

**CALIFORNIA SCHOOL
FINANCE AUTHORITY FUND**

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

**YEAR ENDED
JUNE 30, 2011**

CALIFORNIA SCHOOL FINANCE AUTHORITY FUND

JUNE 30, 2011

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INDEPENDENT AUDITOR'S REPORT

California School Finance Authority Members Los Angeles, California

We have audited the accompanying financial statements of the California School Finance Authority Fund (the Fund), a fund of the State of California administered by California School Finance Authority (the Authority), as of and for the fiscal year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements present only the Fund and do not purport to, and do not, present fairly the financial position of the Authority nor the State of California, as of June 30, 2011, and the changes in its financial position or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2011, and the changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2011, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Fund's basic financial statements. The additional information, as described in the table of contents, is presented for the purpose of additional analysis and is not a required part of the financial statements. The additional information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

December 15, 2011

CALIFORNIA SCHOOL FINANCE AUTHORITY FUND

BALANCE SHEET JUNE 30, 2011

ASSETS

Cash and Cash Equivalents	\$ 154,777
Accounts Receivable	2,400
Due from Other External Funds	<u>154</u>
Total Current Assets	<u>157,331</u>

TOTAL ASSETS

\$ 157,331

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Due to Other External Funds	\$ 9,518
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NET ASSETS:

Restricted for Educational Purposes	<u>147,813</u>
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TOTAL LIABILITIES AND NET ASSETS

\$ 157,331

CALIFORNIA SCHOOL FINANCE AUTHORITY FUND

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2011

OPERATING REVENUE:

Fee Revenue \$ 177,611

OPERATING EXPENSES:

Debt Issuance Costs 91,263

Consulting 5,265

Annual Fees to Department of Finance 2,036

Miscellaneous 1,024

Total Operating Expenses 99,588

OPERATING INCOME

78,023

NON OPERATING REVENUE:

Interest Income 592

CHANGE IN NET ASSETS

78,615

NET ASSETS, Beginning of year

69,198

NET ASSETS, End of year

\$ 147,813

CALIFORNIA SCHOOL FINANCE AUTHORITY FUND

STATEMENT OF CASH FLOWS YEAR ENDED JUNE 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:

Receipts from Fees	\$ 175,211
Payments to Suppliers of Goods and Services	<u>(90,070)</u>
Net cash provided by operating activities	85,141

CASH FLOWS PROVIDED BY INVESTING ACTIVITIES:

Interest Received	<u>529</u>
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NET INCREASE IN CASH AND CASH EQUIVALENTS 85,670

CASH AND CASH EQUIVALENTS BALANCE, Beginning 69,107

CASH AND CASH EQUIVALENTS BALANCE, Ending \$ 154,777

RECONCILIATION OF OPERATING INCOME TO NET

CASH PROVIDED BY OPERATING ACTIVITIES:

Operating Income	\$ 78,023
Changes in:	
Accounts Receivable	(2,400)
Due to Other External Funds	<u>9,518</u>
Net cash provided by operating activities	<u><u>\$ 85,141</u></u>

CALIFORNIA SCHOOL FINANCE AUTHORITY FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

1. SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

A. GENERAL

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

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

B. THE REPORTING ENTITY

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

C. BASIS OF PRESENTATION

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

CALIFORNIA SCHOOL FINANCE AUTHORITY FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

D. REVENUES

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

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

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

E. RISK MANAGEMENT

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

F. NET ASSETS

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

2. CASH AND CASH EQUIVALENTS IN STATE TREASURY

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

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

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

CALIFORNIA SCHOOL FINANCE AUTHORITY FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

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

3. DUE TO/FROM OTHER EXTERNAL FUNDS

The amount due from other external funds of \$154 represents unpaid interest earned by the Fund from SMIF. The amount due to other external funds of \$9,518 represents expenses paid by other funds within the State of California on behalf of the Fund.

4. CONDUIT DEBT

As a conduit debt provider, the Authority assisted through the Fund with the issuance of financings in the amount of \$49,415,000 for the year ended June 30, 2011 and there was \$47,395,000 in conduit financings outstanding at June 30, 2011. Additionally, the amount of bonds authorized by the Authority and unsold was \$88,100,000 at June 30, 2011.

ADDITIONAL INFORMATION

CALIFORNIA SCHOOL FINANCE AUTHORITY FUND

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

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



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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

We have audited the basic financial statements of the California School Finance Authority Fund (the Fund), a fund of the State of California administered by California School Finance Authority (the Authority), as of and for the year ended June 30, 2011 and have issued our report thereon dated December 15, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller's General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

This report is intended solely for the information and use of the Authority's management and its Members, and the Office of Controller, State of California, and is not intended to be and should not be used by anyone other than these specified parties.



GILBERT ASSOCIATES, INC.
Sacramento, California

December 15, 2011