# Golden State Finance Authority (GSFA) Executive Committee Meeting



Wednesday, May 10, 2017 9:00 A.M.

> 1215 K Street, Suite 1650 Sacramento CA 95814 916-447-4806

## Golden State Finance Authority (GSFA) Executive Committee Meeting 1215 K Street, Suite 1650 Sacramento, CA 95814

May 10, 2017 – 9:00 a.m.

Executive Committee Members:

Supervisor Kevin Cann, Mariposa County Supervisor Randy Hanvelt, Tuolumne County Supervisor Bob Williams, Tehama County Supervisor Rex Bohn, Humboldt County Supervisor John Viegas, Glenn County

Supervisor Les Baugh, Shasta County Supervisor Doug Teeter, Butte County Supervisor Diane Dillon, Napa County Supervisor Matt Kingsley, Inyo County Supervisor David Rogers, Madera County

#### <u>Agenda</u>

9:00 a.m. Special Order of Business Simultaneous Meeting GSFA Executive Committee NHF Board of Directors RCRC Executive Committee

#### **ACTION ITEMS**

1. NHF 2016 Annual Audit Exit Conference and Financial Statements

- 2. GSFA 2016 Annual Audit Exit Conference and Financial Statements
- 3. RCRC 2016 Annual Audit Exit Conference and Financial Statements
- I. Call to Order and Determination of Quorum Chair, Supervisor Kevin Cann, Mariposa County
- II. Approval of Minutes of the February 15, 2017 Meeting (Board Members absent from the meeting will be recorded as abstained unless the Board Member indicates otherwise)

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#### III. Public Comment

At this time any member of the public may address the Board. Speakers are asked to state their name for the record. Comments are usually limited to no more than 3 minutes per speaker.

- IV. GSFA Quarterly Reports (Discussion and possible action relative to) Greg Norton, Executive Director Lisa McCargar, Chief Financial Officer
  - a. GSFA Quarterly Budget Report (March 31, 2017)

b. GSFA Quarterly Investment Report (March 31, 2017)

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c. Cash and Securities Asset Report (March 31, 2017)

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#### V. Business and Administrative Matters (Discussion and possible action relative to) Greg Norton

Craig Ferguson, Vice President / Deputy Director

a. GSFA 2017 Local Area Investment Fund (LAIF) Authorization - ACTION Page 45

- b. Other Business and Administrative Matters
- VI. **Program Updates** (Discussion and possible action relative to) Greg Norton Craig Ferguson

#### VII. Adjournment

Meeting facilities are accessible to persons with disabilities. By request, alternative agenda document formats are available to persons with disabilities. To arrange an alternative agenda document format or to arrange aid or services to modify or accommodate persons with a disability to participate in a public meeting, contact Sarah Bolnik by calling (916) 447-4806 at least 48 hours before the meeting.

Agenda items will be taken as close as possible to the schedule indicated. Any member of the general public may comment on agenda items at the time of discussion. In order to facilitate public comment, please let staff know if you would like to speak on a specific agenda item. The agenda for this meeting of the Executive Committee of the Golden State Finance Authority was duly posted at its offices, 1215 K Street, Suite 1650, Sacramento, California, 72 hours prior to the meeting.



Golden State Finance Authority (GSFA) 1215 K Street, Suite 1650 Sacramento, California 95814 Phone: (855) 740-8422 Fax: (916) 444-3219 <u>www.gsfahome.org</u>

Re:	GSFA 2016 Annual Audit Exit Conference and Financial Statements – ACTION, Special Order of Business
Date:	Greg Norton, Executive Director May 3, 2017
From:	Lisa McCargar, Chief Financial Officer
To:	GSFA Executive Committee

#### <u>Summary</u>

Attached are the Golden State Finance Authority (GSFA) financial statements as of and for the year ended December 31, 2016, audited by Moss Adams LLP. The financial statements contain an unmodified ("clean") audit opinion. The auditors also issued a communication letter to Those Charged With Governance as required by U.S. audit standards. In summary, the communication states that there were no significant matters identified in the course of the audit and no audit adjustments were proposed or made to the original trial balance prepared by management.

The financial statements and communication letter to Those Charged With Governance provide information useful to Executive Committee members in exercising their fiduciary responsibility as the Audit Committee. Moss Adams will be present to address the audit and audit approach as well as answer any questions.

#### **Recommendation**

It is recommended that the GSFA Executive Committee, acting in their capacity as the Audit Committee, review and approve the 2016 audited financial statements and communication letter as presented, for presentation and adoption by the GSFA Board of Directors.

#### <u>Attachments</u>

- GSFA 2016 Audited Financial Statements
- Communications to Those Charged with Governance

Report of Independent Auditors and Financial Statements

## Golden State Finance Authority

December 31, 2016

# MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

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AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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## MOSS-ADAMS LLP

#### **REPORT OF INDEPENDENT AUDITORS**

The Board of Directors Golden State Finance Authority

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of Golden State Finance Authority (GSFA) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise GSFA'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 GSFA's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



#### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of GSFA as of December 31, 2016, and the respective changes in financial position and its cash flows 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 on pages 3 through 7 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2017 on our consideration of GSFA's internal control over financial reporting and on 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 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 GSFA's internal control over financial reporting and compliance.

Mode Adams LLP

Sacramento, California April 20, 2017

This section presents management's discussion and analysis of Golden State Finance Authority (GSFA) financial performance for the year ended December 31, 2016. Please read it in conjunction with the financial statements and notes thereto, which follow this section.

#### **FINANCIAL HIGHLIGHTS**

The assets of GSFA exceeded liabilities at December 31, 2016, by \$82.8 million (net position), all of which is available to meet ongoing obligations. GSFA's total net position increased by approximately \$8.5 million (up 11.5%) from December 31, 2015 to December 31, 2016 resulting from successful housing and energy and water conservation programs. As of December 31, 2016, in addition to cash resources available, assets include approximately \$5 million in second mortgage loans receivable, net of an allowance for loan losses. GSFA's reported assets include approximately \$10.9 million in energy grant loans receivable and \$12.3 million of offsetting liabilities, along with roughly \$2.5 million in cash deposits that are held on behalf of the California Energy Commission (CEC).

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

GSFA's basic financial statements include the (1) statement of net position, (2) statement of revenues, expenses, and changes in net position, (3) statement of cash flows, and (4) notes to basic financial statements, which explain in more detail some of the information in the financial statements.

GSFA's financial statements report information about GSFA using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities. The statement of net position includes all of GSFA's operating assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to GSFA creditors (liabilities). The assets and liabilities are presented in a classified format, which distinguishes between current and long-term assets and liabilities.

All of the revenues and expenses for 2016 are accounted for in the statement of revenues, expenses, and changes in net position. This statement measures the success of GSFA's operations over the year and can be used to determine whether GSFA has successfully recovered all of its costs through the services it provides.

The statement of cash flows provides information about GSFA's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, non-capital financing, and financing activities.

The notes to the financial statements provide additional information that is essential to a full understanding of GSFA's financial statements.

#### FINANCIAL ANALYSIS

Condensed Statement of Net Position December 31, 2016 and 2015

					Increase (De	crease)
	_	2016		2015	 \$	<u>%</u>
Assets			2			
Current assets Non-current assets	\$	390,491,367 18,156,202	\$	790,689,160 20,850,331	\$ (400,197,793) (2,694,129)	(50.6)% (12.9)%
Total assets	* -	408,647,569		811,539,491	 (402,891,922)	(49.6)%
Liabilities Current liabilities	낖	325,825,534		737,255,066	 (411,429,532)	(55.8)%
<b>Net position</b> Net position, unrestricted	* \$_	82,822,035	_ \$_	74,284,425	\$ 8,537,610	11.5%

The statement of net position reflects a snapshot of GSFA's financial position at a given moment in time. Changes in net position over time are an indicator of whether the financial condition of GSFA is improving or declining. As of December 31, 2016, GSFA's net position was \$82,822,035, an increase of \$8,537,610 (up 11.5%) from December 31 2015. The decrease in current assets of \$400,197,793 (down 50.6%) and the decrease in current liabilities of \$411,429,532 (down 55.8%) resulted primarily from decreased receivables and payables associated with estimated proceeds and obligations of mortgage-backed securities to be settled at a future date and were a result of timing differences associated within the housing program The decrease in noncurrent assets is primarily due to energy loan and second mortgage principal repayments.

#### FINANCIAL ANALYSIS (CONTINUED)

### Condensed Statement of Revenues, Expenses, and Changes in Net Position Years Ended December 31, 2016 and 2015

12					Increase (I	Decrease)
		2016		2015	\$	%
Operating revenues		L.	-			
Housing program and other					2 13	
revenue	\$	63,531,228	\$	38,523,970	\$ 25,007,258	64.9%
Energy program revenue		2 <b>,917,</b> 980		222,006	2,695,9 <b>7</b> 4	1,214.4%
Administrative service fee revenue		2,152,764		2,186,151	(33,387)	(1.5)%
Grant fees		316,550		375,452	(58, <del>9</del> 02)	(15.7)%
Total operating revenues		68,918,522	- ·	41,307,579	 27,610,943	66.8%
Operating expenses	2)					
Housing program expenses		54,922,297		31,140,609	23,781,688	76.4%
Other administrative expenses		5, <b>386,</b> 656		4,035,724	1,350,932	33.5%
Grant costs	-	301,150		345,952	(44,802)	(13.0)%
Total operating expenses	-	60,610,103		35,522,285	25,087 <b>,8</b> 18	70.6%
Operating income		8, <b>308</b> ,419		5,785,294	2,523,125	43.6%
Non-operating revenues (expenses)					7)	5
Interest income		222,454		136,439	86,015	63.0%
Gain (loss) on investments	4	6,737		(31,145)	 37,882	121.6%
Total non-operating revenues	_	229,191		105,294	 123,897	117.7%
Change in net position		8,537,610		5,890,588	2,647,022	44.9%
Net position, beginning of year	_	74,284,425		68,393,837	 5,890,588	8.6%
Net position, end of year	\$	82,822,035	\$	<b>74,</b> 284,425	\$ 8,537 <b>,61</b> 0	11.5%

The statement of revenues, expenses, and changes in net position reflects activity that has occurred during the fiscal period of time covered by this report. For the year ended December 31, 2016, GSFA's operating revenues increased by \$27,610,943 (up 66.8%) from the year ended December 31, 2015, primarily due to increased revenues resulting from higher demand of the down payment assistance gift program and a \$2.7 million (up 1,214.4%) increase in energy and water conservation program revenue generated by growing demand for the energy efficiency and water conservation finance program. GSFA also experienced an increase in operating expenses of \$25,087,818 (up 70.6%) for the same period, which corresponds directly with gift housing program activity. Included in housing program expense is a \$1,000,000 contribution to two member counties for disaster wildfire relief to qualified residents.

#### **BUDGETARY COMPARISON**

Comparison of Budget and Actual Revenues, Expenses, and Changes in Net Position Year Ended December 31, 2016

				а. С			tual ler) Budget
		Budget		Actual	-	\$	%
Operating revenues	-		• -				
Housing program and other							
revenue	\$	29,621,000	\$	63,531,228	\$	33,910,228	114.5%
Energy program revenue		745,000		2,917,980		2,172,980	291.7%
Administrative service fee revenue		2,000,000		2,152,764	a	152,764	7.6%
Grant fees		345,000		316,550		(28,450)	(8.2)%
Total operating revenues	-	32,711,000		68,918,522		36,207,522	110.7%
	-					8	
Operating expenses							
Housing program expenses		27,181,000		54,922,297		27,741,297	102.1%
Other administrative expenses		5,329,450		5,386,656		57,206	1.1%
Grant costs		345,000		301,150		(43,850)	(12.7)%
Total operating expenses	-	32,855,450		60,610,103		27,754,653	84.5%
3		-					
Operating (loss) income		(144,450)		8,308,419		8,452,869	5,851.8%
	-				(#)		N <sub>2</sub> 2
Non-operating revenues		145,000	3	229,191		84,191	58.1%
Change in net position	\$	550	\$	8,537,610	\$	8,537,060	1,552,193%

Operating revenues exceeded budget by \$36,207,522 and GSFA's change in net position of \$8,537,610 exceeded budget by \$8,537,060, an increase of 1,552,193%, due to increased housing and energy program activity. Specifically, GSFA's down payment assistance program experienced success as more professionals and homebuyers learn about the product. Demand for the expanded energy efficiency and water conservation program also increased throughout many counties in California, resulting in nearly \$3 million of revenue. GSFA's operating expenses exceeded budget by \$27,754,653, an increase of 84.5%, due to costs associated with increased housing program activity. GSFA housing expenses also include a \$1,000,000 Disaster Relief grant to counties GSFA serves. GSFA offered a Residence Emergency Disaster Assistance Program for the purpose of assisting residents of two GSFA member counties that were displaced by State or Federally declared fire disasters.

#### **FUTURE ECONOMIC OUTLOOK**

GSFA's 2017 budget provides for continued growth of the down payment assistance gift program. An increase of \$15 million (60%) is budgeted for the housing gift program. Demand for GSFA's housing program remains strong and the program continues to expand as more professionals and homebuyers learn about the products. Further, GSFA expects growth of its energy efficiency and water conservation program which was implemented in the latter part of 2015. The energy program serves residential customers and is growing in its service to commercial customers.

The second mortgage down payment assistance programs, which were discontinued in late 2013, have a balance of \$5.3 million of amortizing second mortgages at December 31, 2016. This balance is expected to decline in 2017 and beyond. GSFA's down payment assistance gift program, implemented in late 2010, contributed to the \$27,703,232 of growth in 2016 and is budgeted to grow approximately 40.8% in 2017. To remain competitive and continue to provide effective programs, it will be necessary for the organization to continue to be innovative in the development of such programs.

GSFA revenues exceeded the projected levels for 2016. As of December 31, 2016, GSFA had approximately \$82.8 million in net position available including \$92.2 million in cash and cash equivalents, inclusive of \$2.8 million held on behalf of the California Energy Commission and Pacific Gas & Electric (PG&E). We anticipate that continued investment in existing and new housing, energy and other water conservation and capital finance programs will lead to strong operating revenues in 2017, with revenues from housing and energy programs budgeted to increase by approximately \$22 million.

#### **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of GSFA's finances for all those with an interest in GSFA's finances. Questions concerning any of the information provided in this report or request for additional information should be addressed to the Chief Financial Officer, 1215 K Street, Suite 1650, Sacramento, CA 95814.

## **GOLDEN STATE FINANCE AUTHORITY** STATEMENT OF NET POSITION DECEMBER 31, 2016

#### ASSETS

Current assets		18
Cash and cash equivalents	\$	91,880,890
Accounts receivable, proceeds from sale of securities		298,044,225
Accounts receivable		521,519
Interest receivable		17,245
Prepaid expenses	_	27,488
Total current assets		390,491,367
Noncurrent assets	٠.,	
Energy grant loans receivable		10,887,035
Restricted cash (Note 2)		274,297
Notes receivable		2,000,000
Second mortgage loans receivable, net of allowance for loan losses of \$300,000	_	4,994,870
Total assets	\$ _	408,647,569
LIABILITIES AND NET POSITION		
Current liabilities		
Accounts payable	\$	11,228,529
Accounts payable, securities to be purchased, at fair value		296,946,260
Accounts payable to California Energy Commission		12,271,830
Accounts payable to affiliated entities		3,399,874
Unearned revenue	_	1,979,041
Total liabilities	-	325,825,534
Net position, unrestricted	_	82,822,035
Total liabilities and net position	\$_	408,647,569
- 		

The accompanying notes are an integral part of these financial statements

## **GOLDEN STATE FINANCE AUTHORITY STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2016**

Housing program revenue\$62,746,896Energy program revenue2,152,764Issuer fees215,2764Issuer fees219,7980Mortgage interest521,872Grant fees316,550Miscellaneous income42,902Total operating expenses68,918,522Operating expenses111,325Community relations1,000,297Consultants2,002,310Contract support services2,023,100Grant costs301,150Insurance38,907Legal fees154,476Provision for loan losses51,699Gift program54,922,997Total operating expenses66,610,103Operating expenses66,610,103Operating expenses2,023,100Grant costs31,984Contract support services2,023,100Grant costs31,910Insurance38,907Legal fees154,476Provision for loan losses51,699Gift program54,922,997Total operating expenses60,610,103Operating income8,308,419Non-operating expenses60,610,103Operating income8,308,419Non-operating revenues222,454Gain on investments6,737Total non-operating revenues229,191Change in net position8,537,610Net position, beginning of year\$ ,822,035The accompanying notes are an integral part of these financial statements52,20,35	Operating revenues		
Energy program revenue2,917,980Administrative service fee revenue2,152,764Issuer fees2,152,764Issuer fees521,872Grant fees316,550Miscellaneous income42,902Total operating revenues68,918,522Operating expenses27,092Accounting and auditing27,092Business development and expansion111,325Community relations2,402,733Contract performance fee1,539,464Contract support services2,023,100Grant costs301,150Insurance38,907Legal fees154,176Provision for loan losses51,699Ofift program54,922,297Promotion and marketing31,984Rent68,641Travel19,733Miscellaneous79,965Total operating expenses60,610,103Operating income8,308,419Non-operating revenues222,454Gain on investments6,737Total non-operating revenues229,191Change in net position8,537,610Net position, beginning of year74,284,425Net position, end of year74,284,425	Housing program revenue	\$	62,746 <b>,896</b>
Issuer fees219,558Mortgage interest521,872Grant fees316,550Miscellaneous income42,902Total operating revenues68,918,522Operating expenses27,092Accounting and auditing27,092Business development and expansion111,325Community relations1,000,297Consultants240,273Contract performance fee1,539,464Contract support services2,023,100Grant costs36,907Legal fees154,176Provision for loan losses51,699Gift program54,922,297Promotion and marketing31,984Rent668,611,03Total operating expenses60,610,103Operating income8,308,419Non-operating revenues222,454Gain on investments6,737Total non-operating revenues229,191Change in net position8,537,610Net position, beginning of year74,284,425Net position, end of year\$ 82,822,035			
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Grant fees316,550Miscellaneous income42,902Total operating revenues68,918,522Operating expenses70,992Accounting and auditing27,092Business development and expansion111,325Community relations1,000,297Consultants240,273Contract performance fee1,539,464Contract support services2,023,100Grant costs301,150Insurance38,907Legal fees154,176Provision for loan losses51,699Gift program54,922,297Promotion and marketing31,984Rent66,641Travel19,733Miscellaneous79,965Total operating expenses60,610,103Operating income8,308,419Non-operating revenues222,454Gain on investments6,737Total non-operating revenues229,191Change in net position8,537,610Net position, beginning of year74,284,425Net position, end of year\$82,822,035\$	Issuer fees		219,558
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Accounting and auditing27,092Business development and expansion111,325Community relations1,000,297Consultants240,273Contract performance fee1,533,464Contract support services2,023,100Grant costs301,150Insurance38,907Legal fees154,176Provision for loan losses51,699Cift program54,922,297Promotion and marketing31,984Rent68,641Travel119,733Miscellaneous79,965Total operating expenses60,610,103Operating income8,308,419Non-operating revenues67,377Total non-operating revenues222,454Gain on investments6,737Total non-operating revenues229,191Change in net position8,537,610Net position, beginning of year74,284,425Net position, end of year\$ 82,822,035	Operating expenses		
Business development and expansion111,325Community relations1,000,297Consultants240,273Contract performance fee1,539,464Contract support services2,023,100Grant costs301,150Insurance38,907Legal fees154,176Provision for loan losses51,699Gift program54,922,297Promotion and marketing31,984Rent68,641Travel19,733Miscellaneous79,965Total operating expenses60,610,103Operating income8,308,419Non-operating revenues6,737Total non-operating revenues222,191Change in net position8,537,610Net position, end of year74,284,425Net position, end of year\$ 82,822,035			27.092
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Contract performance fee1,539,464Contract support services2,023,100Grant costs301,150Insurance38,907Legal fees154,176Provision for loan losses51,699Gift program54,922,297Promotion and marketing31,984Rent68,641Travel19,733Miscellaneous79,965Total operating expenses60,610,103Operating income8,308,419Non-operating revenues222,454Interest income222,454Gain on investments6,737Total non-operating revenues229,191Change in net position8,537,610Net position, beginning of year74,284,425Net position, end of year\$ 82,822,035	-		
Grant costs301,150Insurance38,907Legal fees154,176Provision for loan losses51,699Gift program54,922,297Promotion and marketing31,984Rent68,641Travel19,733Miscellaneous79,965Total operating expenses60,610,103Operating income8,308,419Non-operating revenues222,454Interest income222,454Gain on investments6,737Total non-operating revenues229,191Change in net position8,537,610Net position, beginning of year74,284,425Net position, end of year\$ 82,822,035	Contract performance fee		
Insurance38,907Legal fees154,176Provision for loan losses51,699Gift program54,922,297Promotion and marketing31,984Rent68,641Travel19,733Miscellaneous79,965Total operating expenses60,610,103Operating income8,308,419Non-operating revenues222,454Gain on investments6,737Total non-operating revenues229,191Change in net position8,537,610Net position, beginning of year74,284,425Net position, end of year\$ 82,822,035	Contract support services		2,023,100
Legal fees154,176Provision for loan losses51,699Gift program54,922,297Promotion and marketing31,984Rent68,641Travel19,733Miscellaneous79,965Total operating expenses60,610,103Operating income8,308,419Non-operating revenues222,454Gain on investments6,737Total non-operating revenues229,191Change in net position8,537,610Net position, beginning of year74,284,425Net position, end of year\$ 82,822,035	Grant costs		301, <b>150</b>
Provision for loan losses51,699Gift program54,922,297Promotion and marketing31,984Rent68,641Travel19,733Miscellaneous79,965Total operating expenses60,610,103Operating income8,308,419Non-operating revenues222,454Gain on investments6737Total non-operating revenues229,191Change in net position8,537,610Net position, beginning of year74,284,425Net position, end of year\$ 82,822,035	Insurance		38 <b>,907</b>
Gift program54,922,297Promotion and marketing31,984Rent68,641Travel19,733Miscellaneous79,965Total operating expenses60,610,103Operating income8,308,419Non-operating revenues222,454Interest income222,454Gain on investments6,737Total non-operating revenues229,191Change in net position8,537,610Net position, beginning of year74,284,425Net position, end of year\$ 82,822,035	Legal fees		154,176
Promotion and marketing31,984Rent68,641Travel19,733Miscellaneous79,965Total operating expenses60,610,103Operating income8,308,419Non-operating revenues222,454Interest income222,454Gain on investments6,737Total non-operating revenues229,191Change in net position8,537,610Net position, beginning of year74,284,425Net position, end of year\$ 82,822,035	Provision for loan losses		51 <b>,699</b>
Rent68,641Travel19,733Miscellaneous79,965Total operating expenses60,610,103Operating income8,308,419Non-operating revenues8,308,419Interest income222,454Gain on investments6,737Total non-operating revenues229,191Change in net position8,537,610Net position, beginning of year74,284,425Net position, end of year\$ 82,822,035	Gift program		54,922, <b>297</b>
Travel19,733Miscellaneous79,965Total operating expenses60,610,103Operating income8,308,419Non-operating revenues Interest income Gain on investments222,454Gain on investments6,737Total non-operating revenues229,191Change in net position8,537,610Net position, beginning of year74,284,425Net position, end of year\$ 82,822,035	Promotion and marketing		31,984
Miscellaneous79,965Total operating expenses60,610,103Operating income8,308,419Non-operating revenues Interest income Gain on investments222,454Gain on investments6,737Total non-operating revenues Change in net position229,191Change in net position8,537,610Net position, beginning of year74,284,425Net position, end of year\$ 82,822,035	Rent		68,641
Total operating expenses60,610,103Operating income8,308,419Non-operating revenues Interest income Gain on investments222,454Gain on investments6,737Total non-operating revenues229,191Change in net position8,537,610Net position, beginning of year74,284,425Net position, end of year\$ 82,822,035			
Operating income8,308,419Non-operating revenues Interest income Gain on investments222,454Gain on investments6,737Total non-operating revenues229,191Change in net position8,537,610Net position, beginning of year74,284,425Net position, end of year\$ 82,822,035	Miscellaneous	-	79,965
Non-operating revenues Interest income222,454 6,737Gain on investments6,737Total non-operating revenues229,191Change in net position8,537,610Net position, beginning of year74,284,425Net position, end of year\$ 82,822,035	Total operating expenses	-	60,610,103
Interest income222,454Gain on investments6,737Total non-operating revenues229,191Change in net position8,537,610Net position, beginning of year74,284,425Net position, end of year\$ 82,822,035	Operating income		8,308,419
Interest income222,454Gain on investments6,737Total non-operating revenues229,191Change in net position8,537,610Net position, beginning of year74,284,425Net position, end of year\$ 82,822,035	Non-operating revenues		
Gain on investments6,737Total non-operating revenues229,191Change in net position8,537,610Net position, beginning of year74,284,425Net position, end of year\$ 82,822,035			222,454
Change in net position8,537,610Net position, beginning of year74,284,425Net position, end of year\$ 82,822,035	Gain on investments		
Net position, beginning of year74,284,425Net position, end of year\$ 82,822,035	Total non-operating revenues	_	229,191
Net position, end of year \$ 82,822,035	Change in net position		8,537,610
	Net position, beginning of year	-	74,284,425
The accompanying notes are an integral part of these financial statements	Net position, end of year	\$_	82,822,035
	The accompanying notes are an integral part of these financial statements		

## **GOLDEN STATE FINANCE AUTHORITY** STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2016

Cash flows from operating activities		
Cash receipts from loan and grant programs	\$	61,612,694
Cash receipts from bond and residual funds		459,723
Cash paid for contract services		(3,562,564)
Cash paid for services and supplies		(63,445,220)
· · · · · · · · · · · · · · · · · · ·	÷.	
Net cash used in operating activities	_	(4,935,367)
Cash flows from investing activities		
Interest received and gain on investments	_	224,791
Net cash provided by investing activities	_	224,791
Decrease in cash and cash equivalents		(4,710,576)
Cash and cash equivalents, beginning of year	-	96,865,763
	<i>~</i>	00 1 FF 107
Cash and cash equivalents, end of year	\$_	92,155,187
		2
Reconciliation of operating income to net cash provided by operating activities	<b>~</b>	0.000.440
Operating income	\$	8,308,419
Provision for loan losses		51,699
Adjustments to reconcile operating income to net cash		
provided by operating activities		
Increase in accounts receivable		(37,317)
Decrease in energy grant loans		2,382,237
Decrease in second mortgage loans receivable		1,894,306
Increase in notes receivables		(1,700,000)
Decrease in prepaid expenses		998
Decrease in unearned revenue		(237,822)
Increase in accounts payable		6,582,904
Decrease in accounts payable to California Energy Commission		(12,844,251)
Decrease in accounts payable securities sold, at fair value,		(2 201 012)
net of accounts receivable, proceeds from sale of securities		(2,381,012)
Decrease in accounts payable to affiliated entities	_	(6,955,528)
Net cash used in operating activities	\$_	(4,935,367)

The accompanying notes are an integral part of these financial statements

#### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting entity** – Golden State Finance Authority (GSFA), a California joint powers authority, is an organization of certain political subdivisions of the state of California, engaged in the exercise of essential government functions. GSFA was organized on July 1, 1993, under the provisions of the Government Code of the state of California, which authorized GSFA to be created by the joint powers agreement entered into by counties for the purpose of assisting homebuyers with mortgage financing. GSFA is governed by representatives of its member counties, each of which appoints an elected county supervisor which comprises the Board of Directors, which are counties in California having an interest in the general and specific purposes of GSFA. Member counties of GSFA are as follows: Alpine, Amador, Butte, Calaveras, Colusa, Del Norte, El Dorado, Glenn, Humboldt, Imperial, Inyo, Lake, Lassen, Madera, Mariposa, Mendocino, Merced, Modoc, Mono, Napa, Nevada, Placer, Plumas, San Benito, Shasta, Sierra, Siskiyou, Sutter, Tehama, Trinity, Tuolumne, Yolo and Yuba. An additional 35 counties and over 200 cities are associate members of GSFA.

GSFA programs are designed to provide assistance for adequate, safe, and sanitary residential housing. GSFA makes competitively priced financing opportunities available for homebuyers for the purchase or refinancing of residential housing, with particular emphasis on assisting low and moderate income homebuyers. GSFA works in cooperation with regional lenders to provide mortgage loan financing and down payment assistance to families and individuals in the state of California who otherwise may not be able to afford to purchase a home. GSFA also makes available financing for energy efficiency and water conservation improvements to residential, commercial, industrial, agricultural and other real properties and multi-family financing.

GSFA contracts for various administrative and support services with the Rural County Representatives of California (RCRC), a California nonprofit mutual benefit corporation. RCRC was organized to serve and strengthen county and local governments through definition, study, and actions relative to problems affecting the member counties and their resources to include but not be limited to those of social, economic, environmental, and ecological importance.

**Basis of accounting –** GSFA is accounted for as an enterprise fund and its financial statements are prepared on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flows.

GSFA distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with GSFA's principal ongoing operations. The principal operating revenues of GSFA are charges for programs provided (i.e. loan program fees, energy program fees, bond issuance fees, on-going issuer fees, and bond residuals) associated with its affordable housing loan and energy efficiency/water conservation financing programs. Interest income earned on second mortgage loans and capital gains income from sales of mortgage-backed securities are also reported as operating income. Operating expenses of GSFA include the cost of providing the services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**Accounting standards** – The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing government accounting and financial reporting principles. The more significant of GSFA's accounting policies are described below.

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Accounting standards (continued)** – In February 2015, the GASB issued Statement No. 72 (GASB 72), *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements and provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. GASB 72 is effective for the current fiscal year. See fair value measurements within Note 1.

**Cash and cash equivalents** – GSFA considers all highly liquid investments with an original maturity of three months or less when purchased to be cash and cash equivalents, including investments in the California Local Agency Investment Fund (LAIF) and CalTRUST.

California statutes and GSFA's investment policy authorize the investment of idle or surplus funds in U.S. Treasury obligations, U.S. government agencies, bankers' acceptances, commercial paper, negotiable CD's, medium-term notes, repurchase agreements, time certificates of deposit, LAIF, and CalTRUST.

**Second mortgage loans** – Second mortgage loans receivable represent future principal payments on outstanding second mortgage loans. During 2016, GSFA received \$521,872 in interest from these assets. As of December 31, 2016, \$4,994,870 in second mortgages remain outstanding, net of the allowance for loan losses.

Allowance for loan losses – GSFA maintains an allowance for loan losses at a level considered adequate to provide for probable losses on existing second mortgages receivable. The allowance for loan losses is based on estimates using historical loss trends and current exposure in the loan pools. Actual losses may vary from current estimates.

**Mortgage-backed securities housing program revenue** – Housing program revenue consists of income earned on GSFA's down payment assistance gift program, including gains and losses on the sale of mortgage-backed securities, interest on second mortgage loans and other administrative housing-related revenues are presented separately.

As part of the down payment assistance gift program, GSFA purchases pools of government mortgagebacked securities (MBS) for resale into the secondary market. To manage exposure to interest rate risk on the purchase and subsequent resale of MBS's into the secondary market; GSFA enters into sales agreements of "to-be-announced" (TBA) Government National Mortgage Association (GNMA) and Federal Home Loan Mortgage Corporation (FHLMC) securities, in which GSFA has committed to deliver securities at contracted prices at a future date. Realized and unrealized gains and losses on the mortgage-backed securities are reported in housing program revenue as the activity relates solely to the down payment assistance gift program (Note 6).

#### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Fair value measurements** – GSFA categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments in CalTrust and LAIF of \$19.6 million are valued at net asset value and therefore excluded from the fair value hierarchy.

GSFA has the following recurring fair value measurements as of December 31, 2016:

- Money market funds (Level 2 inputs)
- Accounts payable, securities to be purchased, are valued using quoted market prices (Level 1)

**Net position –** Net position is classified into the following categories:

- *Invested in capital assets:* Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets; GSFA does not have any net position in this category as of December 31, 2016.
- *Restricted* non-expendable: Net position subject to externally imposed conditions that GSFA retains in perpetuity; GSFA does not have any net position in this category as of December 31, 2016.
- *Restricted expendable:* Net position subject to externally imposed conditions that can be fulfilled by the actions of GSFA or by the passage of time; GSFA does not have any net position in this category as of December 31, 2016.
- *Unrestricted:* All other categories of net position; in addition, unrestricted net position may be designated for use by management or the Board of Directors.

GSFA has adopted a policy of generally utilizing restricted – expendable funds, prior to unrestricted funds, when an expenditure is incurred for purposes for which both are available.

**Revenue recognition** – Operating revenues such as loan program, bond residual, and issuer fees are recognized as earned. Operating and non-operating interest and investment income is also recognized as earned. Grant revenue is recognized as allowable expenditures are incurred. Advances received are deferred until allowable expenses are incurred.

**Income taxes** – Because GSFA is a political subdivision of the state of California and engaged in the exercise of an essential government function, it is not required to file federal or state income tax returns.

**Use of estimates** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. The allowance for loan losses and fair market value of financial instruments are particularly subject to change.

## **GOLDEN STATE FINANCE AUTHORITY** NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2016

#### NOTE 2 – CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

A summary of cash and cash equivalents and restricted cash as of December 31, 2016, is as follows:

Deposits with financial institutions (including \$274,297		
restricted cash)	\$	11,047,760
Collateral account	•	1,739,727
Money market funds		2,831,299
Brokerage account		56,950,190
Total cash		72,568,976
LAIF		184,957
CalTRUST		19,401,254
Total cash equivalents (highly liquid investments)		19,586,211
Total cash and cash equivalents, including restricted cash	\$	92,155,187

**Deposits and custodial credit risk** – Custodial credit risk is the risk that in the event of a bank failure, GSFA's deposits may not be returned to it. Cash and cash equivalents and restricted cash consist of deposits with financial institutions, a collateral account, cash held in a securities brokerage account and amounts held with LAIF and CalTRUST. As of December 31, 2016, GSFA's deposits with financial institutions, including money market funds, are entirely insured or collateralized. Section 53652 of the California Governmental Code requires financial institutions to secure deposits made by governmental units in excess of insured amounts, by the pledging of governmental securities as collateral. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by governmental units.

**Restricted cash-noncurrent** – Restricted cash includes funds held for projects or other purposes and are restricted as to their use. These amounts are included in cash and cash equivalents in the statement of cash flows regardless of whether there are restrictions on their use. Restricted cash includes cash and cash equivalents on deposit with a financial institution required to be held as a loan loss reserve until all loans are fully paid (in excess of one year). As of December 31, 2016 cash balances of \$274,297 were restricted.

**Collateral account** – GSFA has funds held with a securities firm. The funds represent collateral for the sales agreements of TBA GNMA and FNMA securities. As required by the Master Securities Forward Transaction Agreement between the securities firm and GSFA, if at any time GSFA has an "Out-of-the-Money" net unsecured forward exposure, the securities firm shall require GSFA to maintain collateral having a margin value sufficient to eliminate such net unsecured forward exposure. If at any time GSFA has an excess forward collateral amount, GSFA may request the funds from the securities firm. At December 31, 2016, the entire amount of \$1,739,727 on deposit with the securities firm was unrestricted. Funds at the securities firm are not insured.

#### NOTE 2 – CASH AND CASH EQUIVALENTS (CONTINUED)

**Interest rate and credit risk** – Interest rate risk is the risk that changes in the market interest will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest. Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

GSFA maintains money market funds held with its banks and a securities firm. Bank money market funds are held in connection with its housing programs to provide the required deposit for the California Debt Limit Allocation Committee tax-exempt bond allocation to GSFA. Money market funds held at the securities firm are the accumulation of interest and principal from mortgage-backed securities and proceeds from their sales. GSFA's investments in money market funds were rated at AAA by Standard & Poor's.

**Highly liquid investments** – As of December 31, 2016, GSFA also maintains highly liquid investment accounts with CalTRUST in the amount of \$19,401,254. CalTRUST is a program established by local public agencies in California for the purpose of pooling and investing local agency funds. CalTRUST offers three investment accounts, of which GSFA invests in two. The total amount invested by public agencies in CalTRUST as of December 31, 2016, exceeded \$2.8 billion.

CalTRUST is a joint powers authority that was formed to pool and invest funds of public agencies. Three pools are offered and GSFA is currently invested in the short-term and medium-term funds. Because GSFA's deposits are maintained in a recognized Pooled Investment Fund under the care of a third party and GSFA's share of the pool does not represent specific identifiable investment securities owned by GSFA, no disclosure of the individual deposits and investments and related custodial credit risk is required.

A Board of Trustees supervises and administers the investment program of CalTRUST. CalTRUST invests in fixed income securities eligible for investment pursuant to California Government Code Sections 53602, et seq. and 53635, et seq. CalTRUST Short-Term and Medium-Term funds are rated Aor better by a credit rating agency. GSFA's highly liquid investment in CalTRUST is reported at fair value.

GSFA also places certain funds with LAIF. GSFA is a voluntary participant in LAIF, which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California and the Pooled Money Investment Board. The State Treasurer's Office pools these funds with those of other governmental agencies in the state and invests the cash.

#### NOTE 2 - CASH AND CASH EQUIVALENTS (CONTINUED)

**Highly liquid investments (continued)** – The fair value of the GSFA's investment in the pool is reported in the accompanying financial statements based upon GSFA's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). Because GSFA's deposits are maintained in a recognized Pooled Investment Fund under the care of a third party and GSFA's share of the pool does not consist of specific, identifiable investment securities owned by GSFA, no disclosure of the individual deposits and investments or related custodial credit risk classifications is required. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Funds are accessible and transferable to the master account within twenty-four hour notice. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, and floating rate securities issued by Federal agencies, government-sponsored enterprises and corporations. LAIF is administered by the State Treasurer.

LAIF investments are audited annually by the Pooled Money Investment Board and the state Controller's Office. Copies of this audit may be obtained from the State Treasurer's Office: 915 Capitol Mall, Sacramento, California 95814. Included in the Pooled Money Investment Account's investment portfolio are certain derivative securities or similar products in the form of structured notes and asset-backed securities which represent 1.08% of the portfolio.

The Local Investment Advisory Board (the Board) has oversight responsibility for LAIF. The Board consists of five members as designated by state statute. The value of pool shares in LAIF that may be withdrawn is determined on an amortized cost basis, which is different than the fair value of GSFA's position in the pool. GSFA's investment in LAIF is reported at fair value and is not rated by credit rating agencies.

#### NOTE 3 – SECOND MORTGAGE LOANS RECEIVABLE

Second mortgage loans receivable represent future principal payments on outstanding second mortgage loans financed as part of various GSFA down payment assistance programs.

Second mortgage loans receivable as of December 3	31, 2016, are as follows:	4
Second mortgages	\$	5,294,870
Allowance for loan losses		(300,000)
Total second mortgage loans receivable,		2
net of allowance for loan losses	\$	4,994,870
Activity in the allowance for loan losses for the year Balance, beginning of year Charge-offs Recoveries Provision for loan losses	s	400,000 (172,126) 20,427 51,699
Balance, end of year	\$	300,000
		8. 11

## **GOLDEN STATE FINANCE AUTHORITY** NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2016

#### **NOTE 4 – NOTES RECEIVABLE**

Notes receivable represent \$2,000,000 in loans outstanding as part of GSFA's multi-family housing finance and rehabilitation housing program. As the issuer of conduit revenue bonds, GSFA loaned various amounts to the developer of the projects. The notes are non-interest-bearing until after the twentieth anniversary of the note, and no payments are due until after the twentieth anniversary of the note, and no payments are due until after the twentieth anniversary of the notes. After the 20th anniversary, the notes bear interest at 3% per annum and mature on the earlier of the 35th anniversary or a sale or refinancing transaction. If the notes are held to maturity, principal and accrued interest will become due beginning August 2050 through December 2051. No provision for losses has been deemed necessary. See Note 8 – Conduit Debt.

#### **NOTE 5 – RELATED PARTY TRANSACTIONS**

For the year ended December 31, 2016, GSFA maintained a contract support services agreement with RCRC, an affiliated entity, that included support services payments and a performance fee. The contract performance fee calculation is based on housing program success and provides an incentive to RCRC. The total expense of \$3,562,564 for the year ended December 31, 2016, includes the monthly fee and performance fee. At December 31, 2016, GSFA has recorded a payable of \$1,550,140 to RCRC for the 2016 performance fee and other services. The support services agreement calls for a flat fee of \$168,592 a month to operate and administer GSFA operations.

Also for 2016, GSFA entered into a service agreement with National Homebuyers Fund, Inc. (NHF) whereby NHF manages GSFA's housing programs and residential energy loan servicing. For the year ended December 31, 2016, GSFA incurred approximately \$4.3 million for such housing-related services, which are included in gift program expenses. At December 31, 2016, \$1,849,734 is payable to NHF for proceeds from mortgage-backed securities trades and housing related services. Expenses incurred for residential energy administration were approximately \$301,000. Also, GSFA charges a fee to NHF for the use of its trading platform. Fees earned are reported as administrative service fee revenue in the statement of revenue, expenses, and change in net position.

The support service agreements with both RCRC and NHF are annual agreements, expiring on December 31st of each year, with successive one-year automatic renewals until terminated by either party. The annual agreements are revised for fee and scope as need and are approved by the applicable Board of Directors.

#### **NOTE 6 – DOWN PAYMENT ASSISTANCE GIFT PROGRAM**

GSFA implemented the down payment assistance gift program in October 2010, targeting low to moderate income homebuyers. The gift program provides a down payment assistance grant ranging up to 5% of the home purchase price. GSFA has partnered with lenders to market the program to homebuyers.

## NOTE 6 - DOWN PAYMENT ASSISTANCE GIFT PROGRAM (CONTINUED)

As part of this program, GSFA purchases pools of government backed mortgage-backed securities (MBS) for resale into the secondary market. To manage exposure to interest rate risk on the purchase and subsequent resale of MBS's into the secondary market, GSFA enters into sales agreements of TBA GNMA & FNMA securities, in which GSFA has committed to deliver securities at contracted prices at a future date. The entity has recorded a receivable of approximately \$298 million for the estimated proceeds from the sale. GSFA has also recorded a liability of approximately \$297 million to purchase the securities at prevailing prices at December 31, 2016 in order to fulfill the future obligation.

#### **NOTE 7 – ENERGY PROGRAMS**

**California Energy Commission Grant** – In September 2010, GSFA was awarded a \$16.5 million grant from the California Energy Commission (CEC). The grant's purpose is to provide low interest loans and grants to low to moderate income homeowners to perform home energy retrofits. In April 2012, the CEC amended the grant to award GSFA an additional \$14.0 million. CEC had advanced \$26.7 million to GSFA for the sole purpose of funding the loans. As of December 31, 2016, \$1 million of the advance had not been used for loans and is included in unearned revenue. Interest earned on the advances is due back to the CEC and is recorded as an account payable at December 31, 2016.

During 2016, GSFA generated revenue for servicing the outstanding loans under a separate agreement. GSFA invoiced \$301,150 for loan servicing during the year for allowable expenses incurred.

**Energy Upgrade California** – In December 2012, GSFA entered into an Energy Upgrade California (EUC) contract with Pacific Gas & Electric (PG&E) to participate in the EUC related energy efficiency financing program. Under the terms of the contract, GSFA utilized funds pursuant to the contract to leverage private financing to provide a residential energy retrofit program. GSFA administers the program and funded a Loan Loss Reserve (LLR) with funds contributed by PG&E. PG&E customers' actual loans are financed by a bank. As of December 31, 2016, the LLR is \$274,297 and is included in restricted cash.

**Other program** – GSFA also maintains an agreement with a provider to participate in a program to finance energy efficiency, renewable energy improvements, and water conservation improvements on residential and commercial properties in California. The actual loans are financed by the provider, and GSFA earns a cost recovery fee for administrative services performed under the program. For the year ended December 31, 2016, GSFA recorded \$2,917,980 in revenue associated with this program.

## **GOLDEN STATE FINANCE AUTHORITY** NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2016

#### **NOTE 8 ~ CONDUIT DEBT**

During the year ended December 31, 2016, GSFA issued \$91.4million in conduit debt for multi-family housing. As of December 31, 2016, GSFA has \$109 million of conduit debt for tax-exempt mortgage and multi-family housing revenue bonds issued and outstanding. The bonds are limited obligations of the Issuer, payable solely from the revenues and other funds and moneys pledged and assigned under the indenture. As the Issuer, GSFA is not liable for the payment of the principal of, premium (if any), or interest on the bonds.

#### **NOTE 9 – RISK MANAGEMENT**

GSFA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. RCRC purchases commercial insurance through an insurance agent who obtains the appropriate insurance coverage needed from insurance companies, which includes coverage for GSFA. GSFA reimbursed RCRC for its pro-rata portion of the insurance premiums. There has been no significant reduction in coverage compared to prior year and there have been no settlements in excess of coverage for the prior three years

#### **NOTE 10 – COMMITMENTS AND CONTINGENCIES**

In May 2015, GSFA along with two affiliated entities (RCRC and NHF), were named as defendants in a summons brought by the Washington State Housing Finance Commission (Commission). The lawsuit alleges that NHF does not have the authority to provide homeownership financing services in the state of Washington, and named GSFA as an affiliated entity of NHF. Subsequent to year end, a Washington state judge ruled that NHF did not have the authority to offer services in the state of Washington, which has no impact on GSFA's operations. NHF is in the process of appealing the decision. Management believes that the ruling is invalid and the outcome will not have a material adverse effect on the financial position or results of operations.



## REPORT OF INDEPENDENT AUDITORS 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

To the Board of Directors Golden State Finance Authority

MOSS-ADAMS11

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Golden State Finance Authority (GSFA) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise GSFA's basic financial statements, and have issued our report thereon dated April 20, 2017.

#### **Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether GSFA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and 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*.

#### **Purpose of this Report**

The purpose of this report is solely 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 effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss Adams, LLP

Sacramento, California April 20, 2017

Communications with Those Charged with Governance Golden State Finance Authority

December 31, 2016



Certified Public Accountents | Business Consultants



## MOSS-ADAMS ILP

## COMMUNICATIONS WITH THOSE CHARGED WITH GOVERNANCE

To the Board of Directors and Management Golden State Finance Authority

We have audited the financial statements of Golden State Finance Authority (GSFA) as of and for the year ended December 31, 2016, and have issued our report thereon dated April 20, 2017. Professional standards require that we provide you with the following information related to our audit.

# OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA AND GOVERNMENT AUDITING STANDARDS

As stated in our engagement letter dated December 8, 2016, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit in accordance with auditing standards generally accepted in the United States of America as well as Government Auditing Standards, issued by the Comptroller General of the United States, and to design the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free from material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of GSFA's internal control over financial reporting. Accordingly, we considered GSFA's internal control solely for the purposes of determining our audit procedures and not to provide assurance concerning such internal control.

We are also responsible for communicating significant matters related to the financial statement audit that, in our professional judgment, are relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

### PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously communicated to you in the engagement letter and during planning discussions conducted on November 16, 2016.

#### SIGNIFICANT AUDIT FINDINGS AND ISSUES

#### **Qualitative Aspects of Accounting Practices**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by GSFA are described in Note 1 to the financial statements. During 2016, GSFA implemented GASB 72 related to accounting for and reporting fair value for certain investments. No other new accounting policies were adopted and there were no changes in the application of existing policies during 2016. We noted no transactions entered into by GSFA during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transactions occurred.

#### Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements were:

Management's estimate of the allowance for loan loss on second mortgages receivable is based on estimates of historical loss trends and current exposure in the loan pools. We evaluated the key factors and assumptions used in the estimate in determining that it is reasonable in relation to the financial statements as a whole.

#### **Financial Statement Disclosures**

The disclosures in the financial statements are consistent, clear, and understandable. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

Disclosure of the reporting entity and its operations, basis of accounting, and summary of significant accounting policies are described in Note 1.

Disclosure of cash and cash equivalents in Note 2, which describes the balances of cash and cash equivalents at December 31, 2016, and the various types of risk associated with the cash balances.

Disclosure of mortgage backed securities and forward sales of "to-be-announced" (TBA)

securities in Notes 1 and 6. Mortgage backed securities sold, not yet purchased, represent obligations of GSFA to deliver the specified security at a contract price, thereby creating a liability to purchase the security at quoted market prices. GSFA also records a receivable as of the trade date for the estimated proceeds receivable. Realized and unrealized gains and losses on mortgage backed securities are reported in operating income as the activity relates solely to the gift housing program.

## Significant Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### **Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all factual and judgmental misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no corrected or uncorrected misstatements as of and for the year ended December 31, 2016.

## **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated April 20, 2017.

## Management Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to GSFA's financial statements, or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

## Other Significant Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as GSFA's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of GSFA and is not intended to be and should not be used by anyone other than these specified parties.

Moss Adams, LLP

Sacramento, California April 20, 2017
# Golden State Finance Authority (GSFA) Executive Committee Meeting 1215 K Street, Suite 1650 Board Room Sacramento, CA 95814 (916) 447-4806

# February 15, 2017 – 10:00 a.m.

Executive Committee Members:

Supervisor Kevin Cann, Mariposa County Supervisor Randy Hanvelt, Tuolumne County Supervisor Bob Williams, Tehama County Supervisor Rex Bohn, Humboldt County Supervisor John Viegas, Glenn County

Supervisor Les Baugh, Shasta County Supervisor Doug Teeter, Butte County Supervisor Diane Dillon, Napa County Supervisor Matt Kingsley, Inyo County Supervisor David Rogers, Madera County

#### <u>Minutes</u>

# Call to Order and Determination of Quorum

Chair, Supervisor Kevin Cann, Mariposa County, called the meeting of the Golden State Finance Authority Executive Committee to order at 10:14 a.m. A quorum was determined at that time; those present were as follows:

# Supervisors in Attendance County

Kevin Cann	Mariposa
Randy Hanvelt	Tuolumne
Bob Williams	Tehama
Rex Bohn	Humboldt
John Viegas	Glenn
Les Baugh	Shasta
Doug Teeter	Butte
Matt Kingsley	Inyo
David Rogers	Madera

#### Absent Members

Diane Dillon

Napa

### Staff in Attendance

Greg Norton, Executive Director Craig Ferguson, Deputy Director

# Others in Attendance

Supervisor Lee Adams, Sierra County Lisa McCargar, RCRC Chief Financial Officer Sarah Bolnik, RCRC Office Manager Terrance Rodgers, RCRC Economic Development Officer Justin Caporusso, RCRC Vice President External Affairs / Administration Paul A. Smith, RCRC Vice President Governmental Affairs Robert Bendorf Jr., HERO Program

#### Approval of Minutes of the November 16, 2016 Meeting

(Board Members absent from the meeting will be recorded as abstained unless the Board Member indicates otherwise)

Supervisor Randy Hanvelt, Tuolumne County, motioned to approve the minutes of the November 16, 2016 GSFA Executive Committee Meeting. Supervisor John Viegas, Glenn County, seconded the motion. Motion passed.

#### Public Comment

Robert Bendorf Jr., HERO Program, informed the GSFA Executive Committee the last week PACE Nation introduced PACE 2.0. Mr. Bendorf explained the benefits of PACE 2.0 and how it will ultimately hold contractors to confirmed terms and conditions, better protecting the home owner.

#### Quarterly Budget and Investment Reports for GSFA

Greg Norton, Executive Director, and Lisa McCargar, Chief Financial Officer, presented the Quarterly Investment Report, the Budget Report, and the Cash and Securities Asset Report for period ending December 31, 2016.

# GSFA Resolution 17-03: Authorizing the Financing of Seismic Improvements through Community Facilities District PACE Financing Program

Greg Norton provided an overview of GSFA Resolution 17-03 which if approved, would provide for financing of seismic improvements through the PACE program and authorize other required actions. Mr. Norton reminded the Board that the PACE program currently finances energy efficiency, water conservation, as well as other authorized improvements on real property.

#### Recommendation

It is recommended that the GSFA Executive Committee review and approve the proposed GSFA Resolution 17-03 for presentation to the GSFA Board of Directors for approval.

# Supervisor David Rogers, Madera County, motioned to approve the GSFA Resolution 17-03. Supervisor Les Baugh, Shasta County, seconded the motion. Motion passed.

#### GSFA Investment Committee

Greg Norton reported that the Investment Committee is responsible for overseeing the investment activity of GSFA and annually presents the Investment Policy to the Board for review and approval. Mr. Norton stated that the Investment Committee previously consisted of the GSFA Executive Director, Deputy Director, and Chief Financial Officer. As a result of the Deputy Director, Patricia Megason retiring, it is recommended that the newly named Deputy Director, Craig Ferguson, become the third Investment Committee member.

# **Recommendation**

It is recommended that the GSFA Executive Committee approve Craig Ferguson as a member of the Investment Committee.

Supervisor Rex Bohn, Humboldt County, motioned to approve Craig Ferguson as a member of the Investment Committee. Supervisor David Rogers, Madera County, seconded the motion. Motion passed.

# Program Updates

Craig Ferguson, Vice President, provided an update on the current GSFA programs to the Executive Committee.

# Adjournment

Chair, Supervisor Kevin Cann, Mariposa County, adjourned the meeting of the GSFA Executive Committee at 10:53 a.m.



To: GSFA Executive Committee

From: Greg Norton, Executive Director Lisa McCargar, Chief Financial Officer

**Date:** May 3, 2017

Re: GSFA Quarterly Budget Report

#### <u>Summary</u>

The Statement of Revenues and Expenses for GSFA provides a budget to actual comparison for the quarter ended March 31, 2017.

#### <u>Attachment</u>

 GSFA Statement of Revenues and Expenses, Budget vs. Actual, for the Quarter ended March 31, 2017

# GOLDEN STATE FINANCE AUTHORITY Statement of Revenue and Expenses Budget Vs. Actual - Unaudited For the Quarter Ended March 31, 2017

	2017	Quarter Ended	Quarter Ended	Varaiance	Percent
2	Annual	March 31, 2017	March 31, 2017	Favorable/	Favorable/
Income:	Budget	Budget	Actual	(Unfavorable)	(Unfavorable)
Housing Program Revenue	\$ 51,055,000	\$ 12,763,749	\$ 18,505,029	\$ 5,741,280	44.98%
Energy Program Revenue	3,015,000	753,750	484,951	(268,799)	-35.66%
Grant Reimbursed Costs	300,000	75,000	69,350	(5,650)	-7.53%
Interest Income and Capital Gain/(Loss)	307,000	76,749	80,203	3,454	4.50%
Ongoing Issuer Fees	54,000	13,500	7,588	(5,912)	-43.79%
2nd Mortgage Interest	500,000	125,001	99,127	(25,874)	-20.70%
Miscellaneous Income	-	-	-	-	0.00%
Total Income	\$ 55,231,000	\$ 13,807, <b>749</b>	\$ 19,2 <b>46,2</b> 48	\$ 5,438,499	-58.20%
Expenditures:					
Accounting & Auditing	\$ 31,500	\$ 7,875	\$ 8,233	\$ (358)	-4.55%
Business Development and Expansion	100,000	24,999	20,643	4,356	17.42%
CDLAC fees	50,000	12,501	-	12,501	100.00%
Custodian/Trustee	50,000	12,501	-	12,501	100.00%
Consultants	385,000	96,249	54,000	42,249	43.90%
Contract Performance Fee	1,960,750	490,188	-	490,188	100.00%
Dues, Fees & Subscriptions	30,000	7,500	1,009	6,491	86.55%
Grant Costs	300,000	75,000	69,350	5,650	7.53%
Insurance	39,000	9,750	9,152	598	6.13%
Infrastructure Program	200,000	50,001	-	50,001	100.00%
Legal Services	125,000	31,251	124,650	(93,399)	-298.87%
Loan Losses	150,000	37,500	32,667	4,833	12.89%
Multi Family Bonds	10,000	2,499	-	2,499	100.00%
Gift Program	40,000,000	9,999,999	15,195,211	(5,195,212)	-51.95%
Grant Fund - California Disaster Assistance	1,000,000	249,999	-	249,999	100.00%
Pipeline Services	200,000	50,001	46,250	3,751	7.50%
DPA Program Management	2,500,000	624,999	1,011,201	(386,202)	-61.79%
Printing and Duplication	1,000	249		249	100.00%
Promotion and Marketing	75,000	18,750	534	18,216	97.15%
Rent	104,667	26,166	23,727	2,439	9.32%
Contract Support Services	2,399,000	599,751	599,750	1	0.00%
Sponsorships	50,000	12,501	37,800	(25,299)	-202.38%
Board Member Travel and Reimbursements	15,000	3,750		3,750	100.00%
Travel	40,000	9,999	2,092	7,907	79.08%
Other Expenses	8,000	2,001	4,547	(2,546)	-127.24%
Total Expenditures	\$ 49,823,917	\$ 12,455,979	\$ 17,240,816	\$ (4, <b>78</b> 4,837)	-38.41%
Net Revenues Over Expenditures	\$ 5,407,083	<b>\$</b> 1,351,770	\$ 2,005,432	\$ 653,662	48.36%



Golden State Finance Authority (GSFA) 1215 K Street, Suite 1650 Sacramento, California 95814 Phone: (855) 740-8422 Fax: (916) 444-3219 <u>www.gsfahome.org</u>

To: GSFA Executive Committee

From: Greg Norton, Executive Director Lisa McCargar, Chief Financial Officer

**Date:** May 3, 2017

Re: GSFA Quarterly Investment Report

#### <u>Summary</u>

In accordance with GSFA's investment policy, we are providing the 1<sup>st</sup> quarter 2017 investment report. This report provides a summary of year-to-date investment transactions through the quarter ending March 31, 2017. In addition, the report provides the 1<sup>st</sup> quarter's returns by investment type and a comparison to the 90 day Treasury Rate.

The CalTRUST yields are the funds' reported 1st quarter yields. The LAIF return is the fund's 1st quarter apportionment rate.

#### **Attachment**

GSFA Investment Report – 1st Quarter 2017



# GOLDEN STATE FINANCE AUTHORITY Investment Report As of and for the Quarter Ended March 31, 2017

	Total	CalTRUST Short-Term	CalTRUST Medium-Term	LAIF
Balance 12/31/16	\$ 19,602,764	<b>\$</b> 7,462,2 <b>29</b>	\$ 11,955,262	\$ 185,273
Additions	-	-	-	
Withdrawals	-	-	-	
Interest (includes accrued)	53,380	17,698	35,328	354
Capital Gain/(Loss)	11,901	(6)	11,907	
Balance 3/31/17	\$ 19,668,045	\$ 7,479,921	\$ 12,002 <b>,49</b> 7	\$ 185,627

<u>Yield:</u>	Short Term	Mid Term	LAIF
Annualized One Year	0.83%	1.07%	0.78%
Average Maturity (days)	365	745	180
90 Day Treasury Bill Rate	0.76%		

All current cash investments are held in either California Treasurer's Local Agency Investment Fund (LAIF) or CaITRUST's Short-Term Fund or Medium-Term Fund. Cash in the LAIF fund and the CaITRUST Short-Term Fund may be accessed within 24 hours. Cash in the CaITRUST Medium-Term Fund may be accessed at the end of each month.

No members of the Investment Committee have any conflict of interest with any current investment firms.

Purpose of transactions in excess of \$1 million: -None





То:	GSFA Executive Committee
From:	Greg Norton, Executive Director Lisa McCargar, Chief Financial Officer
Date:	May 3, 2017
Re:	GSFA 2017 Local Area Investment Fund (LAIF) Authorization - ACTION

#### <u>Summary</u>

GSFA maintains investments in LAIF with the California State Treasurer's Office. The Executive Director and Deputy Director previously had authority to transfer funds to and from LAIF.

#### <u>lssue</u>

As a result of the prior Deputy Director retiring, it is recommended that the Executive Director, Chief Financial Officer (CFO) and recently appointed Deputy Director be those with authority to transact on behalf of GSFA. Thus, the CFO shall be added to the list of authorized individuals and positions.

#### **Recommendation**

It is recommended that the GSFA Executive Committee approve the addition of the Chief Financial Officer as an authorized individual to deposit or withdraw funds in LAIF, and direct the GSFA Executive Director to make the same recommendation to the GSFA Board of Directors.



DELEGATE EXPENSE CLAIM

Name

Purpose of Trip, Details and Remarks:

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	no	
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Phone Number

13

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른 년	Year	LOCATION	LODGING		MEALS		BOV @ \$(	MILEAGE POV @ \$0.53.5/ mile	TRANSPORTATION, FEE or OTHER EXPENSE		TOTAL
Date	Time	(Where Expenses Were Incurred)		Breakfast	Lunch	Dinner	Miles	Amount	Description of Expense	Amount	EXPENSES
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-											
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Provide do lodging ex	cument	Provide documentation for expenses as required in the Travel and Expense Policy for Delegates. Mileage expenses may not exceed \$0.53.5 per mile. For lodging in the Sacramento area, reimbursement will include	avel and Expensi	e Policy for De	legates. Mile:	age expenses	may not exce	ed \$0.53.5 per	Delegates. Mileage expenses may not exceed \$0.53.5 per mile. For lodging in the Sacramento area reimbursement will include	ursement will inc	ude

except as noted in the Travel and Expense Policy. Reciepts for <u>ALL</u> requested reimbursements must be attached to this expense claim.

or's Signature	ment To:			ö	
Supervisor's Signature	Mail Payment To:	Name:	Address:	City, Zip:	

Office Use Only: Approved By:	
G / L Code: Amount:	

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