

**CALIFORNIA ALTERNATIVE
ENERGY AND ADVANCED
TRANSPORTATION
FINANCING AUTHORITY
BOND PROGRAM**

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

**YEARS ENDED
JUNE 30, 2017 AND 2016**

**CALIFORNIA ALTERNATIVE ENERGY AND ADVANCED
TRANSPORTATION FINANCING AUTHORITY
BOND PROGRAM**

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JUNE 30, 2017 AND 2016**

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INDEPENDENT AUDITOR'S REPORT

**Members of the Board
California Alternative Energy and
Advanced Transportation Financing Authority**

Report on the Financial Statements

We have audited the accompanying financial statements of the Bond Program of the California Alternative Energy and Advanced Transportation Financing Authority (the Authority or CAEATFA), as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, as listed in the table of contents.

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 of America; 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 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 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 the Bond Program of the Authority, as of June 30, 2017 and 2016, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Bond Program of the Authority 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, 2017 and 2016, and the changes in its financial position or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4–8 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 of America, 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.

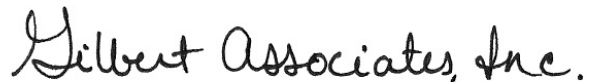
Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's Bond Program's basic financial statements. The Schedule of Bonds Authorized, Issued, and Outstanding (Supplemental Information) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Supplemental Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2018, on our consideration of the Authority's Bond Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Bond Program's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Gilbert Associates, Inc.".

GILBERT ASSOCIATES, INC.
Sacramento, California

March 26, 2018

CALIFORNIA ALTERNATIVE ENERGY AND ADVANCED TRANSPORTATION FINANCING AUTHORITY BOND PROGRAM

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

This section of the financial statements of the California Alternative Energy and Advanced Transportation Financing Authority's (CAEATFA or the Authority) Bond Program presents the analysis of the financial performance of the Authority's Bond Program during the fiscal years that ended on June 30, 2017 and 2016. Please read it in conjunction with the financial statements that follow this section.

GENERAL BACKGROUND, OVERVIEW AND PROGRAMS

CAEATFA, a public instrumentality, was created in 1980 to assist specified entities by providing credit enhancements, access to low-cost financing through private activity tax-exempt bonds, loans, and other forms of financial assistance.

CAEATFA provides financial assistance for facilities that manufacture alternative energy products, components or systems or use alternative energy sources and technologies. CAEATFA also provides financial assistance for facilities needed to develop and commercialize advanced transportation technologies that conserve energy, reduce air pollution, and promote economic development and jobs.

The Authority, in conjunction with other State agencies, including, but not limited to, the California Energy Commission (CEC) and the California Public Utilities Commission (CPUC), from time to time develops new and innovative programs.

Conduit Financing Activity

During the fiscal years ended June 30, 2017 and 2016, the Authority did not issue any tax exempt bonds. As of June 30, 2017, the Authority's total conduit debt issued was approximately \$212 million and total conduit debt outstanding was approximately \$57.70 million. As of June 30, 2016, the Authority's total conduit debt issued was approximately \$212 million and total conduit debt outstanding was approximately \$58.40 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements of the Authority's Bond Program include the Independent Auditors' Report, Management Discussion & Analysis (MD&A), basic financial statements, accompanying notes and supplemental information.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the Authority's Bond Program 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.

**CALIFORNIA ALTERNATIVE ENERGY AND ADVANCED
TRANSPORTATION FINANCING AUTHORITY
BOND PROGRAM**

**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

The *Balance Sheets* include all of the assets and liabilities of the Authority’s Bond Program for the years ended June 30, 2017 and 2016 and provide information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing rates of return, evaluating the capital structure of the Bond Program and assessing the liquidity and financial flexibility of the Authority’s Bond Program (see Table 1).

| Table 1 | | | |
|------------------------------------|--------------------|--------------------|--------------------|
| Balance Sheets | | | |
| | <u>2015</u> | <u>2016</u> | <u>2017</u> |
| <i>Assets</i> | | | |
| Current Assets | \$ _____ | \$ 2,168 | \$ 10,000 |
| Total Assets | <u>\$ _____</u> | <u>\$ 2,168</u> | <u>\$ 10,000</u> |
| <i>Liabilities</i> | | | |
| Current Liabilities | \$ 324,552 | \$ 345,855 | \$ 380,040 |
| Total Liabilities | <u>324,552</u> | <u>345,855</u> | <u>380,040</u> |
| Net Position | <u>(324,552)</u> | <u>(343,687)</u> | <u>(370,040)</u> |
| Total Net Position | <u>(324,552)</u> | <u>(343,687)</u> | <u>(370,040)</u> |
| Total Liabilities and Net Position | <u>\$ _____</u> | <u>\$ 2,168</u> | <u>\$ 10,000</u> |

**CALIFORNIA ALTERNATIVE ENERGY AND ADVANCED
TRANSPORTATION FINANCING AUTHORITY
BOND PROGRAM**

**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

The *Statements of Revenues, Expenses, and Changes in Net Position* accounts for all of the revenue and expenses of the Authority’s Bond Program for the years ended June 30, 2017 and 2016. These statements reflect the results of the Bond Program’s operations over the year and can be used to determine the credit worthiness and its ability to successfully recover all its costs through fees, investment income and other revenues (see Table 2).

| Table 2 | | | |
|---|---------------------|---------------------|---------------------|
| Statements of Revenues, Expenses, and Changes In Net Position | | | |
| | <u>2015</u> | <u>2016</u> | <u>2017</u> |
| <i>Operating Revenues</i> | | | |
| Annual Fees | \$ 2,168 | \$ 2,168 | \$ 2,168 |
| Total Operating Revenues | <u>2,168</u> | <u>2,168</u> | <u>2,168</u> |
| <i>Operating Expenses</i> | | | |
| Operating Expenses | <u>25,652</u> | <u>21,303</u> | <u>28,521</u> |
| Total Operating Expenses | <u>25,652</u> | <u>21,303</u> | <u>28,521</u> |
| Operating Loss | (23,484) | (19,135) | (26,353) |
| <i>Non-Operating Revenues</i> | | | |
| Interest Income | _____ | _____ | _____ |
| Change in Net Position | (23,484) | (19,135) | (26,353) |
| Net Position – Beginning | <u>(301,068)</u> | <u>(324,552)</u> | <u>(343,687)</u> |
| Net Position – Ending | <u>\$ (324,552)</u> | <u>\$ (343,687)</u> | <u>\$ (370,040)</u> |

The *Statements of Cash Flows* provide information about the Authority’s Bond Program’s cash receipts and cash payments during the year ended June 30, 2017 and 2016. These statements report cash receipts, cash payments, and net changes in cash resulting from operations, capital and related financing, noncapital financing and investment activities. The statements provide 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 detail of conduit bonds issued and conduit bonds outstanding as of June 30, 2017 and 2016.

**CALIFORNIA ALTERNATIVE ENERGY AND ADVANCED
TRANSPORTATION FINANCING AUTHORITY
BOND PROGRAM**

**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

ANALYSIS OF FISCAL YEAR 2016/2017 ACTIVITIES

Applications received in FY 2016/2017 - None

Initial Resolutions (IR) Adopted in FY 2016/2017 - None

Final Resolutions (FR) Adopted in FY 2016/2017 - None

Bonds Sold in FY 2016/2017 - None

ANALYSIS OF FISCAL YEAR 2015/2016 ACTIVITIES

Applications received in FY 2015/2016 - None

Initial Resolutions (IR) Adopted in FY 2015/2016 - None

Final Resolutions (FR) Adopted in FY 2015/2016 - None

Bonds Sold in FY 2015/2016 - None

ANALYSIS OF CHANGE IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2017

As of June 30, 2017, the Bond Program of CAEATFA has a deficit in net position of \$370,040.

During the year ended June 30, 2017, the net position of the Authority's Bond Program decreased by \$26,353 from the previous fiscal year. The Authority's Bond Program had \$2,168 in revenues during the fiscal year while its operating expenses were \$28,521. The total operating costs allocated by the Authority to the Bond Program remain at less than 1% in 2017. CAEATFA's total operating expenses have increased, including costs attributable to the Bond Program.

ANALYSIS OF CHANGE IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2016

As of June 30, 2016, the Bond Program of CAEATFA has a deficit in net position of \$343,687.

During the year ended June 30, 2016, the net position of the Authority's Bond Program decreased by \$19,135 from the previous fiscal year. The Authority's Bond Program had \$2,168 in revenues during the fiscal year while its operating expenses were \$21,303. \$2,168 in fees was due for 2017; this amount was invoiced and received in October 2016 (bringing the net position decrease to \$19,135). The total operating costs allocated by the Authority to the Bond Program were less than 1% in 2016. Although CAEATFA's total operating expenses increased, operating expenses attributable to the Bond Program decreased as a result of the change in the percent of total operating costs allocated to the Bond Program.

**CALIFORNIA ALTERNATIVE ENERGY AND ADVANCED
TRANSPORTATION FINANCING AUTHORITY
BOND PROGRAM**

**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Authority's Bond Program'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 Alternative Energy and Advanced Transportation Financing Authority, 915 Capitol Mall, Sacramento, California 95814.

**CALIFORNIA ALTERNATIVE ENERGY AND ADVANCED
TRANSPORTATION FINANCING AUTHORITY
BOND PROGRAM**

**BALANCE SHEETS
JUNE 30, 2017 AND 2016**

| | <u>2017</u> | <u>2016</u> |
|--|-----------------------------|------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Due from other funds | \$ 10,000 | |
| Fees receivable | <u> </u> | \$ 2,168 |
| TOTAL ASSETS | <u>\$ 10,000</u> | <u>\$ 2,168</u> |
| LIABILITIES AND NET POSITION | | |
| CURRENT LIABILITIES: | | |
| Due to other funds | \$ 142,351 | \$ 120,866 |
| Accounts payable | 12,814 | 114 |
| Due to CPCFA | <u>224,875</u> | <u>224,875</u> |
| Total current liabilities | <u>380,040</u> | <u>345,855</u> |
| DEFICIT NET POSITION: | | |
| Restricted for purposes specified in enabling legislations | <u>(370,040)</u> | <u>(343,687)</u> |
| TOTAL LIABILITIES AND NET POSITION | <u>\$ 10,000</u> | <u>\$ 2,168</u> |

**CALIFORNIA ALTERNATIVE ENERGY AND ADVANCED
TRANSPORTATION FINANCING AUTHORITY
BOND PROGRAM**

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2017 AND 2016**

| | <u>2017</u> | <u>2016</u> |
|--|---------------------|---------------------|
| OPERATING REVENUE: | | |
| Annual fees | \$ 2,168 | \$ 2,168 |
| OPERATING EXPENSES: | | |
| Professional fees | 15,229 | 14,649 |
| Salaries, wages, and benefits | 11,347 | 5,943 |
| Services and supplies | 208 | 474 |
| Other operating expenses | <u>1,737</u> | <u>237</u> |
| Total operating expenses | <u>28,521</u> | <u>21,303</u> |
| OPERATING LOSS | <u>(26,353)</u> | <u>(19,135)</u> |
| DECREASE IN NET POSITION | (26,353) | (19,135) |
| DEFICIT NET POSITION, Beginning of year | <u>(343,687)</u> | <u>(324,552)</u> |
| DEFICIT NET POSITION, End of year | <u>\$ (370,040)</u> | <u>\$ (343,687)</u> |

**CALIFORNIA ALTERNATIVE ENERGY AND ADVANCED
TRANSPORTATION FINANCING AUTHORITY
BOND PROGRAM**

**STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 AND 2016**

| | <u>2017</u> | <u>2016</u> |
|--|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Receipt of annual fees | \$ 2,168 | |
| Payments made on behalf of other funds | (10,000) | |
| Payments to employees and suppliers | <u>7,832</u> | <u> </u> |
| Net cash used by operating activities | <u> </u> | <u> </u> |
| CASH AND CASH EQUIVALENTS, Beginning of year | <u> </u> | <u> </u> |
| CASH AND CASH EQUIVALENTS, End of year | <u>\$ </u> | <u>\$ </u> |
| RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES: | | |
| Operating loss | \$ (26,353) | \$ (19,135) |
| Adjustments to reconcile operating income to net cash used by operating activities: | | |
| Changes in: | | |
| Due from other funds | (7,832) | (2,168) |
| Due to other funds | 21,485 | 21,243 |
| Accounts payable | <u>12,700</u> | <u>60</u> |
| Net cash used by operating activities | <u>\$ </u> | <u>\$ </u> |

CALIFORNIA ALTERNATIVE ENERGY AND ADVANCED TRANSPORTATION FINANCING AUTHORITY BOND PROGRAM

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

1. SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

A. GENERAL OPERATIONS

The California Alternative Energy and Advanced Transportation Financing Authority (the Authority or CAEATFA), a public instrumentality, was created in 1980 to assist specified entities by providing credit enhancements, access to low-cost financing through private activity tax-exempt bonds, loans, and other forms of financial assistance.

CAEATFA provides financial assistance for facilities that manufacture alternative energy products, components or systems or use alternative energy sources and technologies. CAEATFA also provides financial assistance for facilities needed to develop and commercialize advanced transportation technologies that conserve energy, reduce air pollution, and promote economic development and jobs.

The Bond Program is one of many programs administered by the Authority. Other State agencies, such as the State Treasurer's Office and the State Controller's Office support the Authority by providing services and thus allocate a portion of their expenses to the Authority. Then, the Authority allocates its portion of such expenses to its different programs along with any direct costs associated with each program. Thus, the accompanying financial statements of the Authority's Bond Program are not indicative of the Authority's financial position or net position as a whole.

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. REPORTING ENTITY

These financial statements present information on the financial activities of the Bond Program of the California Alternative Energy and Advanced Transportation Financing Authority, State of California. The financial information is included in the State of California's Comprehensive Annual Financial Report as a component unit 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 Bond Program.

C. BASIS OF PRESENTATION

The accompanying financial statements are presented on the accrual basis of accounting whereby revenues and the related assets are recognized when earned, and expenses and the related liabilities are recognized when the obligation is incurred (when goods are received or services rendered). The financial statements of the Bond Program have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

**CALIFORNIA ALTERNATIVE ENERGY AND ADVANCED
TRANSPORTATION FINANCING AUTHORITY
BOND PROGRAM**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

D. NET POSITION

Net position of the Bond Program are restricted by enabling legislation for the purpose of assisting specified entities access to low-cost financing through private activity tax-exempt bonds.

E. REVENUES

The Authority's Bond Program charges fees to institutions for assistance in bond financing as follows:

Application Fee – .0005 (one twentieth of one percent) of the principal amount of financing for each project to be considered for financing. The fee shall be a minimum of \$250 but not to exceed \$5,000. This shall be paid at the time the formal application is submitted. The application fee is deducted from the administrative fee.

Administrative Fee – The Authority charges a one-time administrative fee due at closing of the financing. For all projects the following apply:

- If the financial assistance requested is up to \$5,000,000 then the fee will be .005 (five tenths of one percent) of the principal amount of financing.
- If the financial assistance requested is greater than \$5,000,000 and up to \$25,000,000 then the fee will be \$25,000 plus .003 (three tenths of one percent) of the principal amount of financing over \$5,000,000.
- If the financial assistance requested is greater than \$25,000,000 then the fee will be \$85,000 plus .0025 (twenty-five one hundredths of one percent) of the principal amount of financing over \$25,000,000.
- In no case shall the fee be less than \$15,000 nor more than \$250,000.

The applicant shall also reimburse the Authority for all reasonable and necessary out of pocket expenses the Authority may incur at the applicant's request, and all other direct or indirect expenses properly allocable to the proposed financing unless paid out of the proceeds of the bond issue. All fees for a particular proposed financing shall be paid by the applicant and deposited in the Authority fund.

Annual Fee – The Authority shall assess an annual fee each year for the life of the financial assistance in the amount of .0003 (three one-hundredths of one percent) of the approved financial assistance amount with a minimum fee of \$500 and a maximum fee of \$10,000. This fee is effective for bonds issued after October 28, 2009.

During the years ended June 30, 2017 and 2016, the bond Program earned \$2,168 in annual fee revenue. 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.

**CALIFORNIA ALTERNATIVE ENERGY AND ADVANCED
TRANSPORTATION FINANCING AUTHORITY
BOND PROGRAM**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

F. OPERATING 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). The Authority records these costs as invoiced by STO for the fiscal year and allocates the costs to its programs.

The Authority allocates all operating expenses to its different programs based upon the employee head count of each program being administered and under development. A portion equal to approximately 2% of payroll and related costs of the Authority is allocated to the Authority's Bond Program. This portion may vary from year to year depending on its programs. This percentage which is derived from total payroll and related costs allocated to the Bond Program over the total payroll and related costs of the Authority, has been used to allocate all other operating expenses to the Bond Program.

G. USE OF ESTIMATES

The preparation of the Bond Program's financial statements in conformity with GAAP 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.

H. RISK MANAGEMENT

The Authority 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 Authority's Bond Program 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.

2. DUE TO OTHER STATE AGENCY AND OTHER FUNDS

The Authority entered into multiple loan agreements with the California Pollution Control Financing Authority (CPCFA) for amounts up to \$549,500. The loans are due on demand. As of June 30, 2017 and 2016, outstanding loans used for the Bond Program amounting to \$224,875 are due to CPCFA and are included in current liabilities on the balance sheet. Under the terms of the contract approving the loans between the two agencies, the loans are to bear interest at the SMIF rate. However, the understanding among the two agencies is that interest will only be assessed and computed up to the amounts that the two parties will agree on at the time of loan repayments. Therefore, no interest has been accrued as of June 30, 2017 and 2016.

In addition, as of June 30, 2017 and 2016, the due to other funds of \$142,351 and \$120,866 represent negative cash in state treasury balances in the Bond Program, respectively.

**CALIFORNIA ALTERNATIVE ENERGY AND ADVANCED
TRANSPORTATION FINANCING AUTHORITY
BOND PROGRAM**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

3. CONDUIT FINANCE ACTIVITY

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

As a conduit debt provider, there was \$57,702,965 and \$58,399,528 in conduit financings outstanding at June 30, 2017 and 2016, respectively. The Authority's Bond Program did not assist with the issuance of any financings during the years ended June 30, 2017 and 2016 and there were not any unissued authorized bonds as of June 30, 2017 and 2016.

4. FINANCIAL CONDITION

As of June 30, 2017 and 2016 the Authority's Bond Program generated a net loss of \$26,353 and \$19,135, respectively, and had a deficit in fund balance of \$370,040 and \$343,687, respectively. The Authority has received funds loaned or provided by other state agencies and such financial support from other programs or state agencies will be necessary for the Authority's Bond Program to continue to accomplish its mission.

SUPPLEMENTAL INFORMATION

**CALIFORNIA ALTERNATIVE ENERGY AND ADVANCED
TRANSPORTATION FINANCING AUTHORITY
BOND PROGRAM**

**SCHEDULE OF BONDS AUTHORIZED, ISSUED, AND OUTSTANDING
JUNE 30, 2017**

| Bonds | Date Issued | Date of Final Maturity | Amounts Issued | Amount of Bonds Retired | Bonds Outstanding as of June 30, 2017 |
|--|--------------------|-----------------------------------|-----------------------|------------------------------------|--|
| Indian Valley Hydroelectric Partnership Project | September 15, 1982 | August 1, 2004 | \$ 5,000,000 | \$ 5,000,000 | |
| Litchfield Developers 1982 | December 20, 1982 | January 1, 1992 | 810,000 | 810,000 | |
| Catalyst/IPT Cogen. Partnership 1983 | September 27, 1983 | September 1, 2003 | 4,400,000 | 4,400,000 | |
| Lever Brothers Company 1983 | September 27, 1983 | December 1, 1991 | 1,000,000 | 1,000,000 | |
| JELD-WEN Inc. 1983 | December 21, 1983 | December 1, 1995 | 3,100,000 | 3,100,000 | |
| Soledad Cogeneration Associates 1984 | May 16, 1984 | May 1, 2003 | 4,120,000 | 4,120,000 | |
| Santa Cruz Cogeneration Associates 1984 | July 24, 1984 | June 1, 1995 | 3,820,000 | 3,820,000 | |
| Sverdrup Hydro Projects 1984 | November 30, 1984 | November 1, 2014 | 6,000,000 | 6,000,000 | |
| West Coast Basin Barrier 1984 | December 1, 1984 | January 1, 2005 | 2,100,000 | 2,100,000 | |
| Veterans Home of California 1985 | April 18, 1985 | May 1, 2008 | 5,700,000 | 5,700,000 | |
| D'Arrigo Bros. Project 1985 | June 24, 1985 | June 1, 1991 | 1,935,000 | 1,935,000 | |
| California Cedar Products Company Project 1985A | June 26, 1985 | June 1, 1990 | 1,300,000 | 1,300,000 | |
| Fairhaven Power Company 1985 | September 12, 1985 | September 1, 2005 | 20,000,000 | 20,000,000 | |
| SRI International Project 1985 | December 16, 1985 | December 1, 2005 | 11,250,000 | 11,250,000 | |
| University of San Francisco 1985 | December 17, 1985 | December 1, 2005 | 4,000,000 | 4,000,000 | |
| Modesto Energy Project 1985A | December 30, 1985 | December 1, 2005 | 30,000,000 | 30,000,000 | |
| Santa Cruz Cogeneration Associates 1986 | October 7, 1986 | October 1, 2016 | 3,295,000 | 3,295,000 | |
| Nove Investments Project 1986 | November 20, 1986 | December 1, 1994 | 3,000,000 | 3,000,000 | |
| Rock Creek Limited Partnership Project 1986 | November 20, 1986 | November 1, 2016 | 5,600,000 | 5,600,000 | |
| University of San Francisco Refunding 1987 | July 14, 1987 | July 1, 2007 | 3,575,000 | 3,575,000 | |
| Veterans Home of California Project Refunding 1988 | May 27, 1988 | May 1, 2008 | 5,365,000 | 5,365,000 | |
| Arroyo Energy Project 1993A | October 1, 1993 | October 1, 2020 | 27,500,000 | 2,170,000 | \$ 25,330,000 |
| Arroyo Energy Project 1993B | October 1, 1993 | October 1, 2020 | 27,500,000 | 2,170,000 | 25,330,000 |
| SRI International Project 1985 | October 31, 1995 | December 1, 2020 | 4,475,000 | 4,475,000 | |
| Caltrans 2009 | June 10, 2009 | December 15, 2023 | 20,000,000 | 17,017,067 | 2,982,933 |
| Fallbrook Public Utility District Solar Project 2010 | November 18, 2010 | November 18, 2027 | 7,227,000 | 3,166,968 | 4,060,032 |
| TOTAL | | | <u>\$ 212,072,000</u> | <u>\$ 154,369,035</u> | <u>\$ 57,702,965</u> |

**CALIFORNIA ALTERNATIVE ENERGY AND ADVANCED
TRANSPORTATION FINANCING AUTHORITY
BOND PROGRAM**

**SCHEDULE OF BONDS AUTHORIZED, ISSUED, AND OUTSTANDING
JUNE 30, 2016**

| Bonds | Date Issued | Date of Final Maturity | Amounts Issued | Amount of Bonds Retired | Bonds Outstanding as of June 30, 2016 |
|--|--------------------|-----------------------------------|---------------------------|------------------------------------|--|
| Indian Valley Hydroelectric Partnership Project | September 15, 1982 | August 1, 2004 | \$ 5,000,000 | \$ 5,000,000 | |
| Litchfield Developers 1982 | December 20, 1982 | January 1, 1992 | 810,000 | 810,000 | |
| Catalyst/IPT Cogen. Partnership 1983 | September 27, 1983 | September 1, 2003 | 4,400,000 | 4,400,000 | |
| Lever Brothers Company 1983 | September 27, 1983 | December 1, 1991 | 1,000,000 | 1,000,000 | |
| JELD-WEN Inc. 1983 | December 21, 1983 | December 1, 1995 | 3,100,000 | 3,100,000 | |
| Soledad Cogeneration Associates 1984 | May 16, 1984 | May 1, 2003 | 4,120,000 | 4,120,000 | |
| Santa Cruz Cogeneration Associates 1984 | July 24, 1984 | June 1, 1995 | 3,820,000 | 3,820,000 | |
| Sverdrup Hydro Projects 1984 | November 30, 1984 | November 1, 2014 | 6,000,000 | 6,000,000 | |
| West Coast Basin Barrier 1984 | December 1, 1984 | January 1, 2005 | 2,100,000 | 2,100,000 | |
| Veterans Home of California 1985 | April 18, 1985 | May 1, 2008 | 5,700,000 | 5,700,000 | |
| D'Arrigo Bros. Project 1985 | June 24, 1985 | June 1, 1991 | 1,935,000 | 1,935,000 | |
| California Cedar Products Company Project 1985A | June 26, 1985 | June 1, 1990 | 1,300,000 | 1,300,000 | |
| Fairhaven Power Company 1985 | September 12, 1985 | September 1, 2005 | 20,000,000 | 20,000,000 | |
| SRI International Project 1985 | December 16, 1985 | December 1, 2005 | 11,250,000 | 11,250,000 | |
| University of San Francisco 1985 | December 17, 1985 | December 1, 2005 | 4,000,000 | 4,000,000 | |
| Modesto Energy Project 1985A | December 30, 1985 | December 1, 2005 | 30,000,000 | 30,000,000 | |
| Santa Cruz Cogeneration Associates 1986 | October 7, 1986 | October 1, 2016 | 3,295,000 | 3,295,000 | |
| Nove Investments Project 1986 | November 20, 1986 | December 1, 1994 | 3,000,000 | 3,000,000 | |
| Rock Creek Limited Partnership Project 1986 | November 20, 1986 | November 1, 2016 | 5,600,000 | 5,600,000 | |
| University of San Francisco Refunding 1987 | July 14, 1987 | July 1, 2007 | 3,575,000 | 3,575,000 | |
| Veterans Home of California Project Refunding 1988 | May 27, 1988 | May 1, 2008 | 5,365,000 | 5,365,000 | |
| Arroyo Energy Project 1993A | October 1, 1993 | October 1, 2020 | 27,500,000 | 2,170,000 | \$ 25,330,000 |
| Arroyo Energy Project 1993B | October 1, 1993 | October 1, 2020 | 27,500,000 | 2,170,000 | 25,330,000 |
| SRI International Project 1985 | October 31, 1995 | December 1, 2020 | 4,475,000 | 4,475,000 | |
| Caltrans 2009 | June 10, 2009 | December 15, 2023 | 20,000,000 | 16,590,933 | 3,409,067 |
| Fallbrook Public Utility District Solar Project 2010 | November 18, 2010 | November 18, 2027 | 7,227,000 | 2,896,539 | 4,330,461 |
| TOTAL | | | <u>\$212,072,000</u> | <u>\$ 153,672,472</u> | <u>\$ 58,399,528</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**

Independent Auditor's Report

**Members of the Board
California Alternative Energy and
Advanced Transportation Financing Authority**

We have audited, in accordance with the 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, the financial statements of the Bond Program of the California Alternative Energy and Advanced Transportation Financing Authority (the Authority or CAEATFA), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's Bond Program's basic financial statements, and have issued our report thereon dated March 26, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Bond Program's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Bond Program's internal control. Accordingly, we do not express an opinion on the effectiveness of the Bond Program's internal control.

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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified a certain deficiency in financial reporting, described in the accompanying Findings and Recommendations section, that we consider to be a significant deficiency in internal control over financial reporting (see finding 17-001).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Bond Program's financial statements are free from 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*.

Management's Response to Finding

Management's response to the finding identified in our audit is described in the Findings and Recommendations section. We did not audit Management's response and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Bond Program's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Bond Program's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

March 26, 2018

**CALIFORNIA ALTERNATIVE ENERGY AND ADVANCED
TRANSPORTATION FINANCING AUTHORITY
BOND PROGRAM**

**FINDINGS AND RECOMMENDATIONS
JUNE 30, 2017**

FINANCIAL STATEMENT FINDINGS

17-001. FINANCIAL REPORTING

Condition and Criteria:

Accurate financial reporting is an important element of an entity's performance evaluation and strategic decision making process.

Cause:

During the 16/17 fiscal year, two \$5,000 invoices for external consultant services were erroneously reflected in the Bond Program's financial statements which are maintained by the State Treasurer's Office Accounting Department. This resulted in an overstatement of expenses and understatement of assets and net position as of June 30, 2017.

Effect:

Expenses were overstated and assets and net position were understated by \$10,000.

Recommendation:

In order for CAEATFA's management to present the Bond Program's financial statements in accordance with generally accepted accounting principles, it is important to ensure that transactions are recorded and allocated amongst funds properly. We recommend additional review procedures over the allocation and posting of invoices to the Bond Program to ensure that amounts are recorded properly. Consistently reviewing transactions throughout the year will reduce the risk of misstatements or errors that may go undetected in the year-end closing process.

Management's Response:

The State Treasurer's Office (STO) Accounting unit's duties include processing and tracking expenditures, encumbrances, accounts payables and related expenditures. CAEATFA tracks this information as well and reconciles information with STO accounting. The instance cited by Gilbert Associates, Inc. has rational and reasonable explanations for the occurrence and is likely a one-time occurrence. However, CAEATFA and STO have agreed to add additional procedures to mutually oversee, review and reconcile the activities and year-end accruals in a timely manner to maximize the likelihood of data being accurate.

**CALIFORNIA ALTERNATIVE ENERGY AND ADVANCED
TRANSPORTATION FINANCING AUTHORITY
BOND PROGRAM**

**FINDINGS AND RECOMMENDATIONS
JUNE 30, 2017**

STATUS OF PRIOR YEAR FINDING

16-001. FINANCIAL REPORTING

Condition and Criteria:

Accurate financial reporting in accordance with generally accepted accounting principles is an important element of an entity's performance evaluation and strategic decision making process. Under generally accepted accounting principles, administrative fee revenue from the conduit debt program should be recorded annually when earned by the authority.

Cause:

During the 15/16 fiscal year, CAEATFA represented that it experienced a heavy workload in its various active programs concurrently with staff turnover and the Authority's move of its administrative offices to a new location. During this time period, an invoice for annual administrative fees related to a conduit debt issuance was not mailed. Furthermore, information was not provided to the accounting group to allow for recording of the fee revenue and related receivable. This resulted in the understatement of fee revenue and receivables as of June 30, 2016.

Effect:

Receivables and revenue were understated by \$2,168.

Recommendation:

In order for CAEATFA's management to present the Bond Program's financial statements in accordance with generally accepted accounting principles, it is important to ensure that transactions are recorded in the proper period. We recommend additional review procedures over the closing process to ensure that all pertinent entries have been accounted for. Consistently recording transactions throughout the year will provide more meaningful financial information to management and the Board of Directors and reduce the risk of misstatements or errors that may go undetected in the year-end closing process.

Management's Response:

As noted above, CAEATFA experienced an unprecedented heavy workload in its active programs during the 15/16 fiscal year, which was coupled with various staff transitions and vacancies while simultaneously preparing for the Authority's move to a new physical location. Management was required to prioritize workload based on the most pressing timetables and deliverables, and at the time, understood that the Authority's regulations for the Bond Program¹ provided flexibility on when the annual fee was collected (fiscal year versus calendar year). After consultation with Gilbert Associates, Inc. and the Administration Division of the State Treasurer's Office,

¹ California Code of Regulations, Title 4, Division 13, Section 10020 (b)(2)(A)

**CALIFORNIA ALTERNATIVE ENERGY AND ADVANCED
TRANSPORTATION FINANCING AUTHORITY
BOND PROGRAM**

**FINDINGS AND RECOMMENDATIONS
JUNE 30, 2017**

CAEATFA staff now recognize that the requirements of GAAP revenue standards supersede the regulatory flexibility. CAEATFA management has addressed this issue by establishing procedural controls. In addition, the STO accounting division has added a review note for fiscal year closing to confirm fee revenues within CAEATFA. CAEATFA will continue to work with the STO Administration Division to ensure that the Bond Program fees are billed in a timely manner and recognized during the fiscal year.

Current status:

Recommendation appears to have been implemented for revenue recognition; however, there was an error in the 16/17 fiscal year for expenses. See finding 17-001.