

**CALIFORNIA SCHOOL
FINANCE AUTHORITY**

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

**YEAR ENDED
JUNE 30, 2016**

CALIFORNIA SCHOOL FINANCE AUTHORITY

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the California School Finance Authority (the Authority), a related organization of the State of California, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic 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 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 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 opinions.

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
Business-Type Activities	Unmodified
Charter Schools Facilities Grant Program Fund	Unmodified
Charter School Revolving Loan Fund	Qualified
Federal Trust Fund	Unmodified
Charter School Facilities Account Fund	Unmodified
California School Finance Authority Fund	Unmodified
Charter School Security Fund	Unmodified

Basis for Qualified Opinions on the Governmental Activities and the Charter School Revolving Loan Fund

During the fiscal year ended 2014, the California Department of Education (CDE) transferred the Charter Schools Revolving Loan Program to the Authority. Due to lack of proper documentation of the loans previously disbursed by the CDE, we were unable to perform audit procedures over the Loans Receivable and Unavailable Revenue (\$8,250,594) for loans issued prior to July 1, 2013 of the Charter School Revolving Loan Fund.

Qualified Opinions

In our opinion, except for the matters described in the “Basis for Qualified Opinions on the Governmental Activities and the Charter School Revolving Loan Fund” paragraph above, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Governmental Activities and the Charter School Revolving Loan Fund of the Authority, as of June 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, Charter Schools Facilities Grant Program Fund, Federal Trust Fund, Charter School Facilities Account Fund, the California School Finance Authority Fund, and the aggregate remaining fund information of the Authority, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis and Required Supplementary Information section, as listed in the Table of Contents, 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The schedule of bonds and collateralized notes authorized, issued, and outstanding is presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the basic financial statements.

The schedule of bonds and collateralized notes authorized, issued, and outstanding and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate 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 schedule of bonds and collateralized notes authorized, issued, and outstanding and the schedule of expenditures of federal awards are 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 30, 2017, on our consideration of the Authority'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 Authority's internal control over financial reporting and compliance.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

March 30, 2017

CALIFORNIA SCHOOL FINANCE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited) FOR THE YEAR ENDED JUNE 30, 2016

This section of the financial statements of the California School Finance Authority (the Authority) provides an overview of the Authority's programs, and presents the analysis of the financial performance during the fiscal year that ended on June 30, 2016. Please read it in conjunction with the Authority's basic financial statements that follow this section.

GENERAL BACKGROUND, OVERVIEW AND PROGRAMS

The Authority was created in 1985 to provide tax-exempt, low-cost financing to school districts and community college districts for use in the repair and construction of school facilities as well as provide financing for working capital purposes. The Authority serves as a conduit issuer of bonds and notes on behalf of school districts, community college districts and, since 2010, charter schools. The Authority is chaired by the State Treasurer, and the Superintendent of Public Instruction and the Director of Finance serve as members. The Authority has offices in Los Angeles and Sacramento. The Authority administers a number of federally- and state-funded grant, loan, and bond programs which are described below.

Charter School Facilities Program The Charter School Facilities Program (CSFP) was enacted in 2002 by Assembly Bill 14, amended by Senate Bill 15 and Assembly Bill 16, and funded through Proposition 47 (\$100 million), Proposition 55 (\$300 million), and Proposition 1D (\$500 million) for the purposes of constructing, acquiring, or renovating new facilities for site-based charter school students throughout California. The CSFP allows charter schools to access state facility funding for new construction directly or through the school district where the charter school is physically located. The program funds 50 percent of project costs as a grant (paid by the State), while the charter school, in the form of a long-term lease or a lump sum payment, repays the other 50 percent. The Program is jointly administered by Office of Public School Construction (OPSC) staff, and for its part, the OPSC makes recommendations to the State Allocation Board (SAB) regarding which Program applicants receive preliminary apportionments (a reservation of program funds) based on criteria outlined in statute and in SAB program regulations. Among other things, The Authority is responsible for: 1) making a financial soundness determination for all Program applicants at the time of preliminary, advance and final apportionment; 2) conducting on-going monitoring and due diligence of recipients' financial soundness before and after final apportionment; 3) carrying out due diligence on guarantors or related organizations, when applicable; 4) developing, negotiating, and maintaining Program agreements on behalf of the State; and 5) integrating Program funding into the Authority's existing financing programs. This program is accounted for in the Charter School Facilities Account Fund.

Charter School Facility Grant Program (SB740) Program The Program provides annual grants to offset annual on-going facility costs for charter schools serving a high-percentage of students eligible for free or reduced-price meals (FRPM) or located in a public elementary school boundary serving a similar demographic. This program, previously administered by the California Department of Education, was transferred to the Authority in 2013-14. This program is accounted for in the Charter Schools Facility Grant Program Fund.

Charter School Facilities Credit Enhancement Grant Program The federally-funded program provides grants to fully or partially fund debt service reserve accounts on bond transactions issued through the Authority. The grant is intended to reduce the overall cost of borrowing for charter schools as it eliminates the need to fund the reserve through bond proceeds. This program is accounted for in the Federal Trust Fund (CFDA 85.354A).

CALIFORNIA SCHOOL FINANCE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited) FOR THE YEAR ENDED JUNE 30, 2016

State Charter School Facilities Incentive Grants Program The federally-funded facility grant program assists charter schools in offsetting on-going costs as well as acquisition, construction and renovation. The three-year grant provides funding for rent, lease, mortgage, or debt service. Charter schools are eligible to apply for grant funds to supplement California's Charter School Facility Grant Program for its charter school students. This program is accounted for in the Federal Trust Fund (CFDA 84.282D).

Charter School Revolving Loan Program The Program provides low-cost loans of up to \$250,000 to charter schools, with priority given to schools opening in the current fiscal year. The Authority conducts extensive credit evaluations, makes funding recommendations, executes loan agreements, creates payment schedules, disburses funds, offsets loan payments, collects delinquent or defaulted loans, and develops program fund reconciliations and projections. This program, previously administered by the California Department of Education, was transferred to the Authority in 2013-14. This program is accounted for in the Charter School Revolving Loan Fund.

Conduit Bond Financing The conduit bond program allows charter schools organized as non-profit entities access to tax-exempt and other tax-advantaged bonds through capital markets. This program is accounted for in the California School Finance Authority Fund.

OVERVIEW OF FINANCIAL STATEMENTS

This financial report of the Authority's bond, state and federal programs includes an independent auditor report, management discussion and analysis, and basic financial statements.

BASIC FINANCIAL STATEMENTS

The *Statement of Net Position* includes all of the assets and liabilities of the Authority's programs for the year that ended on June 30, 2016.

The *Statement of Activities* accounts for all of the Authority's revenue and expenses for the year that ended on June 30, 2016. This statement reflects the result 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.

The *Fund Financial Statements* provide information about the Authority's funds, including fiduciary funds for the year that ended on June 30, 2016. Separate statements for each fund category, governmental, enterprise, and fiduciary, are presented.

The *Statement of Cash Flows-Proprietary Funds* provides information about the Authority's Enterprise Fund's cash receipts and cash payments during the year that ended on June 30, 2016. 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 the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statement.

CALIFORNIA SCHOOL FINANCE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited) FOR THE YEAR ENDED JUNE 30, 2016

ANALYSIS OF CHANGE IN PROGRAM BALANCE FOR FISCAL YEAR ENDED JUNE 30, 2016

Net Change in Fund Balances – Total Governmental Funds

Long-term loans by governmental funds are treated as expenditures in the year advanced, and as revenue in the year the loan is repaid, and is measurable and available in the fund financial statement. The loans receivable are recorded in the fund statements, but are deferred to indicate they do not represent current financial resources. The loans are recognized when advanced in the government-wide statement. The Charter School Revolving Loan program was transferred to the Authority, beginning July 2013, therefore a transfer in was recorded in the Statement of Activities for previously recognized revenue recorded as unavailable revenue in the governmental funds.

Changes in liability for compensated absences, early retirement incentives and other postemployment benefits were not recorded as expenditures in governmental funds as they were not expected to be liquidated with current financial resources.

Statement of Net Position

The following charter represents a statement of net positions as of June 30, 2016:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:			
Current Assets	\$ 12,442,127	\$ 741,587	\$ 13,183,714
Long-Term Assets	35,730,849	5,555	35,736,404
Deferred Outflows of Resources	<u>142,146</u>	<u>0</u>	<u>142,146</u>
Total Assets and Outflows of Resources	<u>48,315,122</u>	<u>747,142</u>	<u>49,062,264</u>
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES:			
Current Liabilities	3,669,608	30,817	3,700,425
Long-Term Liabilities	9,934,350	0	9,934,350
Deferred Inflows of Resources	<u>22,526</u>	<u>0</u>	<u>22,526</u>
Total Liabilities and Inflows of Resources	<u>13,626,484</u>	<u>30,817</u>	<u>13,657,301</u>
NET POSITION:			
Restricted for Educational Purposes	<u>\$ 34,688,638</u>	<u>\$ 716,325</u>	<u>\$ 35,404,963</u>

CALIFORNIA SCHOOL FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)
FOR THE YEAR ENDED JUNE 30, 2016

The following chart represents a statement of net positions as of June 30, 2015:

CALIFORNIA SCHOOL FINANCE AUTHORITY
STATEMENT OF NET POSITION
June 30, 2015

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:			
Current Assets	\$ 15,009,855	\$ 497,859	\$ 15,507,714
Long-Term Assets	37,683,999	0	37,683,999
Deferred Outflows of Resources	134,980	0	134,980
Total Assets and Outflows of Resources	<u>52,828,834</u>	<u>497,859</u>	<u>53,326,693</u>
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES:			
Current Liabilities	8,594,809	7,021	8,601,830
Long-Term Liabilities	9,691,440	0	9,691,440
Deferred Inflows of Resources	179,275	0	179,275
Total Liabilities and Inflows of Resources	<u>18,465,524</u>	<u>7,021</u>	<u>18,472,545</u>
NET POSITION:			
Restricted for Educational Purposes	<u>\$ 34,363,310</u>	<u>\$ 490,838</u>	<u>\$ 34,854,148</u>

NOTES AND ACCOUNTS RECEIVABLE

Long-term loans issued under the Charter Schools Revolving Loan Program in the Charter School Revolving Loan Fund are treated as expenditures in the year advanced and as revenue in the year repayment is measurable and available in the fund financial statements. The loans receivable are recorded in the fund statements, but are deferred to indicate they do not represent current financial resources. The loans are recognized when advanced in the government-wide statements.

Loan and interest receivable balances are reported as net of an allowance for doubtful accounts. This is based on historical collection experience and a review of the current status of loan receivables.

DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES provides information on deferred outflows and inflows which are reported in separate sections.

For outflows, the Authority has pension contributions subsequent to the measurement date of \$142,146 on the statement of net position.

For inflows, the Authority has net differences between projected and actual earnings on CalPERS plan investments of \$22,526 on the statement of net position. The Charter Schools Revolving Loan Fund has unavailable revenue of \$27,413,104 due to the Charter School Revolving Loan Program on the fund financial statements.

CALIFORNIA SCHOOL FINANCE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited) FOR THE YEAR ENDED JUNE 30, 2016

INTERFUND BALANCES AND TRANSFERS provides information on loans, provided services, reimbursements or transfers during the year that ended on June 30, 2016.

PENSION PLANS

The Authority participates in the State of California's Public Employees' Retirement System (CalPERS), which is a defined benefit agent multi-employer contributory retirement plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and their beneficiaries.

POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

The State of California provides health care and dental benefits to annuitants of retirement systems to which the State contributes as an employer, through the State of California Other Post-Employment Benefits Plan, a single-employee defined benefit plan. The health and dental benefits provided through the plan can be amended by the CalPERS Board of Administration and the California Department of Human Resources.

STATEMENT OF ACTIVITIES

The following chart represents the statement of activities as of June 30, 2016:

CALIFORNIA SCHOOL FINANCE AUTHORITY STATEMENT OF ACTIVITIES June 30, 2016

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Total Operating Revenues	\$ 95,248,810	\$ 479,537	\$ 95,728,347
Total Operating Expenses	<u>94,926,267</u>	<u>256,569</u>	<u>95,182,836</u>
Operating Income	<u>\$ 322,543</u>	<u>\$ 222,968</u>	<u>\$ 545,511</u>
Total Non-Operating Revenues	<u>\$ 2,785</u>	<u>\$ 2,519</u>	<u>\$ 5,304</u>
Increase in Net Position	\$ 325,328	\$ 225,487	\$ 550,815
Net Position – Beginning	<u>34,363,310</u>	<u>490,838</u>	<u>34,854,148</u>
Net Position - Ending	<u>\$ 34,688,638</u>	<u>\$ 716,325</u>	<u>\$ 35,404,963</u>

CALIFORNIA SCHOOL FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)
FOR THE YEAR ENDED JUNE 30, 2016

The following chart represents the statement of activities as of June 30, 2015:

CALIFORNIA SCHOOL FINANCE AUTHORITY
STATEMENT OF ACTIVITIES
June 30, 2015

	Governmental Activities	Business-Type Activities	Total
Total Operating Revenues	\$ 79,626,135	\$ 212,469	\$ 79,838,604
Total Operating Expenses	81,617,205	169,527	81,786,732
Operating Income (loss)	\$ (1,991,070)	\$ 42,942	\$ (1,948,128)
Total Non-Operating Revenues	\$ 2,029,435	\$ 1,357	\$ 2,030,792
Increase in Net Position	\$ 38,365	\$ 44,299	\$ 82,664
Net Position – Beginning, as restated	34,324,945	446,539	34,771,484
Net Position - Ending	\$ 34,363,310	\$ 490,838	\$ 34,854,148

REVENUES

The Authority's revenues are derived from federal and state appropriations to assist charter schools with facility and related expenses. Additional revenues are generated through fees charged to borrowers through the Authority's conduit bond program.

EXPENSES

The Authority's expenses represent grant and loan proceeds disbursed to charter schools. Other expenses are attributed to the Authority's operations and pay for salary and benefit costs, as well as administrative costs such as facilities and support services.

NET POSITION

The Authority's Net Position on the government-wide financial statements are statutorily restricted for the purposes of assisting eligible charter schools through loan, grant, and bond programs.

CALIFORNIA SCHOOL FINANCE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited) FOR THE YEAR ENDED JUNE 30, 2016

ECONOMIC FACTORS

The Authority does not anticipate significant changes to its operations that would impact program functionality. Programmatic and funding changes have been listed below that could impact operations moderately.

- The recent expansion of the Charter School Facilities Program through the passage of Proposition 51 (\$500 million) requires greater resources to effectively administer the program.
- The growth of the Conduit Bond Program's volume of new and existing financings continued to increase in 2015-16, requiring personnel to assist the structuring and closing of new deals, and ensure compliance with outstanding bond financings.
- The reconciliation and closing out of loans under the Charter School Revolving Loan Program require staff's redirection from underwriting and administering new loans and making offsets of existing loans, potentially impacting the timing of funds reaching schools.
- The development of new financing programs could bring in additional revenue and require additional resources needed to carry out the Authority's core programs.
- Changes in federal funding or new federal subsidies could increase the Authority's activities.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Authority's bond, state, and federal financial positions, 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:

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California School Finance Authority
300 S. Spring Street, Suite 8500
Los Angeles, California 90013
kjohantgen@treasurer.ca.gov
www.treasurer.ca.gov/csfa/financial.asp

CALIFORNIA SCHOOL FINANCE AUTHORITY

STATEMENT OF NET POSITION

JUNE 30, 2016

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and cash equivalents	\$ 8,943,596	\$ 680,772	\$ 9,624,368
Accounts receivable		86,123	86,123
Due from external funds	3,472,300	923	3,473,223
Internal balances	26,231	(26,231)	
Loans receivable, net - scope limitation	8,250,594		8,250,594
Long-term loans receivable	27,480,255		27,480,255
Capital assets, net		5,555	5,555
Total Assets	48,172,976	747,142	48,920,118
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred outflows of resources related to pensions	142,146		142,146
LIABILITIES:			
Accounts payable	2,869,008	8,283	2,877,291
Undisbursed loan commitments	750,000		750,000
Due to external funds	50,600	22,534	73,134
Long-term advances from federal government	8,320,659		8,320,659
Long-term accrued vacation	105,802		105,802
Long-term OPEB liability	476,000		476,000
Long-term net pension liability	1,031,889		1,031,889
Total Liabilities	13,603,958	30,817	13,634,775
DEFERRED INFLOWS OF RESOURCES:			
Deferred inflows of resources related to pensions	22,526		22,526
NET POSITION:			
Invested in capital assets		5,555	5,555
Restricted for Educational Purposes	34,688,638	710,770	35,399,408
Total Net Position	\$ 34,688,638	\$ 716,325	\$ 35,404,963

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

CALIFORNIA SCHOOL FINANCE AUTHORITY

STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2016

	Governmental Activities	Business-Type Activities	Total
OPERATING REVENUES:			
Operating grants:			
State apportionment	\$ 86,268,860		\$ 86,268,860
Federal revenues	8,979,950		8,979,950
Charges for services:			
Fee revenue		\$ 479,537	479,537
Total Operating Revenue	95,248,810	479,537	95,728,347
OPERATING EXPENSES:			
State grants issued	84,483,523		84,483,523
Federal grants issued	8,770,166		8,770,166
Salaries and wages	652,015	64,155	716,170
Operating expense	322,726	151,485	474,211
Benefits and payroll taxes	375,937	28,058	403,995
Uncollectable loans - bad debt	180,994		180,994
Miscellaneous expense	140,906	12,871	153,777
Total Operating Expenses	94,926,267	256,569	95,182,836
OPERATING INCOME	322,543	222,968	545,511
NON-OPERATING REVENUE:			
Interest income	2,785	2,519	5,304
Total Non-Operating Revenues	2,785	2,519	5,304
Increase in Net Position	325,328	225,487	550,815
Net Position - Beginning	34,363,310	490,838	34,854,148
Net Position - Ending	\$ 34,688,638	\$ 716,325	\$ 35,404,963

CALIFORNIA SCHOOL FINANCE AUTHORITY

BALANCE SHEETS GOVERNMENTAL FUNDS JUNE 30, 2016

	Charter Schools Facilities Grant Program Fund	Charter School Revolving Loan Fund	Federal Trust Fund	Charter Schools Facilities Account Fund	Total Governmental Funds
ASSETS:					
Cash and cash equivalents		\$ 8,937,071	\$ 6,525		\$ 8,943,596
Due from external funds	\$ 582,538		2,877,504	\$ 12,258	3,472,300
Due from internal funds				52,179	52,179
Loans receivable, net - scope limitation		8,250,594			8,250,594
Long-term loans receivable		19,162,510	8,317,745		27,480,255
Total Assets	\$ 582,538	\$ 36,350,175	\$ 11,201,774	\$ 64,437	\$ 48,198,924
LIABILITIES:					
Accounts payable			\$ 2,846,487	\$ 22,521	\$ 2,869,008
Undisbursed loan commitments		\$ 750,000			750,000
Due to external funds	\$ 4		8,680	41,916	50,600
Due to internal funds			25,948		25,948
Long-term advances from federal government			8,320,659		8,320,659
Total Liabilities	4	750,000	11,201,774	64,437	12,016,215
DEFERRED INFLOWS OF RESOURCES:					
Unavailable revenue - scope limitation		8,250,594			8,250,594
Unavailable revenue		19,162,510			19,162,510
Total Deferred Inflows of Resources		27,413,104			27,413,104
FUND BALANCES:					
Restricted for educational purposes	582,534	8,187,071			8,769,605
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 582,538	\$ 36,350,175	\$ 11,201,774	\$ 64,437	\$ 48,198,924

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

CALIFORNIA SCHOOL FINANCE AUTHORITY

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEETS TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION GOVERNMENTAL ACTIVITIES JUNE 30, 2016

Total Fund Balance, Governmental Funds	\$ 8,769,605
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Long-term receivables are not available to pay current period expenditures and, therefore, are reported as unavailable revenue in the governmental funds.	27,413,104
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In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources are reported as follows:

Deferred outflows of resources related to pensions	142,146
Deferred inflows of resources related to pensions	(22,526)

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities are included in governmental activities in the statement of net position as follows:

Accrued vacation	(105,802)
OPEB liability	(476,000)
Net pension liability	<u>(1,031,889)</u>

Total Net Position, Governmental Activities	<u>\$ 34,688,638</u>
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CALIFORNIA SCHOOL FINANCE AUTHORITY

STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2016

	Charter Schools Facilities Grant Program Fund	Charter School Revolving Loan Fund	Federal Trust Fund	Charter Schools Facilities Account Fund	Total Governmental Funds
REVENUES:					
State apportionment	\$ 85,426,119			\$ 842,741	\$ 86,268,860
Loan principal repayments		\$ 9,905,705			9,905,705
Federal revenues			\$ 8,979,950		8,979,950
Interest revenue			2,785		2,785
Total Revenues	<u>85,426,119</u>	<u>9,905,705</u>	<u>8,982,735</u>	<u>842,741</u>	<u>105,157,300</u>
EXPENDITURES:					
Salaries and wages	193,503		93,039	365,473	652,015
Benefits and payroll taxes	77,948		46,350	178,927	303,225
Operating expense			68,000	254,726	322,726
State grants issued	84,483,523				84,483,523
Loans issued		8,000,000			8,000,000
Federal grants issued			8,770,166		8,770,166
Miscellaneous expenses	88,611		8,680	43,615	140,906
Total Expenditures	<u>84,843,585</u>	<u>8,000,000</u>	<u>8,986,235</u>	<u>842,741</u>	<u>102,672,561</u>
Excess (Deficiency) of Revenues over Expenditures	<u>582,534</u>	<u>1,905,705</u>	<u>(3,500)</u>		<u>2,484,739</u>
Increase (Decrease) in Fund Balances	582,534	1,905,705	(3,500)		2,484,739
Fund Balances - Beginning		<u>6,281,366</u>	<u>3,500</u>		<u>6,284,866</u>
Fund Balances - Ending	<u>\$ 582,534</u>	<u>\$ 8,187,071</u>	<u>\$</u>	<u>\$</u>	<u>\$ 8,769,605</u>

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

CALIFORNIA SCHOOL FINANCE AUTHORITY

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES GOVERNMENTAL ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2016

Net Change in Fund Balances - Total Governmental Funds		\$ 2,484,739
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Amounts reported for governmental activities in the statement of activities are different because:

Long-term loans by governmental funds are treated as expenditures in the year advanced and as revenue in the year repayment is measurable and available in the fund financial statements. The loans receivable are recorded in the fund statements, but are deferred to indicate they do not represent current financial resources. The loans are recognized when advanced in the government-wide statements.

Revenues	(9,905,705)	
Expenditures	<u>8,000,000</u>	(1,905,705)

Uncollectable loans receivable are treated as a reduction in loans receivable and unearned revenue in the period determined to be uncollectable in the fund financial statements. The bad debt expense is not shown on the fund financial statements, but is recorded on the government-wide statements. (180,994)

Changes in the liability for compensated absences, early retirement incentives and postemployment benefits are not recorded as expenditures in governmental funds because they are not expected to be liquidated with current financial resources. In government-wide statements, they are recognized as when earned. (112,561)

In governmental funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. The difference between accrual-basis pension costs and actual employer contributions was: 39,849

Change in Net Position of Governmental Activities		<u>\$ 325,328</u>
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CALIFORNIA SCHOOL FINANCE AUTHORITY

STATEMENT OF FUND NET POSITION ENTERPRISE FUND JUNE 30, 2016

	California School Finance Authority Fund
CURRENT ASSETS:	
Cash and equivalents	\$ 680,772
Accounts receivable	86,123
Due from external funds	923
Due from internal funds	2,230
Capital assets, net	<u>5,555</u>
Total Current Assets	<u>775,603</u>
 CURRENT LIABILITIES:	
Accounts payable	8,283
Due to external funds	22,534
Due to internal funds	<u>28,461</u>
Total Current Liabilities	<u>59,278</u>
 NET POSITION:	
Invested in capital assets	5,555
Restricted for Educational Purposes	<u>710,770</u>
Total Net Position	<u><u>\$ 716,325</u></u>

CALIFORNIA SCHOOL FINANCE AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION ENTERPRISE FUND YEAR ENDED JUNE 30, 2016

	California School Finance Authority Fund
OPERATING REVENUES:	
Fee Revenue	\$ 479,537
OPERATING EXPENSES:	
Salaries and wages	64,155
Benefits and payroll taxes	28,058
Debt issuance costs and other operating expense	151,485
Miscellaneous expense	12,871
Total Operating Expenses	<u>256,569</u>
OPERATING INCOME	<u>222,968</u>
NON-OPERATING REVENUE:	
Interest revenue	<u>2,519</u>
Increase in Net Position	225,487
Net Position - Beginning	<u>490,838</u>
Net Position - Ending	<u>\$ 716,325</u>

CALIFORNIA SCHOOL FINANCE AUTHORITY

STATEMENT OF CASH FLOWS ENTERPRISE FUND YEAR ENDED JUNE 30, 2016

	California School Finance Authority Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from fees	\$ 394,927
Payments to suppliers	(115,789)
Payments to employees	(92,213)
Net cash and equivalents provided by operating activities	<u>186,925</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Miscellaneous expenditures	<u>(563)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of capital assets	(5,555)
Interest received	<u>2,519</u>
Net cash and equivalents used by investing activities	<u>(3,036)</u>
NET INCREASE IN CASH AND EQUIVALENTS	183,326
CASH AND EQUIVALENTS, Beginning of year	<u>497,446</u>
CASH AND EQUIVALENTS, End of year	<u>\$ 680,772</u>
RECONCILIATION OF OPERATING INCOME TO CASH AND EQUIVALENTS PROVIDED BY OPERATING ACTIVITIES:	
Operating income	\$ 222,968
Changes in operating assets and liabilities:	
Accounts Receivable	(84,610)
Due from internal funds	8,425
Accounts payable	7,812
Due to external funds	15,984
Due to internal funds	<u>16,346</u>
Net Cash and Equivalents Provided By Operating Activities	<u>\$ 186,925</u>

CALIFORNIA SCHOOL FINANCE AUTHORITY

STATEMENT OF FIDUCIARY NET POSITION FIDUCIARY FUND JUNE 30, 2016

	Charter School Security Fund
ASSETS:	
Cash and equivalents	\$ 2,530,329
Interest receivable, net	<u>1,513</u>
Total Assets	<u>2,531,842</u>
NET POSITION:	
Held in Trust For Educational Purposes	<u>\$ 2,531,842</u>

CALIFORNIA SCHOOL FINANCE AUTHORITY

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2016**

	Charter School Security Fund
ADDITIONS:	
Interest revenue	\$ 69,778
Net Position - Beginning	<u>2,462,064</u>
Net Position - Ending	<u>\$ 2,531,842</u>

CALIFORNIA SCHOOL FINANCE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2016

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.

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

B. THE REPORTING ENTITY

These financial statements present information on the financial activities of the Authority. The Authority is a related organization of the State of California. The California State Treasurer by legislation serves as the Chairperson and is responsible for the oversight of the Authority.

C. BASIS OF PRESENTATION

Government-Wide Financial Statements

The statement of net position and statement of activities display information about the Authority. These statements include the financial activities of the Authority, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the Authority. Governmental activities, which normally are supported by operating grant revenues, are reported separately from business-type activities, which rely on fees charged to external parties.

The statement of activities demonstrates the degree to which the operating expenses are offset by operating revenues for the program purpose of the Authority, which is school financing assistance. Revenues that are not classified as program revenues are presented instead as non-operating revenues.

Fund Financial Statements

The fund financial statements provide information about the Authority's funds, including fiduciary funds. Separate statements for each fund category ~ governmental, proprietary and fiduciary ~ are presented.

The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. There are no non-major funds as of June 30, 2016.

CALIFORNIA SCHOOL FINANCE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2016

The Authority reports the following major governmental funds:

- The *Charter Schools Facilities Grant Program Fund* is a state funded program that provides grants to charter schools for facilities (rent and leases) servicing a high-percentage of students eligible for free or reduced price meals or that are located in a public elementary school boundary serving a similar demographic.
- The *Charter School Revolving Loan Fund* was established to administer the Charter Schools Revolving Loan Fund Program (CSRLF) which is a state funded program that provides low-interest loans of up to \$250,000 to new charter schools. The statutory provisions governing the CSRLF are California Education Code sections 41365, 41366.5, 41366.7 and 41367.
- The *Federal Trust Fund* was established to account for the two federally funded programs administered by the Authority described below:
 - CFDA 84.282D Charter School Facilities Incentive Grants Program is a federally funded program that provides grants to charter schools for facilities servicing a high-percentage of students eligible for free or reduced price meals or that are located in a public elementary school boundary serving a similar demographic.
 - CFDA 84.354 Charter School Enhancement Program is a federally funded grant program that reduces the overall cost of borrowing for charter schools as it eliminates the need of Charter Schools to fund the reserve through bond proceeds. Under this program, the Authority provides loans to Charter Schools to fund debt service reserve accounts. Any interest earned by the Trust Fund holding the debt service reserve accounts is remitted with the principal amount of the loan upon bond maturity, bond refunding, or closing of the charter school. This program was funded in advance and proceeds received from the US Department of Education to operate this program are recorded as an Advance from the Federal Government as they will be remitted back to the grantor upon the program completion or if the Performance Goals in the Grant Award are not met.
- The *Charter Schools Facilities Account Fund* was established to administer the Charter Schools Facility Program which passes-through administrative costs associated with the administration of Proposition 47, 55, and 1d for the purposes of construction, acquiring, or renovating new facilities for site based charter school students. The Authority acts as the administrator for these funds to ensure that applicants meet the requirements and establishing the initial terms. The Department of General Services is responsible for the payment (50% as a direct grant and 50% as a loan) and collection of the 50% payback portion.

CALIFORNIA SCHOOL FINANCE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2016

The Authority reports the following major enterprise fund:

- The *California School Finance Authority Fund* acts as a conduit by assisting eligible education 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 guarantee. 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 reports the following additional fund type:

- The *Charter School Security Fund* is a Private Purpose Trust Fund that collects the interest earned from the revolving loan balances issued by the Charter Schools Revolving Loan Fund. Proceeds from the interest earned on these loans can be transferred over to the Charter Schools Revolving Loan Fund, if approved by the State of California Department of Finance.

D. BASIS OF ACCOUNTING

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as is the enterprise fund. The fiduciary fund financial statements have no measurement focus, and use the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Revenues from grants are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. State appropriations and federal grants and charges for services are accrued when their receipt occurs within 60 days after the end of the accounting period so as to be measurable and available. Expenditures are generally recorded when a liability is incurred, as under accrual accounting.

E. CASH AND CASH EQUIVALENTS

The Authority considers all short-term investments with an original maturity of three months or less to be cash equivalents.

F. RECEIVABLES

Long-term loans issued under the Charter School Revolving Loan program in the Charter School Revolving Loan Fund, a governmental fund, are treated as expenditures in the year advanced and as revenue in the year repayment is measurable and available in the fund financial statements. The loans receivable are recorded in the fund statements, but are deferred to indicate they do not represent current financial resources. The loans are recognized when advanced in the government-wide statements.

CALIFORNIA SCHOOL FINANCE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2016

Loan and interest receivable balances are reported net of an allowance for doubtful accounts as described in Note 3. Management's estimate of the allowance is based on historical collection experience and a review of the current status of loan receivable.

G. ACCRUED VACATION

The accrued vacation compensation is recognized as an expense and liability in the Authority's financial statements. Additionally, accumulated sick-leave balances are not recorded as compensated absences because they do not vest to employees. However, unused sick-leave balances convert to service credits upon retirement.

H. PENSION

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Authority's portion of the California Public Employees' Retirement System (CalPERS) Miscellaneous plan (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

I. INTERFUND BALANCES

Interfund transactions are reflected as loans, provided services, reimbursements or transfers. Loans are reported as receivables and payables as appropriate, are subject to elimination upon consolidation. Net interfund activity and balances between the governmental activities and business-type activities are shown in the statement of net position as internal balances.

J. DEFERRED OUTFLOW/INFLOW OF RESOURCES

In addition to assets, the statements will sometimes report a separate section from deferred outflows of resources. This separate financial element, deferred outflow of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and will not be recognized an inflow of resources (revenue) until that time.

The Authority has a deferred inflow which arises only under modified accrual basis of accounting that qualifies for reporting in the category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue for loans issued under the Charter Schools Revolving Loan Fund. On the governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the period of availability have been offset with unavailable revenue.

Contributions made to the Authority's pension plan after the measurement date but before the fiscal year-end are recorded as a deferred outflow of resources and will reduce the net pension liability in the next fiscal year.

CALIFORNIA SCHOOL FINANCE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

Additional factors involved in the calculation of the Authority's pension expense and net pension liability include the differences between expected and actual experience, changes in assumptions, differences between projected and actual investment earnings, changes in proportion, and differences between the Authority's contributions and proportionate share of contributions. These factors are recorded as deferred outflows and inflows of resources and amortized over various periods. See Note 6 for further details related to these pension deferred outflows and inflows.

K. REVENUES

The Charter Schools Facilities Grant Program Fund and Charter Schools Facilities Account Fund are fully funded through State apportionments. Revenues in the Federal Trust fund are receipts received in a reimbursement basis to operate the federal program CFDA #84.282D. Revenues in the Charter School Revolving Loan Fund are loan principal repayments for loans issued under the Charter School Revolving Loan Program.

The School Finance Authority Fund charges fees to institutions for assistance in bond and note financing. The fee schedule is as follows:

	<u>Bond Financing</u>	<u>Note Financing</u>
Application Fee (non-refundable)	\$1,500	\$1,500
Issuance Fee	0.15% of par amount of bonds issued up to \$10,000,000, and 0.05% on amounts above \$10,000,000. Maximum fee of \$75,000 per transaction	0.075% of par
Annual Administration Fee	0.015% of outstanding principal (\$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.

L. RISK MANAGEMENT

The Authority is a related organization of the State of California, and participates in their risk management program. The State of California is primarily self-insured against loss or liability, with a few exceptions. The State generally does not maintain reserves; losses are covered by appropriations in the year in which the payment occurs. The Authority has not had any claims subject to this coverage in the last three years. Additional disclosures are presented in the financial statements of the State of California.

M. NET POSITION/FUND BALANCE

As of June 30, 2016, the fund balance for all funds and the net position on the government-wide financial statement are restricted by enabling legislation for the purposes of assisting in the issuance of revenue bonds, loans, and grants for eligible educational organizations.

CALIFORNIA SCHOOL FINANCE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

N. USE OF ESTIMATES

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements.

O. BUDGET

A budget for the Authority by fund has not been legally adopted and is not required. Therefore, a statement of revenues, expenditures, and changes in fund balance, actual and budget, normally presented by special revenue funds, is not included in the financial statements.

2. CASH AND CASH EQUIVALENTS IN STATE TREASURY

A. GENERAL

The Authority 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, 2016 are classified in the accompanying financial statements as follows:

Deposits in SMIF	\$ 682,000
Cash in State Treasury	<u>11,472,697</u>
Total Cash and Cash Equivalents	<u>\$ 12,154,697</u>

The cash and cash equivalents were classified and reported on the Authority's financial statements as follows:

Governmental activities	\$ 8,943,596
Business-type activities	680,772
Fiduciary fund	<u>2,530,329</u>
Total Cash and Cash Equivalents	<u>\$ 12,154,697</u>

B. STATE TREASURY

The Authority invests excess cash funds in the State of California 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.

Additional disclosure detail required by GASB Statements No. 3, No. 31, No. 40, and No. 72 regarding cash deposits and investments in the State Treasury, including disclosures related to interest rate risk, credit risk, custodial credit risk, and concentration of credit risk, are presented in the financial statements of the State of California for the year ended June 30, 2016.

CALIFORNIA SCHOOL FINANCE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

3. RECEIVABLES

Receivable balances are reported net of an allowance for doubtful accounts as follows:

<u>Fund</u>	<u>Receivable</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net</u>
Accounts Receivable:			
California School Finance Authority Fund	\$ 87,026	\$ (903)	\$ 86,123
Interest Receivable:			
Charter School Security Fund	\$ 151,556	\$ (150,043)	\$ 1,513
Loans Receivable:			
Charter School Facilities Grant Program Fund	\$ 105,652	\$ (105,652)	\$
Charter School Revolving Loan Fund	\$ 34,812,775	\$ (7,399,671)	\$ 27,413,104
Long-term Loans Receivable:			
Federal Trust Fund	\$ 8,317,745	\$	\$ 8,317,745

4. DUE TO/FROM OTHER EXTERNAL FUNDS

Due to/from other external funds at June 30, 2016 includes the following:

<u>Due From (Due To)</u>	<u>Description</u>	
SMIF	Interest Income	\$ 925
State School Facility Funds	Various	12,258
General Fund	Various	4
Department of Education	Federal Grants	2,861,945
Due from Charter Schools	Various	598,091
State School Facility Funds	Various	(37,428)
General Fund	Various	(14,915)
State Compensation Fund	Insurance Costs	(4,259)
Department of Justice	Legal Services	<u>(16,532)</u>
	Net Due From (To) Other External Funds	<u>\$ 3,400,089</u>

CALIFORNIA SCHOOL FINANCE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

5. ACCRUED VACATION

The Authority employees are granted vacation and sick leave in varying amounts, depending upon the employee. These hours are accrued for all employees on the basis of monthly payrolls. Upon separation, employees are paid for accumulated vacation days up to specified limits. Accrued vacation and sick leave follow State employees from agency to agency and are not necessarily earned since the inception of the Authority.

Accrued vacation activity for the year ended June 30, 2016, was as follows:

	<u>Balance</u> <u>June 30, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2016</u>	<u>Due Within</u> <u>One Year</u>
Accrued vacation	\$ 95,241	\$ 63,283	\$ 52,722	\$ 105,802	\$

6. EMPLOYEE RETIREMENT PLAN

A. General Information about the Pension Plan

Plan Descriptions – All employees in a covered class of employment who work half-term or more are eligible to participate in the California Public Employees’ Retirement System (CalPERS), which is included in the State of California’s Comprehensive Annual Financial Report (CAFR) as a fiduciary component unit. CalPERS administers the Public Employees’ Retirement Fund (PERF). PERF is an agent multiple-employer defined benefit retirement plan. Departments and agencies within the State of California (State), including the Authority, a related organization of the State, are in a cost-sharing arrangement in which all risks and costs are shared proportionately by participating State agencies. CalPERS issues a publicly available financial report that includes financial statements and required supplementary information for this plan. This report is available online at www.calpers.ca.gov.

The California Legislature passed and the Governor signed the “Public Employees’ Pension Reform Act of 2013” (PEPRA) on September 12, 2012. PEPRA contained a number of provisions intended to reduce future pension obligations. PEPRA primarily affects new pension plan members who are enrolled for the first time after December 2012. Benefit provisions and other requirements are established by State statute.

Benefits Provided – The benefits for the Plan are based on members’ years of service, age, final compensation, and benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Members become fully vested in their retirement benefits earned to date after five or ten years of credited service.

CALIFORNIA SCHOOL FINANCE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

The Plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

First Tier:

	<u>Prior to January 15, 2011</u>	<u>January 15, 2011 to December 31, 2012</u>	<u>On or after January 1, 2013</u>
Hire date			
Benefit formula	2% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 to 63	50 to 63	52 to 67
Monthly benefits, as a % of eligible compensation	1.0 to 2.5%	1.092 to 2.418%	1.0 to 2.5%

Second Tier:

	<u>Prior to January 1, 2013</u>	<u>On or after January 1, 2013</u>
Hire date		
Benefit formula	1.25% @ 65	1.25% @ 67
Benefit vesting schedule	10 years service	10 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 to 65	52 to 65
Monthly benefits, as a % of eligible compensation	0.5 to 1.25%	0.77 to 1.25%

Contributions – Section 20814(c) of the California Public Employees Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Authority is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the measurement period ended June 30, 2015 (the measurement date) the average active employee contribution rate is 6.525% of annual pay, and the employer's contribution rate is 24.30% of annual payroll. These rates reflect Section 20683.2, which mandates that certain employees must contribute more as of July 1, 2013. Furthermore, any reduction in employer contributions due to the increase in the employee contributions must be paid by the employer towards the unfunded liability. It is the responsibility of the employer to make necessary accounting adjustments to reflect the impact due to any Employer Paid Member Contributions or situations where members are paying a portion of the employer contribution.

Contributions to the plan were \$118,697 for the fiscal year ended June 30, 2016.

B. Pension Liabilities, Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2016, the Authority reported net pension liabilities for their proportionate share of the net pension liability of \$1,031,889.

CALIFORNIA SCHOOL FINANCE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

The Authority's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2015, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The Authority's proportion of the net pension liability was based on the State Controller's Office (SCO) projection of the Authority. The SCO identified a total of 29 entities that are reported in the State's CAFR which are proprietary funds (enterprise and internal service) and fiduciary funds (pension and other employee benefit trust funds), component units (discretely presented and fiduciary), and related organizations, that have State employees with pensionable compensation (covered payroll). The SCO calculated and provided these funds/organizations with their allocated pensionable compensation percentages by plan. The Authority's proportionate share of the net pension liability for the Plan as of June 30, 2015 and 2016 were 0.003813% and 0.003654%, respectively.

For the year ended June 30, 2016, the Authority recognized pension expense of \$78,848. At June 30, 2016, the Authority's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 118,697	
Change in proportion	4,604	
Differences between expected and actual experience	18,845	
Net differences between projected and actual earnings on plan investments	<u> </u>	\$ (22,526)
Total	<u>\$ 142,146</u>	<u>\$ (22,526)</u>

\$118,697 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30		
2017	\$	(8,282)
2018		(8,282)
2019		(9,091)
2020		26,578

CALIFORNIA SCHOOL FINANCE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

Actuarial Assumptions – For the measurement period ended June 30, 2015 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2014 total pension liability. The June 30, 2015 total pension liabilities were based on the following actuarial assumptions:

Actuarial Cost Method	Entry-Age Normal
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Interest Rate of Return	7.65% Net of Pension Plan Investment Expenses, included Inflation
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table ⁽¹⁾	Derived using CalPERS' Membership data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

⁽¹⁾ The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS website under Forms and Publications.

Discount Rate – The discount rate used to measure the total pension liability was 7.65% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65% discount rate is appropriate and the use of the municipal bond rate calculation is not necessary. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

CALIFORNIA SCHOOL FINANCE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1 – 10^(a)</u>	<u>Real Return Years 11+^(b)</u>
Global Equity	51.00%	5.25%	5.71%
Global Debt Securities	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
Total	100.00%		

^(a) An expected inflation of 2.5% was used for this period.

^(b) An expected inflation of 3.0% was used for this period.

Sensitivity of Programs’ proportionate share Net Pension Liability to Changes in the Discount Rate – The following presents the Authority’s proportionate share of the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.65 percent, as well as what the Authority’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65 percent) or 1 percentage-point higher (8.65 percent) than the current rate:

	<u>Discount Rate – 1% (6.65%)</u>	<u>Current Discount Rate (7.65%)</u>	<u>Discount Rate + 1% (8.65%)</u>
Proportionate Share of Plan’s Net Pension Liability	\$ 1,457,402	\$ 1,031,889	\$ 674,884

7. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

The State of California (the State) provides health care and dental benefits to annuitants of retirement systems to which the State contributes as an employer, through the State of California Other Post-employment Benefits Plan, a single-employer defined benefit plan. The health and dental benefits provided through the plan can be amended by the CalPERS Board of Administration and the California Department of Human Resources, respectively. Contributions are governed by the State of California and can be amended through legislation.

CALIFORNIA SCHOOL FINANCE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

All State agencies and certain related organizations, including the Authority, are considered collectively to be a single employer for plan purposes. A portion of the State’s post-employment benefit costs have been allocated to the Authority as of June 30, 2016 is as follows:

Annual required contribution	\$ 157,000
Interest on net OPEB obligation	27,000
Adjustment to annual required contribution	<u>(25,000)</u>
Annual OPEB cost (expense)	159,000
Contributions made	<u>(57,000)</u>
Increase in net OPEB obligation	102,000
Net OPEB obligation – beginning of year	<u>374,000</u>
Net OPEB obligation – end of year	<u>\$ 476,000</u>

The Authority’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for June 30, 2016 and the preceding two years are as follows:

<u>Fiscal year ended</u>	<u>Annual OPEB expense</u>	<u>% of annual OPEB expense contributed</u>	<u>Net OPEB obligation</u>
6/30/14	\$ 95,000	35.79%	\$ 300,000
6/30/15	\$ 118,000	37.29%	\$ 374,000
6/30/16	\$ 159,000	35.85%	\$ 476,000

Additional disclosure detail required by GASB Statement No. 45 regarding post-retirement benefits, including actuarial methods and assumptions, funding policies, and the funded status of the plan, is presented in the financial statements and required supplementary information of the State of California for the year ended June 30, 2016. Additionally, copies of the CalPERS annual financial report which includes the Retiree Benefits Trust Fund may be obtained by writing to the CalPERS, Fiscal Services Division, P.O. Box 942703, Sacramento, California 94229-2703 or by visiting the CalPERS website at www.CalPERS.ca.gov.

8. CONDUIT FINANCING PROGRAM

As a conduit debt provider, the Authority assisted with the issuance of financings in the amount of \$295,764,000 for the year ended June 30, 2016 and there was \$662,482,350 in conduit financings outstanding at June 30, 2016. Additionally, the amount of bonds authorized by the Authority and unsold was \$25,000,000 at June 30, 2016.

REQUIRED SUPPLEMENTARY INFORMATION

CALIFORNIA SCHOOL FINANCE AUTHORITY

SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AS OF JUNE 30, 2016 LAST 10 YEARS*

	Measurement Date	
	2015	2014
Authority's proportion of the net pension liability	0.003654%	0.003813%
Authority's proportionate share of the net pension liability	\$ 1,031,889	\$ 907,823
Authority's covered - employee payroll	\$ 545,311	\$ 507,872
Authority's proportionate Share of the net pension liability as percentage of covered-employee payroll	189.23%	178.75%
Plan fiduciary net position as a percentage of the total pension liability	73.05%	73.05%

* - Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.

Notes to Schedule:

Change of benefit terms. There were no changes to the benefit terms.

Changes in assumptions. There were no changes in assumptions.

CALIFORNIA SCHOOL FINANCE AUTHORITY

SCHEDULE OF CONTRIBUTIONS AS OF JUNE 30, 2016 LAST 10 YEARS*

	Fiscal Year	
	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 118,697	\$ 134,980
Contributions in relation to the contractually required contributions	<u>118,697</u>	<u>134,980</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>
Authority's covered-employee payroll	\$ 716,170	\$ 545,311
Contributions as a percentage of covered-employee payroll	16.57%	24.75%

* - Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.

SUPPLEMENTARY INFORMATION

CALIFORNIA SCHOOL FINANCE AUTHORITY

SCHEDULE OF BONDS AND COLLATERALIZED NOTES AUTHORIZED, ISSUED AND OUTSTANDING JUNE 30, 2016

Bonds and Notes	Date Issued	Date of Final Maturity	Amounts Issued	Amount of Bonds Retired	Bonds Outstanding as of June 30, 2016
Birmingham Community Charter High (RAN)	3-Aug-10	1-Nov-11	\$ 3,000,000	\$ 3,000,000	
High Tech High - Chula Vista (QSCB)	11-Aug-10	1-Jul-20	12,000,000		\$ 12,000,000
Aspire Public Schools (RAN)	24-Aug-10	15-Nov-11	6,850,000	6,850,000	
Vaughn Next Century Learning Center (QSCB)	14-Oct-10	1-Jul-20	8,500,000		8,500,000
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	610,000	1,405,000
New Jerusalem (QSCB)	14-Apr-11	1-Nov-25	5,100,000	1,525,000	3,575,000
High Tech High - North County (QSCB)	28-Apr-11	1-Jan-21	3,950,000	3,950,000	
Aspire Public Schools (RAN)	27-May-11	15-Nov-11	3,000,000	3,000,000	
Working Capital Program 2012A (RAN)	1-Mar-12	31-Dec-12	4,841,000	4,841,000	
Working Capital Program 2012B (RAN)	18-Apr-12	31-Dec-12	4,708,000	4,708,000	
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	
Tri-Valley Learning Corporation 2013B (QSCB)	4-Oct-12	1-Oct-35	15,000,000		15,000,000
Tri-Valley Learning Corporation 2013A (Tax Exempt Bonds)	4-Oct-12	1-Jun-47	27,500,000	140,000.00	27,360,000
New Designs 2012A (Tax Exempt Bonds)	24-Oct-12	1-Jun-32	6,130,000		6,130,000
New Designs 2012A (Tax Exempt Bonds)	24-Oct-12	1-Jun-42	10,445,000		10,445,000
New Designs 2012C (Tax Exempt Bonds)	24-Oct-12	1-Jun-17	1,255,000	920,000	335,000
New Designs 2012B (Taxable Bonds)	24-Oct-12	1-Jun-23	2,035,000		2,035,000
Working Capital Program 2012C (RAN)	25-Oct-12	15-Oct-13	800,580	800,580	
Rocketship 2013A (RAN)	29-Oct-12	31-Oct-13	3,018,939	3,018,939	
Rocketship 2013B (RAN)	29-Oct-12	31-Oct-13	3,018,939	3,018,939	
Working Capital Program 2012D (RAN)	20-Dec-12	15-Oct-13	1,856,498	1,856,498	
Coastal Academy 2013A (Tax Exempt Bonds)	7-Feb-13	1-Oct-42	13,855,000	80,000	13,775,000
Coastal Academy 2013B (Taxable Bonds)	7-Feb-13	1-Oct-16	300,000	145,000	155,000
Aspire 2013A (RAN)	5-Apr-13	1-Mar-14	1,625,000	1,625,000	
Aspire 2013B (RAN)	5-Apr-13	1-Mar-14	1,625,000	1,625,000	
Working Capital Program 2013A (RAN)	25-Apr-13	15-Oct-13	3,410,000	3,410,000	
Value Schools 2013A (Tax Exempt)	4-Aug-13	1-Jul-23	1,300,000	115,000	1,185,000
Value Schools 2013B (Tax Exempt)	4-Aug-13	1-Jul-33	2,575,000		2,575,000
Value Schools 2013C (Tax Exempt)	4-Aug-13	1-Jul-43	4,955,000		4,955,000
Value Schools 2013D (Tax Exempt)	4-Aug-13	1-Jul-48	4,040,000		4,040,000
High Tech High - North County Elementary (QSCB)	20-Aug-13	1-Jul-23	11,500,000		11,500,000
Classical Academies Series 2013A (Tax Exempt)	12-Sep-13	1-Oct-43	24,240,000		24,240,000
Classical Academies Series 2013B (Taxable Bonds)	12-Sep-13	1-Oct-18	935,000	245,000	690,000
Alliance for College-Ready Public Schools (QSCB)	19-Sep-13	15-Jun-34	10,750,000		10,750,000
Alliance 2023 Union Series A (Tax Exempt)	16-Oct-13	1-Jul-23	2,065,000	505,000	1,560,000
Alliance 2023 Union Series A (Tax Exempt)	16-Oct-13	1-Jul-33	3,215,000		3,215,000
Alliance 2023 Union Series A (Tax Exempt)	16-Oct-13	1-Jul-43	5,840,000		5,840,000
Alliance 2023 Union Series A (Tax Exempt)	16-Oct-13	1-Jul-48	4,570,000		4,570,000

CALIFORNIA SCHOOL FINANCE AUTHORITY

**SCHEDULE OF BONDS AND COLLATERALIZED NOTES AUTHORIZED,
ISSUED AND OUTSTANDING (CONTINUED)**

JUNE 30, 2016

Bonds and Notes	Date Issued	Date of Final Maturity	Amounts Issued	Amount of Bonds Retired	Bonds Outstanding as of June 30, 2016
Alliance 2023 Union Series B (Taxable Bonds)	16-Oct-13	1-Jul-14	85,000	85,000	
ICEF View Park High School Series 2013A (Tax Exempt)	24-Oct-13	1-Oct-33	2,715,000		2,715,000
ICEF View Park High School Series 2013A (Tax Exempt)	24-Oct-13	1-Oct-43	3,935,000		3,935,000
ICEF View Park High School Series 2013A (Tax Exempt)	24-Oct-13	1-Oct-48	3,230,000		3,230,000
ICEF View Park High School Series 2013B (Taxable Bonds)	24-Oct-13	1-Oct-18	345,000	150,000	195,000
Camino Nuevo Series 2013A (Tax Exempt)	20-Dec-13	1-Jan-34	7,245,000	588,024	6,656,976
Partnerships to Uplift Valley Project Series 2014A (Tax Exempt)	12-Mar-14	1-Aug-24	3,290,000		3,290,000
Partnerships to Uplift Valley Project Series 2014A (Tax Exempt)	12-Mar-14	1-Aug-34	7,640,000		7,640,000
Partnerships to Uplift Valley Project Series 2014A (Tax Exempt)	12-Mar-14	1-Aug-44	14,430,000		14,430,000
Partnerships to Uplift Valley Project Series 2014B (Taxable Bonds)	12-Mar-14	1-Aug-17	670,000		670,000
Rocketship (RAN)	11-Apr-14	31-Oct-14	2,287,500	2,287,500	
Rocketship (RAN)	11-Apr-14	31-Oct-14	2,287,500	2,287,500	
Alliance College Ready Public Schools Series 2014A (QZAB)	22-May-14	15-Mar-34	5,000,000	31,523	4,968,477
Alliance College Ready Public Schools Series 2014B (Tax Exempt)	22-May-14	15-Mar-34	3,975,000	9,554	3,965,446
KIPP Los Angeles Schools Series 2014A (Tax Exempt)	25-Jun-14	1-Jul-24	4,825,000		4,825,000
KIPP Los Angeles Schools Series 2014A (Tax Exempt)	25-Jun-14	1-Jul-34	8,905,000		8,905,000
KIPP Los Angeles Schools Series 2014A (Tax Exempt)	25-Jun-14	1-Jul-44	14,590,000		14,590,000
KIPP Los Angeles Schools Series 2014B (Taxable Bonds)	25-Jun-14	1-Jul-16	405,000		405,000
Magnolia Science Academy - Reseda 2014A (Tax Exempt)	26-Jun-14	1-Jul-24	660,000		660,000
Magnolia Science Academy - Reseda 2014A (Tax Exempt)	26-Jun-14	1-Jul-34	1,780,000		1,780,000
Magnolia Science Academy - Reseda 2014A (Tax Exempt)	26-Jun-14	1-Jul-44	3,235,000		3,235,000
Magnolia Science Academy - Reseda 2014B (Taxable Bonds)	26-Jun-14	1-Jul-19	345,000	70,000	275,000
New Designs Series 2014A (Tax Exempt)	12-Aug-14	1-Jun-34	2,205,000		2,205,000
New Designs Series 2014A (Tax Exempt)	12-Aug-14	1-Jun-44	3,890,000		3,890,000
New Designs Series 2014A (Tax Exempt)	12-Aug-14	1-Jun-24	995,000		995,000
New Designs Series 2014B (Taxable Bonds)	12-Aug-14	1-Jun-17	290,000	190,000	100,000

CALIFORNIA SCHOOL FINANCE AUTHORITY

**SCHEDULE OF BONDS AND COLLATERALIZED NOTES AUTHORIZED,
ISSUED AND OUTSTANDING (CONTINUED)**

JUNE 30, 2016

Bonds and Notes	Date Issued	Date of Final Maturity	Amounts Issued	Amount of Bonds Retired	Bonds Outstanding as of June 30, 2016
Alta Public Schools Series 2014A (Tax Exempt)	20-Aug-14	1-Nov-45	7,140,000		7,140,000
Alta Public Schools Series 2014B (Taxable Bonds)	20-Aug-14	1-Nov-21	460,000	235,000	225,000
ICEF ES/MS 2014A (Tax Exempt)	10-Oct-14	1-Oct-18	19,410,000		19,410,000
ICEF ES/MS 2014B (Taxable Bonds)	10-Oct-14	1-Oct-18	400,000		400,000
HTH Learning 2014	6-Nov-14	1-Oct-29	11,000,000	813,296	10,186,704
Alliance 2015A (Tax Exempt)	15-Apr-15	1-Jul-45	55,260,000		55,260,000
Alliance 2015B (Taxable Bonds)	15-Apr-15	1-Jul-17	330,000		330,000
Rocketship Education Series 2015 A	7-Aug-15	1-Mar-28	6,135,000	85,000	6,050,000
Rocketship Education Series 2015 B (Taxable)	7-Aug-15	1-Jun-16	250,000	250,000	
KIPP Los Angeles Series 2015A (Tax Exempt)	17-Sep-15	1-Jul-35	8,600,000		8,600,000
KIPP Los Angeles Series 2015A (Tax Exempt)	17-Sep-15	1-Jul-25	4,805,000		4,805,000
KIPP Los Angeles Series 2015A (Tax Exempt)	17-Sep-15	1-Jul-45	14,015,000		14,015,000
KIPP Los Angeles Series 2015B (Taxable)	17-Sep-15	1-Jul-17	370,000		370,000
Green Dot Series 2015 A (Tax Exempt)	29-Sep-15	1-Aug-25	1,530,000		1,530,000
Green Dot Series 2015 A (Tax Exempt)	29-Sep-15	1-Aug-35	9,570,000		9,570,000
Green Dot Series 2015 A (Tax Exempt)	29-Sep-15	1-Aug-45	15,610,000		15,610,000
Green Dot 2015 B (Taxable Bonds)	29-Sep-15	1-Aug-23	4,395,000		4,395,000
High Tech High Series 2015	27-Oct-15	1-Oct-30	11,650,000	294,253	11,355,747
River Springs (Tax Exempt)	24-Nov-15	1-Jul-46	28,110,000		28,110,000
River Springs (Taxable)	24-Nov-15	1-Jul-46	240,000		240,000
Aspire Series 2015	17-Dec-15	1-Aug-45	20,535,000		20,535,000
Rocketship Series 2016A	5-Feb-16	1-Jun-46	28,080,000		28,080,000
Rocketship Series 2016B	5-Feb-16	1-Jun-18	525,000		525,000
Aspire Series 2016	25-Feb-16	1-Aug-46	83,170,000		83,170,000
HTH Learning Project Series 2016	16-Mar-16	1-Jan-31	3,269,000		3,269,000
Downtown College Prep Series 2016	28-Apr-16	1-Jun-51	36,405,000		36,405,000
Ocean Charter School Note - Series 2016	16-Jun-16	1-Jan-19	18,500,000		18,500,000
TOTAL			<u>\$ 725,017,956</u>	<u>\$ 62,535,606</u>	<u>\$ 662,482,350</u>

CALIFORNIA SCHOOL FINANCE AUTHORITY

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016**

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass- Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Education:				
Charter School Facilities Incentive Grants Program	84.282D	N/A	\$ 8,982,864	\$ 8,982,864
Charter School Credit Enhancement Program	84.354A	N/A	<u>133,579</u>	<u>133,579</u>
Total U.S. Department of Education and Expenditures of Federal Awards			<u>\$ 9,116,443</u>	<u>\$ 9,116,443</u>

CALIFORNIA SCHOOL FINANCE AUTHORITY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2016

1. REPORTING ENTITY

The accompanying Schedule of Expenditures of Federal Awards (SEFA) presents the activity of all of the federal grant programs of the California School Finance Authority (the Authority). The Authority's reporting entity is defined in Note 1 of the Authority's financial statements. Expenditures of federal awards are amounts received directly from federal agencies.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting – Funds received under the various grant programs have been recorded within the funds of the Authority. The accompanying SEFA is presented using the modified accrual basis of accounting for expenditures.

Relationship to Financial Statements – Federal award expenditures reported in the accompanying SEFA agree, or can be reconciled, in all material respects, to amounts reported in the Authority's financial statements.

Catalog of Federal Domestic Assistance (CFDA) – The CFDA numbers included in the accompanying SEFA were determined based on the program name, review of grant or contract information, and the Office of Management and Budget's Catalog of Federal Domestic Assistance.

3. LOANS OUTSTANDING

The Authority also issued loans for credit enhancement for bond issuances under the Charter School Enhancement Program, CFDA #84.354. During the fiscal year ended June 30, 2016, \$133,579 in loans were issued. As of June 30, 2016, \$8,317,745 in loans are outstanding. These loans are due back to the Authority upon bond maturity, bond refinancing, or charter school closure.

4. INDIRECT COST RATE

The Authority did not elect to use the 10% de minimis indirect cost rate for federal programs.

OTHER INDEPENDENT AUDITOR'S REPORTS

**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

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

We were engaged to audit, 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 accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the California School Finance Authority (the Authority), a related organization of the State of California, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated March 30, 2017. Our report modifies our opinions on the Governmental Activities and the Charter School Revolving Loan Fund as we were not able to perform audit procedures over the Loans Receivable and Unavailable Revenue for loans issued prior to July 1, 2013 (\$8,250,594) of the Charter School Revolving Loan Fund.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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, as described in the accompanying schedule of audit findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiency 2016-001 described in the accompanying schedule of audit findings and questioned costs to be a material weakness.

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.

Compliance and Other Matters

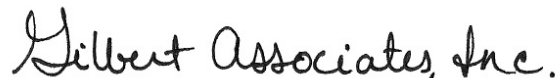
As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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*.

The Authority's Response to Findings

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of audit findings and questioned costs. The Authority's response were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



GILBERT ASSOCIATES, INC.
Sacramento, California

March 30, 2017

**REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

We have audited California School Finance Authority's (the Authority's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2016. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

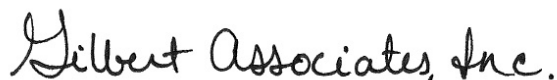
Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses, or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



GILBERT ASSOCIATES, INC.
Sacramento, California

March 30, 2017

FINDINGS AND RECOMMENDATIONS SECTION

CALIFORNIA SCHOOL FINANCE AUTHORITY

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2016

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified and Qualified

Internal control over financial reporting:
Material weakness(es) identified? Yes No
Significant deficiency(ies) identified? Yes None Reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:
Material weakness(es) identified? Yes No
Significant deficiency(ies) identified? Yes None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)? Yes No

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Programs or Cluster</u>
84.282D	Charter School Facilities Incentive Grants Program

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes No

CALIFORNIA SCHOOL FINANCE AUTHORITY
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

SECTION II –FINANCIAL STATEMENT FINDINGS

2016-001 - Financial Closing Process

Condition:

Accurate financial reporting is an important element of an entity's performance evaluation and strategic decision making process. The year-end close and reconciliation of the Authority's financial data represents a significant internal control process of its financial reporting and should not rely on the additional level of control supplied by an external financial audit. We identified adjustments necessary to properly present the Authority's financial statements and notes to the financial statements in accordance with generally accepted accounting principles (GAAP) as of June 30, 2016.

Criteria:

Conversion entries should be prepared by management to convert the governmental fund statements from modified accrual to full accrual and management should ensure that the financial statements are presented in accordance with generally accepted accounting principles.

Cause:

The Authority's closing process did not completely identify all necessary adjustments necessary to present statements in accordance with GAAP. Management was cooperative and worked diligently toward improving the reconciliation process.

Effect:

Accurate financial reporting enables management to have a sound financial basis for decision making. Conversely, the absence of accurate financial data may undermine the plans and initiatives of management. The lack of a complete close and reconciliation process of the Authority represents a significant internal control which should not require or rely on the additional level of control supplied by an audit.

Recommendation:

We recommend the Authority document in detail the year-end closing process and outline procedures, responsible parties, and timelines to improve the efficiency and accuracy of the process. We recommend that the Authority focus on conversion entries required to convert governmental funds from modified accrual to full accrual that required significant adjustments as a result of our audit:

Views of Responsible Officials and Planned Corrective Actions:

Management is working with our contracted accountants to ensure that sufficient GAAP expertise is acquired by appropriate agents to accurately convert entries to comply with GAAP, as required by audit standards.

CALIFORNIA SCHOOL FINANCE AUTHORITY

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2016

SECTION IV – STATUS OF PRIOR YEAR AUDIT FINDINGS

FINANCIAL STATEMENT FINDINGS

Recommendation	Current Status	Authority Explanation If Not Implemented
<p>2015-001 FINANCIAL CLOSING PROCESS</p> <p>We recommended the Authority document in detail the year-end closing process and outline procedures, responsible parties, and timelines to improve the efficiency and accuracy of the process.</p>	<p>Partially Implemented. See finding 2016-001.</p>	<p>See Authority's corrective action plan for finding 2016-001.</p>
<p>2015-002 SCOPE LIMITATION: LOAN RECEIVABLES, UNAVAILABLE REVENUE, AND TRANSFER OF THE CHARTER SCHOOL REVOLVING LOAN PROGRAM FROM THE CALIFORNIA DEPARTMENT OF EDUCATION</p> <p>We recommended the Authority confirm all outstanding loans with recipients and determine collectability.</p>	<p>Implemented. The Authority implemented the recommendation to confirm all outstanding loans' collectability. The Authority contacted schools with defaulted loans underwritten by the California Department of Education (CDE). Forty-five (45) schools were contacted multiple times through various methods, including written and electronic correspondence, regarding remaining balances on the loans and requesting payment. None of the schools remitted payment, and were determined to be non-responsive and the loans uncollectible. By June 30, 2016, the Authority submitted "Applications for Discharge from Accountability" (Standard Form 27) to the State Controller's Office (SCO) for all 45 schools.</p>	<p>N/A</p>

CALIFORNIA SCHOOL FINANCE AUTHORITY

**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

FEDERAL COMPLIANCE FINDINGS

Recommendation	Current Status	Authority Explanation If Not Implemented
None	N/A	N/A