnerships requiring Ownership through an Authority affiliate	All Ratings	5 bps	5 bps	1.5bps

Notes:

- 1) The Authority shares 25% of all Issuance Fees with the Host Municipality for each transaction.
- 2) The Authority 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. 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.
- 5) In addition to the above, the Applicant will be responsible for all costs of issuance.

Bps = Basis Points

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**SUPPLEMENTARY INFORMATION**  
**(UNAUDITED)**

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**California Municipal Finance Authority**  
**Supplementary Information (Unaudited)**  
**For the year ended June 30, 2012**

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**1. FINANCING APPROVALS**

The following is a summary of the amount of financing approvals, initial resolution adopted by the Authority, for the year ended June 30, 2012:

Project Name	Initial Resolution Amount
Bear Mountain Apartments	\$ 1,900,000
Bridge Triangle Apartments	22,000,000
Calden Apartments	25,000,000
California Terrace Apartments	1,600,000
Carson Apartments	9,000,000
Casa Rita Apartments	11,000,000
Coral Mountain Apartments	26,000,000
Creekside Village Apartments	2,400,000
Crossroads Village / Woodland Park Apartments	16,000,000
Culver City Rotary Plaza Apartments	9,000,000
Del Prado & Delta Manor Apartments	12,000,000
EBALDC Bond 2012 LLC	19,000,000
Eden Apartments- HUD Portfolio	40,000,000
Fargo Senior Center Apartments	16,000,000
Fred Young Farmworker Apartments	15,000,000
Kellgren Apartments	12,500,000
Key Largo Apartments	17,000,000
Kings Valley Senior Apartments	13,000,000
Kovio, Inc.	3,000,000
Logan Place Apartments	20,000,000
Madonna Road Apartments	20,000,000
McCarty Manor Apartments	4,000,000
Mercy Auburn Apartments	12,000,000
New Wilmington Arms Apartments	20,000,000
Paradise Community Village Apartments	5,500,000
Piedmont Apartments	28,000,000
Poso Manor Apartments and Rose Valley Apartments	6,000,000
Post Apartments	4,200,000
Rancho California Apartments	8,000,000
Round Walk Village Apartments	15,000,000
Sacramento Forward LLC	200,000,000
Shelter Hill Apartments	20,000,000
Sunshine Manor Apartments	1,300,000
Tamarisk Apartments	4,500,000
Terracina Oaks Apartments	5,000,000
The Alexander Apartments	14,000,000



**California Municipal Finance Authority**  
**Supplementary Information (Unaudited), Continued**  
**For the year ended June 30, 2012**

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**1. FINANCING APPROVALS, Continued**

The following is a summary of the amount of financing approvals, initial resolution adopted by the Authority, for the year ended June 30, 2012, Continued:

Project Name	Initial Resolution Amount
Village Grove Apartments	\$ 18,000,000
Vintage Wine Estates, Inc.	10,000,000
Vista Terrace Apartments	12,000,000
Walnut Village Apartments	2,000,000
Weedpatch Apartments	1,900,000
Westlake Christian Terrace East Apartments	28,000,000
Yucca Trails Apartments	3,000,000
Total:	\$ 733,800,000

The following is a summary of the amount of financing approvals, final resolution adopted by the Authority, for the year ended June 30, 2012:

Project Name	Final Resolution Amount
BloodSource 2012	\$ 17,000,000
Campbell Christian Schools	6,100,000
Caritas 2012	60,000,000
Casa Griffin Apartments	8,500,000
Children's Day School	8,000,000
Concordia University	34,000,000
De Anza II Apartments	5,000,000
Desert Meadows Apartments	12,700,000
Drasnin Manor Apartments	4,500,000
EBALDC Bond 2012 LLC	12,000,000
El Centro Family Apartments	9,600,000
Elena Gardens Apartments	22,760,000
Emerson College	55,000,000
Evergreen Apartments	13,541,500
Forester Square Apartments	6,930,732
Goodwill of Sacramento Valley	30,000,000
Huron Portfolio Apartments	3,300,000
J Craig Venter Institute	32,500,000
Keiro Nursing Home	4,000,000
Kenneth Henry Court Apartments	3,800,000

**California Municipal Finance Authority**  
**Supplementary Information (Unaudited), Continued**  
**For the year ended June 30, 2012**

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**1. FINANCING APPROVALS, Continued**

The following is a summary of the amount of financing approvals, final resolution adopted by the Authority, for the year ended June 30, 2012, Continued:

Project Name	Final Resolution Amount
Kern Portfolio	\$ 8,750,000
Key Largo Apartments	16,500,000
LA Orthopaedic Hospital Foundation and Orthopaedic Hospital	42,000,000
Logan Place Apartments	15,172,000
Los Robles Apartments	15,186,500
Lycee International De Los Angeles	12,000,000
Manzanita Apartments	13,300,000
McCarty Manor Apartments	3,400,000
Mendota Portfolio Apartments	3,200,000
Orange Gardens Apartments	7,600,000
Paradise Community Village Apartments	5,200,000
Piedmont Apartments	26,200,000
Post Apartments	4,200,000
Poway Villas Apartments	10,000,000
Sacramento Metropolitan Fire District	15,000,000
San Diego Natural History Museum	13,000,000
Santa Fe Commons/ 9th Street Apartments	4,500,000
Santa Rosa Academy	25,000,000
Satellite Housing Pool	33,832,910
School House Station/ Vista Grande Apartments	11,000,000
Shelter Hill Apartments	18,280,030
Southwestern Law School	25,000,000
St. Andrew's Manor Apartments	5,250,000
St. Andrews School	11,000,000
St. Joseph's II Apartments	19,114,911
Temple Art Lofts	6,250,000
The HELP Group	26,000,000
University Ministry Board of the Santa Barbara Presbytery	3,490,000
University of San Diego	46,000,000
University of San Diego 2012	15,000,000
UTS BioEnergy	25,200,000
Valley Commons East Apartments	3,500,000
Vista Terrace Apartments	10,100,000
Vistamar School	9,500,000
Webb Schools	11,000,000
Westlake Christian Terrace East Apartments	26,770,662
Yucca Trails Apartments	2,500,000
Total:	\$ 898,229,245



**INDEPENDENT AUDITORS' 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  
of the California Municipal Finance Authority  
Carlsbad, California

We have audited the statement of net assets of the California Municipal Authority (the "Authority") as of June 30, 2012, and the statements of revenues, expenses, and changes in net assets and cash flows for the year then ended and have issued our report thereon dated December 7, 2012. 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.

**Internal Control Over Financial Reporting**

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

*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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.



To the Board of Directors  
of the California Municipal Finance Authority  
Carlsbad, California  
Page 2

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, 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*.

This report is intended solely for the information and use of management, the Board of Directors, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Marcum LLP".

Marcum LLP  
Certified Public Accountants  
Irvine, California  
December 7, 2012