

**CALIFORNIA MUNICIPAL  
FINANCE AUTHORITY**

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

For the Year Ended June 30, 2018



Certified  
Public  
Accountants

# CALIFORNIA MUNICIPAL FINANCE AUTHORITY

For the Year Ended June 30, 2018

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## Independent Auditor's Report

To the Board of Directors  
California Municipal Finance Authority

### Report on the Financial Statements

We have audited the accompanying financial statements of the California Municipal Finance Authority (CMFA) as of and for the year ended June 30, 2018, 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, 2018, 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 April 26, 2019, 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.

A handwritten signature in dark ink that reads "Macias Gini & O'Connell LLP". The signature is written in a cursive, flowing style.

San Diego, California  
April 26, 2019

**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, 2018. 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 of the CMFA, 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 borrowers.

**FINANCIAL HIGHLIGHTS FOR THE YEAR ENDED JUNE 30, 2018**

- Restricted cash balances for FY 2018 are \$2,225,127 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 2018 operating revenues are \$1,431,966 above prior year due to the higher number and par amount of bond issuances and related transactions.
- Operating loss of \$170,001 is due mainly to increased charitable payments funded by the collection of accounts receivable and paid out/expensed during FY 2018.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The CMFA's financial statements include the MD&A, financial statements, and accompanying notes to the basic 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.

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<sup>1</sup> For purposes of this MD&A, "Management" 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 2018. 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 website, and can also be obtained by contacting CMFA's management.

**FINANCIAL STATEMENTS**

The financial statements of the CMFA report information using accounting principles generally accepted in the United States (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, 2018, 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 revenues and expenses for the year ended June 30, 2018. 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, 2018. 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 Basic 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, 2018 and 2017 and changes from the prior year are shown in the table below.

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Asset:			
Cash	\$ 625,554	\$ 708,355	\$ (82,801)
Restricted cash	2,148,700	4,373,827	(2,225,127)
Other assets	<u>89,974</u>	<u>25,206</u>	<u>(64,768)</u>
Total assets	<u>2,864,228</u>	<u>5,107,388</u>	<u>(2,243,160)</u>
Liabilities:			
Accounts payable and accrued liabilities	239,600	87,724	151,875
Refundable deposits	<u>2,148,700</u>	<u>4,373,827</u>	<u>(2,225,127)</u>
Total liabilities	<u>2,388,300</u>	<u>4,461,551</u>	<u>(2,073,251)</u>
Net Position:			
Unrestricted	<u>\$ 475,928</u>	<u>\$ 645,837</u>	<u>\$ (169,909)</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, 2018 and 2017 charitable payments distributed through the Foundation were \$2,342,064 and \$1,494,556, 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 2018, accounts receivable for the CMFA increased by \$64,007, from \$18,450 to \$82,457, which is 1.16% of total revenues.

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

**LIABILITIES**

**Accounts Payable**

Accounts payable for the CMFA as of June 30, 2018 is \$45,649 or 0.63% of operating expenses compared to \$32,238 or 0.58% as of June 30, 2017.

**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, 2018 and 2017 were \$2,148,700 and \$4,373,827, respectively. The \$2,225,127 decrease in performance deposits is due to a greater number of transactions closing and the related California Debt Limit Allocation Committee performance deposits being returned to borrowers.

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

**OPERATING REVENUES**

The CMFA generates operating revenues through annual administrative fees, issuance fees, and application fees for activities related to bond financings. During FY 2018, the CMFA issued \$3.6 billion of new bonds compared to \$2.7 billion in FY 2017. Operating Revenues for FY 2018 and FY 2017 were \$7.1 million and \$5.7 million, respectively.

	<b>Operating Revenues</b>		
	<u>2018</u>	<u>2017</u>	<u>Change</u>
Annual administration fees	\$ 3,630,708	\$ 3,125,746	\$ 504,962
Issuance fees	3,443,311	2,518,807	924,504
Application fees	<u>15,000</u>	<u>12,500</u>	<u>2,500</u>
	<u>\$ 7,089,019</u>	<u>\$ 5,657,053</u>	<u>\$ 1,431,966</u>

Under the fee schedule adopted by the CMFA during FY 2018, 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 2018.

**OPERATING EXPENSES**

The CMFA's FY 2018 and FY 2017 operating expenses were \$7.3 million and \$5.5 million, respectively. In FY 2018, professional consultant fees increased by \$595,291, charitable donations made through the Foundation increased by \$847,508, and payments to the CMFA's member agencies were \$252,510 higher compared to FY 2017 due to an increase in bond transactions in FY 2018.



**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, 2018 and 2017. The items affecting the change in net position were previously detailed in the Operating revenues and Operating expenses discussion.

**Condensed Statement of Revenues, Expenses and Changes in Net Position**

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Revenues	\$ 7,089,111	\$ 5,657,161	\$ 1,431,950
Expenses	<u>7,259,020</u>	<u>5,542,562</u>	<u>1,716,458</u>
Changes in net position	(169,909)	114,599	(284,508)
 Net position - beginning of year	<u>645,837</u>	<u>531,238</u>	<u>144,599</u>
Net Position - end of year	<u><u>\$ 475,928</u></u>	<u><u>\$ 645,837</u></u>	<u><u>\$ (169,909)</u></u>

**ECONOMIC FACTORS**

The overall economic environment was positive for the types of programs administered by the CMFA in FY 2018 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, 2018

**ASSETS**

Current assets:

Unrestricted assets:

Cash	\$ 625,554
Accounts receivable	82,457
Prepaid expenses	<u>7,517</u>

Total current assets	<u>715,528</u>
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Noncurrent assets:

Cash - restricted	<u>2,148,700</u>
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<b>Total assets</b>	<u><u>2,864,228</u></u>
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**LIABILITIES**

Current liabilities:

Accounts payable	45,649
Accrued expenses	193,951
Refundable deposits	<u>2,148,700</u>

<b>Total liabilities</b>	<u><u>2,388,300</u></u>
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**NET POSITION**

Unrestricted	<u><u>\$ 475,928</u></u>
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See accompanying notes to the basic financial statements.

**CALIFORNIA MUNICIPAL FINANCE AUTHORITY**  
Statement of Revenues, Expenses and Changes in Net Position  
For the Year Ended June 30, 2018

**OPERATING REVENUES:**

Annual fees	\$ 3,630,708
Issuance fees	3,443,311
Application fees	15,000
<b>Total operating revenues</b>	<u>7,089,019</u>

**OPERATING EXPENSES:**

Professional consultant fees	3,701,231
Charitable donations	2,342,064
Municipal distributions to Joint Powers Authority members	1,027,474
General and administrative	150,406
Advertising	37,845
<b>Total operating expenses</b>	<u>7,259,020</u>

<b>OPERATING LOSS</b>	<u>(170,001)</u>
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**NONOPERATING REVENUES (EXPENSES):**

Interest income	<u>92</u>
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<b>Change in net position</b>	(169,909)
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Net position - beginning of year	645,837
Net position - end of year	<u><u>\$ 475,928</u></u>

See accompanying notes to the basic financial statements.

**CALIFORNIA MUNICIPAL FINANCE AUTHORITY**

Statement of Cash Flows  
For the Year Ended June 30, 2018

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Cash received from borrowers	\$ 6,886,747
Cash paid to suppliers for goods and services	(5,950,792)
Cash not yet paid for general and administrative expenses	(47,269)
Cash payments for municipal distributions and charitable donations	(3,196,706)
	<hr/>
Net cash used by operating activities	(2,308,020)

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Interest income received	92
	<hr/>
Net decrease in cash	(2,307,928)

Cash - beginning of year	5,082,182
	<hr/>
Cash - end of year	\$ 2,774,254
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**RECONCILIATION OF CASH TO THE  
STATEMENT OF NET POSITION:**

Cash	\$ 625,554
Restricted cash	2,148,700
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Cash - end of year	\$ 2,774,254
	<hr/> <hr/>

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

Operating loss	\$ (170,001)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Changes in assets and liabilities:	
Accounts receivable	(64,007)
Prepaid expenses	(761)
Accounts payable	13,411
Accrued expenses	138,465
Refundable deposits	(2,225,127)
	<hr/>
Net cash used by operating activities	\$ (2,308,020)
	<hr/> <hr/>

See accompanying notes to the basic financial statements.

## **CALIFORNIA MUNICIPAL FINANCE AUTHORITY**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2018

### **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. 39 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 Basic Financial Statements (Continued)

For the Year Ended June 30, 2018

### 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 blended 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 presents 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 non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the CMFA. CMFA does not report any non-operating 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 4. Cash and restricted cash are considered cash for purposes of the Statement of Cash Flows.

## **CALIFORNIA MUNICIPAL FINANCE AUTHORITY**

Notes to the Basic Financial Statements (Continued)

For the Year Ended June 30, 2018

### **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, 2018.

#### **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 \$2,774,254 at June 30, 2018, while the related bank balance was \$3,834,532. The difference between the carrying value and the bank balance is related to outstanding checks. The bank balances at June 30, 2018, 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 Basic Financial Statements (Continued)

For the Year Ended June 30, 2018

### **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 only 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 \$2,148,700 of refundable deposits as of June 30, 2018.

### **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, 2018 amounted to \$3,701,231.

### **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, 2018, were \$2,353,918. 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, 2018 was \$2,342,064.

### **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, 2018, there was \$10,615,862,424 in conduit financing outstanding. The CMFA assisted with the issuance of financings in the amount of \$3,614,398,500 during the year ended June 30, 2018. In addition, the amount of bonds authorized by the CMFA and unsold was \$501,500,000 as of June 30, 2018.

**CALIFORNIA MUNICIPAL FINANCE AUTHORITY**

Notes to the Basic Financial Statements (Continued)

For the Year Ended June 30, 2018

**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, 2018:

Project Name	Authorized Amount
Arroyo Del Camino II Apartments	\$ 5,500,000
Asian Community Center of Sacramento Valley	30,000,000
Bella Mente Montessori Academy	20,000,000
Charles Apartments & Cypress Gardens	60,000,000
Claremont Village Apartments	51,000,000
CORE Butte	20,000,000
Cottage Village Senior Apartments	5,500,000
Jewish Education Trade School (JETS)	35,000,000
John Adams Academy	21,000,000
Kensington Campus	13,000,000
Monterey Gateway Apartments	22,000,000
One Church Street Apartments	30,000,000
One Legacy	60,000,000
Park Manor Apartments	14,500,000
Posada De Colores	25,000,000
Sycamore Street Commons/ La Playa Apartments	24,000,000
Westlake Christian Terrace West Apartments	65,000,000
Total	<u>\$ 501,500,000</u>

**NOTE 9: COMBINING FINANCIAL STATEMENT INFORMATION**

Combining financial information of the CMFA and the Foundation (blended component unit) as of and for the year ended June 30, 2018 is as follows:

Condensed statement of net position:

	CMFA	Foundation	Eliminations	Total
<b>ASSETS</b>				
Cash	\$ 2,768,848	\$ 5,406	\$ -	\$ 2,774,254
Other assets	<u>89,974</u>	<u>159,151</u>	<u>(159,151)</u>	<u>89,974</u>
Total assets	<u>2,858,822</u>	<u>164,557</u>	<u>(159,151)</u>	<u>2,864,228</u>
<b>LIABILITIES</b>				
Current	<u>2,388,300</u>	<u>159,151</u>	<u>(159,151)</u>	<u>2,388,300</u>
<b>NET POSITION</b>				
Unrestricted	<u>\$ 470,522</u>	<u>\$ 5,406</u>	<u>\$ -</u>	<u>\$ 475,928</u>

**CALIFORNIA MUNICIPAL FINANCE AUTHORITY**

Notes to the Basic Financial Statements (Continued)

For the Year Ended June 30, 2018

**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	\$ 7,089,019	\$ 2,353,918	\$ (2,353,918)	\$ 7,089,019
Operating expenses	<u>7,259,020</u>	<u>2,353,918</u>	<u>(2,353,918)</u>	<u>7,259,020</u>
Operating loss	<u>(170,001)</u>	<u>-</u>	<u>-</u>	<u>(170,001)</u>
Non-operating revenues	<u>84</u>	<u>8</u>	<u>-</u>	<u>92</u>
Change in net position	<u>(169,917)</u>	<u>8</u>	<u>-</u>	<u>(169,909)</u>
Net position				
Beginning of year	<u>640,439</u>	<u>5,398</u>	<u>-</u>	<u>645,837</u>
End of year	<u>\$ 470,522</u>	<u>\$ 5,406</u>	<u>\$ -</u>	<u>\$ 475,928</u>

Condensed statement of cash flows:

	<u>CMFA</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>
Net cash used by:				
Operating activities	\$ (2,308,020)	\$ -	\$ -	\$(2,308,020)
Noncapital financing activities	-	-	-	-
Investing activities	<u>84</u>	<u>8</u>	<u>-</u>	<u>92</u>
Net increase (decrease) in cash	<u>(2,307,936)</u>	<u>8</u>	<u>-</u>	<u>(2,307,928)</u>
Cash				
Beginning of year	<u>5,076,784</u>	<u>5,398</u>	<u>-</u>	<u>5,082,182</u>
End of year	<u>\$ 2,768,848</u>	<u>\$ 5,406</u>	<u>\$ -</u>	<u>\$ 2,774,254</u>

## **CALIFORNIA MUNICIPAL FINANCE AUTHORITY**

Notes to the Basic Financial Statements (Continued)

For the Year Ended June 30, 2018

### **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, 2018.

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.

**OTHER INFORMATION**  
**(Unaudited)**

**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 until June 7, 2018:

<b>Schedule of Fees (4) and (5)</b> (bps = basis points)			
<b>Type of Project</b>	<b>Issuance Fees</b>		<b>Annual Fee (3)</b>
	<b>\$0 - \$20 Million</b>	<b>Over \$20 Million</b>	
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)

The following fee schedule is effective for all conduit bond issuances after June 8, 2018:

<b>Schedule of Fees (6) and (7)</b> (bps = basis points)			
<b>Type of Project</b>	<b>Issuance Fees</b>		<b>Annual Fee (3)</b>
	<b>\$0 - \$20 Million</b>	<b>Over \$20 Million</b>	
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
Airports / 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
Community Facilities District (CFD) (4)	1%	1%	\$10,000 + Actual Cost
Residential PACE	\$160 per assessment	n/a	\$80 per assessment
Commercial PACE (5)	Option A: 75 bps or Option B: 25 bps	Option A: 75 bps or Option B: 25 bps	Option A: None or Option B: 7.5 bps (10 years)

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) CFD requires a \$20,000 upfront deposit.
- 5) Program Administrator may choose Option A at 75 bps issuance fee and no annual fee, or Option B with a 25 bps issuance fee and 7.5 bps annual fee for the next 10 years (100 bps total).
- 6) 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.
- 7) 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, 2018:

Project Name	Initial Resolution Amount
1055 Pine Apartments	\$ 16,000,000
1296 Shotwell Apartments	35,000,000
490 South Van Ness Apartments	65,000,000
Alameda Site A Affordable Family Apartments	45,000,000
Arroyo Del Camino II Apartments	8,000,000
Baltimore & Leland Apartments	60,000,000
Brooklyn Basin Family Apartments	30,000,000
Brooklyn Basin Senior Apartments	45,000,000
Camino 23 Apartments	22,000,000
Charles Apartments & Cypress Gardens	70,000,000
Claremont Village Apartments	55,000,000
Colden Oaks	12,000,000
Cornerstone Apartments	23,000,000
Cottage Village Senior Apartments	11,000,000
Dino Papavero Senior Centre Apartments	18,700,000
Escondido Gardens Apartments	15,000,000
Essex Tower	10,000,000
Figueroa Oaks	12,000,000
Heritage Apartments	50,000,000
Judson Terrace Homes Apartments	44,000,000
Kensington Campus	15,000,000
Kensington II Apartments	13,000,000
Kristen Court Apartments II	8,000,000
La Villa Puente Apartments	45,000,000
Los Angeles World Airports (LAWA) Automated People Mover (APM)	1,500,000,000
Madison Park	30,000,000
Martin Street Apartments	9,000,000
Monterey Gateway Apartments	25,000,000
Monterey Pines Apartments	47,000,000
Oak Grove Apartments	75,000,000
One Church Street Apartments	30,000,000
Park Manor Apartments	14,500,000
Pioneer Gardens Apartments	55,000,000
Playa Del Sol Apartments	10,000,000
Regency Apartments	20,250,000
Richard Hogan	15,000,000
San Pablo Hotel Apartments	28,000,000



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

**2: FINANCING APPROVALS (Continued)**

Project Name	Initial Resolution Amount
Seabreeze Farms Apartments	\$ 20,500,000
Sequoia Commons Apartments	15,000,000
Shorebreeze Apartments	30,000,000
Sierra Madre Apartments	11,000,000
St. Regis Apartments	20,250,000
Step Up On Second	15,000,000
Sycamore Street Commons/ La Playa Apartments	24,000,000
The Pearl Apartments	9,000,000
Villa Serena Apartments	19,100,000
Vista Las Flores	5,000,000
Walnut Windmere Apartments	21,000,000
Warm Springs TOD Village Affordable #1 Apartments	40,000,000
West Grand & Brush Apartments	30,000,000
Westlake Christian Terrace West Apartments	60,000,000
Woodbridge Apartments	15,000,000
	<u>\$ 2,921,300,000</u>

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, 2018:

Project Name	Final Resolution Amount
1296 Shotwell Apartments	\$ 40,000,000
Arroyo Del Camino II Apartments	5,500,000
Asian Community Center of Sacramento Valley	30,000,000
Barrett Plaza Apartments	18,000,000
Beachwood Apartments	15,000,000
Bella Mente Montessori Academy	20,000,000
Bow Street Apartments II	10,000,000
Camino 23 Apartments	22,000,000
Caritas 2017	67,500,000
Casa Rita Apartments	17,984,322
Charles Apartments & Cypress Gardens	60,000,000
Claremont Village Apartments	51,000,000
Colma Veterans Village	42,000,000
Concordia University	16,000,000
Connell Apartments	9,935,046
CORE Butte	20,000,000
Cornerstone Place	24,000,000

**CALIFORNIA MUNICIPAL FINANCE AUTHORITY**

Other Information (Continued)

(Unaudited)

**2: FINANCING APPROVALS (Continued)**

Project Name	Final Resolution Amount
Cottage Village Senior Apartments	\$ 5,500,000
Desert Oasis Apartments	17,000,000
East 6th Street Apartments	20,000,000
EE Cleveland Manor	13,000,000
Emerson College	65,000,000
Escondido Bioenergy Facility	4,000,000
Fellowship Plaza II Apartments	63,000,000
First Point I	130,000,000
First Point II	90,000,000
Fruitvale Transit Village IIA Apartments	55,000,000
Garden Brook Senior Apartments FKA Garden Grove Seniors Apartments	115,000,000
Golden Valley Health Center	23,000,000
Heritage Christian School	5,000,000
Idaho & Church Lane	13,200,000
Jewish Education Trade School (JETS)	35,000,000
John Adams Academy	6,000,000
John Adams Academy	21,000,000
Kensington Campus	13,000,000
La Villa Puente Apartments	50,000,000
Los Angeles World Airports (LAWA) Automated People Mover (APM)	1,500,000,000
Los Robles Terrace Apartments	7,000,000
Marcus Garvey Common/ Hismen Hin-Nu Terrace Apartments	18,948,166
Martin Street Apartments	6,500,000
Mater Dei High School	17,000,000
Metro East Senior/ Clay Vista Cottages/ Villa Court Senior	130,000,000
Monterey Gateway Apartments	22,000,000
Monterey Pines Apartments	47,000,000
Monterra Village Apartment	7,100,000
Mt. Rubidoux Manor	20,000,000
Omni Family Health	15,000,000
OneLegacy	60,000,000
One Church Street Apartments	30,000,000
OPTIONS Family of Services	2,500,000
Ormond Beach Villas Apartments	15,000,000
Owendale Mutual Housing	4,000,000
Palomar Health	70,000,000
Park Manor Apartments	14,500,000
Paseo Del Oro Apartments	16,000,000

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

**2: FINANCING APPROVALS (Continued)**

Project Name	Final Resolution Amount
Piper Court Apartments	\$ 14,000,000
Pitzer College	63,000,000
Pomona College	160,000,000
Posada De Colores	25,000,000
Presidio Knolls School	3,500,000
Redwoods & Wheeler Apartment	32,300,000
Renascent Place Apartments	38,215,127
Retirement Housing Foundation	37,000,000
River Charter Schools	18,000,000
Sacramento Country Day School	11,000,000
San Francisco Art Institute	18,000,000
SCI-Arc	17,000,000
Scripps College	90,000,000
Sierra Vista Apartments	30,000,000
Sunset Creek Apartments	25,000,000
Swansea Park Senior Apartments	21,200,000
Sycamore Street Commons/ La Playa Apartments	24,000,000
Tuolumne County	24,000,000
Turlock Christian School	7,500,000
Vista Del Sol 2 Apartments	20,000,000
Waste Management	100,000,000
Westlake Christian Terrace West Apartments	65,000,000
Willows Community School	25,500,000
Total	<u>\$ 4,084,382,661</u>

## **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 *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, 2018, and the related notes to the financial statements, which collectively comprise the CMFA's basic financial statements, and have issued our report thereon dated April 26, 2019.

**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  
April 26, 2019