Independent Cities Finance Authority
Audited Financial Statements
and Supplementary Information
As of and For the Year Ended June 30, 2018
with Report of Independent Auditors

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Vasquez & Company LLP
Certified Public Accountants and Business Consultants

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Report of Independent Auditors

Members of the Governing Board
Independent Cities Finance Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the Independent Cities Finance Authority (the Authority) which comprise the statement of financial position as of June 30, 2018 and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

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.

Auditors' 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2018, and the changes in its net 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 to 4 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 management discussion and analysis 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.

Vasquez & Company LLP

Los Angeles, California
November 5, 2018

Within this section of the Independent Cities Finance Authority's (ICFA or the "Authority") Financial Report for the year ended June 30, 2018, management provides a narrative discussion and analysis of the entity for the year reported on.

ICFA's net assets exceeded its liabilities by $436,238 at June 30, 2018. That amount reflects an increase between years of $8,373 attributable to the net income generated for the year 2018. There has been considerable discussion and efforts made to enter into programs for financing low-and-moderate income housing, but none of those programs affected operations for the year ended June 30, 2018. Condensed financial comparisons between years are as follows:

	June 30		
	2018	**2017**	**Change**
Assets			
Cash and cash equivalents	**$ 411,590**	$ 456,538	$ (44,948)
Accrued interest receivable	**3,100**	4,705	(1,605)
Long - term loans receivable	**81,522**	85,804	(4,282)
	496,212	547,047	(50,835)
Liabilities			
Accounts payable	**59,974**	119,182	(59,208)
Net position	**$ 436,238**	$ 427,865	$ 8,373

Details of operations are as follows:

	Years ended June 30		
Revenues	**2018**	**2017**	**Change**
Program fees	**$ 340,925**	$ 326,326	$ 14,599
Investment income	**6,608**	2,928	3,680
	347,533	329,254	18,279
Expenses			
Management fees	**225,000**	225,000	-
Community outreach	**19,000**	32,000	(13,000)
Conference and related travel	**4,253**	2,148	2,105
Public relations	**15,138**	9,195	5,943
Other professional services	**31,231**	24,003	7,228
Legal	**29,787**	41,481	(11,694)
Office rent	**-**	9,075	(9,075)
Insurance	**5,154**	5,432	(278)
Directors' fees and expenses	**1,394**	3,099	(1,705)
Marketing	**4,134**	-	4,134
Others	**4,069**	4,185	(116)
	339,160	355,618	(16,458)
Net income (loss)	**$ 8,373**	$ (26,364)	$ 34,737

Operating results did improve in fiscal 2018 over 2017 and expenses were reduced substantially, however, there is definitely a need for improved revenue for long-term survival.

The ICFA Board gave authorization in March of 2017 for staff to implement an ICFA M Local Express Program. This program is a result of Measure M being approved by the voters in November of 2016 which provides 0.5 percent sales tax for transportation related projects. A percentage of the revenues collected from Measure M will be returned to the 88 cities in Los Angeles County. The M Local Express Program would assist ICFA member cities in obtaining funding for local transportation projects, including repairs to streets and sidewalks. Because the source of these funds is backed by a sales tax, the future cash flows can be leveraged into a bond financing to deliver immediate funding for major community improvements. ICFA will have this project start after the November 2018 election.

Capital assets and Long – term Debt

The Authority does not have capital assets and long-term debt.

Requests for Information

This financial report is designed to provide the Authority's governing board, funding sources, customers, stakeholders and other interested parties with an overview of the Authority's financial operations and overall financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the Authority's Executive Director.

ASSETS			
Cash and cash equivalents		$	411,590
Accrued interest receivable			3,100
Long-term loans receivable			81,522
	Total assets		496,212
LIABILITIES			
Accounts payable and accrued expenses			59,974
	Total liabilities		59,974
NET POSITION			
Unrestricted			436,238
	Total net position	$	436,238

See notes to financial statements.

Revenues		
Program fees	$	340,925
Total revenues		340,925
Operating Expenses		
Management fees		225,000
Legal		29,787
Other professional services		31,231
Community outreach		19,000
Public relations		15,138
Insurance		5,154
Conferences and related travel		4,253
Marketing		4,134
DPA		1,700
Subscriptions and memberships		1,500
Directors' fees and expenses		1,394
Office expense		869
Total operating expenses		339,160
Net income from operations		1,765
Investment income		6,608
Net income for the year		8,373
Net position - beginning of year		427,865
Net position - end of year	$	436,238

See notes to financial statements.

Cash flows from operating activities		
Cash received from program fees	$	348,011
Cash paid to suppliers of services		(403,059)
Net cash used in operating activities		(55,048)
Cash flows from investing activities		
Collection of notes receivable		6,013
Interest received on notes receivable		4,087
Cash provided by investing activities		10,100
Change in cash and cash equivalents		(44,948)
Cash and cash equivalents - beginning of year		456,538
Cash and cash equivalents - end of year	$	411,590
Reconciliation of operating income to net cash used in operating activities		
Operating income	$	8,373
Adjustments to reconcile operating income to net cash used in operating activities		
Decrease in accounts payable and accrued expenses		(63,421)
Net cash used in operating activities	$	(55,048)

See notes to financial statements.

NOTE 1 ORGANIZATION AND PROFILE

The Independent Cities Finance Authority (ICFA or the "Authority") is a joint exercise of Powers authority originally set up in 1988 to provide lease financing of capital improvements by member cities. As the objectives of the Authority changed from facilities leasing for cities to affordable housing and other financing activities the original joint powers agreement was modified to provide for associate memberships to cities in which projects were located. By 2007 the Authority was completely out of the equipment leasing business, having completed the 'Fresh Rate' program.

In fiscal year ended June 30, 2003, the Authority changed its focus to begin working with non-profit entities to provide affordable housing through mobile home parks. The principal strategy was to provide conduit financing for affordable housing mobile home projects. This strategy would provide for affordable housing while not obligating the Authority to the liabilities, servicing of substantial lease obligations nor payments of interest and principal on the bonded debt. In 2011/2012 the Authority expanded its activities to a community hospital, a charter school and bridge financing for a waste water treatment facility. There have been discussions about housing and down payment assistance. Approvals have been received from Federal agencies but the program is not yet in operation. Lease/purchase of affordable housing is also under consideration.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Authority's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority's more significant accounting policies are described below.

Basis of Accounting and Measurement Focus

The Authority is accounted for as an enterprise fund (proprietary fund type) for financial reporting purposes. The activities of the enterprise-type fund closely resemble those of ongoing businesses in which the purpose is to conserve and add to basic resources while meeting operating expenses. Enterprise funds account for operations that provide services on a continuous basis and are substantially financed by revenues derived from user charges. The accompanying financial statements have been prepared using the total economic measurement focus and the accrual basis of accounting. Under this basis of accounting and measurement focus, revenues are recognized when they are earned and expenses are recognized when they are incurred.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation

The Authority's financial statements are presented in accordance with the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as amended by Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position.* Statement No. 63 requires the classification of net position into three components – net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

- *Net investment in capital assets* – This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net assets. If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent amount should not be included in the calculation of invested in capital assets. Instead, that portion of the debt or deferred inflow of resources should be included in the same net position component (restricted or unrestricted) as the unspent amounts. The Authority did not have net investment in capital assets as of June 30, 2018.

- *Restricted* – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported. The Authority did not have restricted net position as of June 30, 2018.

- *Unrestricted* – This component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Classifications of Revenues and Expenses

Operating revenues consist of fees relating to the origination and continuance of the bond issues set up for the purpose of purchasing and equipping the mobile home parks by the non-profit agencies and more recently, other activities.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Expenses consist primarily of management, professional fees and more recently, marketing. Due to the inability of cities to obtain financing for low-and-moderate income housing during the recent economic slowdown, and ICFA's ability to do so, ICFA management entered into contracts for representation in both Sacramento and Los Angeles to assist in interfacing with governing bodies.

Cash and Cash Equivalents

Cash equivalents are defined as cash and short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates and have an original maturity date of 3 months or less.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimate 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 those estimates.

Income Taxes

The Authority is not subject to income taxes pursuant to Section 115 of the Internal Revenue Code and the corresponding section of the California Revenue and Taxation Code.

Name Changed

The Authority's name was changed from the Independent Cities Lease Finance Authority to the Independent Cities Finance Authority on May 31, 2008 to better reflect the nature of the Authority's operations. For the sake of clarity, the changed name was used for audited financial presentations beginning in 2006.

NOTE 3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2018 consist of the following:

Cash in bank	$	61,663
Investments with Local Agencies Investment Fund (LAIF), an agency of the State of California		349,927
Total Cash and Cash Equivalents	$	411,590

NOTE 3 CASH AND CASH EQUIVALENTS (CONTINUED)

The Authority is a voluntary participant in the LAIF, a special fund regulated by the California State Treasury through which each city, district or agency may invest up to $40 million. Investments in LAIF are highly liquid, as deposits can be converted to cash within twenty four (24) hours without loss of interest.

Risk
In accordance with GASB Statement No. 40, *Deposit and Risk Disclosure – an Amendment of GASB Statement No.3,* certain required disclosures regarding investment policies and practices with respect to the risk associated with their credit risk, concentration of credit risk, custodial credit risk and interest rate risk are discussed in the following paragraphs:

Interest Rate Risk
Interest rate risk, as defined under GASB Statement No. 40, is the risk that changes in market interest rates 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 to changes in market interest rates. As of June 30, 2018, the Authority was not exposed to interest rate risk.

Credit Risk
Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the holder of the investment. As of June 30, 2018, the Authority was not exposed to credit risk.

Concentration of Credit Risk
Under GASB Statement No. 40, concentration of credit risk is the risk of loss attributable to the magnitude of the Authority's investment in a single issuer. As of June 30, 2018, the Authority was not exposed to concentration of credit risk.

Custodial Credit Risk
GASB Statement No. 40 defines custodial credit risk as the risk that the Authority will not be able to (a) recover deposits if the depository financial institution fails, or (b) recover the value of investments or collateral securities that are in the possession of an outside party.

The California Government Code requires California banks and savings and loan associations to secure a local government agency's (agency) deposit by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of an agency's deposits. California law also allows financial institutions to secure an agency's deposit by pledging first trust deed mortgage notes having a value of 150% of an agency's total deposits.

The agency may waive collateral requirements for deposits, which are fully insured up to $250,000 by the Federal Deposit Insurance Corporation.

NOTE 3 CASH AND CASH EQUIVALENTS (CONTINUED)

Deposits are exposed to custodial credit risk if they are uninsured and are either:

a. Uncollateralized.
b. Collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the depositor-government's name.

As of June 30, 2018, the Authority was not exposed to custodial credit risk.

NOTE 4 FAIR VALUE MEASUREMENTS

During the fiscal year ended June 30, 2017, the Authority implemented GASB Statement No. 72, *Fair Value Measurement and Application*. GASB 72 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The Authority 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; while Level 3 inputs are significant unobservable inputs.

- Level 1 inputs are quoted prices for identical assets or liabilities in active markets that government can access at the measurement date.

- Level 2 inputs are other than quoted prices included in Level 1 that are observable for an asset or liability, either directly or indirectly.

- Level 3 inputs are unobservable inputs for an asset or liability.

The Authority's investments in LAIF as of June 30, 2018 is reported at the Authority's pro-rata share of the amortized cost provided by LAIF for the entire portfolio. This amount approximates fair value.

NOTE 5 LONG-TERM LOANS RECEIVABLE

Effective November 1, 2013, Augusta Communities, LLC borrowed $90,000 from the Authority subject to a Residual Receipts Promissory Note in favor of the Authority. The promissory note bears interest of two percent (2%) per annum subject to partial assignment of gross receipts of a mobile home park in Yucaipa, California. Payments of principal and interest thereon are due and payable based on a twenty (20) year amortization schedule commencing August 15, 2016. The outstanding balance of the loan amounted to $81,522 as of June 30, 2018.

NOTE 6 CONDUIT DEBT ISSUED AND RELATED MOBILE HOME PARKS

As discussed in Note 1, beginning in 2003, a program was initiated for the issuance of conduit debt for the payment of purchase cost and development of locations to be used as low- and moderate-income mobile home parks. The Authority became the issuer, as previously mentioned, and had no financial or managerial responsibilities. In 2012, conduit debt was allocated to purchase and equip a regional hospital and for construction of a charter school.

Beginning in 2003 and continuing through 2016, the Authority entered into agreements with Millennium Housing Corporation and its affiliates, Millennium Housing of California and Coach of San Diego, Inc. to finance its acquisition of mobile home parks throughout California as follows:

Westlake Mobile Home Park
Location: Fresno, California
Issuance of $15,180,000 of Revenue Bonds in 2003 refunded and refinanced at $16,700,000 in June 2007.

El Granada Mobile Home Park, now called Pillar Ridge — refinanced in 2014
Location: Moss Beach, California
Issuance of $29,865,000 of Revenue Bonds

Hacienda Valley Mobile Estates — refinanced in 2014
Location: Morgan Hill, California
Issuance of $12,235,000 of Revenue Bonds

San Juan Mobile Estates – refinanced in 2015
Location: San Juan Capistrano, California
Issuance of $39,910,000 of Revenue Bonds

Santa Rosa Leisure Mobile Home Park – refinanced in 2016
Location: Santa Rosa, California
Issuance of Revenue Bonds not to exceed $15,000,000

Lamplighter Salinas Mobile Home Park
Location: Salinas, California
Issuance of $22,925,000 of Revenue Bonds

Castle Mobile Estates
Location: Capitola, California
Issuance of $11,700,000 of Revenue Bonds

Rancho Del Sol Mobile Home Park
Location: Yucaipa, California
Issuance of $8,500,000 of Revenue Bonds

NOTE 6 CONDUIT DEBTS ISSUED AND RELATED MOBILE HOME PARKS (CONTINUED)

Sahara Mobile Home Park
Location: Palm Springs, California
Issuance of $16,000,000 of Revenue Bonds

Rancho Feliz Mobile Home Park
Location: Rohnert Park, California

Las Casitas de Sonoma
Location: Rohnert Park, California
Combined: $25,000,000 of Revenue Bonds issued, both Rohnert Park locations

Millbrook Mobile Home Park
Location: Fresno, California
Issuance of $7,500,000 of Revenue Bonds

Rancho Vallecitos Mobile Home Park
Location: San Marcos, California
Issuance of $28,000,000 of Revenue Bonds

Vista de Santa Barbara Mobile Home Park
Location: Carpenteria, California
Issuance of $8,430,000 of Revenue Bonds

2 Mobile Home Parks Palomar East and Palomar West — approved in March 2015
Location: San Marcos, California
Issuance of $38,500,000 of Revenue Bonds

Woods Mobile Home Park
Location: Clovis, California
Issuance of Bonds not to exceed $33,500,000

In 2012, the Authority entered into an agreement with Augusta Communities, LLC to finance four mobile home parks in San Bernardino County, three in Montclair, one in Yucaipa. Together with an authorization for $30,000,000 in Revenue Bonds, they are as follows:

Valley View Mobile Home Park — Yucaipa
Villa Montclair Mobile Home Park — Montclair
Monterey Manor Mobile Home Park — Montclair
Hacienda Mobile Home Park — Montclair

In November 2015, Mooney Grove Mobile Home Park in Visalia, Tulare County, was approved and bonds were authorized not to exceed $11,280,000.

NOTE 6 CONDUIT DEBTS ISSUED AND RELATED MOBILE HOME PARKS (CONTINUED)

In the late autumn of 2016, a mobile home park in the City of Clovis in Fresno County was approved to be financed by the issuance of conduit bonds by ICFA. The City of Clovis was approved as an associate member of ICFA. The Millennium Group is the sponsor.

Effective July 15, 2016, the $250,000 original balance subordinated loan originated in the purchase of the Lamplighter Mobile Home Park in Salinas was repaid in full plus accrued interest.

Outstanding Debt as of June 30, 2018

Mobile home parks		
Millenium Group of Companies	$	248,530,000
Augusta Communities, LLC		18,515,000
Other		
Alliance Charter Schools	$	26,362,675

NOTE 7 CONTINGENT LIABILITIES

The Authority is aware of potential claims that may be filed against them. The outcome of these matters is not presently determinable, but the resolution of these matters is not expected to have a significant impact on the financial condition of the Authority.

NOTE 8 SUBSEQUENT EVENTS

In preparing these financial statements, the Authority has evaluated events or transactions that occurred subsequent to the balance sheet date through November 5, 2018 the date the accompanying financial statements were available to be issued, for potential recognition or disclosure in the financial statements. The Authority determined that no subsequent events required disclosure or adjustment to the accompanying financial statements.

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