CMFA SPECIAL FINANCE AGENCY VII

Independent Auditor's Report
and Consolidated Financial Statements

For the Year Ended June 30, 2023

MGO | Certified Public Accountants

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

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Independent Auditor's Report

To the Board of Directors
CMFA Special Finance Agency VII
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 VII (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 cash flows for the year then ended, and the related notes to the 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 then ended, 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 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.

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 August 19, 2021. Accordingly, management's discussion and analysis required by Government Accounting Standards Board is not meaningful for the ten-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 January 26, 2024, 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
January 26, 2024

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

ASSETS	
Current Assets:	
Cash and cash equivalents	$ 707,446
Restricted cash and investments	33,237,209
Tenants accounts receivable, net	28,276
Prepaid expenses	101,863
Total current assets	34,074,794
Noncurrent Assets:	
Capital assets not depreciable	37,689,839
Capital assets being depreciated, net	155,222,443
Total noncurrent assets	192,912,282
Total assets	226,987,076
LIABILITIES	
Current Liabilities:	
Accounts payable and accrued expenses	1,286,670
Interest payable	3,375,209
Security deposits	613,638
Unearned income	68,309
Total current liabilities	5,343,826
Noncurrent Liabilities:	
Long-term debt, net of current portion	234,032,763
Total liabilities	239,376,589
NET POSITION	
Net investment in capital assets	421,691
Unrestricted (deficit)	(12,811,204)
Total net position (deficit)	$ (12,389,513)

See Accompanying Notes to the Consolidated Financial Statements.

CMFA SPECIAL FINANCE AGENCY VII
Consolidated Statement of Revenues, Expenses and Change in Net Position
For the Year Ended June 30, 2023

Operating Revenues:	
Rental income - residential	$ 9,275,348
Other income - residential and commercial	2,340,547
Total operating revenues	11,615,895
Operating Expenses:	
Salaries and benefits	726,563
Repairs and maintenance	1,010,146
Taxes	351
Utilities	342,065
Management fees	217,266
General and administrative	270,444
Marketing	59,711
Insurance	530,780
Depreciation	5,952,321
Other	273,878
Total operating expenses	9,383,525
Operating Income	2,232,370
Nonoperating Expenses:	
Debt service - interest expense	(7,099,040)
Total nonoperating expenses	(7,099,040)
Change in Net Position	(4,866,670)
Net deficit, beginning of year	(7,522,843)
Net deficit, end of year	$ (12,389,513)

See Accompanying Notes to the Consolidated Financial Statements.

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

Cash flows from operating activities	
Receipts from customers and users	$ 11,924,077
Payments to suppliers	(1,877,998)
Payments to employees	(726,563)
Net cash provided by operating activities	9,319,516
Cash flows from capital and related financing activities	
Proceeds from debt issuance	(485,000)
Acquisition of capital assets	(9,575,800)
Interest paid on long-term debt	(7,684,400)
Net cash used in capital and related financing activities	(17,745,200)
Net decrease in cash and cash equivalents	(8,425,684)
Cash and cash equivalents, beginning of year	42,370,339
Cash and cash equivalents, end of year	$ 33,944,655
Reconciliation of cash and cash equivalents to the Statement of Net Position:	
Cash and cash equivalents	$ 707,446
Restricted cash and investments	33,237,209
Total cash and cash equivalents	$ 33,944,655
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 2,232,370
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	5,952,321
Decrease (increase) in assets:	
Tenant accounts receivable, net	308,322
Prepaid expenses	(8,136)
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	834,779
Security deposits	(7,122)
Unearned revenue	6,982
Total adjustments	7,087,146
Net cash provided by operating activities	$ 9,319,516
Noncash capital and related financing activities:	
Amortization of bond premium	$ 577,277

See Accompanying Notes to the Consolidated Financial Statements.

NOTE 1 – ORGANIZATION, OPERATIONS, AND REPORTING ENTITY

The CMFA Special Finance Agency VII (the Agency) was organized on July 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 Huntington Beach, 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.

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

The Breakwater Apartments, Huntington Beach, California (Breakwater)

On August 19, 2021, the Agency issued Essential Housing Revenue Bonds Series 2021A-1 (Senior Bonds), Essential Housing Revenue Bonds Series 2021A-2 (Junior Bonds) and Subordinate Essential Housing Revenue Bonds Series 2021B (Series 2021B Bonds). The Series 2021B Bonds was directly issued to, or at the direction of, Catalyst Housing Group LLC, a California limited liability company (Catalyst) 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 Catalyst for the Agency. Bonds, with an aggregate principal amount of $221,885,000, were issued to finance the acquisition of a 400- unit multifamily residential rental community and related improvements, personal property and equipment known as The Breakwater Apartments located at 16761 Viewpoint Lane, Huntington Beach, 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 (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.

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.

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 a $6,566 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 (3 - 30 years). Depreciation of capital assets is recorded as an expense against operations. Repairs and maintenance costs are charged to expense as incurred.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (Continued)

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 straight-line method, which approximates 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, 2023, the Agency has $421,691 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 amounts.

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 obligation reporting and reporting 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 private-public partnership 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 arrangements for end users.

- GASB Statement No. 99, Omnibus 2022. The objectives of this statement is to enhance comparability and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The requirements related to leases, PPPs, and SBITAs were implemented this year.

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 enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for 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 2025.

- 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 becomes effective in fiscal year 2025.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB Pronouncements (Continued)

- GASB Statement No. 102, Certain Risk Disclosures. The objective of this statement is to provide users of government financial statements with essential information about related to a government's vulnerabilities due to certain concentrations or constraints. GASB Statement No. 102 become effective in fiscal year 2025.

NOTE 3 – CASH AND INVESTMENTS

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

Cash on hand	$ 13,260
Deposits with financial institutions	1,739,613
Deposits with fiscal agent	64,489
Investments with fiscal agent	32,127,293
Total cash and investments	$ 33,944,655

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

Cash and cash equivalents	$ 718,706
Restricted cash and investments	33,225,949
Total cash and investments	$ 33,944,655

Fair Value Measurement

The Agency categorizes its investments 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	$ 15,982,565
Nonparticipating interest-earning investment contracts	16,144,728
Total investments	$ 32,127,293

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 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:

		Remaining Maturity (in Years)		
Investment Type	Amount	1 year or Less	1 - 5	5 or more
Held by Fiscal Agent:				
Money market mutual funds	$ 15,982,565	$ 15,982,565	$ -	$ -
Nonparticipating interest–earning investment contracts	16,144,728	832,500	-	15,312,228
Total	$ 32,127,293	$ 16,815,065	$ -	$ 15,312,228

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	$ 15,982,565	$ 15,982,565	$ -
Nonparticipating interest–earning investment contracts	16,144,728	-	16,144,728
Total	$ 32,127,293	$ 15,982,565	$ 16,144,728

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, $16,144,728 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.

The carrying amount of the Agency's cash held in demand deposit accounts with financial institutions was $1,739,613 at June 30, 2023, while the related bank balance was $1,652,288, of which $485,336 is federally insured. The remaining bank balance of $1,166,952 was uncollateralized and uninsured as of June 30, 2023. The difference between the carrying value and the bank balance is related to outstanding checks and deposits in transit.

NOTE 3 – CASH AND INVESTMENTS (Continued)

Custodial Credit Risk and Investment Policy (Continued)

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 at June 30, 2023, consists of the following activity:

	Balance June 30, 2022	Additions	Deletions	Balance June 30, 2023
Capital assets not depreciated:				
Land	$ 37,689,839	$ -	$ -	$ 37,689,839
Capital assets depreciable:				
Building and improvements	150,933,050	9,325,801	-	160,258,851
Intellectual assets	5,000,000	-	-	5,000,000
Furniture Fixtures & Equipment	-	249,999	-	249,999
Total depreciable capital assets	155,933,050	9,575,800	-	165,508,850
Less accumulated depreciation:				
Building and improvements	(4,195,197)	(5,764,288)	-	(9,959,485)
Intellectual assets	(138,889)	(167,592)	-	(306,481)
Furniture Fixtures & Equipment	-	(20,441)	-	(20,441)
Total accumulated depreciation	(4,334,086)	(5,952,321)	-	(10,286,407)
Total capital assets, depreciable (net)	151,598,964	3,623,479	-	155,222,443
Capital assets, net	$ 189,288,803	$ 3,623,479	$ -	$ 192,912,282

Depreciation expense for year ended June 30, 2023 was $5,952,321.

NOTE 5 – LONG-TERM DEBT

On August 19, 2021, the Agency issued Essential Housing Revenue Bonds Series 2021 A-1 (Senior Bonds) (Series 2021A-1 Bonds) in the amount of $138,750,000 and Essential Housing Revenue Bonds Series 2021 A-2 (Junior Bonds) (Series 2021A-2 Bonds) in the amount of $78,135,000, collectively, the Series 2021A Bonds. The proceeds of the Series 2021A Bonds were used for financing the cost of the acquisition of a multifamily rental housing facility and related improvements known as the Breakwater Apartments and the costs of issuance of the Series 2021A Bonds.

Concurrently with the issuance of the Series 2021A Bonds, the Agency directly issued Subordinate Essential Housing Revenue Bonds Series 2021B (Series 2021B Bonds) in the amount of $5,000,000 to Catalyst Housing Group LLC, a California limited liability company (Catalyst) in exchange for the sale and assignment of certain assets to the Agency, including its purchase rights to the Breakwater Apartments, a business plan and certain intellectual property created by Catalyst.

NOTE 5 – LONG-TERM DEBT (Continued)

The Bonds are summarized below:

Obligations	Original Amount	Interest Rate	Final Maturity Date	Balance Outstanding June 30, 2023
Breakwater Essential Housing Revenue Bonds, Series 2021A-1	$ 138,750,000	3.00%	August 1, 2056	$ 138,750,000
Breakwater Essential Housing Revenue Bonds, Series 2021A-2	78,135,000	4.00%	August 1, 2047	77,650,000
Breakwater Essential Housing Revenue Bonds, Series 2021B	5,000,000	8.00%	August 1, 2061	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
Breakwater Essential Housing Revenue Bonds	$ 221,885,000	$ -	$ (485,000)	$ 221,400,000	$ -
Unamortized Bond Premium	13,210,040	-	(577,277)	12,632,763	-
Total	$ 235,095,040	$ -	$ (1,062,277)	$ 234,032,763	$ -

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	Principal	Interest	Total
2024	$ -	$ 7,668,500	$ 7,668,500
2025	-	7,668,500	7,668,500
2026	-	7,668,500	7,668,500
2027	-	7,668,500	7,668,500
2028	-	7,668,500	7,668,500
2029-2033	-	38,342,500	38,342,500
2034-2038	-	38,342,500	38,342,500
2039-2043	-	38,342,500	38,342,500
2044-2048	77,650,000	36,789,500	114,439,500
2049-2053	-	22,812,500	22,812,500
2054-2058	143,750,000	15,168,750	158,918,750
	$ 221,400,000	$ 228,140,750	$ 449,540,750

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:				
Essential Housing Revenue Bonds, Series 2021 A	2057	$ 431,940,750	$ 7,769,400	$ 7,737,287
Essential Housing Revenue Bonds, Series 2021 B	2062	17,600,000	400,000	400,000
		$ 449,540,750	$ 8,169,400	$ 8,137,287

NOTE 6 – RELATED PARTY TRANSACTIONS

The Agency signed a Project Administration Agreement (PAA) with a third-party administrator on August 19, 2021, for the Breakwater 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 year ended June 30, 2023, was $217,266. All project administration fees were paid by June 30, 2023, as such, there was no accrued expense at June 30, 2023.

The Agency also signed a Property Management Agreement (PMA) with a third-party property manager on August 19, 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 year ended June 30, 2023, was $194,710. Accrued property management fees at June 30, 2023, was $15,273.

The project is subject to a Public Benefit Agreement, which the Agency signed with the City, and is dated as of August 19, 2021. Pursuant to the Public Benefit Agreement, commencing 15 years after the date of issuance of the Series 2021A Bonds (the sale right exercise date or August 19, 2036), 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, 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 $12,389,513 at June 30, 2023. The deficit is cumulative of current year's changes of net position plus the net deficit from previous year. The deficit, which was anticipated when bonds were issued, has been projected to be recovered from 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 needs are expected to be covered with reserve funds which were set aside at the issuance.

NOTE 9 – COMBINING FINANCIAL STATEMENT INFORMATION

Combining financial statements of the Agency and Breakwater as of and for year ended June 30, 2023 is as follows:

Combining Statement of Fund Net Position
June 30, 2023

	SFA VII Administration	Breakwater	Eliminations	Total
ASSETS				
Current Assets:				
Cash and cash equivalents	$ 122,051	$ 585,395	$ -	$ 707,446
Restricted cash and investments	-	33,237,209	-	33,237,209
Tenants accounts receivable, net	-	28,276	-	28,276
Prepaid expenses	-	101,863	-	101,863
Total current assets	122,051	33,952,743	-	34,074,794
Noncurrent Assets:				
Capital assets not depreciable	-	37,689,839	-	37,689,839
Capital assets being depreciated, net	-	155,222,443	-	155,222,443
Total noncurrent assets	-	192,912,282	-	192,912,282
Total assets	122,051	226,865,025	-	226,987,076
LIABILITIES				
Current Liabilities:				
Accounts payable and accrued expenses	250	1,286,420	-	1,286,670
Interest payable	-	3,375,209	-	3,375,209
Security deposits	-	613,638	-	613,638
Unearned income	-	68,309	-	68,309
Total current liabilities	250	5,343,576	-	5,343,826
Noncurrent Liabilities:				
Long-term debt, net of current portion	-	234,032,763	-	234,032,763
Total liabilities	250	239,376,339	-	239,376,589
NET POSITION				
Net deficit in capital assets	-	421,691	-	421,691
Unrestricted (deficit)	121,801	(12,933,005)	-	(12,811,204)
Total net position (deficit)	$ 121,801	$ (12,511,314)	$ -	$ (12,389,513)

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 VII Administration	Breakwater	Eliminations	Total
Operating Revenues:				
Rental income - residential	$ -	$ 9,275,348	$ -	$ 9,275,348
Other income - residential and commercial	-	2,340,547	-	2,340,547
Other income	150,000	-	(150,000)	-
Total operating revenues	150,000	11,615,895	(150,000)	11,615,895
Operating Expenses:				
Salaries and benefits	-	726,563	-	726,563
Repairs and maintenance	-	1,010,146	-	1,010,146
Taxes	-	351	-	351
Utilities	-	342,065	-	342,065
Management fees	-	217,266	-	217,266
General and administrative	84,746	185,698	-	270,444
Marketing	-	59,711	-	59,711
Insurance	17,850	512,930	-	530,780
Depreciation	-	5,952,321	-	5,952,321
Other	-	423,878	(150,000)	273,878
Total operating expenses	102,596	9,430,929	(150,000)	9,383,525
Operating Income	47,404	2,184,966	-	2,232,370
Nonoperating Expenses:				
Debt service - interest expense	-	(7,099,040)	-	(7,099,040)
Total nonoperating expenses	-	(7,099,040)	-	(7,099,040)
Change in Net Position	47,404	(4,914,074)	-	(4,866,670)
Net deficit, beginning of year	74,397	(7,597,240)	-	(7,522,843)
Net deficit, end of year	$ 121,801	$ (12,511,314)	$ -	$ (12,389,513)

CMFA SPECIAL FINANCE AGENCY VII

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 VII Administration	Breakwater	Eliminations	Total
Cash flows from operating activities				
Receipts from customers and users	$ 150,000	$ 11,924,077	$ (150,000)	$ 11,924,077
Payments to suppliers	(102,346)	(1,925,652)	150,000	(1,877,998)
Payments to employees	-	(726,563)	-	(726,563)
Net cash provided by operating activities	47,654	9,271,862	-	9,319,516
Cash flows from capital and related financing activities				
Principal paid on long-term debt	-	(485,000)	-	(485,000)
Acquisition of capital assets	-	(9,575,800)	-	(9,575,800)
Interest paid on long-term debt	-	(7,684,400)	-	(7,684,400)
Net cash used in capital and related financing activities	-	(17,745,200)	-	(17,745,200)
Net increase (decrease) in cash and cash equivalents	47,654	(8,473,338)	-	(8,425,684)
Cash and cash equivalents, beginning of year	74,397	42,295,942	-	42,370,339
Cash and cash equivalents, end of year	$ 122,051	$ 33,822,604	$ -	$ 33,944,655
Reconciliation of cash and cash equivalents to the Statement of Net Position:				
Cash and cash equivalents	$ 122,051	$ 585,395	$ -	$ 707,446
Restricted cash and investments	-	33,237,209	-	33,237,209
Total cash and cash equivalents	$ 122,051	$ 33,822,604	$ -	$ 33,944,655
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	$ 47,404	$ 2,184,966	$ -	$ 2,232,370
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	-	5,952,321	-	5,952,321
Decrease (increase) in assets:				
Tenant accounts receivable, net	-	308,322	-	308,322
Prepaid expenses	-	(8,136)	-	(8,136)
Increase (decrease) in liabilities:				
Accounts payable and accrued expenses	250	834,529	-	834,779
Security deposits	-	(7,122)	-	(7,122)
Unearned revenue	-	6,982	-	6,982
Total adjustments	250	7,086,896	-	7,087,146
Net cash provided by operating activities	$ 47,654	$ 9,271,862	$ -	$ 9,319,516
Noncash capital and related financing activities:				
Amortization of bond premium	$ -	$ 577,277	$ -	577,277