

# **California Public Finance Authority**

Hanford, California

## **Financial Statements and Supplementary Information**

Years Ended June 30, 2018 and 2017



## **Independent Auditor's Report**

Board of Directors  
California Public Finance Authority  
Hanford, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of California Public Finance Authority, which comprise the statements of net position as of June 30, 2018 and 2017, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of California Public Finance Authority as of June 30, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

## **Other Matter - Required Supplementary Information**

Accounting principles generally accepted in the United States require that the management's discussion and analysis on page 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Wipfli LLP*

Wipfli LLP

December 5, 2018  
Madison, Wisconsin

## California Public Finance Authority

### Management's Discussion and Analysis (Unaudited) June 30, 2018 and 2017

As management of the California Public Finance Authority ("CalPFA" or the "Authority"), we offer readers of the financial statements this narrative overview and analysis of the financial activities of the Authority for the years ended June 30, 2018 and 2017.

CalPFA is a political subdivision of the State of California established under the Joint Exercise of Powers Act for the purpose of issuing tax-exempt and taxable conduit bonds for public and private entities throughout California. CalPFA was created by Kings County and the Housing Authority of Kings County, California in May 2015.

The Authority's financings consist of conduit finance issuer transactions. Conduit debt obligations issued through CalPFA are those of the governments, nonprofit organizations, and private companies who are the borrower when the Authority issues conduit bonds under its own governmental status in the tax-exempt and taxable municipal finance marketplace.

CalPFA was established by local governments, for local governments, to provide a means to efficiently and reliably finance projects on behalf of local governments in California. CalPFA is empowered to promote economic, cultural, and community development opportunities that create temporary and permanent jobs, affordable housing, community infrastructure, and improve the overall quality of life in local communities.

Although cities, counties, and special districts are able to issue their own debt obligations or serve as a conduit issuer of private activity bonds that promote economic development and provide critical community services, many local agencies find stand-alone financing too costly or lack the necessary resources or experience to facilitate the bond issuance and perform post-issuance activities for the term of the bonds.

#### **Financial Highlights**

For the years ended June 30, 2018 and 2017, the Authority issued a total of 16 conduit revenue bonds totaling \$596 million and 13 conduit revenue bonds totaling \$346 million, respectively. As of June 30, 2018 and 2017, the total amount of CalPFA conduit debt obligations outstanding issued on behalf of program participants totaled \$1.1 billion and \$528 million.

#### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to CalPFA's financial statements. The financial statements consist of a statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

#### **Analysis of the Financial Statements**

The statement of net position provides information about the nature and amount of investment in resources (assets) and the obligations (liabilities) of the Authority, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

**Table 1**  
**Condensed Statement of Net Position**

At June 30, 2018 and 2017	2018	2017
Total current assets	\$ 1,559,968	\$ 649,500
Total assets	1,559,968	649,500
Total current liabilities	1,146,886	472,872
Total liabilities	1,146,886	472,872
Net position:		
Restricted	360,082	175,629
Unrestricted	53,000	999
Total net position	\$ 413,082	\$ 176,628

Assets reported by CalPFA at June 30, 2018 and 2017, consist of cash and cash equivalents received from bond issuance and bond administration fee payments, borrower deposits, deposits held for housing projects submitted to the California Debt Limit Advisory Commission ("CDLAC"), bond administration fees receivable, and restricted cash held in reserve accounts to be used to pay specific expenses of the Authority. Current liabilities are comprised of amounts payable to the Authority's program administrator, GPM Municipal Advisors, LLC (the "Program Administrator"), per the provisions of the Master Services Agreement (Note 4), in reimbursement of costs incurred by the Program Administrator on the Authority's behalf and the annual municipal advisor fee, amounts payable to legal counsel for formation and initial organization related work and unearned revenue related to pending bond issues and deposits held for CDLAC. At June 30, 2018 and 2017, total payables to the Program Administrator were \$116,101 and \$29,858, and total unearned revenue was \$68,180 and \$50,847.

The statement of revenues, expenses and changes in net position show how the Authority's net position changed during the years ended June 30, 2018 and 2017 and accounts for all of the period's revenues and expenses.

**Table 2**  
**Condensed Statement of Revenues, Expenses, and Changes in Net Position**

Years ended June 30, 2018 and 2017	2018	2017
Total revenues	\$ 755,751	\$ 492,747
Conduit debt expenses	524,849	332,774
Operating income	230,902	159,973
Interest income	5,552	1,103
Change in net position	236,454	161,076
Beginning net position	176,628	15,552
Ending net position	\$ 413,082	\$ 176,628

Revenues are comprised of bond issuance and bond administration fees earned by the Authority. Issuance fees are amounts charged to borrowers by CalPFA to issue conduit revenue bonds. The Authority contracts program management services from the Program Administrator. The Authority invoices the borrower in advance for bond issuance fees for conduit issuance services and then places the payment on deposit in trust with nationally-recognized banking institutions. Once the bonds are issued, the trustee distributes payments for services directly to the Program Administrator and the Authority's sponsors, and the deposits become revenue.

Bond Administration fees are amounts assessed by the Authority for the performance of ongoing administration and compliance work to help keep long-term bond issues in good standing. Bond administration fees are generally paid semi-annually in arrears by the borrower and are remitted into a trust account with a nationally-recognized bank. For the year ended June 30, 2018 and 2017, the amount of administration fees earned was \$181,261 and \$64,007.

The Authority's operating expenses are comprised of sponsor fees and professional service fees.

The statement of cash flows provides information about the Authority's cash receipts, cash payments, and net changes in cash resulting from operating, noncapital financing, capital and related financing, and investing activities.

### **Currently Known Facts and Economic Factors**

The Authority expects revenues to grow in fiscal year 2019 as it leverages its years of experience in tax-exempt private activity and municipal finance to benefit local communities. The local economy has remained strong and California's population continues to grow. This growth, coupled with historically low interest rates put the Authority in a position to achieve growth in the upcoming year.

### **Requests for Information**

This financial report is designed to provide a general overview of the Authority's finances for all those interested. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

California Public Finance Authority  
1400 West Lacey Boulevard, Building 1  
Hanford, California 93230

# California Public Finance Authority

## Statements of Net Position

At June 30, 2018 and 2017	2018	2017
<b>Assets</b>		
Current assets:		
Unrestricted cash and cash equivalents	\$ 197,423	\$ 51,844
Restricted cash and cash equivalents	426,643	224,402
Restricted cash and cash equivalents-CDLAC	882,871	362,971
Unbilled administration fees	53,031	10,283
<b>Total assets</b>	<b>\$ 1,559,968</b>	<b>\$ 649,500</b>
<b>Liabilities and Net Position</b>		
Current liabilities:		
Accounts payable	\$ 104,620	\$ 5,446
Accounts payable - restricted	91,215	53,608
CDLAC deposits - restricted	882,871	362,971
Unearned revenue	68,180	50,847
<b>Total current liabilities</b>	<b>1,146,886</b>	<b>472,872</b>
Net position:		
Restricted	360,082	175,629
Unrestricted	53,000	999
<b>Total net position</b>	<b>413,082</b>	<b>176,628</b>
<b>Total liabilities and net position</b>	<b>\$ 1,559,968</b>	<b>\$ 649,500</b>

See accompanying notes to financial statements.

# California Public Finance Authority

## Statement of Revenues, Expenses and Change in Net Position

For the Years Ended June 30, 2018 and 2017	2018	2017
Bond issuance fees	\$ 574,490	\$ 428,740
Bond administration fees	181,261	64,007
<b>Total revenues</b>	<b>755,751</b>	<b>492,747</b>
Operating expenses:		
Management fees	475,320	298,747
Professional fees	39,929	29,016
Other expenses	9,600	5,011
<b>Total operating expenses</b>	<b>524,849</b>	<b>332,774</b>
<b>Operating income</b>	<b>230,902</b>	<b>159,973</b>
Nonoperating revenues:		
Interest income	5,552	1,103
<b>Change in net position</b>	<b>236,454</b>	<b>161,076</b>
<b>Total net position - Beginning</b>	<b>176,628</b>	<b>15,552</b>
<b>Total net position - Ending</b>	<b>\$ 413,082</b>	<b>\$ 176,628</b>

See accompanying notes to financial statements.



# California Public Finance Authority

## Statement of Cash Flows

For the Years Ended June 30, 2018 and 2017	2018	2017
Cash flows from operating activities:		
Cash received from customers	\$ 1,250,236	\$ 199,897
Cash paid to suppliers and service providers	(388,068)	(325,766)
<b>Net cash and cash equivalents provided by (used in) operating activities</b>	<b>862,168</b>	<b>(125,869)</b>
Cash flows from investing activities:		
Interest received	5,552	1,103
<b>Net cash and cash equivalents provided by investing activities</b>	<b>5,552</b>	<b>1,103</b>
Net increase (decrease) in cash and cash equivalents	867,720	(124,766)
Cash and cash equivalents - Beginning of period	639,217	763,983
<b>Cash and cash equivalents - End of period</b>	<b>\$ 1,506,937</b>	<b>\$ 639,217</b>
Schedule reconciling operating income to net cash and cash equivalents provided by (used in) operating activities:		
Operating income	\$ 230,902	\$ 159,973
Adjustments to reconcile net operating income to net cash and cash equivalents provided (used) by operating activities:		
Changes in operating assets and liabilities:		
Unbilled administration fees	(42,748)	(8,418)
Accounts payable	136,781	7,008
CDLAC deposits	519,900	(295,279)
Unearned revenue	17,333	10,847
<b>Total adjustments</b>	<b>631,266</b>	<b>(285,842)</b>
<b>Net cash and cash equivalents provided by (used in) operating activities</b>	<b>\$ 862,168</b>	<b>\$ (125,869)</b>

See accompanying notes to financial statements.

# California Public Finance Authority

## Notes to Financial Statements

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### Note 1: Summary of Significant Accounting Policies

#### Nature of Organization

California Public Finance Authority ("CalPFA" or the "Authority") is a political subdivision of the State of California established under the Joint Exercise of Powers Act. CalPFA is empowered to promote economic, cultural and community development opportunities through the issuance of tax-exempt and taxable bonds for public and private entities throughout California. CalPFA was created by Kings County, California and the Kings County Housing Authority.

CalPFA was established by local governments, for local governments, to provide a means to efficiently and reliably finance projects on behalf of local governments in California. CalPFA provides local governments and eligible private entities access to low-cost, tax-exempt and other financing for projects that contribute to social and economic growth and improve the overall quality of life in communities throughout the state.

CalPFA's governing board (the "Board") is comprised of elected Supervisors of Kings County. The Board determines all of CalPFA's financing policies and procedures which includes a review and approval process for each proposed financing.

Conduit debt obligations issued through the Authority are those of the governments, non-profit organizations, and private companies who use the Authority's own governmental status to access the tax-exempt and taxable municipal finance marketplace. Once a borrower uses the Authority to issue debt, financial servicing of that debt falls to a trustee, or potentially to the investor itself in certain private placements. The Authority maintains no ongoing interest in bonds issued through its conduit and no debt servicing responsibility.

#### Basis of Accounting

The financial statements of the Authority are prepared in accordance with generally accepted accounting principles as applied to an enterprise fund of a governmental unit on the accrual basis.

#### Use of Estimates

The preparation of the accompanying financial statements in conformity with accounting principles generally accepted in the United States (GAAP) requires management to make certain estimates and assumptions that directly affect the results of reported assets, liabilities, revenue, and expenses. Actual results may differ from these estimates and are subject to change in the near term.

#### Cash and Cash Equivalents

Cash equivalents are defined as short-term, highly liquid investments, which are readily convertible to cash and have remaining maturities of three months or less at the date of acquisition.

# California Public Finance Authority

## Notes to Financial Statements

### Note 1: Summary of Significant Accounting Policies (Continued)

#### Restricted Cash and Net Assets

Restricted cash and net assets represent net assets set aside for CalPFA or program manager purposes as required by the Authority's Services Agreement (see Note 4). Such funds may be disbursed for only the purposes specified in the Services Agreement. If disbursed for CalPFA purposes, authorization of the Board is required, and if disbursed for Program Manager purposes, the consent of all management service providers is required.

Certain restricted cash and cash equivalents consist of deposits received from applicants for housing projects submitted to the California Debt Limit Allocation Committee (CDLAC). Deposits are returned to the applicant or remitted to CDLAC based upon CDLAC instructions to the Authority.

#### Revenue Recognition

The Authority receives revenue from various fees. Bond issuance fees are received from bond proceeds and are recognized as revenue upon issuance of the bond. Administrative fees are invoiced to bond issuers monthly or semiannually in arrears, and recognized as revenue and receivables as earned.

CalPFA borrower fees consisted of the following for the year ended June 30, 2018:

Bond Program	Issuance Fee (up to \$20 million in bonding)	Issuance Fee (over \$20 million in bonding)	Annual Administration Fee
Affordable Housing	17.5 basis points (min \$15,000)	\$35,000 Plus 10.0 bps on bond amount over \$20 million	5.0 bps**
501(c) (3) Nonprofit ***	17.5 bps (min \$15,000)	\$35,000 plus 5.0 bps on bond amount over \$20 million	1.5 bps
Other exempt facilities, Airports, Solid waste	17.5 bps (min \$15,000)	\$35,000 plus 5.0 bps on bond amount over \$20 million	5.0 bps
Industrial development	\$20,000	N/A	10.0 bps
Taxable	15.0 bps (min \$20,000)	\$30,000 plus 5.0 bps on bond amount over \$20 million	1.5 bps
Municipal	12.5 bps (min \$7,500)	\$25,000 plus 2.5 bps on bond amount over \$20 million	1.5 bps
Public Private Partnerships	45.0 bps (min \$100,000)	45.0 bps (min \$100,000)	20.0 bps

\*\* Annual administration fee for affordable housing bonds assessed against outstanding bond principal on interest payment date. Minimum fee for each affordable housing project is \$5,000 (a \$1,000 annual compliance monitoring fee will replace the existing annual administration fee throughout the CDLAC compliance period after the qualified project period has expired).

\*\*\*501(c)(3) nonprofit healthcare financing issuance fee will be capped at \$100,000 per issuance and the annual administration fee capped at \$150,000 per issuance.

# California Public Finance Authority

## Notes to Financial Statements

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### **Note 1: Summary of Significant Accounting Policies** (Continued)

#### **Revenue Recognition** (Continued)

All bond-financed projects located within Kings County, California will receive a 25% discount from the standard fees stated above.

CalPFA shares a portion of its annual administrative fee with public agencies under its Community Benefit Reserve Fund as indicated in Note 4.

#### **Income Taxes**

The Authority is a public entity that is exempt from federal and state taxation.

#### **Subsequent Events**

The Authority has evaluated subsequent events through December 5, 2018, which is the date the financial statements were available to be issued.

### **Note 2: Deposits and Investments**

California Government Code Section 53601 (the Code) permits the Authority to invest available cash balances in various investments, as outlined by the Code. The Authority maintains its cash and equivalents in a money market account with a financial institution.

Custodial credit risk - Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. As of June 30, 2018 and 2017, the Authority's bank balances exceeding custodial limits were exposed to custodial credit risk.

# California Public Finance Authority

## Notes to Financial Statements

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### Note 3: Conduit Debt

Conduit debt refers to certain limited-obligation revenue bonds and notes issued by CalPFA for the express purpose of providing capital financing for a specific third party. Although the conduit debt obligations bear the name of CalPFA, CalPFA has no obligation for such debt beyond the resources provided by financing loans with third parties on whose behalf they were issued. Accordingly, the bonds and notes are not reported as liabilities in the Authority's basic financial statements. There were no conduit bonds authorized but unsold at June 30, 2018 and 2017. Conduit debt activity for the years ended June 30, 2018 and 2017, are summarized as follows:

Balance at June 30, 2016	\$ 182,900,000
New issuances	345,553,000
Principal repayments	(386,365)
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Balance at June 30, 2017	528,066,635
New issuances	595,745,000
Principal repayments	(240,135)
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Balance at June 30, 2018	<u>\$ 1,123,571,500</u>

At June 30, 2018, there were \$527,300,000 in bonds pending but not issued.

### Note 4: Related-Party Transactions/Significant Contracts

CalPFA has entered into a Services Agreement with GPM Municipal Advisors, LLC and certain affiliates (collectively "GPM") for advisory, consulting, and project management services related to CalPFA's finance programs, including post-issuance management and compliance oversight. Acting as CalPFA's staff, GPM personnel implement the issuance policies established by the Board, present transactions to the Board for review and approval, and work with the financial and legal community, local agencies and regulatory bodies, and others, to ensure that bonds issued in CalPFA's name remain in good standing. The Services Agreement expires July 6, 2025, with the option for up to three successive five year renewal periods.

Under the Services Agreement as amended, CalPFA incurred service fees to GPM of \$475,320 and \$298,747 for the years ended June 30, 2018 and 2017. At June 30, 2018 and 2017, \$104,620 and \$5,446 was payable to GPM for such services.

Under the Services Agreement as amended, CalPFA incurred consulting fees to GPM of \$10,000 for the years ended June 30, 2018 and 2017. At June 30, 2018 and 2017, \$30,000 and \$20,000 was payable to GPM for such services.

The Services Agreement provides that when there are insufficient funds in the CalPFA's reserves to pay necessary operating costs, any such costs paid by GPM on behalf of CalPFA shall be repaid at such time as the reserves are sufficiently funded. During a previous year, GPM paid \$9,858 of costs on behalf of CalPFA, which is due to GPM and outstanding as of June 30, 2018 and 2017.

# California Public Finance Authority

## Notes to Financial Statements

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### **Note 4: Related-Party Transactions/Significant Contracts** (Continued)

In addition, the Services Agreement calls for the establishment of the following reserve funds:

*Reserve Fund ("RF")* - A custody account owned by the Authority and maintained by GPM for the benefit of the Authority with a financial institution acceptable to the Authority for the purpose of payment by GPM on behalf of the Authority of legal, legislative representation, accounting, consulting, professional, and other service fees incurred by GPM in connection with any Authority programs or otherwise in connection with the Service Agreement, subject to authorization by the Authority. The RF receives 5% of issuance and administrative fees.

*Community Benefit Reserve Fund ("CBRF")* - A custody account owned by the Authority and maintained by GPM for the benefit of the Authority with a financial institution acceptable to the Authority for the purpose of payment by GPM of fees to public agencies. The CBRF receives 10% (affordable housing, industrial development, and other facilities) or 15% (501(c)(3) non profit) of annual administrative fees collected. The CBRF is designed to offset the cost of public services to any Authority program over the life of the financing.

### **Note 5: Restricted Position**

According to the Services Agreement, GPM is directed to deposit 5% of bond issuance and administration fees into the RF (see Note 4). At June 30, 2018 and 2017, \$(55,457) and \$(45,639), of net position are restricted for this purpose. When the balance in the RF reaches \$250,000, deposits into the fund will be suspended until such time as the balance falls below \$200,000.

According to the Services Agreement, the Authority retains a portion of the issuance fees and administration fees received. These funds are reserved for use as directed by the CalPFA Board of Directors for the benefit of the Kings County community. Funds reserved for these purposes as of June 30, 2018 and 2017 are \$410,150 and \$212,807.

Additionally, GPM is directed to deposit a portion of bond administration fees into the CBRF (see Note 4). These funds are paid out to the Authority members who held required TEFRA meetings for the Authority in the process of issuing the conduit bonds. The funds are paid out annually, 45 days after fiscal year end. At June 30, 2018 and 2017, \$5,389 and \$8,461 of net position are restricted for this purpose.

Certain restricted cash and cash equivalents consist of deposits received from applicants for housing projects submitted to the California Debt Limit Allocation Committee (CDLAC). Deposits are returned to the applicant or remitted to CDLAC based upon CDLAC instructions to the Authority. Funds reserved for these purposes have no impact on net position.

A reclassification was made between restricted net position and unrestricted net position in the amount of \$53,608 as of June 30, 2017.