

**CALIFORNIA SCHOOL
FINANCE AUTHORITY FUND**

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORT**

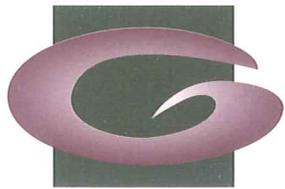
**YEARS ENDED
JUNE 30, 2012 AND 2011**

CALIFORNIA SCHOOL FINANCE AUTHORITY FUND

JUNE 30, 2012 AND 2011

TABLE OF CONTENTS

	<u>PAGE</u>
FINANCIAL STATEMENTS	
Independent Auditor's Report	1
Balance Sheets	3
Statements of Revenues, Expenses and Changes in Net Assets	4
Statements of Cash Flows	5
Notes to Financial Statements	6
ADDITIONAL INFORMATION	
Statements of Bonds and Collateralized Notes Authorized, Issued, and Outstanding at June 30, 2012 and 2011	9
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	11



INDEPENDENT AUDITOR'S REPORT

California School Finance Authority Members Los Angeles, California

We have audited the accompanying financial statements of the California School Finance Authority Fund (the Fund), a fund of the State of California administered by California School Finance Authority (the Authority), as of and for the fiscal years ended June 30, 2012 and 2011, as listed in 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 audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Fund and do not purport to, and do not, present fairly the financial position of the Authority nor the State of California, as of June 30, 2012 and 2011, and the changes in its financial position or, where applicable, its cash flows for the years 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 Fund as of June 30, 2012 and 2011, and the changes in financial position and cash flows, thereof for the years 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 our report dated September 18, 2012, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 on 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.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fund's basic financial statements as a whole. The additional information, as described in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. The additional information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 financial statements as a whole.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.

Sacramento, California

September 18, 2012

CALIFORNIA SCHOOL FINANCE AUTHORITY FUND

BALANCE SHEETS JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Cash and Cash Equivalents	\$ 142,245	\$ 154,777
Accounts Receivable	500	2,400
Due from Other External Funds	<u>134</u>	<u>154</u>
Total Current Assets	<u>142,879</u>	<u>157,331</u>
TOTAL ASSETS	<u>\$ 142,879</u>	<u>\$ 157,331</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 536	
Due to Other External Funds	<u>2,593</u>	<u>\$ 9,518</u>
Total Current Liabilities	<u>3,129</u>	<u>9,518</u>
NET ASSETS:		
Restricted for Educational Purposes	<u>139,750</u>	<u>147,813</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 142,879</u>	<u>\$ 157,331</u>

CALIFORNIA SCHOOL FINANCE AUTHORITY FUND

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
OPERATING REVENUE:		
Fee Revenue	\$ 66,814	\$ 177,611
OPERATING EXPENSES:		
Debt Issuance Costs	55,990	91,263
Audit Fees	14,293	
Annual Fees to Department of Finance	3,430	2,036
Consulting	829	5,265
Miscellaneous	888	1,024
Total Operating Expenses	<u>75,430</u>	<u>99,588</u>
OPERATING INCOME (LOSS)	(8,616)	78,023
NON-OPERATING REVENUE:		
Interest Income	<u>553</u>	<u>592</u>
CHANGE IN NET ASSETS	(8,063)	78,615
NET ASSETS, Beginning of year	<u>147,813</u>	<u>69,198</u>
NET ASSETS, End of year	<u>\$ 139,750</u>	<u>\$ 147,813</u>

The accompanying notes are an integral part of these financial statements.

CALIFORNIA SCHOOL FINANCE AUTHORITY FUND

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from Fees	\$ 68,714	\$ 175,211
Payments to Suppliers of Goods and Services	<u>(81,819)</u>	<u>(90,070)</u>
Net cash provided (used) by operating activities	(13,105)	85,141
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest Received	<u>573</u>	<u>529</u>
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(12,532)	85,670
 CASH AND CASH EQUIVALENTS BALANCE, Beginning	<u>154,777</u>	<u>69,107</u>
 CASH AND CASH EQUIVALENTS BALANCE, Ending	<u>\$ 142,245</u>	<u>\$ 154,777</u>
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Income (Loss)	\$ (8,616)	\$ 78,023
Changes in:		
Accounts Receivable	1,900	(2,400)
Accounts Payable	536	
Due to Other External Funds	<u>(6,925)</u>	<u>9,518</u>
Net cash used by operating activities	<u>\$ (13,105)</u>	<u>\$ 85,141</u>

CALIFORNIA SCHOOL FINANCE AUTHORITY FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

1. SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

A. GENERAL

The California School Finance Authority (the Authority) was created in 1985 to finance educational facilities and provide school districts and community college districts access to working capital. Since its inception, the Authority has developed a number of school facilities financing programs, and most recently is focused on meeting charter schools' facility and working capital needs. The Authority is comprised of a three-member board with the State Treasurer serving as Chair and the Superintendent of Public Instruction and the Director of Finance serving as members. Legislation pertaining to the California School Finance Authority Act (the Act) that established the Authority is contained in Education Code Sections 17170 through 17199.5. Within these Education Code sections, 17181(a) established the California School Finance Authority Fund (the Fund). The Fund is the bond and note financing program that is administered by the Authority.

The Fund acts as a conduit by assisting eligible educational organizations in obtaining financing through the issuance of revenue bonds and notes. The financings are secured by the full faith and credit of the participating organization, and the Fund is not responsible for payment on any financing. As a result, the financing obligations are not recorded in the Fund's financial statements. The borrowers' obligations generally are, but need not be, secured by insurance, a letter of credit or guaranty. Bonds and notes are issued at either public or private sales after details of the proposed project and satisfactory evidence of the ability of the participating institution to meet financial obligations have been submitted to the Authority and approved by the Board. 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.

B. THE REPORTING ENTITY

These financial statements present information on the financial activities of the Fund. The Fund is an enterprise fund of the California School Finance Authority, State of California. The financial information is included in the State of California's Comprehensive Annual Financial Report and presented as a Business-Type Activity. The California State Treasurer by legislation serves as the Chairperson and is responsible for the oversight of the Fund.

C. BASIS OF PRESENTATION

The Fund is a public instrumentality of the State of California and is treated as an enterprise fund. The accrual basis of accounting is utilized whereby revenues are recorded when earned and expenses are recognized in the accounting period in which the liability is incurred (when goods are received or services rendered). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. As a governmental entity, the Fund follows the accounting standard hierarchy established by the GASB. However, since the Fund operates proprietary activities, which are usually thought to be business-type activities (enterprise fund accounting), applicable statements and interpretations of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989, may apply unless they conflict with or contradict GASB pronouncements. The Fund has elected not to apply FASB pronouncements issued after November 30, 1989.

CALIFORNIA SCHOOL FINANCE AUTHORITY FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

D. REVENUES

The Fund charges fees to institutions for assistance in bond and note financing as follows:

	<u>Bond Financing</u>	<u>Note Financing</u>
Application Fee (non-refundable)	\$1,500	\$1,500
Issuance Fee	0.15% of par	0.075% of par
Annual Administration Fee	0.02% of par (\$500 min.)	No fee

The fees are used to cover operating costs such as general communications, printing, professional services (both internal and external), facilities operations, and other miscellaneous operating expenses.

E. RISK MANAGEMENT

The Fund is self-insured against loss or liability through the State of California. The State of California generally does not maintain reserves; losses are covered by appropriations in the year in which the payment occurs. The Fund has not had any claims subject to this coverage. Additional disclosures related to risk of loss are presented in the basic financial statements of the State of California.

F. NET ASSETS

Net assets are restricted by enabling legislation for the purposes of assisting in the issuance of revenue bonds and notes for eligible educational organizations.

2. CASH AND CASH EQUIVALENTS IN STATE TREASURY

The Fund considers all short-term investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents at June 30, 2012 and 2011, are classified in the accompanying financial statements as follows:

	<u>2012</u>	<u>2011</u>
Deposits in SMIF	\$ 142,000	\$ 154,000
Cash in State Treasury	<u>245</u>	<u>777</u>
Total Cash and Cash Equivalents	<u>\$ 142,245</u>	<u>\$ 154,777</u>

The Fund invests excess cash funds in the Surplus Money Investment Fund (SMIF). All of the resources of SMIF are invested through the Pooled Money Investment Account (PMIA). The PMIA investment program is designated by the Pooled Money Investment Board and is administered by the office of the State Treasurer. As of June 30, 2012 and 2011, the Fund invested funds in SMIF in the amount of \$142,000 and \$154,000, respectively.

CALIFORNIA SCHOOL FINANCE AUTHORITY FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

Additional disclosure detail required by Government Accounting Standards Board Statement No. 3, No. 31, and No. 40, regarding cash deposits and investments, are presented in the financial statements of the State of California for the years ended June 30, 2012 and 2011.

3. DUE TO/FROM OTHER EXTERNAL FUNDS

The amount due from other external funds of \$134 and \$154 at June 30, 2012 and 2011, respectively, represents unpaid interest earned by the Fund from SMIF. The amount due to other external funds of \$2,593 and \$9,518 at June 30, 2012 and 2011, respectively, represents expenses paid by other funds within the State of California on behalf of the Fund.

4. CONDUIT DEBT

As a conduit debt provider, the Authority assisted through the Fund with the issuance of financings in the amount of \$18,719,000 and \$49,415,000 for the years ended June 30, 2012 and 2011, respectively, and there was \$54,667,951 and \$47,395,000 in conduit financings outstanding at June 30, 2012 and 2011, respectively. Additionally, the amount of bonds authorized by the Authority and unsold was \$37,253,325 and \$88,100,000 at June 30, 2012 and 2011, respectively.

ADDITIONAL INFORMATION

CALIFORNIA SCHOOL FINANCE AUTHORITY FUND

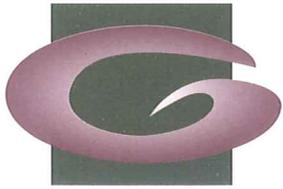
STATEMENT OF BONDS AND COLLATERALIZED NOTES, AUTHORIZED, ISSUED AND OUTSTANDING JUNE 30, 2012

Bonds and Notes	Date Issued	Date of Final Maturity	Amounts Issued	Amount of Bonds Retired	Bonds Outstanding as of June 30, 2012
Aspire 2012A (RAN)	18-Apr-12	1-Mar-13	\$ 5,777,100		\$ 5,777,100
Aspire 2012B (RAN)	18-Apr-12	1-Mar-13	3,392,900		3,392,900
Working Capital Program 2012A (RAN)	1-Mar-12	31-Dec-12	4,841,000	\$ 241,049	4,599,951
Working Capital Program 2012B (RAN)	18-Apr-12	31-Dec-12	4,708,000	100,000	4,608,000
Aspire Public Schools (RAN)	24-Aug-10	15-Nov-11	6,850,000	6,850,000	
Aspire Public Schools (RAN)	27-May-11	15-Nov-11	3,000,000	3,000,000	
Birmingham Community Charter High (RAN)	3-Aug-10	1-Nov-11	3,000,000	3,000,000	
Vaughn Next Century Learning Center (QSCB)	14-Oct-10	1-Jul-20	8,500,000		8,500,000
High Tech High - Chula Vista (QSCB)	11-Aug-10	1-Jul-20	12,000,000		12,000,000
Granada Hills Charter High (QSCB)	14-Oct-10	1-Jul-20	5,000,000		5,000,000
Oak Grove/Wilowside (QSCB)	24-Feb-11	1-Nov-25	2,015,000	90,000	1,925,000
High Tech High - North County (QSCB)	28-Apr-11	1-Jan-21	3,950,000		3,950,000
New Jerusalem (QSCB)	14-Apr-11	1-Nov-25	5,100,000	185,000	4,915,000
TOTAL			<u>\$ 68,134,000</u>	<u>\$ 13,466,049</u>	<u>\$ 54,667,951</u>

CALIFORNIA SCHOOL FINANCE AUTHORITY FUND

STATEMENT OF BONDS AND COLLATERALIZED NOTES, AUTHORIZED, ISSUED AND OUTSTANDING JUNE 30, 2011

<u>Bonds and Notes</u>	<u>Date Issued</u>	<u>Date of Final Maturity</u>	<u>Amounts Issued</u>	<u>Amount of Bonds Retired</u>	<u>Bonds Outstanding as of June 30, 2011</u>
Aspire Public Schools (RAN)	24-Aug-10	15-Nov-11	\$ 6,850,000	\$ 2,020,000	\$ 4,830,000
Aspire Public Schools (RAN)	27-May-11	15-Nov-11	3,000,000		3,000,000
Birmingham Community Charter High (RAN)	3-Aug-10	1-Nov-11	3,000,000		3,000,000
Vaughn Next Century Learning Center (QSCB)	14-Oct-10	1-Jul-20	8,500,000		8,500,000
High Tech High - Chula Vista (QSCB)	11-Aug-10	1-Jul-20	12,000,000		12,000,000
Granada Hills Charter High (QSCB)	14-Oct-10	1-Jul-20	5,000,000		5,000,000
Oak Grove/Willowside (QSCB)	24-Feb-11	1-Nov-25	2,015,000		2,015,000
High Tech High - North County (QSCB)	28-Apr-11	1-Jan-21	3,950,000		3,950,000
New Jerusalem (QSCB)	14-Apr-11	1-Nov-25	5,100,000		5,100,000
TOTAL			<u>\$ 49,415,000</u>	<u>\$ 2,020,000</u>	<u>\$ 47,395,000</u>



**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**

**California School Finance Authority Members
Los Angeles, California**

We have audited the basic financial statements of the California School Finance Authority Fund (the Fund), a fund of the State of California administered by California School Finance Authority (the Authority), as of and for the year ended June 30, 2012, and have issued our report thereon dated September 18, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Fund'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 Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund'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 the Fund'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 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 Authority's management and its Members, and the Office of Controller, State of California, 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 "Gilbert Associates, Inc.".

GILBERT ASSOCIATES, INC.
Sacramento, California

September 18, 2012