

CMFA SPECIAL FINANCE AGENCY XII

Independent Auditor's Reports
and Basic Financial Statements

For the Period January 13, 2022
Through June 30, 2022



Certified
Public
Accountants

CMFA SPECIAL FINANCE AGENCY XII
For the Period January 13, 2022 Through June 30, 2022

Table of Contents

	<i>Page</i>
Independent Auditor’s Report.....	1
Basic Financial Statements:	
Statement of Net Position.....	3
Statement of Revenues, Expenses and Change in Net Position	4
Statement of Cash Flows	5
Notes to the Basic Financial Statements	6
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>	21



Independent Auditor's Report

To the Board of Directors
CMFA Special Finance Agency XII

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the CMFA Special Finance Agency XII (the Agency) as of and for the period January 13, 2022, through June 30, 2022, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Agency, as of June 30, 2022, and the changes in its financial position and its cash flows for the period January 13, 2022 through June 30, 2022, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Agency, and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards*, will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Agency's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

As discussed in Note 1 to the basic financial statements, the Agency commenced operations effective January 13, 2022. Accordingly, management's discussion and analysis required by Government Accounting Standards Board is not meaningful for the five-month period ended June 30, 2022. Our opinion is not modified for this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2023, on our consideration of the Agency'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 the Agency'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 Agency's internal control over financial reporting and compliance.



San Diego, California
January 25, 2023

CMFA SPECIAL FINANCE AGENCY XII

Statement of Net Position

June 30, 2022

ASSETS

Current Assets:

Cash and cash equivalents	\$ 464,070
Restricted cash and investments	19,612,335
Tenants accounts receivable, net	271,440
Other receivable	75,000
Prepaid expenses	37,826
Total current assets	<u>20,460,671</u>

Noncurrent Assets:

Capital assets not depreciable	62,487,624
Capital assets being depreciated, net	86,871,438
Total noncurrent assets	<u>149,359,062</u>

Total assets 169,819,733

LIABILITIES

Current Liabilities:

Accounts payable and accrued expenses	425,875
Security deposits	270,893
Unearned income	56,311
Current portion of long-term debt	37,533
Total current liabilities	<u>790,612</u>

Noncurrent Liabilities:

Long-term debt, net of current portion	<u>171,264,381</u>
--	--------------------

Total liabilities 172,054,993

NET POSITION

Net investment in capital assets	(2,390,167)
Unrestricted	<u>154,907</u>
Total net position (deficit)	<u>\$ (2,235,260)</u>

See Accompanying Notes to the Basic Financial Statements.

CMFA SPECIAL FINANCE AGENCY XII
Statement of Revenues, Expenses and Change in Net Position
For the Period January 13, 2022 through June 30, 2022

Operating Revenues:	
Rental income - residential	\$ 3,807,568
Other income - residential and commercial	297,401
Total operating revenues	<u>4,104,969</u>
 Operating Expenses:	
Salaries and benefits	250,059
Repairs and maintenance	211,731
Taxes	550,665
Utilities	197,746
Management fees	79,495
General and administrative	495,614
Marketing	5,742
Insurance	38,087
Depreciation	1,506,507
Other	390,583
Total operating expenses	<u>3,726,229</u>
 Operating Income	 <u>378,740</u>
 Nonoperating Expenses:	
Debt service - interest expense	(182,787)
Debt service - cost of debt issuance	(2,431,213)
Total nonoperating expenses	<u>(2,614,000)</u>
 Change in Net Position	 (2,235,260)
 Net position at January 13, 2022	 <u>-</u>
Net position (deficit) at June 30, 2022	<u>\$ (2,235,260)</u>

See Accompanying Notes to the Basic Financial Statements.

CMFA SPECIAL FINANCE AGENCY XII
Statement of Cash Flows
For the Period January 13, 2022 through June 30, 2022

Cash flows from operating activities	
Receipts from customers and users	\$ 4,160,733
Payments to suppliers	(1,656,614)
Payments to employees	(250,059)
Net cash provided by operating activities	<u>2,254,060</u>
Cash flows from capital and related financing activities	
Proceeds from debt issuance	168,600,736
Acquisition of capital assets	(150,865,569)
Interest paid on long-term debt	87,178
Net cash provided by capital and related financing activities	<u>17,822,345</u>
Net increase in cash and cash equivalents	20,076,405
Cash and cash equivalents, beginning of period	-
Cash and cash equivalents, end of period	<u>\$ 20,076,405</u>
Reconciliation of cash and cash equivalents to the Statement of Net Position:	
Cash and cash equivalents	\$ 464,070
Restricted cash and investments	19,612,335
Total cash and cash equivalents	<u>\$ 20,076,405</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 378,740
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	1,506,507
(Increase) in assets:	
Tenant accounts receivable, net	(271,440)
Other receivable	(75,000)
Prepaid expenses	(37,826)
Increase in liabilities:	
Accounts payable and accrued expenses	425,875
Security deposits	270,893
Unearned revenue	56,311
Total adjustments	<u>1,875,320</u>
Net cash provided by operating activities	<u>\$ 2,254,060</u>
Noncash capital and related financing activities:	
Acquisition of capital assets from bond proceeds	\$ 5,000,000
Amortization of bond discount	208,259
Cost of debt issuance paid from bond proceeds	2,431,213

See Accompanying Notes to the Basic Financial Statements.

CMFA SPECIAL FINANCE AGENCY XII
Notes to the Basic Financial Statements
For the Period January 13, 2022 Through June 30, 2022

NOTE 1 - ORGANIZATION, OPERATIONS, AND REPORTING ENTITY

The CMFA Special Finance Agency XII (the Agency) was organized on December 1, 2021, under the provisions of the Joint Exercise of Powers Act (Act) of the Government Code of the State of California. The Agency is a joint exercise of powers authority and public entity formed pursuant to a Joint Exercise of Powers Agreement (Agreement) between the California Municipal Financing Authority (the Authority) and the City of Orange, California as charter members, to which certain other cities and counties may in the future join as additional members. The Agency is authorized and empowered under the Act and the Agreement to issue bonds to undertake the financing and/or refinancing of any purpose or activity permitted under the Act or any other law, including projects that provide affordable local housing for low-income, median-income and moderate-income families and individuals. The Agency is governed by the Board of Directors consisting of, ex officio, the board of directors of the Authority.

Allure Apartments, Orange, California (Allure)

On January 13, 2022, the Agency issued Essential Housing Revenue Bonds Series 2022A-1 (Senior Bonds), Essential Housing Revenue Bonds Series 2022A-2 (Junior Bonds) and Subordinate Essential Housing Revenue Bonds Series 2022B (Series 2022B Bonds). The Series 2022B Bonds was directly issued to, or at the direction of, BLDG Investments LLC, a California limited liability company (BLDG) in exchange for the sale and assignment of certain assets to the Agency, including its purchase rights to the project, a business plan for the Agency, and certain intellectual property created by BLDG for the Agency. The bonds, with an aggregate principal amount of \$186,930,000, were issued to finance the acquisition of a 282-unit multifamily residential rental community and related improvements, personal property and equipment known as Allure Apartments located at 3099 West Chapman Avenue, Orange, California.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Accounting

The financial statements report information on all of the enterprise activities of the Agency. The financial statements are prepared using the *economic resources* 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 Change in Net Position presents increases (revenues) and decreases (expenses) in the Agency's total net position. Under the accrual basis of accounting, the Agency recognizes revenue when earned while expenses are recognized when the liability is incurred, regardless of the timing of related cash flows.

Operating revenues are those revenues that are generated from the Agency's primary operations. Operating expenses are those expenses that are essential to the primary operations of the Agency. All other revenues and expenses not meeting these definitions, and which are not capital in nature, are reported as nonoperating revenues and expenses.

CMFA SPECIAL FINANCE AGENCY XII
Notes to the Basic Financial Statements (Continued)
For the Period January 13, 2022 Through June 30, 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

Substantially all the Agency's cash is invested in interest bearing depository accounts. Investments with original maturities of three months or less when purchased and money market mutual funds that can be withdrawn on demand, are considered to be cash equivalents.

Restricted Cash and Investments

Except for certain investments in funds held by fiscal agents as disclosed in Note 3, section "Fair Value of Measurement", all other investments are reported at fair value (the price that would be received to sell an asset in an orderly transaction between market participants acting in their economic best interest at the measurement date). Changes in fair value that occur during the fiscal year would be reported as part of investment/interest income. Investment/interest income include interest earnings and realized and unrealized gains or losses in fair value. Investment/interest income are recorded as revenues and receivables when earned and realized gains or losses are recorded when the investment is sold.

Amounts shown as restricted cash and investments are to be used for specified purposes, such as refundable deposits to tenants, servicing of the Agency's outstanding debt obligations, and the construction of capital assets. Such assets have been restricted by either the bond indenture, law or through contractual obligations.

Tenant Accounts Receivable

Tenant accounts receivable are uncollateralized residential and commercial rents, which are due at the beginning of each month. Payments of tenant receivables are allocated to the specific charges identified on the tenant's remittance or, if unspecified, are applied to past due balances first, then the current unpaid charges. Management individually reviews all tenant receivables and based on an assessment of current creditworthiness, estimates the portion, if any, of the balance that could be uncollectible. Any 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 tenant accounts receivable. There is no valuation allowance recorded as of June 30, 2022, as all accounts receivable are deemed collectible.

Prepaid Expenses

Prepaid expenses consist of amounts paid by the Agency that will benefit future periods. Prepaid expenses are recorded at cost and are amortized over the related periods.

CMFA SPECIAL FINANCE AGENCY XII
Notes to the Basic Financial Statements (Continued)
For the Period January 13, 2022 Through June 30, 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets are defined by the Agency as assets with an initial, individual cost of \$5,000 or more and an estimated useful life of more than one year. Capital assets are recorded at historical cost or estimated historical cost, if actual cost is not available, and when placed in service. Capital assets are depreciated on a straight-line basis over the estimated useful lives of the assets (3 - 27 years). Depreciation of capital assets is recorded as an expense against operations. Repairs and maintenance costs are charged to expense as incurred.

Management reviews the recoverability of its capital assets in accordance with the provisions of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. GASB Statement No. 42 requires the recognition of impairment of capital assets in the event an asset's service utility has declined significantly and unexpectedly. Accordingly, management evaluates its assets' utility annually or when an event occurs that may impair recoverability of the asset.

Noncurrent Liabilities

Long-term outstanding debt is reported as noncurrent liabilities in the statement of net position. Debt issuance costs include all costs incurred to issue debt. Debt issuance costs are expensed in the period the debt is issued.

Original issue discounts and premiums represent the difference between the face value of the bonds and the consideration received. Original issue discounts and premiums are deferred and amortized over the life of the bonds using the effective interest method. Amortization of the premium is recorded as a decrease to interest expense in the statement of revenues, expenses and change in net position.

Net Position

Net position represents the difference between the Agency's assets and deferred outflows of resources less its liabilities and deferred inflows of resources, and is categorized as follows:

Net Investment in Capital Assets – This component of net position consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any borrowings that is attributed to the acquisition, construction or improvement of those assets and excludes unspent bond proceeds. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets are included in this component of net position. As of June 30, 2022, there was a deficit of \$2,390,167 of net investment in capital assets.

Restricted – This component of net position consists of assets that have limitations imposed on their use through external restrictions imposed by creditors or other state and federal government regulatory agencies. These are then reduced by liabilities related to those assets. As of June 30, 2022, there was no restricted net position.

CMFA SPECIAL FINANCE AGENCY XII
Notes to the Basic Financial Statements (Continued)
For the Period January 13, 2022 Through June 30, 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position (Continued)

Unrestricted – This component of net position is the residual amount that does not meet the definition of Net Investment in Capital Assets or Restricted Net Position. When both restricted and unrestricted resources are available for use, it is the Agency’s policy to use restricted resources first, and then use unrestricted resources as needed.

Use of 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.

GASB Pronouncements

During 2022, the Agency implemented the following GASB pronouncements:

- GASB Statement No. 87, *Leases*. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments, including the business-type activities of such governments.
- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of this statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.
- GASB Statement No. 92, *Omnibus 2020*. The objective of this statement is to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB statements.
- GASB Statement No. 93, *Replacement of Interbank Offered Rates*. The objective of this statement is to establish accounting and financial reporting requirements related to the replacement of an interbank offered rate in hedging derivative instruments and leases.

Implementation of these statements did not have a significant impact on the Agency’s financial statements for the year ended June 30, 2022.

The following GASB Statements have been issued, but are not yet effective for the year ended June 30, 2022:

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The objective of this statement is to better meet the information needs of financial statement users by enhancing the comparability and consistency of conduit debt obligation reporting and reporting of related transactions and other events by state and local governments issuers. GASB Statement No. 91 becomes effective for the Agency for the year ending June 30, 2023.

CMFA SPECIAL FINANCE AGENCY XII
Notes to the Basic Financial Statements (Continued)
For the Period January 13, 2022 Through June 30, 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB Pronouncements (Continued)

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The objective of this statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This statement also provides guidance for accounting and financial reporting for availability payment arrangements. GASB Statement No. 94 becomes effective for the Agency for the year ending June 30, 2023.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. The objective of this statement is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements for government end users. GASB Statement No. 96 becomes effective for the Agency for the year ending June 30, 2023.

In May 2022, GASB issued Statement No. 99, *Omnibus 2022*. The objective of this statement is to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB statements. GASB Statement No. 99 becomes effective for the Agency for the years June 30, 2022 through 2024.

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections, an amendment of GASB Statement No. 62*. The objective of this statement is to enhance accounting and financial reporting requirements for changes and error corrections. GASB Statement No. 100 becomes effective for the Agency for the year ending June 30, 2024.

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The objective of this statement is to enhance accounting and financial reporting requirements for compensated absences. GASB Statement No. 101 becomes effective for the Agency for the year ending June 30, 2025.

The effect of the future adoption of GASB Statements No. 91, No. 94, No. 96, No. 99, No. 100 and No. 101 on the Agency's financial statements have not been evaluated as of the date of this report.

NOTE 3 - CASH AND INVESTMENTS

Cash and investments at June 30, 2022, consist of the following:

Cash on hand	\$ 15,600
Deposits with financial institutions	508,120
Investments with fiscal agent	<u>19,552,685</u>
Total cash and investments	<u><u>\$ 20,076,405</u></u>

Cash and investments are classified in the statement of net position as follows, as of June 30, 2022:

Cash and cash equivalents	\$ 464,070
Restricted cash and investments	<u>19,612,335</u>
Total cash and investments	<u><u>\$ 20,076,405</u></u>

CMFA SPECIAL FINANCE AGENCY XII
Notes to the Basic Financial Statements (Continued)
For the Period January 13, 2022 Through June 30, 2022

NOTE 3 - CASH AND INVESTMENTS (Continued)

Fair Value Measurement

The Agency categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs, which includes quoted prices for similar assets in active markets, quoted prices for identical assets in markets that are not active, or inputs other than quoted prices that are observable for the asset such as, interest rates and yield curves observable at commonly quoted intervals, implied volatilities, and credit spreads; and Level 3 inputs are significant unobservable inputs.

The Agency has the following recurring fair value measurements held with a fiscal agent as of June 30, 2022:

Investments not subject to the fair value hierarchy:	
Money market mutual funds	\$ 6,642,461
Nonparticipating interest-earning investment contracts	<u>12,910,224</u>
Total investments	<u>\$ 19,552,685</u>

Investments held by the fiscal agent in money market mutual funds are priced using amortized cost, which approximates fair value, with a net asset value of \$1.00 (in absolute dollar amounts) per share, and per GASB Statement No. 72, are not subject to the fair value hierarchy. The investments held by the fiscal agent in nonparticipating interest-earning investment contracts are priced using a cost-based measure and per GASB Statement No. 72, are not subject to the fair value hierarchy.

Investments Authorized by Debt Agreements

Investments of debt proceeds held by the bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Agency's investment policy. Permitted investments are specified in the related trust agreements and include the following:

- Demand deposits
- Time deposits
- Money market fund accounts

No maximum percentage of the related debt issue or maximum investment in one issuer is specified.

CMFA SPECIAL FINANCE AGENCY XII
Notes to the Basic Financial Statements (Continued)
For the Period January 13, 2022 Through June 30, 2022

NOTE 3 - CASH AND INVESTMENTS (Continued)

Disclosures Relating to Interest Rate Risk

The Agency applies the Authority’s investment policy, including an interest rate risk policy. Interest rate risk is the risk that changes in market rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity its fair value is to changes in market interest rates. The following table shows the distribution of the Agency’s investments by maturity:

Investment Type	Amount	Remaining Maturity (in Years)		
		1 year or Less	1 - 5	5 or more
Held by Fiscal Agent:				
Money market mutual funds	\$ 6,642,461	\$ 6,642,461	\$ -	\$ -
Nonparticipating interest-earning investment contracts	12,910,224	-	-	12,910,224
Total	<u>\$19,552,685</u>	<u>\$ 6,642,461</u>	<u>\$ -</u>	<u>\$12,910,224</u>

Disclosures Relating to Credit Risk

The Agency applies the Authority’s investment policy, including a credit risk policy. Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Presented below is the actual rating as of June 30, 2022, for each investment type:

Investment Type	Amount	Ratings	
		AA+	Not Rated
Held by Fiscal Agent:			
Money market mutual funds	\$ 6,642,461	\$ 6,642,461	\$ -
Nonparticipating interest-earning investment contracts	12,910,224	-	12,910,224
Total	<u>\$19,552,685</u>	<u>\$ 6,642,461</u>	<u>\$12,910,224</u>

The nonparticipating interest-earning investment contracts do not have a credit rating by a Nationally Recognized Statistical Organization (NRSRO). However, the investment contract has a guaranty by an AA+ rated entity and quality of performance.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the relative size of an investment in a single issuer. GAAP requires disclosure of certain investments in any one issuer that represent 5% or more of total investments. Investments explicitly guaranteed by the U.S. government and investments in money market mutual funds, external investment pools, and other pooled investments are exempt from such disclosure requirements. As of June 30, 2022, \$12,910,224 of nonparticipating interest-earning investment contracts with Mass Mutual exceeds 5% of total investments.

CMFA SPECIAL FINANCE AGENCY XII
Notes to the Basic Financial Statements (Continued)
For the Period January 13, 2022 Through June 30, 2022

NOTE 3 - CASH AND INVESTMENTS (Continued)

Custodial Credit Risk and Investment Policy

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository 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 Agency applies the Authority's investment policies, including a custodial credit risk policy. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

Custodial credit risk generally applies only to direct investment in marketable securities. Custodial credit risk does not apply to a local government's indirect investment securities through the use of mutual funds or government investment pools. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, or investments other than the following provisions for deposits:

- The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit).
- The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies for all deposits not covered by federal depository insurance (FDIC) if obligations of the State or its municipalities, school districts and district corporations are pledged.
- 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 Agency may waive collateral requirements for cash deposits, which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation.

The carrying amount of the Agency's cash held in demand deposit accounts with financial institutions was \$508,120 at June 30, 2022, while the related bank balance was \$480,694, of which \$250,000 is federally insured. The carrying amount and the related bank balance of the Agency deposits held with fiscal agent in institutional cash accounts was \$0. Deposits in institutional cash accounts are not insured by the FDIC or any other government agency. The remaining bank balance of deposits with financial institutions and institutional cash accounts totaling \$230,694 was uncollateralized and uninsured as of June 30, 2022.

For investments held by fiscal agent, the fiscal agent selects the investments under the terms of the applicable trust agreement, acquires the investment, and holds the investment on behalf of the Agency in a third-party safekeeping account.

In July 2013, the Board of Directors of the Authority formally adopted a deposit and investment policy that limits its allowable deposits and investments and addresses the types of risk to which the Authority is exposed.

CMFA SPECIAL FINANCE AGENCY XII
Notes to the Basic Financial Statements (Continued)
For the Period January 13, 2022 Through June 30, 2022

NOTE 4 - CAPITAL ASSETS

The capital assets balance at June 30, 2022, consists of the following activity:

	Balance			Balance
	January 13, 2022	Additions	Deletions	June 30, 2022
Capital assets not depreciated:				
Land	\$ -	\$ 62,487,624	\$ -	\$ 62,487,624
Capital assets depreciable:				
Building and improvements	-	83,377,945	-	83,377,945
Intellectual assets	-	5,000,000	-	5,000,000
Total depreciable capital assets	-	88,377,945	-	88,377,945
Less accumulated depreciation:				
Building and improvements	-	(1,421,271)	-	(1,421,271)
Intellectual assets	-	(85,236)	-	(85,236)
Total accumulated depreciation	-	(1,506,507)	-	(1,506,507)
Total capital assets, depreciable (net)	-	86,871,438	-	86,871,438
Capital assets, net	\$ -	\$ 149,359,062	\$ -	\$ 149,359,062

Depreciation expense for the period January 13, 2022 through June 30, 2022 was \$1,506,507.

NOTE 5 - LONG-TERM DEBT

On January 13, 2022, the Agency issued Essential Housing Revenue Bonds Series 2022A-1 (Senior Bonds) (Series 2022A-1 Bonds) in the amount of \$109,650,000 and Essential Housing Revenue Bonds Series 2022A-2 (Junior Bonds) (Series 2022A-2 Bonds) in the amount of \$72,280,000, collectively, the Series 2022A Bonds. The proceeds of the Series 2022A Bonds were used for financing the cost of the acquisition of a multifamily rental housing facility and related improvements known as Allure Apartments and the costs of issuance of the Series 2022A Bonds.

Concurrently with the issuance of the Series 2022A Bonds, the Agency directly issued Subordinate Essential Housing Revenue Bonds Series 2022B (Series 2022B Bonds) in the amount of \$5,000,000 to BLDG Investments, a California limited liability company (BLDG) in exchange for the sale and assignment of certain assets to the Agency, including its purchase rights to Allure Apartments, a business plan and certain intellectual property created by BLDG.

The Bonds are summarized below:

Obligations	Original Amount	Interest Rate	Final Maturity Date	Balance Outstanding June 30, 2022
Essential Housing Revenue Bonds, Series 2022A-1	\$ 109,650,000	3.25%	February 1, 2057	\$ 109,650,000
Essential Housing Revenue Bonds, Series 2022A-2	72,280,000	4.38%	August 1, 2049	72,280,000
Essential Housing Revenue Bonds, Series 2022B	5,000,000	8.00%	August 1, 2061	5,000,000

CMFA SPECIAL FINANCE AGENCY XII
Notes to the Basic Financial Statements (Continued)
For the Period January 13, 2022 Through June 30, 2022

NOTE 5 - LONG-TERM DEBT (Continued)

Long-term debt activity for the period January 13, 2022 through June 30, 2022, is as follows:

Obligations	Balance			Balance June 30, 2022	Due within One year
	January 13, 2022	Addition	Reduction		
Solana at Grand Essential Housing Revenue Bonds	\$ -	\$ 186,930,000	\$ -	\$ 186,930,000	\$ 490,000
Unamortized Bond Premium	-	(15,836,345)	208,259	(15,628,086)	(452,467)
Total	\$ -	\$ 171,093,655	\$ 208,259	\$ 171,301,914	\$ 37,533

The Agency's principal and interest payments are flexible based on cash flow from the Agency. The projected principal and interest payments on the bonds as of June 30, 2022, are as follows:

Year Ending June 30, 2022	Principal	Interest	Total
2023	\$ 490,000	\$ 7,115,156	\$ 7,605,156
2024	-	7,104,438	7,104,438
2025	-	7,104,438	7,104,438
2026	-	7,104,438	7,104,438
2027	65,000	7,104,438	7,169,438
2028-2032	8,315,000	35,251,703	43,566,703
2033-2037	11,260,000	32,742,203	44,002,203
2038-2042	21,665,000	29,314,719	50,979,719
2043-2047	39,465,000	23,118,603	62,583,603
2048-2052	54,670,000	10,253,181	64,923,181
2053-2057	46,000,000	3,204,913	49,204,913
2058-2062	5,000,000	1,000,000	6,000,000
	\$ 186,930,000	\$ 170,418,230	\$ 357,348,230

Bonds issued by the Agency are payable solely from the Agency's revenues pledged under the Trust Indentures between the Agency and its trustee. The Agency has agreed to certain covenants with respect to bonded indebtedness. Significant covenants include the requirement that the Agency's revenues, as defined under indentures, will be sufficient to pay future bond interest and principal maturities. In compliance with the bond trust indenture Article IX, Sections 9.02 and 9.04, in the event of default by the Agency in the due and punctual payment of parity obligations, the trustee may and shall, at the direction of the bond certificate owners of not less than a majority in aggregate principal amount of the bonds at the time outstanding, upon notice in writing to the Agency, shall declare the principal of all of the bonds then outstanding, and the interest accrued thereon, to be due and payable immediately.

CMFA SPECIAL FINANCE AGENCY XII
Notes to the Basic Financial Statements (Continued)
For the Period January 13, 2022 Through June 30, 2022

NOTE 6 - RELATED PARTY TRANSACTIONS

The Agency signed a Project Administration Agreement (PAA) with a third-party administrator on January 1, 2022, for the Allure Apartments rental housing facility (the project) that establishes the terms and conditions upon which the third-party administrator shall, as an independent contractor, monitor, supervise, coordinate, analyze and report to the Agency with respect to the project and the project manager's performance under the PAA. The PAA renews automatically on its anniversary date unless terminated as a result of circumstances as defined by the PAA. Project administration fees incurred and paid to the project administrator under the PAA during the period from January 13, 2022 through June 30, 2022, were \$104,167. Accrued project administration fees at June 30, 2022 were \$20,833.

The Agency also signed a Property Management Agreement (PMA) with a third-party property manager on December 1, 2021, for the project that establishes the terms and conditions for the operation and maintenance of the project including preparing annual operating budgets, marketing and leasing the project, collecting rents, managing the payment of operating expenses for the project, maintenance and repair of the project and management of on-site employees. The PMA renews automatically on its anniversary date unless terminated as a result of circumstances as defined by the PMA. Fees incurred and paid to the project manager under the PMA during the period from January 13, 2022 through June 30, 2022, were \$79,495. Accrued property management fees at June 30, 2022, were \$14,370.

The project is subject to a Public Benefit Agreement, which the Agency signed with the City, and is dated as of January 1, 2022. Pursuant to the Public Benefit Agreement, commencing 15 years after the date of issuance of the Series 2022A Bonds (the sale right exercise date or January 1, 2037), and for a period of time thereafter terminating on the date that is the earlier of 14 years from the sale right exercise date or the date on which there is no debt outstanding, the City shall have the right to cause the Agency to sell all of the Agency's right, title and interest, including the fee simple title to the real property, in and to all property and assets used in or related to the project to the City or the City's designee, at a sales price at least equal to the sum of an amount sufficient to prepay any debt secured by the project and any expenses associated with effecting the sale.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

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

The Agency does not have any major contractual commitments or contingencies as of June 30, 2022.

The Agency is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruptions; and errors and omissions. Commercial insurance coverage is purchased for claims arising from such matters.

CMFA SPECIAL FINANCE AGENCY XII
Notes to the Basic Financial Statements (Continued)
For the Period January 13, 2022 Through June 30, 2022

NOTE 8 – COMBINING FINANCIAL STATEMENT INFORMATION

Combining financial statements of the Agency and Elan as of and for the period January 13, 2022 through June 30, 2022 is as follows:

Combining Statement of Fund Net Position
June 30, 2022

	<u>SFA XII</u> <u>Administration</u>	<u>Allure</u> <u>Apartments</u>	<u>Eliminations</u>	<u>Total</u>
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ -	\$ 464,070	\$ -	\$ 464,070
Restricted cash and investments	-	19,612,335	-	19,612,335
Tenants accounts receivable, net	-	271,440	-	271,440
Other receivable	75,000	-	-	75,000
Prepaid expenses	-	37,826	-	37,826
Total current assets	<u>75,000</u>	<u>20,385,671</u>	<u>-</u>	<u>20,460,671</u>
Noncurrent Assets:				
Capital assets not depreciable	-	62,487,624	-	62,487,624
Capital assets being depreciated, net	-	86,871,438	-	86,871,438
Total noncurrent assets	<u>-</u>	<u>149,359,062</u>	<u>-</u>	<u>149,359,062</u>
Total assets	<u>75,000</u>	<u>169,744,733</u>	<u>-</u>	<u>169,819,733</u>
LIABILITIES				
Current Liabilities:				
Accounts payable and accrued expenses	260	425,615	-	425,875
Security deposits	-	270,893	-	270,893
Unearned income	-	56,311	-	56,311
Current portion of long-term debt	-	37,533	-	37,533
Total current liabilities	<u>260</u>	<u>790,352</u>	<u>-</u>	<u>790,612</u>
Noncurrent Liabilities:				
Long-term debt, net of current portion	-	171,264,381	-	171,264,381
Total liabilities	<u>260</u>	<u>172,054,733</u>	<u>-</u>	<u>172,054,993</u>
NET POSITION				
Net deficit in capital assets	-	(2,390,167)	-	(2,390,167)
Unrestricted	74,740	80,167	-	154,907
Total net position (deficit)	<u>\$ 74,740</u>	<u>\$ (2,310,000)</u>	<u>\$ -</u>	<u>\$ (2,235,260)</u>

CMFA SPECIAL FINANCE AGENCY XII
Notes to the Basic Financial Statements (Continued)
For the Period January 13, 2022 Through June 30, 2022

NOTE 8 – COMBINING FINANCIAL STATEMENT INFORMATION (Continued)

Combining Statement of Revenues, Expenses and Changes in Fund Net Position
For the Period of January 13, 2022 Through June 30, 2022

	<u>SFA XII Administration</u>	<u>Allure Apartments</u>	<u>Eliminations</u>	<u>Total</u>
Operating Revenues:				
Rental income - residential	\$ -	\$ 3,807,568	\$ -	\$ 3,807,568
Other income - residential and commercial	-	297,401	-	297,401
Other income	650,000	-	(650,000)	-
Total operating revenues	<u>650,000</u>	<u>4,104,969</u>	<u>(650,000)</u>	<u>4,104,969</u>
Operating Expenses:				
Salaries and benefits	-	250,059	-	250,059
Repairs and maintenance	-	211,731	-	211,731
Taxes	-	550,665	-	550,665
Utilities	-	197,746	-	197,746
Management fees	-	79,495	-	79,495
General and administrative	450,000	45,614	-	495,614
Marketing	-	5,742	-	5,742
Insurance	260	37,827	-	38,087
Depreciation	-	1,506,507	-	1,506,507
Other	125,000	265,583	-	390,583
Total operating expenses	<u>575,260</u>	<u>3,150,969</u>	<u>-</u>	<u>3,726,229</u>
Operating Income	<u>74,740</u>	<u>954,000</u>	<u>(650,000)</u>	<u>378,740</u>
Nonoperating Expenses:				
Debt service - interest expense	-	(182,787)	-	(182,787)
Debt service - cost of debt issuance	-	(3,081,213)	650,000	(2,431,213)
Total nonoperating expenses	<u>-</u>	<u>(3,264,000)</u>	<u>650,000</u>	<u>(2,614,000)</u>
Change in Net Position	74,740	(2,310,000)	-	(2,235,260)
Net position at January 13, 2022	-	-	-	-
Net position (deficit) at June 30, 2022	<u>\$ 74,740</u>	<u>\$ (2,310,000)</u>	<u>\$ -</u>	<u>\$ (2,235,260)</u>

CMFA SPECIAL FINANCE AGENCY XII
Notes to the Basic Financial Statements (Continued)
For the Period January 13, 2022 Through June 30, 2022

NOTE 8 – COMBINING FINANCIAL STATEMENT INFORMATION (Continued)

Combining Statement of Cash Flows
For the Period January 13, 2022 through June 30, 2022

	SFA Administration	Allure Apartments	Eliminations	Total
Cash flows from operating activities				
Receipts from customers and users	\$ 575,000	\$ 4,160,733	\$ (575,000)	\$ 4,160,733
Payments to suppliers	(575,000)	(1,006,614)	(75,000)	(1,656,614)
Payments to employees	-	(250,059)	-	(250,059)
Net cash provided by operating activities	<u>-</u>	<u>2,904,060</u>	<u>(650,000)</u>	<u>2,254,060</u>
Cash flows from capital and related financing activities				
Proceeds from debt issuance	-	167,950,736	650,000	168,600,736
Acquisition of capital assets	-	(150,865,569)	-	(150,865,569)
Interest paid on long-term debt	-	87,178	-	87,178
Net cash provided by capital and related financing activities	<u>-</u>	<u>17,172,345</u>	<u>650,000</u>	<u>17,822,345</u>
Net increase in cash and cash equivalents	-	20,076,405	-	20,076,405
Cash and cash equivalents, beginning of period	-	-	-	-
Cash and cash equivalents, end of period	<u>\$ -</u>	<u>\$ 20,076,405</u>	<u>\$ -</u>	<u>\$ 20,076,405</u>
Reconciliation of cash and cash equivalents to the Statement of Net Position:				
Cash and cash equivalents	-	464,070	-	464,070
Restricted cash and investments	-	19,612,335	-	19,612,335
Total cash and cash equivalents	<u>\$ -</u>	<u>\$ 20,076,405</u>	<u>\$ -</u>	<u>\$ 20,076,405</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 74,740	\$ 954,000	\$ (650,000)	\$ 378,740
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	-	1,506,507	-	1,506,507
(Increase) in assets:				
Tenant accounts receivable, net	-	(271,440)	-	(271,440)
Other receivable	(75,000)	-	-	(75,000)
Prepaid expenses	-	(37,826)	-	(37,826)
Increase in liabilities:				
Accounts payable and accrued expenses	260	425,615	-	425,875
Security deposits	-	270,893	-	270,893
Unearned revenue	-	56,311	-	56,311
Total adjustments	<u>(74,740)</u>	<u>1,950,060</u>	<u>-</u>	<u>1,875,320</u>
Net cash provided by operating activities	<u>\$ -</u>	<u>\$ 2,904,060</u>	<u>\$ (650,000)</u>	<u>\$ 2,254,060</u>
Noncash capital and related financing activities:				
Acquisition of capital assets from bond proceeds	\$ -	\$ 5,000,000	\$ -	\$ 5,000,000
Amortization of bond discount	-	208,259	-	208,259
Cost of debt issuance paid from bond proceeds	-	3,081,213	-	3,081,213

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 *Governmental Audit Standards*

To the Board of Directors
CMFA Special Finance Agency XII

We have audited, 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, the financial statements of the CMFA Special Finance Agency XII (the Agency) as of and for the period January 13, 2022 through June 30, 2022, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated January 25, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) as a basis for designing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency'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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency'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 financial statements. 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
January 25, 2023