

**CALIFORNIA MUNICIPAL  
FINANCE AUTHORITY**

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

For the Year Ended June 30, 2017



Certified  
Public  
Accountants



**CALIFORNIA MUNICIPAL FINANCE AUTHORITY**  
**For the Year Ended June 30, 2017**

*Table of Contents*

	<i>Page</i>
Independent Auditor's Report .....	1
Management's Discussion and Analysis (Required Supplementary Information – Unaudited).....	3
Basic Financial Statements:	
Statement of Net Position .....	9
Statement of Revenues, Expenses and Changes in Net Position .....	10
Statement of Cash Flows.....	11
Notes to the Financial Statements .....	12
Other Information (Unaudited):	
CMFA Fee Schedules .....	19
Financing Approvals .....	20
Other Report:	
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 <i>Government Auditing Standards</i> .....	25





## Independent Auditor's Report

To the Board of Directors  
California Municipal Finance Authority

### Report on the Financial Statements

We have audited the accompanying financial statements of the California Municipal Finance Authority (CMFA) as of and for the year ended June 30, 2017, 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, 2017, 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 October 27, 2017, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of CMFA's 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  
October 27, 2017

**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)<sup>1</sup> of its financial performance during the year ended June 30, 2017. 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, 2017**

- Restricted cash balances for FY 2017 are \$350,812 below prior year due to a greater number of transactions closing and the related California Debt Limit Allocation Committee performance deposits being returned to borrowers.
- FY 2017 operating revenues are \$1,194,400 above prior year due to the number of bond issuances and related transactions.
- Operating income of \$114,491 is due mainly to the increase in operating revenues.

**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.

---

<sup>1</sup> 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 2017. 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, 2017, 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, 2017. 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, 2017. 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.

**CONDENSED STATEMENTS OF FINANCIAL POSITION**

The assets, liabilities, and net position as of June 30, 2017 and 2016 and changes from the prior year are shown in the table below.

	<u>2017</u>	<u>2016</u>	<u>Change</u>
<b>Asset:</b>			
Cash	\$ 708,355	\$ 593,203	\$ 115,152
Restricted cash	4,373,827	4,724,639	(350,812)
Other assets	<u>25,206</u>	<u>50,008</u>	<u>(24,802)</u>
Total assets	<u>5,107,388</u>	<u>5,367,850</u>	<u>(260,462)</u>
<b>Liabilities:</b>			
Accounts payable and Accrued liabilities	87,724	111,973	(24,249)
Refundable deposits	<u>4,373,827</u>	<u>4,724,639</u>	<u>(350,812)</u>
Total liabilities	<u>4,461,551</u>	<u>4,836,612</u>	<u>(375,061)</u>
<b>Net Position:</b>			
Unrestricted	<u>\$ 645,837</u>	<u>\$ 531,238</u>	<u>\$ 114,599</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, 2017 and 2016 charitable payments distributed through the Foundation were \$1,494,556 and \$1,290,877, 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 2017 accounts receivable for the CMFA decreased by \$25,187 to \$18,450 which represents 0.33% of total revenues.

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

**LIABILITIES**

**Accounts Payable**

Accounts payable for the CMFA for FY 2017 is \$32,238 or 0.58% of operating expenses compared to \$66,373 or 1.5% for FY 2016.

**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, 2017 and 2016 were \$4,373,827 and \$4,724,639, respectively. The \$350,812 decrease in performance deposits relates to the large number of transactions closing in FY 2017 and the subsequent release of the performance deposits back to the borrowers.

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 2017, the CMFA issued \$2.7 billion of new bonds compared to \$1.5 billion in FY 2016. Revenues for FY 2017 and FY 2016 were \$5.7 and \$4.5 million respectively.

**Operating Revenue**

	2017	2016	Change
Annual administration fees	\$ 3,125,746	\$ 2,450,359	\$ 675,387
Issuance fees	2,518,807	1,884,794	634,013
Application fees	12,500	127,500	(115,000)
	\$ 5,657,053	\$ 4,462,653	\$ 1,194,400

Under the fee schedule adopted by the CMFA during 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 2017.

**EXPENSES**

The CMFA's FY 2017 and FY 2016 operating expenses were \$5.5 and \$4.5 million respectively. In FY 2017, charitable donations made through the Foundation increased by \$203,679, professional consultant fees increased by \$640,591, and payments to the CMFA's member agencies were \$170,378 higher compared to FY 2016 due to an increase in bond transactions in FY 2017.

**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, 2017 and 2016. 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>2017</u>	<u>2016</u>	<u>Change</u>
Revenues	\$ 5,657,161	\$ 4,463,450	\$ 1,193,711
Expenses	<u>5,542,562</u>	<u>4,479,425</u>	<u>1,063,137</u>
Changes in net position	114,599	(15,975)	130,574
Net position - beginning of year	<u>531,238</u>	<u>547,213</u>	<u>(15,975)</u>
Net Position - end of year	<u>\$ 645,837</u>	<u>\$ 531,238</u>	<u>\$ 114,599</u>

**ECONOMIC FACTORS**

The overall economic environment was positive for the types of programs administered by the CMFA in FY 2017 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.

**Page left blank intentionally.**

**CALIFORNIA MUNICIPAL FINANCE AUTHORITY**

**Statement of Net Position**

**June 30, 2017**

**ASSETS**

Current assets:

Unrestricted assets:

Cash	\$ 708,355
Accounts receivable	18,450
Prepaid expenses	6,756

733,561

Restricted assets:

Cash	4,373,827
------	-----------

**Total assets**

5,107,388

**LIABILITIES**

Current liabilities:

Accounts payable	32,238
Accrued expenses	55,486
Refundable deposits	4,373,827

4,461,551

**NET POSITION**

Unrestricted	<u><u>\$ 645,837</u></u>
--------------	--------------------------

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, 2017**

**OPERATING REVENUES:**

Annual fees	\$ 3,125,746
Issuance fees	2,518,807
Application fees	12,500
<b>Total operating revenues</b>	<b>5,657,053</b>

**OPERATING EXPENSES:**

Professional consultant fees	3,105,940
Charitable donations	1,494,556
Municipal distributions to Joint Powers Authority members	774,964
General and administrative	129,282
Advertising	37,820
<b>Total operating expenses</b>	<b>5,542,562</b>

<b>OPERATING INCOME</b>	<b>114,491</b>
-------------------------	----------------

**NONOPERATING REVENUES:**

Interest income	108
-----------------	-----

<b>Change in net position</b>	<b>114,599</b>
-------------------------------	----------------

Net position - beginning of year	531,238
Net position - end of year	<b>\$ 645,837</b>

See accompanying notes to the financial statements.

**CALIFORNIA MUNICIPAL FINANCE AUTHORITY**

**Statement of Cash Flows  
For the Year Ended June 30, 2017**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Cash received from borrowers	\$ 5,672,554
Cash paid for refundable deposits	(350,812)
Cash paid to suppliers for goods and services	(3,177,895)
Cash paid for general and administrative expenses	(110,095)
Cash payments for municipal distributions and charitable donations	<u>(2,269,520)</u>
<b>Net cash used by operating activities</b>	<b><u>(235,768)</u></b>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Interest income received	<u>108</u>
<b>Net decrease in cash</b>	<b>(235,660)</b>

Cash - beginning of year	<u>5,317,842</u>
Cash - end of year	<u><u>\$ 5,082,182</u></u>

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

Cash	\$ 708,355
Restricted cash	<u>4,373,827</u>
Cash - end of year	<u><u>\$ 5,082,182</u></u>

**RECONCILIATION OF OPERATING INCOME TO NET  
CASH USED BY OPERATING ACTIVITIES:**

Operating income	\$ 114,491
Adjustments to reconcile operating income to net cash used by operating activities:	
Changes in assets and liabilities:	
Accounts receivable	25,187
Prepaid expenses	(385)
Accounts payable	(34,135)
Accrued expenses	9,886
Refundable deposits	<u>(350,812)</u>
<b>Net cash used by operating activities</b>	<b><u><u>\$ (235,768)</u></u></b>

See accompanying notes to the financial statements.

**CALIFORNIA MUNICIPAL FINANCE AUTHORITY**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 1: ORGANIZATION AND OPERATIONS**

The California Municipal Finance Authority (CMFA) was organized on August 12, 2004 under the provisions 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, 2017**

**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, 2017**

**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, 2017.

**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 \$5,082,182 at June 30, 2017, while the related bank balance was \$5,384,501. The difference between the carrying value and the bank balance is related to outstanding checks. The bank balances at June 30, 2017, 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: 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, 2017**

**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 \$4,373,827 of refundable deposits as of June 30, 2017.

**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, 2017 amounted to \$2,978,003.

**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, 2017, were \$1,506,061. 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, 2017 was \$1,494,556.

**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, 2017, there was \$7,595,238,084 in conduit financing outstanding. The CMFA assisted with the issuance of financings in the amount of \$2,691,119,699 during the year ended June 30, 2017. In addition, the amount of bonds authorized by the CMFA and unsold was \$644,005,000 as of June 30, 2017.

**CALIFORNIA MUNICIPAL FINANCE AUTHORITY**  
**Notes to the Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

**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, 2017:

<u>Project Name</u>	<u>Authorized Amount</u>
Barrett Plaza Apartments	\$ 18,000,000
Channing House B	55,955,000
City of Albany	8,000,000
Coliseum Transit Village Apartments	32,000,000
Eisenhower Medical Center A	279,800,000
Heritage Villas Apartments	19,000,000
Monterey Bay Charter School	18,000,000
Monterey Pines Apartments	36,500,000
Napa Park Homes	45,000,000
Park Paseo Apartments	25,000,000
Rotary Miller Avenue Senior Housing Apartments	20,000,000
San Diego Christian College	21,000,000
St. John's Well Child & Family	5,750,000
St. Mary's and All Angels Christian Church	20,000,000
The Cannery Apartments	40,000,000
Total	<u><u>\$ 644,005,000</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, 2017 is as follows:

Condensed statement of net position:

	<u>CMFA</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>
<b>ASSETS</b>				
Cash	\$ 5,076,784	\$ 5,398	\$ -	\$ 5,082,182
Other assets	<u>25,206</u>	<u>20,886</u>	<u>(20,886)</u>	<u>25,206</u>
Total assets	<u>5,101,990</u>	<u>26,284</u>	<u>(20,886)</u>	<u>5,107,388</u>
 <b>LIABILITIES</b>				
Current	<u>4,461,551</u>	<u>20,886</u>	<u>(20,886)</u>	<u>4,461,551</u>
 <b>NET POSITION</b>				
Unrestricted	<u>\$ 640,439</u>	<u>\$ 5,398</u>	<u>\$ -</u>	<u>\$ 645,837</u>

**CALIFORNIA MUNICIPAL FINANCE AUTHORITY**  
**Notes to the Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

**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	\$ 5,657,053	\$ 1,506,061	\$ (1,506,061)	\$ 5,657,053
Operating expenses	<u>5,542,601</u>	<u>1,506,022</u>	<u>(1,506,061)</u>	<u>5,542,562</u>
Operating income	<u>114,452</u>	<u>39</u>	<u>-</u>	<u>114,491</u>
Nonoperating revenues	<u>102</u>	<u>6</u>	<u>-</u>	<u>108</u>
Change in net position	<u>114,554</u>	<u>45</u>	<u>-</u>	<u>114,599</u>
Net position				
Beginning of year	<u>525,885</u>	<u>5,353</u>	<u>-</u>	<u>531,238</u>
End of year	<u>\$ 640,439</u>	<u>\$ 5,398</u>	<u>\$ -</u>	<u>\$ 645,837</u>

Condensed statement of cash flows:

	<u>CMFA</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>
Net cash provided (used) by:				
Operating activities	\$ 1,270,215	\$ 45	\$ (1,506,028)	\$ (235,768)
Noncapital financing activities	(1,506,022)	-	1,506,022	-
Investing activities	<u>102</u>	<u>-</u>	<u>6</u>	<u>108</u>
Net increase (decrease) in cash	<u>(235,705)</u>	<u>45</u>	<u>-</u>	<u>(235,660)</u>
Cash				
Beginning of year	<u>5,312,489</u>	<u>5,353</u>	<u>-</u>	<u>5,317,842</u>
End of year	<u>\$ 5,076,784</u>	<u>\$ 5,398</u>	<u>\$ -</u>	<u>\$ 5,082,182</u>

**CALIFORNIA MUNICIPAL FINANCE AUTHORITY**  
**Notes to the Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

**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, 2017.

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:

<b>Schedule of Fees</b> <sup>(4) (5)</sup>			
<small>(bps = basis points)</small>			
<b>Type of Project</b>	<b>Issuance Fees</b>		<b>Annual Fee</b> <sup>(3)</sup>
	<b>\$0 - \$20 Million</b>	<b>Over \$20 Million</b>	
Affordable Housing <sup>(1) (2)</sup>	18.75 bps	\$37,500 + 5 bps	5 bps
Nonprofit Corporations <sup>(1) (2)</sup>	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 <sup>(1) (2)</sup>	25 bps	\$50,000 + 10 bps	5 bps
Manufacturing and Other <sup>(1) (2)</sup>	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, 2017:

Project Name	Initial Resolution Amount
3706 San Pablo Apartments	\$ 50,000,000
Baltimore & Leland Apartments	40,000,000
Bay Oaks Apartments	12,000,000
Beachwood Apartments	15,000,000
Beacon Pointe Apartments	45,000,000
Blue Mountain Terrace Apartments	15,000,000
Bow Street Apartment II	10,000,000
Casa Rita Apartments	20,000,000
Citrus FKA Ventura Apartments	39,000,000
Cobblestone Village Apartments	10,000,000
Coliseum Transit Village Apartments	45,000,000
Connell Apartments	12,000,000
Cornerstone Place	24,000,000
Deliverance Temple Apartments	43,000,000
Desert Oasis Apartments	20,000,000
East 6 <sup>th</sup> Street Apartments	20,000,000
EE Cleveland Manor	20,000,000
Eight Trees Apartments	10,000,000
Escondido Bioenergy Facility	7,000,000
Fellowship Plaza II Apartments	75,000,000
Fullerton City Lights Apartments	15,000,000
Granger Apartments	50,000,000
Gravenstein North Apartments	10,000,000
Hayward Manor Hotel Apartments	80,000,000
Liberty at Aliso Apartments	41,000,000
Mission Court Senior Apartments	20,000,000
Monterey Pines Apartments	40,000,000
Monterra Village Apartments	8,000,000
Mt. Rubidoux Manor	30,000,000
Napa Park Homes	45,000,000
Orange County Building 16	200,000,000
Ormond Beach Villas Apartments	15,000,000
Owendale Mutual Housing	6,000,000
Parkside Apartments	10,000,000
Paseo Del Oro 2 Apartments	16,000,000
Piper Court Apartments	15,000,000
Posada De Colores	26,000,000
Providence House Oakland	9,500,000



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

Project Name	Initial Resolution Amount
Redwoods & Wheeler Apartments	\$ 40,000,000
Renascent Place Apartments	45,000,000
Rotary Miller Avenue Senior Housing Apartments	20,000,000
San Pablo Hotel Apartments	25,000,000
Santa Ana Arts Collective Apartments	10,000,000
Sierra Vista Apartments	30,000,000
Summer Park Apartments	40,000,000
Sunset Creek Apartments	25,000,000
The Cannery Apartments	40,000,000
Villa Pacifica II Apartments	13,000,000
Vista Del Sol 2 Apartments	20,000,000
	\$ 1,476,500,000

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, 2017:

Project Name	Final Resolution Amount
3706 San Pablo Apartments	\$ 42,559,500
Antelope Valley Apartments	18,000,000
AVID Center 2	35,000,000
Barrett Plaza Apts	18,000,000
Biola University	90,000,000
California Baptist University	95,000,000
Casa Montego	22,050,000
Cedar & Nettleton Apts	8,200,000
Channing House (A & B)	110,000,000
City of Albany	8,000,000
City of San Bernardino Municipal Sewer Department	45,000,000
City of San Bernardino Municipal Water Department	65,000,000
CMC 2017	500,000,000
Coliseum Transit Village Apartments	32,000,000
Creative Center of Los Altos	52,000,000
Crossroads Apartments	24,895,000
Culver City Rotary Plaza Apts	30,000,000
Deliverance Temple Apartments	30,000,000
Diamond Street/ Mosaic Gardens Apartments	10,000,000
Eastgate Apartments (Supplemental)	1,000,000

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

**2: FINANCING APPROVALS (Continued)**

<u>Project Name</u>	<u>Final Resolution Amount</u>
Eisenhower Medical Center (A & B)	\$ 380,000,000
Esparto II AKA Esperanza Crossing Apartments	8,000,000
Goodwill Central Coast	18,000,000
Granger Apartments	42,000,000
Harvest Park Apartments	35,000,000
Heritage Villas Apartments	19,000,000
Hill Country Community Clinic	4,500,000
Institute on Aging	45,000,000
International School of the Peninsula	7,500,000
Jurupa Valley Pavement Rehabilitation Project	18,000,000
La Verne University	155,000,000
Lammersville Joint Unified School Dist	56,000,000
Liberty At Aliso Apartments	43,500,000
Life Source (Beech) Charter School	5,000,000
Life's Garden Apartments	39,000,000
Linfield Christian School	25,000,000
Mackey Terrace Apartments	15,933,000
Madera Vista Phase 3 Apts	7,500,000
Making Waves Charter School	45,000,000
Maple Park Apartments	6,500,000
Miraflores Senior Apartments	25,000,000
Mission Court Senior Apartments	14,500,000
Monterey Bay Charter School	18,000,000
Monterey Pines Apartments	36,500,000
Napa Park Homes	45,000,000
Newark Station Apartments	14,750,000
Northbay Healthcare Group 17A	210,000,000
Nova Academy	19,000,000
Open Door Community Health Centers	14,000,000
Orange County Building 16	195,000,000
Paradise Valley Estates	30,000,000
Park Ave Seniors Apartments	39,053,609
Park Paseo Apartments	25,000,000
Park Place FKA Village Avante Apartments	26,000,000
Pierce Park Apartments	100,000,000
Pilgrim Place	39,000,000
Pomona College	17,500,000
Providence House Oakland	8,000,000
Rancho Del Valle Apartments	7,000,000

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

**2: FINANCING APPROVALS (Continued)**

Project Name	Final Resolution Amount
Riverside School	\$ 15,000,000
Rotary Miller Avenue Senior Housing Apts	20,000,000
San Diego Christian College	21,000,000
Sea Breeze Apartments	13,750,000
Shadow Hills	19,250,000
Simone Apartments	14,500,000
Skid Row Central 1 Apartments	19,850,000
South Fulton Village Apartments	45,000,000
St. John's Well Child & Family	5,750,000
St. Mary's and All Angels Christian Church	20,000,000
St. Mary's Tower Apartments	37,500,000
The Cannery Apartments	40,000,000
University of the Pacific	38,000,000
Valentine Court Apartments	5,779,953
Valley View Senior Homes	16,660,000
Villa Pacifica II Apartments	13,000,000
Village at Los Carneros Apartments	12,331,338
VOA	6,000,000
Walnut Place Apartments	7,000,000
Waverly Place Apartments	6,200,000
Westminster Court Apartments	11,000,000
Westmont College	80,000,000
Windsor Mobile CC	24,000,000
Total	\$ 3,587,012,400

**Page left blank intentionally.**



**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, 2017, and the related notes to the financial statements, which collectively comprise the CMFA’s basic financial statements, and have issued our report thereon dated October 27, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the CMFA’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CMFA’s internal control. Accordingly, we do not express an opinion on the effectiveness of the CMFA’s internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether 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  
October 27, 2017