

**CALIFORNIA STATEWIDE
COMMUNITIES DEVELOPMENT AUTHORITY
(California Communities)**

**Independent Auditor's Report, Financial
Statement, and Supplementary Information**

As Of June 30, 2012

**THE CALIFORNIA STATEWIDE COMMUNITIES
DEVELOPMENT AUTHORITY
(CALIFORNIA COMMUNITIES)**

FINANCIAL STATEMENT

AS OF

JUNE 30, 2012

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Board of Commissioners
California Statewide Communities
Development Authority
Sacramento, California

Independent Auditor's Report

We have audited the accompanying statement of fiduciary assets and liabilities – agency fund (financial statement) of the California Statewide Communities Development Authority (California Communities), as of June 30, 2012. This financial statement is the responsibility of California Communities’ management. Our responsibility is to express an opinion on this financial statement 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 statement is free of material misstatement. An audit 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 California Communities’ internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position of the agency fund of California Communities as of June 30, 2012 in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis on pages 3 through 6 be presented to supplement the financial statement. Such information, although not a part of the financial statement, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statement 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 financial statement, and other knowledge we obtained during our audit of the financial statement. 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.

Our audit was conducted for the purpose of forming an opinion on the financial statement. The schedule of fiduciary fee collections/charges and disbursements related to the conduit finance activities – agency fund is presented for purposes of additional analysis and is not a required part of the financial statement. The schedule of fee collections/charges and disbursements related to the conduit finance activities – agency fund is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statement as a whole.

Maclean Meiri & O'Connell LLP

Sacramento, California
September 7, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

The California Statewide Communities Development Authority (California Communities) was created in 1988, under California's Joint Exercise of Powers Act, to provide California's local governments with an effective tool for the timely financing of community-based public benefit projects.

Although cities, counties and special districts are able to issue their own debt obligations or serve as a conduit issuer of private activity bonds that promote economic development and provide critical community services, many local agencies find stand-alone financings too costly or lack the necessary resources or experience to facilitate the bond issuance and perform post-issuance activities for the term of the bonds.

In response, local governments formed California Communities. California Communities was created by and for local governments in California, and is sponsored by the California State Association of Counties (CSAC) and the League of California Cities (the League).

Today, nearly 500 cities, counties, and special districts have become Program Participants to California Communities – which serves as their conduit issuer and provides access to an efficient and effective mechanism to finance locally-approved public benefit projects. At June 30, 2012, the aggregate amount of California Communities' conduit debt obligations outstanding issued on behalf of program participants totaled \$29.0 billion.

California Communities helps local governments build community infrastructure, provide affordable housing, create jobs, make access available to quality healthcare and education, and more. California Communities provides an important resource to our local government members by ensuring that local community projects get funded quickly and reliably.

Conduit Finance Activity

During the fiscal year ended June 30, 2012, California Communities served as issuer for \$2.2 billion in conduit revenue bonds related to its Private Activity and Public Agency Finance Programs.

Private Activity Finance Program projects are those owned by the private sector, but which provide specific public benefits and are approved by the local City Council or County Board of Supervisors. During the year ended June 30, 2012, California Communities provided financing for 63 Private Activity Finance Program projects ranging from construction of affordable and senior housing apartments to erecting hospital and educational infrastructure to building new manufacturing facilities. In total, California Communities provided conduit access to the tax-exempt and taxable municipal finance marketplace for approximately \$2.0 billion in Private Activity Finance Program projects.

Public Agency Finance Programs are those where California Communities serves as the conduit issuer for financings where a city, county, and/or special district is the borrower. California Communities frequently conducts these types of financings on a pooled basis with more than one government entity participating in a single financing, thereby spreading the costs of issuance across borrowers to produce a lower-cost transaction than each local government would enjoy on its own. During the year ended June 30, 2012, California Communities conducted 10 Public Agency Finance Program conduit issuances totaling approximately \$0.2 billion and benefiting 16 of its public agency members.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to California Communities' financial statement. California Communities' financial statement comprises two components: 1) the statement of fiduciary assets and liabilities – agency fund and 2) notes to the financial statement.

Financial Statement. California Communities has only one financial statement, the *statement of fiduciary assets and liabilities—agency fund*, which appears at page 7. This statement reports assets held in an agency capacity for others and that are not the property of California Communities itself. As an issuer which acts exclusively in a conduit capacity, California Communities has no assets, liabilities, revenues, or expenses of its own. Because of this structure, **in accordance with Generally Accepted Accounting Principles, California Communities does not report either a statement of net assets and governmental fund balance sheet or a statement of activities and governmental fund revenues, expenditures, and changes in fund balance.**

Notes to the Financial Statement. The notes provide additional information that is essential to a full understanding of the data provided in the financial statement. The notes to the financial statement can be found on pages 8 - 13 of this report.

Analysis of Fiduciary Assets and Liabilities—Agency Fund

Agency funds reported by California Communities in the *statement of fiduciary assets and liabilities—agency fund* are the property of others. These agency funds fall into one of three categories, each of which is reported in the *schedule of fiduciary fee collections/charges and disbursements related to the conduit finance activities – agency fund*, which appears at page 15 as information supplemental to the financial statement. The categories are: 1) bond issuance, 2) bond administration, and 3) general administrative activities:

Bond Issuance. These agency funds represent amounts charged to borrowers by the California Communities' contract program administrator in California Communities' name to pay for the program administrator's services as well as for the program sponsorship, and marketing services provided by CSAC and the League. The program administrator bills the borrower in advance for bond issuance fees and then places the payment on deposit with Wells Fargo Corporate Trust Services. Amounts held are invested in cash and cash equivalents.

Once bonds are issued, the trustee distributes payments for services directly to the program administrator, CSAC, the League, and any others. For the year ended June 30, 2012, the program administrator collected approximately \$4.5 million for California Communities' bond issuance services. At June 30, 2012, the related accounts held approximately \$1.5 million for bond transactions pending issuance.

Bond Administration. These agency funds are assessed by the program administrator in California Communities' name for the performance of ongoing administration and compliance work to help keep long-term bond issues in good standing. Bond administration fees are generally paid in advance by the borrower (sometimes several years in advance) and are remitted into various accounts with Wells Fargo Bank Corporate Trust Services until the associated ongoing administration services are performed. These monies are invested either in cash and cash equivalents or in United States government treasury STRIPs.

Amounts held are considered to be the property of the payer until such time as the ongoing administration services are carried out by the program administrator or others. Such services are primarily performed by the program administrator, CSAC, and the League, each of which receives payments as services are rendered. For the year ended June 30, 2012, the program administrator collected approximately \$13.8 million in payments and prepayments for California Communities' ongoing bond administration activities. At June 30, 2012, the related accounts held approximately \$6.8 million for bond administration activities pending performance.

General Administrative Activities. These agency funds are held in bank accounts where they are owned jointly by CSAC and the League. These accounts are funded by set-asides that CSAC, the League, and the program administrator would have otherwise earned for the performance of bond issuance and bond administration services. Amounts held in these reserve accounts are used by CSAC, the League, and the program administrator for purposes such as shared marketing, funding public agency education programs, purchasing public official's insurance for the Board of Commissioners, and paying accounting, legal, and other professional services expenses associated with use of California Communities' name. For the year ended June 30, 2012 these CSAC and League-owned accounts funded \$760,385 in general administrative expenses. At June 30, 2012 the amounts held in these agency accounts totaled \$507,865, all of which were invested in cash and cash equivalents.

Related Parties

California Communities maintains agreements with CSAC and the League for the provision of program sponsorship, and marketing services. In exchange for these services, both organizations receive percentage shares of the distributions made from agency funds collected for bond issuance and bond administration services performed by the program administrator. For the year ended June 30, 2012, CSAC and the League together earned \$4,132,648, shared equally between them. Program administration services are performed under contract with California Communities by various subsidiary companies of HB Capital Resources, Ltd. For the year ended June 30, 2012, these companies collectively received revenues of \$10,770,831.

Requests for Information

This financial report is designed to provide a general overview of California Communities' finances for all those interested. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

California Statewide Communities Development Authority
1100 K Street
Sacramento, CA 95814

**THE CALIFORNIA STATEWIDE COMMUNITIES
DEVELOPMENT AUTHORITY
(CALIFORNIA COMMUNITIES)**

**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND
As of June 30, 2012**

ASSETS	
Cash and investments	\$ 8,783,152
Accounts receivable	48,718
Total assets	<u>\$ 8,831,870</u>
 LIABILITIES	
Agency obligations	<u>\$ 8,831,870</u>

See accompanying notes to the financial statement.

**THE CALIFORNIA STATEWIDE COMMUNITIES
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**NOTES TO THE FINANCIAL STATEMENT
As of and for the Year Ended June 30, 2012**

Note 1 - Nature of Organization

The California Statewide Communities Development Authority (California Communities) is a conduit finance issuer only. It has no revenues, expenses, assets, or liabilities of its own. Debt obligations issued through California Communities are those of the governments, non-profit organizations, and private companies who use California Communities' own governmental status to access the tax-exempt and taxable municipal finance marketplace. Once a borrower uses California Communities to issue debt, financial servicing of that debt falls to a trustee, or potentially to the investor itself in certain private placements. California Communities maintains no ongoing interest in bonds issued through its conduit and no debt servicing responsibility.

California Communities is a public agency established in 1988 as a Joint Powers Authority (JPA). It is sponsored by the California State Association of Counties and the League of California Cities and is set up per the provisions of California's Joint Exercise of Powers Act. Under this law, any two or more public agencies may by agreement jointly exercise powers common among them. In this manner, through California Communities, local governments have a vehicle they control to complete public benefit projects that otherwise may not have been economic or practical to pursue were the local jurisdiction to have served as issuer. California Communities is a cooperative repository of public benefit finance expertise that allows its members to use an array of tax-exempt programs without the burden of managing the associated set of issuance and ongoing administrative responsibilities directly themselves.

California Communities is governed by a seven-member commission. California Communities' Board of Commissioners (Board) is appointed by the California State Association of Counties (CSAC) and the League of California Cities (the League) (see Note 4—*Related Parties*), which together represent the interests of counties and cities throughout the state. This Board is required by the joint powers agreement to establish public benefit finance criteria and to evaluate every submitted project on the basis of benefit provided, after receiving the requisite local approval. No project can proceed without the approval of commissioners appointed by CSAC and the League, the structure of which ensures the preservation of both city and county interests.

**THE CALIFORNIA STATEWIDE COMMUNITIES
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**NOTES TO THE FINANCIAL STATEMENT (Continued)
As of and for the Year Ended June 30, 2012**

Note 2 – Summary of Significant Accounting Policies

General

The accompanying financial statement of California Communities has been prepared in conformity with generally accepted accounting principles as applied to governmental units. The financial statement is presented using the accrual basis of accounting. As discussed in Note 1, however, California Communities has no revenues or expenses to report for the period covered.

Agency Fund—Bond Issuance and Ongoing Bond Administration

While California Communities has no revenues of its own, CSAC, the League, and California Communities' designated Program Manager (see Note 4—*Related Parties*) assess bond issuance and ongoing bond administration fees to borrowers collectively in California Communities' name. Such fees are published in California Communities' fee schedule and are generally assessed as percentages of bonds issued or bonds outstanding. Fee collections, some of which are prepaid by borrowers, are deposited into one or more third-party trustee accounts where they are held until distributed to CSAC, the League, the Program Manager, or other designated payees. California Communities recognizes no revenues or expenses related to these fee collections and disbursements, all of which accrue to the financial statements of CSAC, the League, the Program Manager, and other third parties. Funds held in third-party trustee accounts related to bond issuance and ongoing bond administration activities, and reported within the Statement of Fiduciary Assets and Liabilities—Agency Fund, amounted to \$8,324,005 at June 30, 2012.

Agency Fund—General Administrative Activities

CSAC, the League, and the Program Manager (see Note 4—*Related Parties*) allocate a portion of the fee distributions they receive to reserve accounts owned by CSAC and the League and held for them. These accounts are used to buy insurance for California Communities, fund certain marketing activities, and support other general administrative activities engaged in by CSAC, the League, and the Program Manager as agents for California Communities. Amounts held in reserve accounts are the property of CSAC and the League and are reported within the Statement of Fiduciary Assets and Liabilities—Agency Fund. General and administrative activity agency fund owned by CSAC and the League and held for them amounted to \$507,865 at June 30, 2012.

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**NOTES TO THE FINANCIAL STATEMENT (Continued)
As of and for the Year Ended June 30, 2012**

Note 3 - Conduit Finance Activity

California Communities' conduit finance activity for the year ended June 30, 2012 appears as follows:

<u>Private Activity Finance Programs</u>	<u>No. of Bonds Issued</u>	<u>No. of Projects Financed</u>	<u>Debt Issued</u>
- Qualified 501(c)(3) Nonprofit	18	25	\$ 1,529,620,000
- Qualified Residential Rental Program	38	38	498,586,610
Total Private Activity	<u>56</u>	<u>63</u>	<u>2,028,206,610</u>
<u>Public Agency Finance Programs</u>	<u>No. of Program Participants</u>	<u>No. of Debt Offerings</u>	<u>Debt Issued</u>
- Tax and Revenue Anticipation Notes	5	2	77,520,000
- Transportation and Regional Infrastructure Project (TRIP)	2	2	25,925,000
- Statewide Community Infrastructure Program (SCIP)	4	1	9,190,000
- Water/Wastewater	4	4	35,630,000
- Taxable	1	1	5,310,000
Total Public Agency	<u>16</u>	<u>10</u>	<u>153,575,000</u>
Total Debt Issued			<u>\$ 2,181,781,610</u>

At June 30, 2012, the aggregate amount of the Authority's conduit debt obligations outstanding issued on behalf of program participants totaled \$29.0 billion.

The amount of conduit debt obligations authorized but unsold as of June 30, 2012 was \$460,545,000.

**THE CALIFORNIA STATEWIDE COMMUNITIES
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**NOTES TO THE FINANCIAL STATEMENT (Continued)
As of and for the Year Ended June 30, 2012**

Note 4 – Related Parties

California Communities has entered into Program Administration Agreements with CSAC and the League (see Note 1—*Nature of Organization*) for promotion and marketing of California Communities’ conduit finance programs. In addition, per the provisions of the California Communities Joint Powers Agreement, CSAC and the League appoint individuals to serve on California Communities’ seven-member commission.

California Communities has also entered into Program Administration Agreements with subsidiaries of HB Capital Resources, Ltd. (collectively HB Capital) for the provision of comprehensive staff services for daily operational and marketing purposes. Acting as California Communities’ staff, HB Capital personnel implement the issuance policies established by California Communities’ Board of Commissioners, execute aspects of the deal qualification and structuring process, analyze and present transactions to California Communities’ Board of Commissioners for review and approval, and work with the financial and legal community, local agencies and regulatory bodies, and others to ensure that conduit bonds issued in California Communities’ name remain in good standing.

Pursuant to the above Program Administration Agreements, CSAC, the League, and HB Capital each receive a set percentage of the bond issuance and ongoing bond administration fees assessed to borrowers in California Communities’ name, with such percentages varying based upon deal type. CSAC, the League, and HB Capital pay all their own expenses related to the provision of their respective services. For the year ended June 30, 2012, CSAC’s enterprise services unit (CSAC Finance Corporation) and the League of California Cities together received \$4,132,648 split equally between them. HB Capital received revenues of \$10,770,831.

Note 5 – Cash and Investments

Agency funds held as cash and investments at June 30, 2012 consist of the following:

Deposits	\$2,647,394
Investments:	
Money Market Funds	1,472,003
U.S. Treasury Obligations	<u>4,663,755</u>
Total Cash and Investments	<u>\$8,783,152</u>

**THE CALIFORNIA STATEWIDE COMMUNITIES
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**NOTES TO THE FINANCIAL STATEMENT (Continued)
As of and for the Year Ended June 30, 2012**

Note 5 – Cash and Investments (continued)

Agency Fund Investments Authorized by California Communities’ Investment Policy

The table below identifies the investment types authorized by California Communities for agency funds held for the benefit of California Communities’ conduit issuance activities. (This table does not address investments of conduit bond proceeds held by bond trustees that are governed by the provisions of the associated conduit debt agreements.)

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum % of Portfolio</u>	<u>Maximum Investment in one Issuer</u>
U.S. Treasury Obligations	None	None	None
Commercial Paper	1 Year	None	\$100,000
Certificates of Deposit	5 Years	None	\$100,000
Medium-Term Notes	5 Years	None	\$100,000
Mutual Funds	N/A	None	\$100,000
Money Market Funds	N/A	None	None

Disclosures Relating to Interest Rate Risk

Interest rate risk 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 interest rates. One of the ways that California Communities manages the exposure of agency funds is by authorizing the purchase of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity over time as necessary to provide the cash flow and liquidity needed for conduit operations.

Information about the sensitivity of the fair values of agency fund investments to market rate fluctuations is provided by the following table that shows the distribution of investments by maturity:

Investment Type	Maturities				Total
	12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months	
Money Market Funds	\$1,472,003	\$ --	\$ --	\$ --	\$ 1,472,003
U.S. Treasury Obligations	469,697	466,861	907,259	2,819,938	4,663,755

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**NOTES TO THE FINANCIAL STATEMENT (Continued)
As of and for the Year Ended June 30, 2012**

Note 5 – Cash and Investments (continued)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. California Communities mitigates the credit risk of agency funds by limiting permitted investments to U.S. Treasury obligations money market funds, or debt instruments that carry the assignment of a BBB or better rating by a nationally-recognized statistical rating organization. At June 30, 2012, agency fund investments were held entirely in money market funds and U.S. Treasury obligations with Standards & Poor's ratings of AAAM or AAAM-G and AA+, respectively.

Concentration of Credit Risk

California Communities' investment policy with respect to agency funds limits concentration of credit risk by restricting investments to U.S. Treasury obligations, money market funds, or to \$100,000 in individual debt instruments of any other type or issuer. California Communities' agency fund investment position at June 30, 2012 was in compliance with this policy.

Custodial Credit Risk

The custodial credit risk for agency fund investments is the risk that, in the event of the failure of the counterparty to a transaction, the beneficiaries of the agency funds will not be able to recover the value of their investments or collateral securities that are in the possession of another party. California Communities' agency fund investments are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

The custodial credit risk for agency fund deposits is the risk that, in the event of the failure of a depository financial institution, California Communities will not be able to recover collateral securities that are in the possession of an outside party. Deposits that potentially subject California Communities to custodial credit risk consist of demand deposits and money market accounts in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC). It is the practice of California Communities to place its demand deposits and money market accounts with a high-credit, quality financial institution. California Communities had deposits of \$2,309,244 at June 30, 2012, which were not covered by the FDIC. However, this amount is secured in accordance with the California Government Code, which requires that financial institutions secure deposits made by state and local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. Collateral is considered held in California Communities' name.

SUPPLEMENTARY INFORMATION

The following page contains information that is supplemental to the operations of the California Statewide Communities Development Authority (California Communities). The information that appears shows the consolidated activity and balances of accounts used to collect issuance and administrative fees charged by others in California Communities' name. Amounts collected in these accounts are the property of the California State Association of Counties Finance Corporation (CSAC), the League of California Cities (the League), and certain conduit borrowers for which services have not yet been performed, but who have deposited funds for the future payment of those services. California Communities holds no right or title to these accounts.

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**SCHEDULE OF FIDUCIARY FEE COLLECTIONS/CHARGES AND DISBURSEMENTS
RELATED TO THE CONDUIT FINANCE ACTIVITIES - AGENCY FUND
For the Year Ended June 30, 2012**

	Bond Issuance	Bond Administration	General Administrative Activities	Total
<u>Amounts Collected and Charged in Benefit of Conduit Finance Activities of California Communities</u>				
Bond Issuance Fees	\$ 2,450,872	\$ -	\$ -	\$ 2,450,872
Bond Administrative Fees	-	12,661,866	-	12,661,866
Deposits	2,048,939	-	-	2,048,939
Investment Income:				
Interest	146	765	73	984
Change in Fair Value of Investments	-	1,101,789	-	1,101,789
<u>Total Amounts Collected and Charged in Benefit of Conduit Finance Activities of California Communities</u>	<u>4,499,957</u>	<u>13,764,420</u>	<u>73</u>	<u>18,264,450</u>
<u>Amounts Disbursed in Benefit of Conduit Finance Activities of California Communities</u>				
Program Administration - Subsidiaries of HB Capital Resources, Ltd.	1,648,649	7,668,900	-	9,317,549
Program Governance and Marketing - CSAC	395,001	1,671,323	-	2,066,324
Program Governance and Marketing - the League	395,001	1,671,323	-	2,066,324
Compliance Monitoring - Compliance Services, LLC (a subsidiary of HB Capital Resources, Ltd.)	-	1,453,282	-	1,453,282
General Administrative	-	-	760,385	760,385
Deposits Returned and Other	2,897,507	86,104	-	2,983,611
<u>Total Amounts Disbursed in Benefit of Conduit Finance Activities of California Communities</u>	<u>5,336,158</u>	<u>12,550,932</u>	<u>760,385</u>	<u>18,647,475</u>
<u>Transfers</u>	<u>105,681</u>	<u>(816,156)</u>	<u>710,475</u>	<u>-</u>
Change in Agency Obligations	(730,520)	397,332	(49,837)	(383,025)
Agency Obligations, June 30, 2011	2,207,385	6,449,808	557,702	9,214,895
Agency Obligations, June 30, 2012	<u>\$ 1,476,865</u>	<u>\$ 6,847,140</u>	<u>\$ 507,865</u>	<u>\$ 8,831,870</u>