

**California Health Facilities  
Financing Authority**

**Financial Statements  
(With Supplementary Information)  
And Independent Auditor's Report**

**June 30, 2012**

# California Health Facilities Financing Authority

## Index

	Page
Independent Auditor's Report	3
Management Discussion and Analysis	5
Basic Financial Statements	
Statement of Net Assets	9
Statement of Activities	10
Statement of Cash Flows	11
Notes to Financial Statements	12
Supplementary Information	
Combining Statement of Net Assets	22
Combining Statement of Revenue, Expenses and Changes in Net Assets	24
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	25

## Independent Auditor's Report

Members of the Board  
California Health Facilities Financing Authority

We have audited the accompanying basic financial statements of the California Health Facilities Financing Authority (the Authority) as of and for the year ended June 30, 2012, as listed on the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The California Health Facilities Financing Authority is a component unit of the State of California and the financial statements present only the component unit financial statements of the Authority (and do not purport to, and do not, present fairly the financial position of the State of California) as of June 30, 2012 and the changes in its net assets and its cash flows, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the California Health Facilities Financing Authority as of June 30, 2012 and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated April 17, 2013 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 5 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America and the Governmental Accounting Standards Board. We have applied certain limited procedures that consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Authority as a whole. The accompanying supplementary information on pages 22 through 24 is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Authority. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

A handwritten signature in cursive script that reads "Cohn Reznick LLP".

Sacramento, California  
April 17, 2013

# California Health Facilities Financing Authority

## Management Discussion and Analysis

For Fiscal Year Ended June 30, 2012

This section of the Authority's financial statements presents the analysis of the Authority's financial performance during the fiscal year that ended June 30, 2012. Please read it in conjunction with the financial statements that follow this section.

### General Background, Overview and Programs

The California Health Facilities Financing Authority (CHFFA) was created in 1979 pursuant to the CHFFA Act (codified in Government Code sections 15430-15462.5). CHFFA is a public instrumentality of the State of California, authorized and empowered by the provisions of the CHFFA Act for the purpose of providing financial assistance to eligible and creditworthy non-profit and public health facilities through loans, grants and tax-exempt financings. CHFFA administers a tax-exempt bond financing program, a tax-exempt equipment financing program, provides a direct loan program to small and rural health facilities, administers two grant programs that provide funding to community clinics, and administers the 2004 and 2008 Children's Hospital Act grants.

The Act authorizes CHFFA to charge fees relating to the administrative costs and expenses incurred in obtaining tax-exempt financing. This self-funding structure allows CHFFA to provide assistance to eligible borrowers without cost to the State's General Fund. All fees are deposited into the CHFFA Fund ("the Fund") and all expenses are paid from the Fund. In addition, interest earnings from the investment of the Fund in the State's Surplus Money Investment Fund are deposited directly into the Fund.

### Tax Exempt Financing Programs

Over the years, CHFFA has served as a conduit issuer for a wide range of providers and systems throughout the State of California, from rural community-based organizations to stand alone and large multi-hospital systems. CHFFA's enabling legislation guides the specific types of eligible entities, covering a wide range of entities, including without limitation acute care hospitals, specialty centers, intermediate and skilled nursing care facilities, clinics and adult day health centers. The legislation also addresses project eligibility (including without limitation, construction, expansion, remodeling, renovation, and refinances), in addition to the make-up and responsibility of the nine member board. The borrowers are categorized under the following bond financing programs:

Standard Bond Financing Program - This program provides borrowers with access to low interest rate capital markets through the issuance of tax-exempt revenue bonds. Proceeds from the bonds may be used to fund construction/renovation projects, land acquisition for future projects, acquisition of existing health facilities, refinancing of existing debt, and costs of issuance.

## **California Health Facilities Financing Authority**

### **Management Discussion and Analysis - Continued**

**For Fiscal Year Ended June 30, 2012**

Pooled Bond Financing Program - This program provides borrowers, with more modest financing needs, the option to group or “pool” into a single bond financing, where bond issuance costs are shared by other participants. This type of financing will generally allow a borrower to finance an eligible project with a minimum loan of \$500,000.

Tax Exempt Equipment Financing Program - This program provides health facilities with access to tax-exempt fixed rate financing for equipment purchases. A borrower under the program can fund qualifying equipment purchases of \$500,000 or more. The maturity of the notes must be related to the useful life of the equipment to be financed. Notes issued through the program are collateralized by the equipment that is purchased. Funds may be used to purchase or reimburse all types of qualifying equipment by an eligible health facility, including but not limited to, medical and diagnostic equipment, computers, and telecommunications equipment. Funds can also be used to finance minor equipment installation costs.

During the fiscal year ended June 30, 2012, the CHFFA Board authorized \$2.9 billion in conduit revenue bonds and bonds issued during the fiscal year amounted to \$2.9 billion. As of June 30, 2012, CHFFA’s total bonds issued were \$28.7 billion and total bonds outstanding were \$11.8 billion.

#### **Healthcare Expansion Loan Program (HELP) II Financing Program**

The HELP II Financing Program is designed to help California’s non-profit small and rural health facilities obtain adequate financing for their capital needs and provides three percent (3%), fixed interest loans of up to \$1,000,000. HELP II loans may be used to purchase or construct new facilities, remodel or renovate existing facilities, and purchase equipment or furnishings.

During the fiscal year ended June 30, 2012, CHFFA issued \$3.5 million in new loans under the program. As of June 30, 2012, CHFFA’s total outstanding loans receivable is \$34.7 million.

#### **Children’s Hospital Programs**

CHFFA is authorized by the Children’s Hospital Act of 2004 and the Act of 2008 to award grants for the purpose of funding eligible projects. The Children’s Hospital Bond Act of 2004 established the Children’s Hospital Program and authorized the State to sell \$750 million in general obligation bonds to fund the program. The purpose of the program is intended to improve the health and welfare of California’s critically ill children by funding capital improvement projects for qualifying children’s hospitals. Eligible projects include those to construct, expand, improve, or finance children’s hospitals, including their furnishings or equipment. Thirteen hospitals are eligible for the program, five specific University of California hospitals and eight

## California Health Facilities Financing Authority

### Management Discussion and Analysis - Continued

For Fiscal Year Ended June 30, 2012

private, non-profit children's hospitals throughout the State. In November 2008, California voters approved the Act of 2008, adding an additional \$980 million for the program.

During the fiscal year ended June 30, 2012, CHFFA awarded grants in the amount of \$172.8 million.

#### **Cedillo-Alarcón and Anthem Well Point Clinic Grant Programs**

Cedillo-Alarcón Clinic Grant Fund - The Cedillo-Alarcón Community Care Investment Act of 2000 authorized the creation of a financial assistance grant program for eligible community clinics for one-time capital outlays. The Act gave CHFFA the authority to administer the program, implementing the Cedillo-Alarcón Community Clinic Grant Program of 2000. The legislation authorized a one-time appropriation of \$50 million in grants (plus interest earned on these funds) for capital outlays to allow clinics to expand and meet the growing need of health care among the uninsured.

Anthem Well Point Community Clinic Grant Program of 2005 - The Anthem-WellPoint merger provided \$35 million to create the Community Clinic Grant Program for the improvement of non-profit community based clinics serving low-income healthcare consumers. CHFFA was statutorily charged with implementing the program. Accumulated interest has brought the program to over \$40 million.

During the fiscal year ended June 30, 2012, no significant activity occurred under the Anthem Well Point Community Clinic Grant Program nor the Cedillo-Alarcón Clinic Grant Fund. During fiscal year 2012, CHFFA continued to disburse some residual funds that remained under these programs to eligible clinics.

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

The Authority's financial statements include the Independent Auditor's Report, Management Discussion & Analysis (MD&A), basic financial statements, accompanying notes and supplementary information.

#### **Required Financial Statements**

The financial statements of the Authority report information using accounting methods similar to those used by private sector companies. These statements offer both short-term and long-term financial information about its activities.

The **Statement of Net Assets** include all of the Authority's assets and liabilities for the year ended June 30, 2012 and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Authority's creditors (liabilities). It also provides the basis for evaluating the

# California Health Facilities Financing Authority

## Management Discussion and Analysis - Continued

For Fiscal Year Ended June 30, 2012

capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority.

The **Statement of Activities** accounts for all of the Authority's revenue and expenses for the year ended June 30, 2012. This statement reflects the results of the Authority's operations over the year and can be used to determine the Authority's credit worthiness and its ability to successfully recover all its costs through fees, general obligation bonds revenue and other income.

The **Statement of Cash Flows** provides information about the Authority's cash receipts and cash payments during the year ended June 30, 2012. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, capital and related financing, noncapital financing and investment activities. The statement provides answers to questions of where cash came from, what cash was used for and what caused changes in cash for the reporting period covered.

The accompanying **Notes to financial statements** provide additional information that is essential to a full understanding of the data provided in the financial statements.

In addition to the basic financial statements and accompanying notes, the final section in this report also presents certain **supplementary information**. This supplementary information section contains the Combining Statement of Net Assets; and Combining Statement of Revenue, Expenses and Changes in Net Assets.

### Requests for Information

This financial report is designed to provide a general overview of the Authority's financial position and is intended for distribution to a variety of interested parties. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Executive Director, California Health Facilities Financing Authority, 915 Capitol Mall Room 590, Sacramento, California 95814.



California Health Facilities Financing Authority

Statement of Net Assets

June 30, 2012

Assets

Current assets	
Cash and cash equivalents	\$ 363,497,068
Loans receivable	4,440,258
Prepaid expenses	7,000
Accounts receivable, net of an allowance for doubtful accounts of \$21,688	1,166,517
SMIF interest receivable	<u>333,332</u>
Total current assets	<u>369,444,175</u>
Noncurrent assets	
Loans receivable, net of allowance for doubtful accounts of \$458,830	30,414,551
Capital assets, net of accumulated depreciation of \$77,410	<u>61,094</u>
Total noncurrent assets	<u>30,475,645</u>
Total assets	<u><u>\$ 399,919,820</u></u>

Liabilities

Current liabilities	
Accounts payable	\$ 61,624,224
Deferred revenues	87,587
Other liabilities - accrued leave	<u>122,563</u>
Total current liabilities	<u>61,834,374</u>
Noncurrent liabilities	
Total liabilities	<u>61,834,374</u>

Net Assets

Restricted for purposes specified in enabling legislations	<u>338,085,446</u>
Total net assets	<u>338,085,446</u>
Total liabilities and net assets	<u><u>\$ 399,919,820</u></u>

See notes to financial statements

California Health Facilities Financing Authority

Statement of Activities

Year ended June 30, 2012

Operating revenues	
Application and initial fees	\$ 1,712,742
Annual administration fees	1,451,879
Other fees and charges	13,991
Interest income on HELP II loans	<u>1,093,113</u>
Total operating revenues	<u>4,271,725</u>
Operating expenses	
Salaries, wages and benefits	1,422,758
Services and supplies	574,476
Consultant services	331,848
Legal fees	166,708
Other agent fees	127,582
Bad debt expense	5,846
Intangible asset write-off	16,250
Depreciation	<u>29,908</u>
Total operating expenses	<u>2,675,376</u>
Operating income	<u>1,596,349</u>
Nonoperating revenues	
Interest and investment income	1,481,148
Grant expenses	<u>(109,459,408)</u>
Total nonoperating revenues (expenses)	<u>(107,978,260)</u>
Changes in net assets	(106,381,911)
Total net assets, beginning of year	<u>444,467,357</u>
Total net assets, end of year	<u>\$ 338,085,446</u>

See notes to financial statements

California Health Facilities Financing Authority

Statement of Cash Flows

Year ended June 30, 2012

Cash flows from operating activities:	
Receipts from fees	\$ 3,229,832
Interest receipt from loans receivable	1,086,077
Payments to employees and service providers	<u>(2,667,127)</u>
Net cash provided by operating activities	<u>1,648,782</u>
Cash flows from noncapital financing activities	
Grants paid	<u>(85,530,260)</u>
Net cash used for noncapital financing activities	<u>(85,530,260)</u>
Cash flows from investing activities	
Interest and investment income	1,687,837
Other assets - decrease in checks held for escrow	75,000
Disbursements on loans receivable	(3,967,200)
Principal payments received on loans receivable	<u>6,062,408</u>
Net cash provided by investing activities	<u>3,858,045</u>
Net decrease in cash and cash equivalents	(80,023,433)
Cash and cash equivalents, beginning of year	<u>443,520,501</u>
Cash and cash equivalents, end of year	<u>\$ 363,497,068</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 1,596,349
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	29,908
Intangible write-off	16,250
Bad debt expense	5,846
Changes in assets and liabilities:	
Accounts receivable	38,338
Accounts payable	<u>(37,909)</u>
Net cash provided by operating activities	<u>\$ 1,648,782</u>

See notes to financial statements

# California Health Facilities Financing Authority

## Notes to Financial Statements

June 30, 2012

### Note 1 - Organization and Nature of Operations

The California Health Facilities Financing Authority (CHFFA or the Authority) was created in 1979 pursuant to the CHFFA Act (codified in Government Code sections 15430-15462.5). CHFFA is a public instrumentality of the State of California, authorized and empowered by the provisions of the CHFFA Act for the purpose of providing financial assistance to eligible and creditworthy non-profit and public health facilities through loans, grants and tax-exempt financings. CHFFA administers a tax-exempt bond financing program, a tax-exempt equipment financing program, provides a direct loan program to small and rural health facilities, administers two grant programs that provide funding to community clinics, and administers the 2004 and 2008 Children's Hospital Act grants.

The Act authorizes CHFFA to charge fees relating to the administrative costs and expenses incurred in obtaining tax-exempt financing. This self-funding structure allows CHFFA to provide assistance to eligible borrowers without cost to the State's General Fund. All fees are deposited into the CHFFA Fund ("the Fund") and all expenses are paid from the Fund. In addition, interest earnings from the investment of the Fund in the State's Surplus Money Investment Fund are deposited directly to the Fund. The programs of CHFFA are as follows:

#### **Tax Exempt Financing Programs**

Over the years, CHFFA has served as a conduit issuer for a wide range of providers and systems throughout the State of California, from rural community-based organizations to stand alone and large multi-hospital systems. CHFFA's enabling legislation guides the specific types of eligible entities, covering a wide range of entities, including without limitation acute care hospitals, specialty centers, intermediate and skilled nursing care facilities, clinics and adult day health centers. The legislation also addresses project eligibility (including without limitation, construction, expansion, remodeling, renovation, and refinances), in addition to the make-up and responsibility of the nine member board. The borrowers are categorized under the following bond financing programs:

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Pooled Bond Financing Program - This program provides borrowers, with more modest financing needs, the option to group or "pool" into a single bond financing, where bond issuance costs are shared by other participants. This type of financing

# California Health Facilities Financing Authority

## Notes to Financial Statements - Continued

June 30, 2012

will generally allow a borrower to finance an eligible project with a minimum bond issuance of \$500,000.

Tax Exempt Equipment Financing Program - This program provides health facilities with access to tax-exempt fixed rate financing for equipment purchases. A borrower under the program can fund qualifying equipment purchases of \$500,000 or more. The maturity of the notes must be related to the useful life of the equipment to be financed. Notes issued through the program are collateralized by the equipment that is purchased. Funds may be used to purchase or reimburse all types of qualifying equipment by an eligible health facility, including but not limited to, medical and diagnostic equipment, computers, and telecommunications equipment. Funds can also be used to finance minor equipment installation costs.

### **Healthcare Expansion Loan Program (HELP) II Financing Program**

The HELP II Financing Program is designed to help California's non-profit small or rural health facilities obtain adequate financing for their capital needs and provides three percent (3%), fixed interest loans of up to \$1,000,000. HELP II loans may be used to purchase or construct new facilities, remodel or renovate existing facilities, and purchase equipment or furnishings.

### **Children's Hospital Programs**

CHFFA is authorized by the Children's Hospital Act of 2004 and the Act of 2008 to award grants for the purpose of funding eligible projects. The Children's Hospital Bond Act of 2004 established the Children's Hospital Program and authorized the State to sell \$750 million in general obligation bonds to fund the program. The purpose of the program is intended to improve the health and welfare of California's critically ill children by funding capital improvement projects for qualifying children's hospitals. Eligible projects include those to construct, expand, improve, or finance children's hospitals, including their furnishings or equipment. Thirteen hospitals are eligible for the program, five specific University of California hospitals and eight children's hospitals throughout the State. In November 2008, California voters approved the Act of 2008, adding an additional \$980 million for the program.

### **Cedillo-Alarcón and Anthem Well Point Clinic Grant Programs**

Cedillo-Alarcón Clinic Grant Fund - The Cedillo-Alarcón Community Care Investment Act of 2000 authorized the creation of a financial assistance grant program for eligible community clinics for one-time capital outlays. The Act gave CHFFA the authority to administer the program, implementing the Cedillo-Alarcón Community Clinic Grant Program of 2000. The legislation authorized a one-time appropriation of \$50 million in grants, plus interest earned on these funds, for capital outlays to allow clinics to expand and meet the growing need of health care among the uninsured.

# California Health Facilities Financing Authority

## Notes to Financial Statements - Continued

June 30, 2012

Anthem Well Point Community Clinic Grant Program of 2005 - The Anthem-WellPoint merger provided \$35 million to create the Community Clinic Grant Program for the improvement of non-profit community based clinics serving low-income healthcare consumers. CHFFA was statutorily charged with implementing the program. Accumulated interest has brought the program to over \$40 million.

Effective January 1, 2010, legislation (Senate Bill 99, which added Chapter 10.7 of Division 6 of Title 1, commencing with section 5870, to the Government Code) increased the reporting and auditing requirements for conduit issuers. While the focus of the legislation was on the joint powers authorities that frequently issue bonds with the result requiring the inclusion of state finance authorities, the legislation was written to include the finance authorities chaired by the State Treasurer. As a result, the Authority must comply with the same reporting/auditing requirements imposed on the joint powers authorities.

The Authority contracts with the State Treasurer's Office to provide administrative support including, but not limited to accounting, budgets, data processing, personnel and business services.

### Note 2 - Significant Accounting Policies

#### Basic Financial Statements

The basic financial statements of the Authority (i.e., the Statement of Net Assets, the Statement of Activities and the Statement of Cash Flows) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The financial statements report information on all of the enterprise activities of the Authority and are presented in accordance with standards established by the Governmental Accounting Standards Board (GASB).

#### Measurement Focus, Basis of Accounting and Financial Statement Presentation

The basic financial statements are prepared using the economic resource measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Assets. The Statement of Activities presents increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

The Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services. Operating expenses include the cost of sales and services, general and

**California Health Facilities Financing Authority**

**Notes to Financial Statements - Continued**

**June 30, 2012**

administrative expenses and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

In accordance with GASB, the Authority has elected to apply all Financial Accounting Standards Board (FASB) pronouncements issued prior to November 30, 1989, which are not inconsistent with GASB pronouncements. Subsequent to this date, the Authority accounts for its proprietary funds as required by GASB.

**Cash and Cash Equivalents**

The Authority's cash and cash equivalents are considered cash and short term investments that are held on deposit with the State Controller's Office. Cash receipts and disbursements of the Authority are made through a cash pool maintained by the State Controller.

**Loans Receivable**

Funds loaned by the Authority are recorded as loans receivable. Interest on loans receivable is accrued yearly. A contra-asset account, allowance for loan and interest losses, represents the current estimates of the amount of loans and interest that will become uncollectible.

**Accounts Receivable**

Accounts receivable consist of application, initial and annual administrative fees receivable on conduit bond financing programs. Accounts receivable are reported net of an allowance for doubtful accounts. Management's estimate of the allowance is based on historical collection experience and a review of the current status of accounts receivable. It is reasonably possible that management's estimate of the allowance will change.

**Capital Assets**

Capital assets are recorded at cost or estimated historical cost. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is being provided using the straight-line method over the estimated useful lives of the assets as follows:

Equipment	5 to 10 years
Computer software	3 years

# California Health Facilities Financing Authority

## Notes to Financial Statements - Continued

June 30, 2012

### Impairment of Capital Assets

The Authority reviews its capital assets for impairment whenever events or changes in circumstances indicate that there has been a decline in service utility that is large in magnitude and outside of the normal life cycle of the capital asset being evaluated. As of June 30, 2012, there has been no impairment of the capital assets.

### Other Liabilities - Accrued Leave

Other Liabilities - Accrued Leave on the statement of net assets include vested and unpaid vacation and annual leave. It is anticipated that compensated absences will generally not be used in excess of a normal year's accumulation. Unused sick leave balances are not included in the liability because they do not vest to employees. For further information, refer to the financial statements of the State of California for the year ended June 30, 2012.

### Net Assets

In the Statement of Net Assets, net assets are classified in the following categories:

*Invested in Capital Assets, Net of Related Debt* - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition or improvement of the assets.

*Restricted Net Assets* - This amount is restricted by external contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

*Unrestricted Net Assets* - This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets."

As of June 30, 2012, all of the net assets are classified as restricted by enabling legislation for purposes specified in the CHFFA Act and the other Acts establishing the different programs as described in Note 1.

### General and Administrative Expenses

The Authority is subject to an allocation of intradepartmental support costs in accordance with an agreement between the Authority and the State Treasurer's Office (STO). Such costs could affect the Authority's financial position or operating results in a manner that differs from those that might have been obtained if the Authority was autonomous. The Authority records these costs as invoiced by STO for the fiscal year. However, the allocation is subject to review and adjustment



**California Health Facilities Financing Authority**

**Notes to Financial Statements - Continued**

**June 30, 2012**

subsequent to year-end. Any adjustment is included on invoices and recorded in the period in which the adjustment is identified.

**Use of Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Note 3 - Cash and Cash Equivalents**

**Deposits with State Controller**

The Authority invests excess cash funds in the Surplus Money Investment Fund (SMIF). All of the resources of SMIF are invested through the Pooled Money Investment Board and is administered by the office of the State Controller. As of June 30, 2012, the Authority has invested funds in SMIF in the amount of \$363,409,481. During the year ended June 30, 2012, the Authority earned interest and investment income in the amount of \$1,481,148, of which \$333,332 is receivable as of June 30, 2012.

Disclosures regarding interest rate risk, credit risk, concentration of credit risk, custodial risk and other additional detailed disclosures required by GASB regarding cash deposits and investments, are presented in the financial statements of the State of California for the year ended June 30, 2012.

**Note 4 - Loans Receivable**

Loans receivable consist of principal loan repayments receivable on the HELP II Financing Program. The loans bear interest at a fixed rate of 3% per annum and have lengths of maturity ranging from 5 to 15 years. A detailed schedule of the loans receivable as of June 30, 2012 is as follows:

HELP II Loan:	
HELP II Loans receivable	\$ 35,313,639
Allowance for loan losses	<u>(458,830) *</u>
Total loans receivable	<u><u>\$ 34,854,809</u></u>

\*The Authority is currently working with the State Treasurer's Office, Fiscal Services and the State Controller's Office to have these loans formally written off.

California Health Facilities Financing Authority

Notes to Financial Statements - Continued

June 30, 2012

Loans receivable due in less than one year amounted to \$4,440,258 at June 30, 2012. As of June 30, 2012, interest receivable of \$100,342 is included in accounts receivable on the Statement of Net Assets. The allowance of \$458,830 is related to some deferred loans for which the scheduled payments are not expected to be received in the next fiscal year.

**Note 5 - Accounts Receivable**

A detailed schedule of the accounts receivable as of June 30, 2012 is as follows:

Fees receivable on Bond Financing Program	\$ 1,081,316
Interest receivable HELP II Loans	100,342
Other receivables	6,547
Less allowance for uncollectible fees	<u>(21,688)</u>
Total accounts receivable, net	<u>\$ 1,166,517</u>

**Note 6 - Capital Assets**

Capital assets are comprised of the following as of June 30, 2012:

Furniture and equipment	\$ 73,504
Computer software	<u>65,000</u>
Subtotal	138,504
Accumulated depreciation	<u>(77,410)</u>
Net	<u>\$ 61,094</u>

**Note 7 - Conduit Finance Activity**

The Authority's conduit finance activity for the year ended June 30, 2012 is as follows:

	Debt issued during fiscal year 2012 (third party debt)	Total debt outstanding as of fiscal year 2012 (third party debt)
<u>Qualified Private Activity Debt</u>		
Qualified 501(c)(3) Nonprofit - Hospital and Health Care Bonds	<u>\$ 2,947,055,000</u>	<u>\$ 11,762,063,248</u>
Total Conduit Debt Issued and Outstanding	<u>\$ 2,947,055,000</u>	<u>\$ 11,762,063,248</u>

# California Health Facilities Financing Authority

## Notes to Financial Statements - Continued

June 30, 2012

The Authority acts as a conduit by assisting eligible borrowers' with access to low interest rate capital markets through the issuance of tax-exempt revenue bonds. The financings are secured by the full faith and credit of the participating institutions, and the Authority is not responsible for payment in any financing. As a result, the financing obligations are not recorded in the Authority's financial statements. The borrowers' obligations generally are, but need not be, secured by issuance of a letter of credit or guaranty.

At June 30, 2012, the aggregate amount of the Authority's conduit debt obligations outstanding issued on behalf of program participants totaled \$11,762,063,248.

### Note 8 - Employee Retirement Plan

The Authority is a participant in the State of California's Public Employees' Retirement System (CalPERS), which is a defined benefit contributory retirement plan. CalPERS provide retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and their beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Since all State agencies are considered collectively to be a single employer, the actuarial present value of vested and non-vested accumulated plan benefits attributable to the Authority's employees cannot be determined. The significant actuarial assumptions used to compute the actuarially determined State contribution requirements are the same as those used to compute the State pension benefit obligation as defined by CalPERS. Generally, full-time and permanent part-time employees are eligible to participate in CalPERS. Depending upon the plan option selection, benefits vest after five to ten years of service. Participants are eligible for service retirement after age 50 or 55 and must have five to ten years of CalPERS credited service, depending upon the tier of participation. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. The amount of pension contributions by the Authority to CalPERS is actuarially determined under a program where contributions plus the expected earnings of CalPERS will provide the necessary funds to pay the earned benefits of the employees when due. The total payroll of the Authority is covered.

The Authority's contribution to CalPERS for the year ended June 30, 2012 was \$162,392. Participant contributions range from zero to six percent of their salary depending on the tier of participation. The excess of plan assets over vested and unvested benefits at June 30, 2012 was not available. Such information is available for CalPERS as a whole, which is audited annually by other independent auditors. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

# California Health Facilities Financing Authority

## Notes to Financial Statements - Continued

June 30, 2012

Additional detailed disclosure required by GASB, regarding the defined benefit plan are presented in the financial statements of the State of California for the year ended June 30, 2012.

### **Note 9 - Other Post Employment Benefits (OPEB)**

Upon retirement, the State of California provides health care benefits to the participants in the retirement systems to which the State contributes as an employer. A portion of the costs associated with the State's other post-employment benefits is allocated to the Authority.

Additional detailed disclosure required by GASB, regarding other post employment benefits are presented in the financial statements of the State of California for the year ended June 30, 2012.

### **Note 10 - Subsequent Events**

Events that occur after the date of the Statement of Net Assets but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the date of the Statement of Net Assets are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the date of the Statement of Net Assets require disclosure in the accompanying notes. Management evaluated the activity of the Authority through April 17, 2013 and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to financial statements.

## **Supplementary Information**

**California Health Facilities Financing Authority**

**Combining Statement of Net Assets**

**June 30, 2012**

<u>Assets</u>	Bond Program	HELP II Program	Cedillo-Alarcón	Anthem Well	Children's Hospital Program Funds		Total
	Fund	Fund	CCGP	Point CCGP	CHF - 2004 Act	CHF - 2008 Act	
Current assets							
Cash	\$ 15,458,740	\$ 17,554,772	\$ 79,327	\$ 204,065	\$ 72,286,288	\$ 257,913,876	\$ 363,497,068
Loans receivable	-	4,440,258	-	-	-	-	4,440,258
Prepaid expenses	7,000	-	-	-	-	-	7,000
Accounts receivable, net	1,059,628	106,889	-	-	-	-	1,166,517
SMIF interest receivable	13,231	15,351	72	182	68,036	236,460	333,332
Due from (to) other funds	32,431	-	-	-	(19,059)	(13,372)	-
Total current assets	<u>16,571,030</u>	<u>22,117,270</u>	<u>79,399</u>	<u>204,247</u>	<u>72,335,265</u>	<u>258,136,964</u>	<u>369,444,175</u>
Noncurrent assets							
Loans receivable, net	-	30,414,551	-	-	-	-	30,414,551
Capital assets, net	61,094	-	-	-	-	-	61,094
Total noncurrent assets	<u>61,094</u>	<u>30,414,551</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>30,475,645</u>
Total assets	<u>\$ 16,632,124</u>	<u>\$ 52,531,821</u>	<u>\$ 79,399</u>	<u>\$ 204,247</u>	<u>\$ 72,335,265</u>	<u>\$ 258,136,964</u>	<u>\$ 399,919,820</u>

**California Health Facilities Financing Authority**  
**Combining Statement of Net Assets - Continued**

**June 30, 2012**

<u>Liabilities</u>	Bond Program Fund	HELP II Program Fund	Cedillo-Alarcón CCGP	Anthem Well Point CCGP	<u>Children's Hospital Program Funds</u>		Total
					CHF - 2004 Act	CHF - 2008 Act	
Current liabilities							
Accounts payable	\$ 81,888	\$ -	\$ -	\$ -	\$ 4,528,675	\$ 56,979,719	\$ 61,590,282
Claims filed	33,942	-	-	-	-	-	33,942
Deferred revenues	-	87,587	-	-	-	-	87,587
Other liabilities - accrued leave	122,563	-	-	-	-	-	122,563
<b>Total current liabilities</b>	<b>238,393</b>	<b>87,587</b>	<b>-</b>	<b>-</b>	<b>4,528,675</b>	<b>56,979,719</b>	<b>61,834,374</b>
<u>Net Assets</u>							
Restricted for purposes specified in enabling legislations	16,393,731	52,444,234	79,399	204,247	67,806,590	201,157,245	338,085,446
<b>Total net assets</b>	<b>16,393,731</b>	<b>52,444,234</b>	<b>79,399</b>	<b>204,247</b>	<b>67,806,590</b>	<b>201,157,245</b>	<b>338,085,446</b>
<b>Total liabilities and net assets</b>	<b>\$ 16,632,124</b>	<b>\$ 52,531,821</b>	<b>\$ 79,399</b>	<b>\$ 204,247</b>	<b>\$ 72,335,265</b>	<b>\$ 258,136,964</b>	<b>\$ 399,919,820</b>

**California Health Facilities Financing Authority**

**Combining Statement of Revenue, Expenses and Changes in Net Assets**

**Year ended June 30, 2012**

	Bond Program	HELP II Program	Cedillo-Alarcón	Anthem Well	Children's Hospital Program Funds		Total
	Fund	Fund	CCGP	Point CCGP	CHF - 2004 Act	CHF - 2008 Act	
<b>Operating revenues</b>							
Application fees	\$ 2,600	\$ 650	\$ -	\$ -	\$ -	\$ -	\$ 3,250
Initial fees	1,663,614	45,878	-	-	-	-	1,709,492
Annual administration fees	1,451,879	-	-	-	-	-	1,451,879
Other fees and charges	1,606	12,385	-	-	-	-	13,991
Interest income on HELP II loans	-	1,093,113	-	-	-	-	1,093,113
<b>Total operating revenues</b>	<b>3,119,699</b>	<b>1,152,026</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,271,725</b>
<b>Operating expenses</b>							
Salaries, wages and benefits	1,112,225	-	-	-	217,195	93,338	1,422,758
Services and supplies	478,472	-	-	-	58,728	37,276	574,476
Consultant services	331,848	-	-	-	-	-	331,848
Legal fees	166,708	-	-	-	-	-	166,708
Other agent fees	127,582	-	-	-	-	-	127,582
Intangible asset write-off	16,250	-	-	-	-	-	16,250
Bad debt - uncollectible loan receivables	-	5,846	-	-	-	-	5,846
Depreciation	29,908	-	-	-	-	-	29,908
<b>Total operating expenses</b>	<b>2,262,993</b>	<b>5,846</b>	<b>-</b>	<b>-</b>	<b>275,923</b>	<b>130,614</b>	<b>2,675,376</b>
<b>Operating income (loss)</b>	<b>856,706</b>	<b>1,146,180</b>	<b>-</b>	<b>-</b>	<b>(275,923)</b>	<b>(130,614)</b>	<b>1,596,349</b>
<b>Nonoperating revenues (expenses)</b>							
Interest and investment income	53,925	56,937	305	1,883	351,170	1,016,928	1,481,148
Grants	-	-	10,099	38,254	(51,219,321)	(58,288,440)	(109,459,408)
<b>Total nonoperating revenues</b>	<b>53,925</b>	<b>56,937</b>	<b>10,404</b>	<b>40,137</b>	<b>(50,868,151)</b>	<b>(57,271,512)</b>	<b>(107,978,260)</b>
<b>Income (loss) before transfers</b>	<b>910,631</b>	<b>1,203,117</b>	<b>10,404</b>	<b>40,137</b>	<b>(51,144,074)</b>	<b>(57,402,126)</b>	<b>(106,381,911)</b>
Transfers in	-	-	-	-	54,499,926	58,426,900	112,926,826
Transfers out	-	-	-	-	(54,499,926)	(58,426,900)	(112,926,826)
<b>Total transfers</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Changes in net assets</b>	<b>910,631</b>	<b>1,203,117</b>	<b>10,404</b>	<b>40,137</b>	<b>(51,144,074)</b>	<b>(57,402,126)</b>	<b>(106,381,911)</b>
<b>Total net assets, beginning of year</b>	<b>15,483,100</b>	<b>51,241,117</b>	<b>68,995</b>	<b>164,110</b>	<b>118,950,664</b>	<b>258,559,371</b>	<b>444,467,357</b>
<b>Total net assets, end of year</b>	<b>\$ 16,393,731</b>	<b>\$ 52,444,234</b>	<b>\$ 79,399</b>	<b>\$ 204,247</b>	<b>\$ 67,806,590</b>	<b>\$ 201,157,245</b>	<b>\$ 338,085,446</b>



Independent Auditor's Report on Internal Control over Financial Reporting and  
on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with Government Auditing Standards

Members of the Board  
California Health Facilities Financing Authority

We have audited the financial statements of California Health Facilities Financing Authority as of and for the year ended June 30, 2012, and have issued our report thereon dated April 17, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of California Health Facilities Financing Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered California Health Facilities Financing Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether California Health Facilities Financing Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions and requirements was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the management and the members of the Board of the California Facilities Financing Authority and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Cohn Reznick LLP".

Sacramento, California  
April 17, 2013