CMFA SPECIAL FINANCE AGENCY

Independent Auditor's Reports
and Consolidated Financial Statements

For the Year Ended June 30, 2023

MGO. | Certified Public Accountants

CMFA SPECIAL FINANCE AGENCY
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For the Year Ended June 30, 2023

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Certified Public Accountants

Independent Auditor's Report

To the Board of Directors
CMFA Special Finance Agency
Carlsbad, California

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of the CMFA Special Finance Agency (the Agency) which comprise the consolidated Statement of Net Position as of June 30, 2023, and the related consolidated statement of revenue, expenses and change in net position, and cashflows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Agency, as of June 30, 2023, and the changes in its financial position and its cash flows for the year ended June 30, 2023, 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 (*Government Auditing Standards)*. 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.

Emphasis of Matter

As discussed in Note 8 to the consolidated financial statements, the Agency has a net deficit as of June 30, 2023. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

The Agency's management is responsible for the preparation and fair presentation of the consolidated 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated 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.

Macias Gini & O'Connell LLP
12264 El Camino Real, Suite 402
San Diego, CA 92130

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements, the Agency commenced operations effective October 1, 2021. Accordingly, management's discussion and analysis required by Governmental Accounting Standards Board is not meaningful for the nine-month period ended June 30, 2022, compared to the year ended June 30, 2023. Our opinion on the financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 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.

Macias Gini & O'Connell LLP

San Diego, California
November 27, 2023

CMFA SPECIAL FINANCE AGENCY
Consolidated Statement of Net Position
June 30, 2023

ASSETS	
Current Assets:	
Cash and cash equivalents	$ 2,199,323
Restricted cash and investments	63,517,165
Tenants accounts receivable, net	696,490
Deposits receivable	9,470
Other receivable	2,223
Prepaid expenses	787,401
Total current assets	67,212,072
Noncurrent Assets:	
Capital assets not depreciable	83,187,410
Capital assets being depreciated, net	318,314,056
Total noncurrent assets	401,501,466
Total assets	468,713,538
LIABILITIES	
Current Liabilities:	
Accounts payable and accrued expenses	2,064,457
Interest payable	7,933,020
Security deposits	980,640
Unearned income	67,353
Total current liabilities	11,045,470
Noncurrent Liabilities:	
Long-term debt	495,230,281
Total liabilities	506,275,751
NET POSITION	
Net investment in capital assets	(14,730,189)
Unrestricted (deficit)	(22,832,024)
Total net deficit	$ (37,562,213)

See Accompanying Notes to the Consolidated Financial Statements.

CMFA SPECIAL FINANCE AGENCY

Consolidated Statement of Revenues, Expenses and Change in Net Position

For the Year Ended June 30, 2023

Operating Revenues:	
Rental income - residential	$ 20,905,320
Other income - residential and commercial	2,428,965
Total operating revenues	23,334,285
Operating Expenses:	
Salaries and benefits	1,774,830
Repairs and maintenance	5,735,079
Taxes	39,194
Utilities	1,136,201
Management fees	584,300
General and administrative	1,149,199
Marketing	107,640
Insurance	614,061
Depreciation	12,334,819
Other	780,807
Total operating expenses	24,256,130
Operating Loss	(921,845)
Nonoperating Expenses:	
Debt service - interest expense	(20,628,289)
Interest income	713,250
Total nonoperating expenses	(19,915,039)
Change in Net Position	(20,836,884)
Net deficit at June 30, 2022	(16,725,329)
Net deficit at June 30, 2023	$ (37,562,213)

See Accompanying Notes to the Consolidated Financial Statements.

CMFA SPECIAL FINANCE AGENCY
Consolidated Statement of Cash Flows
For the Year Ended June 30, 2023

Cash flows from operating activities	
Receipts from customers and users	$ 23,603,976
Payments to suppliers	(9,142,579)
Payments to employees	(1,774,830)
Net cash provided by operating activities	12,686,567
Cash flows from capital and related financing activities	
Interest paid on long-term debt	(21,087,580)
Interest proceeds from investments	713,250
Acquisition of capital assets	(2,798,088)
Net cash used in capital and related financing activities	(23,172,418)
Net decrease in cash and cash equivalents	(10,485,851)
Cash and cash equivalents, beginning of year	76,202,339
Cash and cash equivalents, end of year	$ 65,716,488
Reconciliation of cash and cash equivalents to the Statement of Net Position:	
Cash and cash equivalents	$ 2,199,323
Restricted cash and investments	63,517,165
Total cash and cash equivalents	$ 65,716,488
Reconciliation of operating income to net cash provided by operating activities:	
Operating loss	$ (921,845)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	12,334,819
Decrease (increase) in assets:	
Tenant accounts receivable, net	192,726
Other receivable	(2,223)
Prepaid expenses	611,533
Increase in liabilities:	
Accounts payable and accrued expenses	392,369
Security deposits	65,846
Unearned revenue	13,342
Total adjustments	13,608,412
Net cash provided by operating activities	$ 12,686,567
Noncash capital and related financing activities:	
Amortization of bond premium and discount	$ 843,562
Capital acquisitions included in accounts payable	(1,103,473)

See Accompanying Notes to the Consolidated Financial Statements.

CMFA SPECIAL FINANCE AGENCY
Consolidated Statement Cash Flows
For the Year Ended June 30, 2023

NOTE 1 - ORGANIZATION, OPERATIONS, AND REPORTING ENTITY

The CMFA Special Finance Agency (the Agency) was organized on October 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 Finance Authority (the Authority) and the City of Escondido, California (City) as charter members, to which certain other cities and counties have and 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.

The accompanying consolidated financial statements include the accounts of the Agency and its subsidiaries, after elimination of all material intercompany transactions and accounts.

Enclave, Paramount, California (Enclave)

On February 1, 2022, the Agency issued Enclave Essential Housing Revenue Bonds Series 2022A-1 (Senior Bonds) and Enclave Essential Housing Revenue Bonds Series 2022A-2 (Junior Bonds), and Enclave Subordinate Essential Housing Revenue Bonds Series 2022B (Series 2022B Bonds). The Series 2022B Bonds were directly issued to, or at the direction of, BLDG Partners LLC (BLDG), a California limited liability company, 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. Bonds, with an aggregate principal amount of $182,885,000, were issued to finance the acquisition of a 306-unit multifamily residential rental housing community and related improvements, personal property and equipment known as Enclave located at 13801 Paramount Boulevard, Paramount, California 90723.

Latitude 33, San Diego, California (Latitude 33)

On November 30, 2021, the Agency issued Latitude 33 Essential Housing Revenue Bonds Series 2021A-1 (Senior Bonds), Latitude 33 Essential Housing Revenue Bonds Series 2021A-2 (Junior Bonds), and Latitude 33 Subordinate Essential Housing Revenue Bonds Series 2021B (Series 2021B Bond). The Series 2021B Bond was directly issued to, or at the direction of, Ascenda Latitude 33 Administrator, LLC, a California limited liability company (Ascenda) 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 Ascenda for the Agency. Bonds, with an aggregate principal amount of $124,755,000, were issued to finance the acquisition of a 198-unit multifamily rental housing facility and related improvements, personal property and equipment known as Latitude 33 located at 515 Meandor Glen, Escondido, California 92025.

NOTE 1 - ORGANIZATION, OPERATIONS, AND REPORTING ENTITY (Continued)

Solana at Grand, Escondido, California (Solana at Grand)

On November 23, 2021, the Agency issued Solana at Grand Essential Housing Revenue Bonds Series 2021A-1 (Senior Bonds), Solana at Grand Essential Housing Revenue Bonds Series 2021A-2 (Junior Bonds), and Solana at Grand Subordinate Essential Housing Revenue Bonds Series 2021B (Series 2021B Bond). The Series 2021B Bond was directly issued to, or at the direction of, HomeFed, LLC, a California limited liability company (HomeFed) 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 HomeFed for the Agency. Bonds, with an aggregate principal amount of $197,780,000, were issued to finance the acquisition of a 519-unit multifamily rental housing facility and related improvements, personal property and equipment known as the Solana at Grand located at 1501 East Grand Avenue, Escondido, California 92027.

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 (U.S. 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.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Restricted Cash and Investments

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 $184,148 of uncollectible allowance recorded as of June 30, 2023.

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.

Capital Assets

Capital assets are defined by the Agency as assets with an initial, individual cost of $1,000 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 (27 or 27.5 years). Deprecation 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and discount is recorded as a change 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, 2023, there was a deficit of $14,730,189 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, 2023, there was no restricted net position.

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 accordance with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB Pronouncements

During 2023, the Agency implemented the following GASB pronouncements:

- GASB 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 obligations reporting and reporting of related transactions and other events by state and local government issuers.
- GASB Statement No. 94, *Public-Public Partnerships and Availability Payment Arrangements*. The objectives of this statement is to improve financial reporting by addressing issues related to public-public and public-private partnerships arrangements. This statement also provides guidance for accounting and financial reporting for availability payment arrangements.
- GASB 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 end users.

Implementation of these statements did not have a significant impact on the Agency's financial statements for the year ended June 30, 2023.

The following GASB Statements have been issued, but are not yet effective for the year ended June 30, 2023:

- GASB 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. Certain requirements of GASB Statement No. 00 becomes effective in fiscal year 2024.
- GASB Statement No. 100, *Accounting Changes and Error Corrections*. The objective of this statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections. GASB Statement No. 100 becomes effective in fiscal year 2024.
- GASB Statement No. 101, *Compensated Absences*. The objective of this statement is to ensure accounting and financial reporting requirements for compensated absences. GASB Statement No. 101 become effective in fiscal year 2025.

NOTE 3 - CASH AND INVESTMENTS

Cash and investments as of June 30, 2023, consist of the following:

Cash on hand	$ 6,750
Deposits with financial institutions	2,528,675
Deposits with fiscal agent	478,842
Investments with fiscal agent	62,702,221
Total cash and investments	$ 65,716,488

Cash and investments are classified in the statement of net position as follows, as of June 30, 2023:

Cash and cash equivalents	$ 2,199,323
Restricted cash and investments	63,517,165
Total cash and investments	$ 65,716,488

Fair Value Measurement

The Agency categorizes its fair value measurements within the fair value hierarchy established by U.S. 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 investments held with Fiscal Agent as of June 30, 2023:

Investments not subject to the fair value hierarchy:	
Money market mutual funds	$ 22,351,161
Nonparticipating interest-earning investment contracts	40,351,060
Total investments	$ 62,702,221

Investments held by 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 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.

NOTE 3 - CASH AND INVESTMENTS (Continued)

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
- Guaranteed investment contracts

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

Disclosures Relating to Interest Rate Risk

The Agency does not have 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:

		Remaining Maturity (in Years)		
Investment Type	Amount	1 year or Less	1 - 5	5 or more
Held by Fiscal Agent:				
Money market mutual funds	$ 22,351,161	$ 22,351,161	$ -	$ -
Nonparticipating interest–earning investment contracts	40,351,060	-	6,413,077	33,937,983
Total	$ 62,702,221	$ 22,351,161	$ 6,413,077	$ 33,937,983

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, 2023, for each investment type:

		Ratings	
Investment Type	Amount	AA+	Not Rated
Held by Fiscal Agent:			
Money market mutual funds	$ 22,351,161	$ 22,351,161	$ -
Nonparticipating interest–earning investment contracts	40,351,060	-	40,351,060
Total	$ 62,702,221	$ 22,351,161	$ 40,351,060

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.

NOTE 3 - CASH AND INVESTMENTS (Continued)

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. U.S. 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, 2023, $40,351,060 of nonparticipating interest-earning investment contracts with Mass Mutual exceeds 5% of total investments.

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.

NOTE 3 - CASH AND INVESTMENTS (Continued)

Custodial Credit Risk and Investment Policy (Continued)

The carrying amount of the Agency's cash held in demand deposit accounts with financial institutions and held in fiscal agent was $3,007,517 as of June 30, 2023, while the related bank balance was $2,334,874, of which $1,002,651 is federally insured. The remaining bank balance of $1,332,223 was uncollateralized and uninsured as of June 30, 2023.

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.

NOTE 4 - CAPITAL ASSETS

The capital assets balance as of June 30, 2023, consists of the following activity:

	Balance June 30, 2022	Additions	Deletions	Balance June 30, 2023
Capital assets not depreciated:				
Land	$ 83,187,410	$ -	$ -	$ 83,187,410
Capital assets depreciable:				
Building and improvements	319,068,198	3,901,561	-	322,969,759
Intellectual assets	14,125,000	-	-	14,125,000
Total depreciable capital assets	333,193,198	3,901,561	-	337,094,759
Less accumulated depreciation:				
Building and improvements	(6,175,162)	(11,817,816)	-	(17,992,978)
Intellectual assets	(270,722)	(517,003)	-	(787,725)
Total accumulated depreciation	(6,445,884)	(12,334,819)	-	(18,780,703)
Total capital assets, depreciable (net)	326,747,314	(8,433,258)	-	318,314,056
Capital assets, net	$ 409,934,724	$ (8,433,258)	$ -	$ 401,501,466

Depreciation expense for the year ended June 30, 2023, was $12,334,819.

NOTE 5 - LONG-TERM DEBT

On November 23, 2021, the Agency issued Solana at Grand Essential Housing Revenue Bonds Series 2021A-1 (Solana at Grand Senior Series 2021A-1 Bonds) in the amount of $103,300,000 and Solana at Grand Essential Housing Revenue Bonds Series 2021A-2 (Solana at Grand Junior Series 2021A-2 Bonds) in the amount of $89,480,000, collectively, the Solana at Grand Series 2021A Bonds. The proceeds of the Solana at Grand Series 2021A Bonds were used for financing the cost of acquisition of a multifamily rental housing facility and related improvements known as the Solana at Grand and the costs of issuance of the Solana at Grand Series 2021A Bonds. Concurrently with the issuance of the Solana at Grand Series 2021A Bonds, the Agency directly issued Solana at Grand Subordinate Essential Housing Revenue Bonds Series 2021B (Solana at Grand Series 2021B Bonds) in the amount of $5,000,000 to Solana Esc HF, LLC, an affiliate of HomeFed, a California limited liability company (HomeFed) in exchange for the sale and assignment of certain assets to the Agency, including its purchase rights to Solana at Grand, a business plan and certain intellectual property created by HomeFed for the Agency.

On November 30, 2021, the Agency issued Latitude 33 Essential Housing Revenue Bonds Series 2021A-1 (Latitude 33 Senior Series 2021A-1 Bonds) in the amount of $87,300,000 and Latitude 33 Essential Housing Revenue Bonds Series 2021A-2 (Latitude 33 Junior Series 2021A-2 Bonds) in the amount of $33,330,000, collectively, the Latitude 33 Series 2021A Bonds. The proceeds of the Latitude 33 Series 2021A Bonds were used for financing the cost of acquisition of a multifamily rental housing facility and related improvements known as the Latitude 33 and the costs of issuance of the Latitude 33 Series 2021A Bonds. Concurrently with the issuance of the Latitude 33 Series 2021A Bonds, the Agency directly issued Latitude 33 Subordinate Essential Housing Revenue Bonds Series 2021B (Latitude 33 Series 2021B Bonds) in the amount of $4,125,000 to Ascenda Latitude 33 Administrator, LLC, a California limited liability company (Ascenda) in exchange for the sale and assignment of certain assets to the Agency, including its purchase rights to Latitude 33, a business plan and certain intellectual property created by Ascenda for the Agency.

On February 1, 2022, the Agency issued Enclave Senior Essential Housing Revenue Bonds Series 2022A-1 (Enclave Series 2022A-1 Bonds) in the amount of $100,000,000 and Enclave Junior Essential Housing Revenue Bonds Series 2022A-2 (Enclave Series 2022A-2 Bonds) in the amount of $77,885,000, collectively, the Enclave Series 2022A Bonds. The proceeds of the Enclave Series 2022A Bonds were used for financing the cost of the acquisition of a multifamily rental housing facility and related improvements known as the Enclave and the costs of issuance of the Enclave Series 2022A Bonds. Concurrently with the issuance of the Enclave Series 2022A Bonds, the Agency directly issued Enclave Subordinate Essential Housing Revenue Bonds Series 2022B (Enclave Series 2022B Bonds) in the amount of $5,000,000 to BLDG Partners LLC (BLDG), a California limited liability company, in exchange for the sale and assignment of certain assets to the Agency, including its purchase rights to Enclave, a business plan and certain intellectual property created by BLDG for the Agency.

NOTE 5 – LONG-TERM DEBT (Continued)

The Bonds are summarized below:

Obligations	Original Amount	Interest Rate	Final Maturity Date	Balance Outstanding June 30, 2022
Solana at Grand Essential Housing Revenue Bonds, Series 2021A-1	$ 103,300,000	4.00%	August 1, 2056	$ 103,300,000
Solana at Grand Essential Housing Revenue Bonds, Series 2021A-2	89,480,000	4.00%	August 1, 2045	89,480,000
Solana at Grand Subordinate Essential Housing Revenue Bonds, Series 2021B	5,000,000	8.00%	August 1, 2061	5,000,000
Latitude 33 Essential Housing Revenue Bonds, Series 2021A-1	87,300,000	3.00%	December 1, 2056	87,300,000
Latitude 33 Essential Housing Revenue Bonds, Series 2021A-2	33,330,000	4.00%	December 1, 2045	33,330,000
Latitude 33 Subordinate Essential Housing Revenue Bonds, Series 2021B	4,125,000	8.00%	December 1, 2061	4,125,000
Enclave Senior Essential Housing Revenue Bonds, Series 2022A-1	100,000,000	4.00%	August 1, 2058	100,000,000
Enclave Junior Essential Housing Revenue Bonds, Series 2022A-2	77,885,000	4.50%	August 1, 2051	77,885,000
Enclave Subordinate Essential Housing Revenue Bonds, Series 2022B	5,000,000	8.00%	February 1, 2062	5,000,000

Long-term debt activity for the year ended June 30, 2023, is as follows:

Obligations	Balance June 30, 2022	Addition	Reduction	Balance June 30, 2023	Due within One year
Solana at Grand Essential Housing Revenue Bonds	$ 197,780,000	$ -	$ -	$ 197,780,000	$ -
Unamortized Bond Premium	8,087,121	-	(284,216)	7,802,905	-
Latitude 33 Essential Housing Revenue Bonds	124,755,000	-	-	124,755,000	-
Unamortized Bond Discount	(7,559,713)	-	302,791	(7,256,922)	-
Unamortized Bond Premium	1,010,569	-	(113,793)	896,776	
Enclave Senior Essential Housing Revenue Bonds	182,885,000	-	-	182,885,000	-
Unamortized Bond Discount	(12,091,094)	-	458,616	(11,632,478)	-
Total	$ 494,866,883	$ -	$ 363,398	$ 495,230,281	$ -

The Agency's principal and interest payments are flexible based on cash flow from the Agency. Based on management projections as of June 30, 2023, the amortization schedule is as follows:

Year Ending June 30, 2023	Principal	Interest	Total
2024	$ -	$ 19,898,225	$ 19,898,225
2025	595,000	19,893,825	20,488,825
2026	1,220,000	19,863,025	21,083,025
2027	7,190,000	19,808,525	26,998,525
2028	2,395,000	19,515,425	21,910,425
2029-2033	25,365,000	96,617,488	121,982,488
2034-2038	52,450,000	89,945,963	142,395,963
2039-2043	86,315,000	76,246,475	162,561,475
2044-2048	128,140,000	55,381,338	183,521,338
2049-2053	114,375,000	29,061,838	143,436,838
2054-2058	78,250,000	10,688,869	88,938,869
2059-2062	9,125,000	3,452,305	12,577,305
	$ 505,420,000	$ 460,373,300	$ 965,793,300

CMFA SPECIAL FINANCE AGENCY
Notes to the Consolidated Financial Statements (Continued)
For the Year Ended June 30, 2023

NOTE 5 – LONG-TERM DEBT (Continued)

Long-term pledged revenues as of June 30, 2023, is as follows:

Type of Pledged Revenue	Fiscal Year Maturity Date	Pledged Revenue to Maturity	Debt Principal & Interest Paid During the Year Ended 2023	2023 Pledged Revenue Available
Net Rental Revenue:				
Solana Essential Housing Revenue Bonds, Series 2021 A	2057	$ 331,609,800	$ 9,167,760	$ 6,948,605
Solana Essential Housing Revenue Bonds, Series 2021 B	2062	15,600,000	391,285	391,285
Latitude Essential Housing Revenue Bonds, Series 2021 A	2057	208,583,350	3,952,200	2,878,691
Latitude Essential Housing Revenue Bonds, Series 2021 B	2062	16,830,000	71,511	71,511
Enclave Essential Housing Revenue Bonds, Series 2022 A	2059	373,970,150	7,504,825	1,137,730
Enclave Essential Housing Revenue Bonds, Series 2022 B	2062	19,200,000	-	-
		$ 965,793,300	$ 21,087,581	$ 11,427,822

NOTE 6 - RELATED PARTY TRANSACTIONS

The Agency signed Project Administration Agreements (PAA) with third-party administrators on November 1, 2021 for the Solana at Grand rental housing facility and the Latitude 33 rental housing facility and on February 1, 2022 for the Enclave rental housing facility (the project) that establishes the terms and conditions upon which the third-party administrators shall, as independent contractors, monitor, supervise, coordinate, analyze and report to the Agency with respect to the projects and the project managers' 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 administrators under the PAA during the year ended June 30, 2023, was $706,833. Accrued project administration fees as of June 30, 2023 were $21,250.

The Agency also signed Property Management Agreements (PMA) with third-party property managers on February 1, 2022, and a PMA on April 1, 2023 for a new third-party administrator, for the projects that establish the terms and conditions for the operation and maintenance of the projects including preparing annual operating budgets, marketing and leasing the projects, collecting rents, managing the payment of operating expenses for the projects, maintenance and repair of the projects, 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 managers under the property management agreements during the year ended June 30, 2023, was $713,327. Accrued property management fees as of June 30, 2023 was $50,493.

The projects are subject to Public Benefit Agreements, which the Agency signed with the JPA members, and are dated as of November 1, 2021 and February 1, 2022, respectively. Pursuant to the Public Benefit Agreements, commencing 15 years after the date of issuance of the various Series 2021A Bonds and Series 2022A Bonds (the sale right exercise date or November 1, 2036 and February 1, 2037, respectively), 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 properties, in and to all properties and assets used in or related to the projects 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 projects 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, 2023.

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.

NOTE 8 - NET POSITION (DEFICIT)

The Agency's net deficit is $37,562,213 as of June 30, 2023. The deficit is cumulative of current year's change in net position plus the net deficit from the previous year. The deficit, which was anticipated when the bonds were issued, has been projected to be recovered continuing operations. Depreciation and start-up costs are expected to have less of an effect on operations as the occupancy improves and the project matures. The current shortfalls in revenues available to cover debt service are expected to be covered with reserve funds which were aside at the issuance.

NOTE 9 – COMBINING FINANCIAL STATEMENT INFORMATION

Combining financial statements of the Agency, Enclave, Latitude 33, and Solana at Grand as of and year ended June 30, 2023 is as follows:

Combining Statement of Fund Net Position
June 30, 2023

	SFA Administration	Enclave	Latitude 33	Solana at Grand	Eliminations	Total
ASSETS						
Current Assets:						
Cash and cash equivalents	$ 372,927	$ 327,111	$ 202,566	$ 1,296,719	$ -	$ 2,199,323
Restricted cash and investments	-	27,023,645	10,650,106	25,843,414	-	63,517,165
Tenants accounts receivable, net	-	617,207	620	78,663	-	696,490
Deposits receivable	-	9,470	-	-	-	9,470
Other receivable	3,196	-	-	-	(973)	2,223
Prepaid expenses	-	85,300	12,373	689,728	-	787,401
Total current assets	376,123	28,062,733	10,865,665	27,908,524	(973)	67,212,072
Noncurrent Assets:						
Capital assets not depreciable	-	29,076,403	19,996,151	34,114,856	-	83,187,410
Capital assets being depreciated, net	-	101,941,187	79,266,931	137,105,938	-	318,314,056
Total noncurrent assets	-	131,017,590	99,263,082	171,220,794	-	401,501,466
Total assets	376,123	159,080,323	110,128,747	199,129,318	(973)	468,713,538
LIABILITIES						
Current Liabilities:						
Accounts payable and accrued expenses	-	478,214	44,728	1,542,488	(973)	2,064,457
Interest payable	-	3,693,677	775,406	3,463,937	-	7,933,020
Security deposits	-	447,069	133,546	400,025	-	980,640
Unearned income	-	-	27,137	40,216	-	67,353
Total current liabilities	-	4,618,960	980,817	5,446,666	(973)	11,045,470
Noncurrent Liabilities:						
Long-term debt	-	171,252,522	118,394,854	205,582,905	-	495,230,281
Total liabilities	-	175,871,482	119,375,671	211,029,571	(973)	506,275,751
NET POSITION						
Net deficit in capital assets	-	(4,410,109)	(5,238,337)	(5,081,743)	-	(14,730,189)
Unrestricted (deficit)	376,123	(12,381,050)	(4,008,587)	(6,818,510)	-	(22,832,024)
Total net position (deficit)	$ 376,123	$(16,791,159)	$ (9,246,924)	(11,900,253)	$ -	$ (37,562,213)

NOTE 9 – COMBINING FINANCIAL STATEMENT INFORMATION (Continued)

Combining Statement of Revenues, Expenses and Changes in Fund Net Position
For the Year Ended June 30, 2023

	SFA Administration	Enclave	Latitude 33	Solana at Grand	Eliminations	Total
Operating Revenues:						
Rental income - residential	$ -	$ 5,656,217	$ 5,180,148	$ 10,068,955	$ -	$ 20,905,320
Other income - residential and commerical	-	218,008	592,456	1,618,501	-	2,428,965
Other income	446,277	-	-	-	(446,277)	-
Total operating revenues	446,277	5,874,225	5,772,604	11,687,456	(446,277)	23,334,285
Operating Expenses:						
Salaries and benefits	-	340,604	420,184	1,014,042	-	1,774,830
Repairs and maintenance	-	2,915,664	1,436,888	1,382,527	-	5,735,079
Taxes	-	37,686	-	1,508	-	39,194
Utilities	-	250,918	332,561	552,722	-	1,136,201
Management fees	-	143,026	154,454	286,820	-	584,300
General and administrative	293,396	458,318	154,528	242,957	-	1,149,199
Marketing	-	55,125	21,691	30,824	-	107,640
Insurance	(260)	214,659	149,327	250,335	-	614,061
Depreciation	-	3,984,672	3,058,531	5,291,616	-	12,334,819
Other	-	320,446	320,807	585,831	(446,277)	780,807
Total operating expenses	293,136	8,721,118	6,048,971	9,639,182	(446,277)	24,256,130
Operating Income (Loss)	153,141	(2,846,893)	(276,367)	2,048,274	-	(921,845)
Nonoperating Expenses:						
Debt service - interest expense	-	(8,330,107)	(4,471,198)	(7,826,984)	-	(20,628,289)
Interest income	-	713,250	-	-	-	713,250
Total nonoperating expenses	-	(7,616,857)	(4,471,198)	(7,826,984)	-	(19,915,039)
Change in Net Position	153,141	(10,463,750)	(4,747,565)	(5,778,710)	-	(20,836,884)
Net deficit at June 30, 2022	222,982	(6,327,409)	(4,499,359)	(6,121,543)	-	(16,725,329)
Net deficit at June 30, 2023	$ 376,123	$(16,791,159)	$(9,246,924)	(11,900,253)	$ -	$ (37,562,213)

CMFA SPECIAL FINANCE AGENCY

Notes to the Consolidated Financial Statements (Continued)
For the Year Ended June 30, 2023

NOTE 9 – COMBINING FINANCIAL STATEMENT INFORMATION (Continued)

Combining Statement of Cash Flows
For the Year Ended June 30, 2023

	SFA Administration	Enclave	Latitude 33	Solana at Grand	Eliminations	Total
Cash flows from operating activities						
Receipts from customers and users	$ 444,054	$ 5,809,256	$ 5,905,211	$ 11,891,732	$ (446,277)	$ 23,603,976
Payments to suppliers	(293,396)	(3,580,342)	(2,534,825)	(3,180,293)	446,277	(9,142,579)
Payments to employees	-	(340,604)	(420,184)	(1,014,042)	-	(1,774,830)
Net cash provided by operating activities	150,658	1,888,310	2,950,202	7,697,397	-	12,686,567
Cash flows from capital and related financing activities						
Interest paid on long-term debt	-	(7,504,824)	(4,023,711)	(9,559,045)	-	(21,087,580)
Interest proceeds from investments	-	713,250	-	-	-	713,250
Acquisition of capital assets	-	-	-	(2,798,088)	-	(2,798,088)
Net cash used in capital and related financing activities	-	(6,791,574)	(4,023,711)	(12,357,133)	-	(23,172,418)
Net increase (decrease) in cash and cash equivalents	150,658	(4,903,264)	(1,073,509)	(4,659,736)	-	(10,485,851)
Cash and cash equivalents, beginning of period	222,269	32,254,020	11,926,181	31,799,869	-	76,202,339
Cash and cash equivalents, end of period	$ 372,927	$ 27,350,756	$ 10,852,672	$ 27,140,133	$ -	$ 65,716,488
Reconciliation of cash and cash equivalents to the Statement of Net Position:						
Cash and cash equivalents	372,927	327,111	202,566	1,296,719	-	2,199,323
Restricted cash and investments	-	27,023,645	10,650,106	25,843,414	-	63,517,165
Total cash and cash equivalents	$ 372,927	$ 27,350,756	$ 10,852,672	$ 27,140,133	$ -	$ 65,716,488
Reconciliation of operating income to net cash provided by operating activities:						
Operating income (loss)	$ 153,141	$ (2,846,893)	$ (276,367)	$ 2,048,274	-	$ (921,845)
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation	-	3,984,672	3,058,531	5,291,616	-	12,334,819
Decrease (increase) in assets:						
Tenant accounts receivable, net	-	(52,247)	128,705	116,268	-	192,726
Other receivable	(2,223)	-	-	-	-	(2,223)
Prepaid expenses	-	484,274	43,360	83,899	-	611,533
Increase (decrease) in liabilities:						
Accounts payable and accrued expenses	(260)	331,226	(7,929)	69,332	-	392,369
Security deposits	-	(12,722)	(4,732)	83,300	-	65,846
Unearned revenue	-	-	8,634	4,708	-	13,342
Total adjustments	(2,483)	4,735,203	3,226,569	5,649,123	-	13,608,412
Net cash provided by operating activities	$ 150,658	$ 1,888,310	$ 2,950,202	$ 7,697,397	$ -	$ 12,686,567
Noncash capital and related financing activities:						
Amortization of bond discount/premium	$ -	$ 458,616	$ 188,998	$ 195,948	$ -	$ 843,562
Capital acquisitions included in accounts payable	-	-	-	(1,103,473)	-	(1,103,473)