

**CALIFORNIA MUNICIPAL
FINANCE AUTHORITY**

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

For the Year Ended June 30, 2016



Certified
Public
Accountants

CALIFORNIA MUNICIPAL FINANCE AUTHORITY
For the Year Ended June 30, 2016

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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 California Municipal Finance Authority (CMFA) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise 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 California Municipal Finance Authority as of June 30, 2016, 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 financial statements that collectively comprise 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 December 15, 2016, 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
December 15, 2016

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

This section of the California Municipal Finance Authority's (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, 2016. 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, 2016

- Restricted cash balances for FY 2016 are \$3,018,323 above prior year due to a greater number of projects seeking California Debt Limit Allocation Committee bond allocation.
- FY 2016 operating revenues are \$1,029,719 above prior year due to the number of bond issuances and related transactions.
- Operating net loss of (\$16,773) 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 2016. 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, 2016 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, 2016. 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, 2016. This statement reports cash receipts, cash payments, and net changes in cash resulting from operating, capital and related financing, noncapital financing and investing 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, 2016 and 2015 and changes from the prior year are shown in the table below.

	<u>2016</u>	<u>2015</u>	<u>Change</u>
Cash	\$ 593,203	\$ 545,402	\$ 47,801
Restricted cash	<u>4,724,639</u>	<u>1,706,316</u>	<u>3,018,323</u>
	<u>\$ 5,317,842</u>	<u>\$ 2,251,718</u>	<u>\$ 3,066,124</u>

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, 2016 and 2015 charitable payments distributed through the Foundation were \$1,290,877 and \$968,063, 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 2016 accounts receivable for the CMFA decreased by \$55,376 to \$43,637 which represents 0.98% of total revenues.

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

LIABILITIES

Accounts Payable

Accounts payable for the CMFA for FY 2016 is \$66,373 or 1.5% of operating expenses compared to \$58,018 or 1.7% for FY 2015.

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, 2016 and 2015 were \$4,724,639 and \$1,706,316, respectively. The \$3,018,323 increase in performance deposits relates to CDLAC applications filed shortly before the end of FY 2016 to meet a deadline to preserve a higher level of tax credits for affordable housing projects.

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

REVENUES

The CMFA generates operating revenue through issuance fees, annual administrative fees and application fees for activities related to bond financings. During FY 2016, the CMFA issued \$1.5 billion of new bonds compared to \$1.2 billion in FY 2015. Revenues for FY 2016 and FY 2015 were \$4.5 and \$3.4 million respectively.

Operating Revenue

	2016	2015	Change
Annual administration fees	\$ 2,450,359	\$ 2,066,352	\$ 384,008
Issuance fees	1,884,794	1,294,082	590,712
Application fees	127,500	72,500	57,000
	\$ 4,462,653	\$ 3,432,934	\$ 1,029,719

Under the fee schedule adopted by the CMFA during FY 2012, 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 2016.

EXPENSES

The CMFA's FY 2016 and FY 2015 operating expenses were \$4.5 and \$3.4 million respectively. In FY 2016, charitable donations made through the Foundation increased by \$322,794, professional consultant fees increased by \$561,093, and payments to the CMFA's member agencies were \$178,595 higher compared to FY 2015 due to an increase in bond transactions in FY 2016.

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, 2016 and 2015. 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>2016</u>	<u>2015</u>	<u>Change</u>
Revenues	\$ 4,463,450	\$ 3,511,376	\$ 952,074
Expenses	<u>4,479,425</u>	<u>3,506,032</u>	<u>973,395</u>
Changes in net position	(15,975)	5,344	(21,319)
Net position - beginning of year	<u>547,213</u>	<u>541,869</u>	<u>5,345</u>
Net Position - end of year	<u>\$ 531,238</u>	<u>\$ 547,213</u>	<u>\$ (15,975)</u>

ECONOMIC FACTORS

The overall economic environment was positive for the types of programs administered by the CMFA in FY 2016 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, 2016

ASSETS

Current assets:

Unrestricted assets:

Cash	\$ 593,203
Accounts receivable	43,637
Prepaid expenses	6,371

643,211

Restricted assets:

Cash	4,724,639
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4,724,639

Total assets

5,367,850

LIABILITIES

Current liabilities:

Accounts payable	66,373
Accrued expenses	45,600
Refundable deposits	4,724,639

4,836,612

Total liabilities

4,836,612

NET POSITION

Unrestricted	<u><u>\$ 531,238</u></u>
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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, 2016

OPERATING REVENUES:

Annual fees	\$ 2,450,359
Issuance fees	1,884,794
Application fees	127,500
Total operating revenues	4,462,653

OPERATING EXPENSES:

Professional consultant fees	2,465,349
Charitable donations	1,290,877
Municipal distributions to Joint Powers Authority members	559,884
General and administrative	127,959
Advertising	35,356
Total operating expenses	4,479,425

OPERATING LOSS	(16,772)
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NONOPERATING REVENUES:

Interest income	797
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Change in net position	(15,975)
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Net position - beginning of year	547,213
Net position - end of year	\$ 531,238

See accompanying notes to the financial statements.

CALIFORNIA MUNICIPAL FINANCE AUTHORITY

**Statement of Cash Flows
For the Year Ended June 30, 2016**

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from borrowers	\$ 4,517,951
Cash received for refundable deposits	3,018,323
Cash paid to suppliers for goods and services	(2,492,350)
Cash paid for general and administrative expenses	(127,836)
Cash payments for municipal distributions and charitable donations	<u>(1,850,761)</u>
Net cash provided by operating activities	<u><u>3,065,327</u></u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest income received	<u>797</u>
Net increase in cash	3,066,124

Cash - beginning of year	<u>2,251,718</u>
Cash - end of year	<u><u>\$ 5,317,842</u></u>

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

Cash	\$ 593,203
Restricted cash	<u>4,724,639</u>
Cash - end of year	<u><u>\$ 5,317,842</u></u>

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

Operating loss	\$ (16,772)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Changes in assets and liabilities:	
Accounts receivable	55,376
Prepaid expenses	(589)
Accounts payable	8,355
Accrued expenses	634
Refundable deposits	<u>3,018,323</u>
Net cash provided by operating activities	<u><u>\$ 3,065,327</u></u>

See accompanying notes to the financial statements.

CALIFORNIA MUNICIPAL FINANCE AUTHORITY
Notes to the Financial Statements
For the Year Ended June 30, 2016

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 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, 2016

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 component 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, 2016

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, 2016.

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 \$5,317,842 at June 30, 2016, while the related bank balance was \$5,640,302. The difference between the carrying value and the bank balance is related to outstanding checks. The bank balances at June 30, 2016, 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, 2016

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 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 \$4,724,639 of refundable deposits as of the year ended June 30, 2016.

NOTE 5: 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 year ended June 30, 2016 amounted to \$2,345,349.

NOTE 6: 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, 2016, were \$1,301,803. In the financial statements of the CMFA the transfers are eliminated for presentation purposes.

NOTE 7: CHARITABLE CONTRIBUTIONS BY THE FOUNDATION

The CMFA donates a portion of fees collected to various charitable activities within California communities through the Foundation. The amount donated by the CMFA during the year ended June 30, 2016 was \$1,290,887.

NOTE 8: 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, 2016, there was \$5,951,700,993 in conduit financing outstanding. The CMFA assisted with the issuance of financings in the amount of \$1,514,150,584 during the year ended June 30, 2016. In addition, the amount of bonds authorized by the CMFA and unsold was \$291,612,000 as of June 30, 2016.

CALIFORNIA MUNICIPAL FINANCE AUTHORITY
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2016

NOTE 8: CONDUIT DEBT (Continued)

The following is a summary of the amount of bonds authorized by the CMFA and unsold as of June 30, 2016:

<u>Project Name</u>	<u>Authorized Amount</u>
AVID Center	\$ 30,000,000
Brookside Crossing Apartments	27,000,000
California Crosspoint High School	8,000,000
Corona Ranch/ Washington Creek Apartments	16,112,000
Crystal Springs Upland School	32,000,000
Goodwill Industries	15,000,000
Middlebury Institute of International Studies at Monterey	25,000,000
Mission Village Apartments	12,500,000
NorthBay Healthcare Group	67,000,000
Portola Senior Apartments	13,000,000
Quarry Creek Apartments	15,000,000
Santa Rosa Community Health Centers	15,000,000
Watts Athens Apartments	16,000,000
 Total	 <u><u>\$ 291,612,000</u></u>

NOTE 9: 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, 2016 is as follows:

Condensed statement of net position:

	<u>CMFA</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>
ASSETS				
Cash	\$ 5,312,489	\$ 5,353	\$ -	\$ 5,317,842
Other assets	<u>50,008</u>	<u>11,200</u>	<u>(11,200)</u>	<u>50,008</u>
Total assets	<u>5,362,497</u>	<u>16,553</u>	<u>(11,200)</u>	<u>5,367,850</u>
LIABILITIES				
Current	<u>4,836,612</u>	<u>11,200</u>	<u>(11,200)</u>	<u>4,836,612</u>
NET POSITION				
Unrestricted	<u>\$ 525,885</u>	<u>\$ 5,353</u>	<u>\$ -</u>	<u>\$ 531,238</u>

CALIFORNIA MUNICIPAL FINANCE AUTHORITY
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2016

NOTE 9: 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	\$ 4,462,653	\$ 1,301,803	\$ (1,301,803)	\$ 4,462,653
Operating expenses	<u>4,479,425</u>	<u>1,301,803</u>	<u>(1,301,803)</u>	<u>4,479,425</u>
Operating loss	<u>(16,772)</u>	<u>-</u>	<u>-</u>	<u>(16,772)</u>
Nonoperating revenues	<u>721</u>	<u>76</u>	<u>-</u>	<u>797</u>
Change in net position	<u>(16,051)</u>	<u>76</u>	<u>-</u>	<u>(15,975)</u>
Net position				
Beginning of year	<u>541,936</u>	<u>5,277</u>	<u>-</u>	<u>547,213</u>
End of year	<u>\$ 525,885</u>	<u>\$ 5,353</u>	<u>\$ -</u>	<u>\$ 531,238</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	\$ 4,367,130	\$ 76	\$ (1,301,879)	\$ 3,065,327
Noncapital financing activities	(1,301,803)	-	1,301,803	-
Investing activities	<u>721</u>	<u>-</u>	<u>76</u>	<u>797</u>
Net increase in cash	<u>3,066,048</u>	<u>76</u>	<u>-</u>	<u>3,066,124</u>
Cash				
Beginning of year	<u>2,246,441</u>	<u>5,277</u>	<u>-</u>	<u>2,251,718</u>
End of year	<u>\$ 5,312,489</u>	<u>\$ 5,353</u>	<u>\$ -</u>	<u>\$ 5,317,842</u>

CALIFORNIA MUNICIPAL FINANCE AUTHORITY
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2016

NOTE 10: 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 11: 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, 2016.

The CMFA maintains insurance policies for general liability, excess liability, directors and officers and environmental liability, with deductibles that vary from \$10,000 to \$25,000. There are no material claims or judgments that would require disclosure or accrual in the accompanying financial statements. During each of the last three fiscal years, there were no reductions in insurance coverage or settlements.

CALIFORNIA MUNICIPAL FINANCE AUTHORITY
Other Information
(Unaudited)

1: CMFA FEE SCHEDULES

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

Schedule of Fees ^{(4) (5)}			
<small>(bps = basis points)</small>			
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	1.5 bps

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, 2016:

Project Name	Initial Resolution Amount
2012 Berkeley Way 1 Apartments	\$ 60,000,000
21 Soledad St. Housing Community Apartments	30,000,000
4840 Mission Street Apartments	60,000,000
Abajo Del Sol Apartments	11,000,000
Adobe Villas Apartments	3,500,000
Alameda Site A Affordable Family Apartments	36,000,000
Alameda Site A Affordable Senior Apartments	28,000,000
American Gold Star Manor Apartments	60,000,000
Antelope Valley Apartments	14,000,000
Barrett Plaza Apartments	16,500,000
Barrett Terrace Apartments	25,000,000
Beacon Pointe Senior Homes	37,000,000
Berkeley Way HOPE Center Apartments	16,000,000
Briar Crest / Rosecrest Apartments	7,000,000
Brookside Crossing Apartments	27,000,000
Buckingham Apartments	20,000,000
Casa La Merced Apartments	20,000,000
Casa Montego Apartments	21,000,000
Cedar & Nettleton Apartments	10,000,000
Charles Apartments	35,000,000
Chestnut Square Family Apartments	30,000,000
Chestnut Square Senior Apartments	30,000,000
Citrus Heights Medical Office Building	15,000,000
City Center Plaza Apartments	20,000,000
Colma Veterans Village Apartments	40,000,000
Colony & Golden Sands Apartments	30,000,000
Colorado Park Apartments	28,000,000
Corona Ranch / Washington Creek Apartments	25,000,000
Coronado Terrace Apartments	90,000,000
Courson Arts Colony West Apartment	39,000,000
Crossroads Apartments	28,800,000
Culver City Rotary Plaza Apartments	30,000,000
Diamond Court Apartments	10,000,000
Eastgate Apartments	11,000,000
El Dorado Apartments	38,000,000
Esperanza Crossing Apartments	11,000,000
First Point Apartments	157,500,000
First Point Senior Apartments	112,500,000

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

2: FINANCING APPROVALS (Continued)

Project Name	Initial Resolution Amount
Flor 401 Loft Apartments	\$ 50,000,000
Fruitvale Transit Village II-A Apartments	55,000,000
Garden Grove Seniors Apartments	150,000,000
Hayward Manor Hotel Apartments	70,000,000
Heritage Villas Apartments	20,000,000
Idaho & Church Apartments	14,000,000
Jardin de Las Rosas Apartments	15,000,000
Las Palmas Apartments	25,000,000
Liberty at Aliso Apartments	40,000,000
Life's Garden Apartments	45,000,000
Los Robles Terrace Apartments	7,000,000
Mackey Terrace Apartments	16,000,000
Madera Vista Phase 3 Apartments	7,000,000
Manzanita Place Apartments	10,000,000
Maple Park Apartments	6,000,000
Mendota Village & Firebaugh Apartments	4,000,000
Miraflores Senior Apartments	30,000,000
Mission Village Apartments	15,000,000
Monte Vista Gardens Apartments	40,000,000
Napa Park Homes Apartments	20,000,000
Newark Station Seniors Apartments	17,000,000
Oakland International Station Apartments	125,000,000
Park Avenue Senior Apartments	50,000,000
Park Paseo Apartments	25,000,000
Park Place Apartments	26,000,000
Paseo Del Oro 2 Apartments	10,000,000
Pierce Park Apartments	100,000,000
Pine View Apartments	14,000,000
Pippin Apartments	17,500,000
Portola Apartments	13,000,000
Quarry Creek Apartments	15,000,000
Rancho California Apartments	12,000,000
Rancho Del Valle Apartments	8,500,000
Rancho West Apartments	37,000,000
Richmond Central Apartments	60,000,000
Rosefield Village Apartments	26,000,000
Saint Mary Tower Apartments	40,000,000
Sea Breeze Terrace Apartments	17,500,000
Senator Apartments	18,000,000

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

2: FINANCING APPROVALS (Continued)

Project Name	Initial Resolution Amount
Shadow Hills Apartments	\$ 19,000,000
Simone Apartments	24,000,000
Six Four Nine Loft Apartments	20,000,000
Skid Row Central 1 Apartments	33,000,000
South Fulton Village Apartments	50,000,000
Spring Valley 2 Apartments	7,500,000
Temple View (3200 Temple Street) Apartments	17,000,000
The Pearl Apartments	5,500,000
Valentine Court Apartments	8,000,000
Valley View Senior Homes Apartments	20,000,000
Ventaliso Apartments	8,000,000
Villa Court Senior Apartments	156,250,000
Villa Serena 2 Apartments	11,000,000
Village at Burlingame Apartments	80,000,000
Village at Los Carneros Apartments	24,000,000
Vista Del Sol 2 Apartments	17,000,000
Vista Terrace Apartments	100,000,000
Vista Tower Apartments	40,000,000
Walnut Place Apartments	7,000,000
Watts Athens Apartments	16,000,000
Waverly Place Apartments	9,000,000
Weitzel Apartments	15,000,000
Total	\$ 3,240,550,000

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, 2016:

Project Name	Final Resolution Amount
815 North Harbor Apartments	\$ 15,185,948
American Gold Star Manor Apartments	55,900,000
American Heritage Education Foundation	40,000,000
Arroyo Del Camino Apartments	6,000,000
AVID Center	30,000,000
Bellflower Friendship Manor Apartments	21,000,000
Beverly Park Apartments	14,000,000
Briar Crest / Rosecrest Apartments	9,000,000
Brookside Crossing Apartments	27,000,000
Buckingham Apartments	16,400,000
California Crosspoint High School	8,000,000
Camino Esperanza Apartments	7,000,000

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

2: FINANCING APPROVALS (Continued)

Project Name	Final Resolution Amount
Cardenas Three, LLC	\$ 4,000,000
Center for Early Education	40,000,000
City Center Plaza Apartments	16,660,000
Coalinga Senior Apartments	5,000,000
College Park II Apartments	33,000,000
Colorado Park Apartments	22,347,000
Copper Square Apartments	25,000,000
Corona Ranch / Washington Creek Apartments	16,112,000
Crystal Springs Upland School	32,000,000
Eisenhower Medical Center	25,000,000
Family Healthcare Network	25,250,000
Garden Grove United Methodist Church Apartments	12,000,000
Gindi Maimonides Academy	10,000,000
Golden Valley Health Center	9,500,000
Goodwill Industries - Sacramento Valley & Northern Nevada	15,000,000
Hismen Hin-Nu Terrace & Marcus Garvey Apartments	20,300,000
J. Craig Venter Institute	29,800,000
Jardin de Las Rosas Apartments	9,873,929
King Chavez Charter School	15,000,000
Las Palmas Apartments	22,901,000
Laurel Grove Apartments	47,696,218
Lemon Grove II Apartments	15,371,923
Manzanita Place Tower Apartments	8,500,000
March Veterans Village Apartments	28,000,000
Mater Dei High School	9,200,000
Middlebury Institute of International Studies at Monterey	25,000,000
Mill Creek Village Senior Apartments	13,000,000
Mission Village Apartments	12,500,000
NorthBay Healthcare Group	67,000,000
Ocean View Manor Apartments	4,536,975
Palmdale Aerospace Academy	50,000,000
Portola Senior Apartments	13,000,000
Quarry Creek Apartments	15,000,000
Rancho California Apartments	12,000,000
Redwood / Westminster Gardens	55,000,000
Royal Vista Terrace Apartments	9,500,000
Santa Rosa Academy	15,000,000
Santa Rosa Community Health Centers	15,000,000

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

2: FINANCING APPROVALS (Continued)

Project Name	Final Resolution Amount
Schillo Gardens Apartments	\$ 6,700,000
Springville at Camarillo Apartments	10,883,139
St. Junipero Serra Catholic School	20,000,000
Sycamore Terrace Apartments	15,000,000
Terracina Oaks II Apartments	6,500,000
The Harker School	20,000,000
The Lodge at Eureka Apartments	4,480,000
University of San Diego	92,000,000
Urban Discovery Academy	2,500,000
Ventaliso Family Apartments	5,026,045
Villa Garcia Apartments	10,000,000
Villa La Esperanza Apartments	25,544,496
Watts Athens Village Apartments	16,000,000
Xavier College Preparatory High School	9,000,000
Total	\$ 1,297,168,673

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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, 2016, and the related notes to the financial statements, which collectively comprise the CMFA’s basic financial statements, and have issued our report thereon dated December 15, 2016.

Internal Control over Financial Reporting

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

Macias Gini & O'Connell LLP

San Diego, California
December 15, 2016