

**CALIFORNIA COASTAL RURAL  
DEVELOPMENT CORPORATION**

**(A CALIFORNIA NON-PROFIT  
PUBLIC BENEFIT CORPORATION)**

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**ANNUAL FINANCIAL STATEMENTS  
AND  
SUPPLEMENTARY INFORMATION  
WITH  
INDEPENDENT AUDITOR'S REPORTS**

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**JUNE 30, 2017 AND 2016**

**CALIFORNIA COASTAL RURAL DEVELOPMENT CORPORATION**  
**(A CALIFORNIA NON-PROFIT PUBLIC BENEFIT CORPORATION)**

**JUNE 30, 2017 AND 2016**

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
California Coastal Rural Development Corporation  
Salinas, California

### Report on the Financial Statements

We have audited the accompanying financial statements of California Coastal Rural Development Corporation (a California non-profit public benefit corporation) which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and cash flows for the years 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.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 California Coastal Rural Development Corporation as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of Federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, 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 statements as a whole.

The additional supplementary information (unaudited) listed in the Table of Contents is presented at the request of management for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2017, on our consideration of California Coastal Rural Development Corporation'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 California Coastal Rural Development Corporation's internal control over financial reporting and compliance.

*Varrault, Trine, Day & Co. LLP*

Rancho Cucamonga, California  
October 12, 2017

**CALIFORNIA COASTAL RURAL DEVELOPMENT CORPORATION**  
(A CALIFORNIA NON-PROFIT PUBLIC BENEFIT CORPORATION)

**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2017 AND 2016**

	2017	2016
<b>ASSETS</b>		
Cash and cash equivalents - undesignated	\$ 4,625,436	\$ 5,236,588
Cash and cash equivalents - designated	1,327,099	1,963,910
Accounts receivable	35,543	106,030
Interest receivable	81,156	78,755
Investments	192,946	180,882
Loans receivable, net	7,865,220	7,414,384
Fixed assets, net	31,477	38,374
Other assets	3,673	67,008
<b>TOTAL ASSETS</b>	<b>\$ 14,162,550</b>	<b>\$ 15,085,931</b>
<b>LIABILITIES AND NET ASSETS</b>		
Accounts payable and other accrued expenses	\$ 2,000	\$ 3,337
Other liabilities	57,733	90,107
Accrued compensation and benefits	202,332	104,293
Interest payable	162,284	173,327
Trust funded loans	353,958	-
Resold commercial loans payable	2,240,713	3,377,900
Subordinated notes payable	5,870,000	5,870,000
Notes payable	1,848,031	2,167,556
<b>TOTAL LIABILITIES</b>	<b>10,737,051</b>	<b>11,786,520</b>
<b>NET ASSETS</b>		
Unrestricted Net Assets		
Undesignated	4,747,756	4,583,349
Designated	(1,322,257)	(1,283,938)
<b>TOTAL UNRESTRICTED NET ASSETS</b>	<b>3,425,499</b>	<b>3,299,411</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 14,162,550</b>	<b>\$ 15,085,931</b>

See the accompanying notes to financial statements.

**CALIFORNIA COASTAL RURAL DEVELOPMENT CORPORATION**  
(A CALIFORNIA NON-PROFIT PUBLIC BENEFIT CORPORATION)

**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	2017	2016
<b>REVENUES</b>		
State contract income	\$ 275,000	\$ 240,000
Technical assistance contract income	142,619	183,189
Grant income	-	7,500
Loan origination and guarantee fees	886,403	770,913
Loan late fees	19,383	16,873
Loan interest income	1,919,340	1,797,234
Interest on deposit accounts	1,308	1,900
CDC income	94,363	102,870
Other income	16,277	175,125
<b>TOTAL REVENUES</b>	<b>3,354,693</b>	<b>3,295,604</b>
<b>EXPENSES</b>		
Salaries and wages	965,386	1,066,313
Payroll taxes and employee benefits	403,275	310,797
Interest expense	765,073	794,028
Provision for loan losses	161,886	111,245
Loan expenses	241,628	254,742
California Capital Access Program contribution	1,240	13,880
Advertising and promotion	8,199	14,560
Meetings, education, and travel	96,929	97,132
Communication	45,640	44,267
Occupancy	186,695	173,109
Professional services	229,843	251,423
Office	51,460	44,820
Equipment repair and maintenance	17,661	20,071
Depreciation	19,340	8,121
Miscellaneous expenses	34,350	35,892
<b>TOTAL EXPENSES</b>	<b>3,228,605</b>	<b>3,240,400</b>
Change in Net Assets	126,088	55,204
NET ASSETS, Beginning of Year	3,299,411	3,244,207
NET ASSETS, End of Year	<b>\$ 3,425,499</b>	<b>\$ 3,299,411</b>

See the accompanying notes to financial statements.

**CALIFORNIA COASTAL RURAL DEVELOPMENT CORPORATION**  
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**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 126,088	\$ 55,204
Adjustments to Reconcile Change in Net Assets to Net Cash Flows From Operating Activities		
Depreciation	19,340	8,121
Provision for loan losses	161,886	111,245
(Increase) Decrease in Assets		
Accounts receivable	70,487	(25,606)
Interest receivable	(2,401)	35,883
Other assets	63,335	(18,648)
Increase (Decrease) in Liabilities		
Accounts payable and other accrued expenses	(1,337)	1,337
Accrued compensation and benefits	98,039	(3,361)
Interest payable	(11,043)	18,478
Other liabilities	(32,374)	(173,448)
Net Cash Flows From Operating Activities	492,020	9,205
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of fixed assets	(12,443)	(30,240)
Increase in loans receivable	(612,722)	(1,353,343)
Decrease in other real estate owned	-	183,108
Increase in investments	(12,064)	(2,886)
Net Cash Flows From Investing Activities	(637,229)	(1,203,361)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net receipts on trust funded loans payable	353,958	-
Resold commercial loans payable	(1,137,187)	1,566,226
Payments on notes payable	(319,525)	(377,416)
Net Cash Flows From Financing Activities	(1,102,754)	1,188,810
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(1,247,963)	(5,346)
<b>CASH AND CASH EQUIVALENTS, Beginning of Year</b>	7,200,498	7,205,844
<b>CASH AND CASH EQUIVALENTS, End of Year</b>	\$ 5,952,535	\$ 7,200,498
<b>SUPPLEMENTAL DISCLOSURES</b>		
Interest paid	\$ 776,116	\$ 775,550

See the accompanying notes to financial statements.

**CALIFORNIA COASTAL RURAL DEVELOPMENT CORPORATION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

***NOTE 1 - NATURE OF ORGANIZATION***

California Coastal Rural Development Corporation (Cal Coastal or the Corporation) is a non-profit public benefit corporation serving the financial needs of small businesses and farmers. The Corporation was chartered in 1982 by the California Technology, Trade, and Commerce Agency; effective July 1, 2013, the program was moved to the California Infrastructure and Economic Development Bank (IBank), a part of the California Governor's Office of Business and Economic Development (GoBiz)) to provide direct loans and loan guarantees to rural businesses located on the Central California Coast. Cal Coastal provides additional loan services to farmers and public jurisdictions in rural areas from offices in Salinas and Santa Maria. Cal Coastal is not a Voluntary Health and Welfare Organization (VHWO).

Cal Coastal has an agreement with Monterey County to provide the above-mentioned services on a pass-through basis for this jurisdiction. As Cal Coastal does not own the loans, they are not recorded on Cal Coastal's financial statements.

***NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

**Basis of Presentation**

The accounting and reporting policies of Cal Coastal conform to accounting principles generally accepted in the United States of America (US GAAP). The financial statements are prepared on the accrual basis of accounting.

Cal Coastal has evaluated subsequent events for recognition and disclosure through October 12, 2017, which is the date the financial statements were available to be issued.

A summary of the significant accounting and reporting policies used in the preparation of the accompanying financial statements follows.

**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 those estimates. Estimates that are particularly susceptible to significant change relate to the determination of the allowance for losses on loans. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in local economic conditions.

**Fund Accounting**

In order to ensure observance of limitations and restrictions placed on the use of the resources available, the Corporation's accounts are maintained in accordance with the principles of "fund accounting". This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with activities or specified objectives. Separate accounts are maintained for each fund.



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**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

***NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued***

The **Corporate Fund** accounts for the revenues and expenses of Cal Coastal, which are not otherwise accounted for in other funds. The functions financed through this fund are primarily contracts with IBank; loan originations and servicing with the U.S. Small Business Administration's 504 loan program; contracts to provide loan origination and servicing with local agency jurisdictions; and other programmatic functions financed with Corporation-generated funds.

The **Direct Loan Program Fund** accounts for the resources generated and used by Cal Coastal's direct farm lending operations (i.e. loans made with Cal Coastal controlled funds). The Farm Services Agency (the FSA), a Department of the United States Department of Agriculture (USDA), guarantees a portion of this loan portfolio (90 percent).

Combined, these two funds represent the undesignated assets, liabilities, and net earnings of the Corporation. Operating results of the Direct Loan Program are used to support the Corporate Expenses. The remaining individual funds, described below, represent designated funds for specific loan programs.

The **Intermediary Relending Program (IRP-1, IRP-2, and IRP-3) Funds** account for the receipt and subsequent disbursement of loan proceeds from the Rural Economic and Community Development Service (the RECDs). These funds are provided to the Corporation for the purpose of relending to small businesses engaged in non-agricultural industries and may be used as operating capital or for the purchase of equipment.

The **Small Business Administration (SBA) Fund** accounts for the resources generated and used by microloans funded through funds advanced from the SBA. These funds are provided to the Corporation for the purpose of relending to small businesses and may be used as operating capital, purchases of equipment, inventory, leasehold improvements, and real estate acquisitions.

**Accounts Receivable**

Accounts receivable consist primarily of amounts owed from grants and contracts. Grant and contract receivables are subject to review by the issuing agencies and, consequently, certain costs could be disallowed. Management is of the opinion that any adjustments made due to these reviews would be immaterial. Due to the nature of these receivables, such adjustments relating to prior year are taken against income in the year in which the amounts are determined to be uncollectible.

**Loans Receivable**

Loans receivable are stated at the unpaid principal balance, less the allowance for loan losses and deferred loan fees net of deferred loans costs. Loan origination fees, offset by certain direct loan origination costs, are deferred and recognized over the contractual life of the loan as a yield adjustment. During the years ended June 30, 2017 and 2016, there were no deferred loan fees.

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**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

***NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued***

**Non-Accrual Loans**

Loans on which the accrual of interest has been discontinued are designated as non-accrual loans. The accrual of interest on loans is discontinued when principal or interest is past due 90 days or when, in the opinion of management, there is reasonable doubt as to collectibility. When loans are placed on non-accrual status, all interest previously accrued but not collected is reversed against current period interest income. Income on non-accrual loans is subsequently recognized only to the extent that cash is received and the loan's principal balance is deemed collectible.

Cal Coastal considers a loan to be impaired when it is probable that the Corporation will be unable to collect all amounts due (principal and interest) according to the contractual terms of the loan agreement. Measurement of impairment is based on the expected future cash flows of an impaired loan, which are to be discounted at the loan's effective interest rate, or measured by reference to an observable market value, if one exists, or the fair value of the collateral for a collateral-dependent loan. The Corporation selects the measurement method on a loan-by-loan basis except that collateral-dependent loans for which foreclosure is probable are measured at the fair value of the collateral. The Corporation recognizes interest income on impaired loans based on its existing methods of recognizing interest income on non-accrual loans.

**Allowance for Loan Losses**

The allowance for loan losses is established through provisions for loan losses charged against income. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off. Amounts are charged-off when available information confirms that specific loans or portions thereof, are uncollectible. This methodology for determining charge-offs is consistently applied to each loan.

The allowance consists of specific and general reserves. Specific reserves relate to loans that are individually classified as impaired. A loan is impaired when, based on current information and events, it is probable that Cal Coastal will be unable to collect all amounts due according to the contractual terms of the loan agreement. Factors considered in determining impairment include payment status, collateral value, and the probability of collecting all amounts when due. Measurement of impairment is based on the expected future cash flows of an impaired loan, which are to be discounted at the loan's effective interest rate, or measured by reference to an observable market value, if one exists, or the fair value of the collateral for a collateral-dependent loan. Cal Coastal selects the measurement method on a loan-by-loan basis except that collateral-dependent loans for which foreclosure is probable are measured at the fair value of the collateral.

Cal Coastal recognizes interest income on impaired loans based on its existing methods of recognizing interest income on nonaccrual loans.

**CALIFORNIA COASTAL RURAL DEVELOPMENT CORPORATION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

***NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued***

**Fixed Assets**

Fixed assets are stated at cost, less accumulated depreciation and amortization. Depreciation on furniture, fixtures, and equipment is computed using the straight-line method over the estimated useful lives of the related assets, which range from three to five years. Leasehold improvements are amortized over the term of the lease or the estimated useful lives of the improvements, whichever is shorter, and computed on the straight-line method.

**Other Real Estate Owned**

Other real estate owned includes real estate and other property acquired in full or partial settlement of loan obligations. When property is acquired, any excess of the recorded investment in the loan balance and accrued interest income over the appraised fair market value of the property, net of estimated selling costs, is charged against the allowance for loan and lease losses. Subsequent gains or losses on sales or writedowns resulting from permanent impairments are recorded in other income or expense as incurred.

**Compensated Absences**

Cal Coastal employees are credited nine to thirty days of vacation and twelve days sick leave annually depending on seniority, to a maximum of thirty-six days vacation. The unused portion of vacation is payable to the employee at termination of employment. As of June 30, 2017 and 2016, the accrued vacation balance was \$82,000 and \$73,183, respectively, and is recorded as accrued compensation and benefits. Sick leave is not vested and, therefore, is not paid nor is it accrued.

**Revenues**

Cal Coastal's principle sources of revenue are interest income, loan origination and guarantee fees, state contract income, and a technical assistance grant from the United States Small Business Administration for the Microloan Program. The grant provides for the Corporation to be reimbursed for authorized expenditures; contract revenue is recorded when a contract is awarded or when earned under the terms and conditions of the contract.

**Allocation of Expenditures**

Cal Coastal charges all direct expenditures to the appropriate lending program. Indirect expenditures eligible to be charged to cost reimbursement programs are allocated to all funds, subject to contractual limits. Indirect costs which are not eligible to be charged to cost reimbursement programs are allocated prorata among the remaining funds.

**Income Taxes**

Cal Coastal is exempt from Federal income and California franchise taxes under Section 501(c)(3) of the Internal Revenue Code and corresponding California provisions. Accordingly, no provision for income taxes has been recorded in the financial statements. The Corporation annually files Forms 990, 199, and RRF-1 with the appropriate agencies, as well as Forms 990T and 109, when applicable. The Corporation has also been classified as an entity that is not a private foundation within the meaning of Section 509(a).

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**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

***NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued***

Cal Coastal has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 that clarifies the accounting for uncertainty in tax positions taken, or expected to be taken, on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Management believes that all tax positions taken to date are highly certain and, accordingly, no accounting adjustment has been made to the financial statements. Interest and penalties related to uncertain tax positions are recorded as part of income tax expense.

Cal Coastal's Federal informational tax returns for the years ended June 30, 2014, 2015, and 2016, are open to audit by the Federal authorities. California State informational returns for the years ended June 30, 2013, 2014, 2015, and 2016, are open to audit by State authorities.

**Concentrations of Credit and Market Risk**

Financial instruments that potentially expose the Corporation to concentrations of credit and market risk consist primarily of cash equivalents and investments. Cash equivalents are maintained at well-capitalized financial institutions and credit exposure is limited to any one institution. At June 30, 2017 and 2016, the total amount of cash and cash equivalents in excess of the Federal Deposit Insurance Corporation (FDIC) insured limits at all financial institutions totaled approximately \$5,456,726 and \$6,699,660, respectively. The Corporation has not experienced any losses on its cash equivalents. The funds held at financial institutions are closely monitored.

**Fair Value of Financial Instruments**

Cal Coastal determines the fair market values of certain financial instruments based on the fair value hierarchy established in Statement of Financial Accounting Standards, *Fair Value Measurements*, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

The following provides a summary of the hierarchical levels used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs (other than Level 1 prices) such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect an entity's own assumptions about the factors that market participants would use in pricing an asset or liability.

All of Cal Coastal's investments as disclosed in Note 4 are considered to be Level 1 investments.

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**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

**Cash and Cash Equivalents**

For purposes of presentation in the statement of cash flows, the Corporation considers all highly liquid financial instruments, with initial maturities of three months or less, to be cash equivalents. Investments include CDs maturing January 2017 and January 2016. These deposits are made to satisfy regulatory requirements to maintain a certain percentage of loan balances.

**Reclassifications**

Certain prior year financial statement balances may have been reclassified to conform to the current year presentation.

**NOTE 3 – CASH IN BANKS**

	June 30, 2017
Cash - undesignated	\$ 4,625,436
Cash - designated	1,327,099
Total Cash and Cash Equivalents	\$ 5,952,535
	June 30, 2016
Cash - undesignated	\$ 5,236,588
Cash - designated	1,963,910
Total Cash and Cash Equivalents	\$ 7,200,498

**NOTE 4 – INVESTMENTS**

Investments are carried at fair market value as follows:

	June 30, 2017		
	Adjusted Cost	Fair Value	Unrealized Gain (Loss)
Certificates of Deposit	\$ 165,151	\$ 165,151	\$ -
FmAc Equity Securities	27,795	27,795	-
	\$ 192,946	\$ 192,946	\$ -

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**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

**NOTE 4 – INVESTMENTS, continued**

Investments are carried at fair market value as follows:

	June 30, 2016		
	Adjusted Cost	Fair Value	Unrealized Gain (Loss)
Certificates of Deposit	\$ 164,815	\$ 164,815	\$ -
FmAc Equity Securities	16,067	16,067	-
	\$ 180,882	\$ 180,882	\$ -

**NOTE 5 – LOANS RECEIVABLE**

Loans receivable at June 30, 2017 and 2016, consist of the following:

	June 30, 2017				Total
	Direct Loan Program	IRP-1, IRP-2, and IRP-3 Relending Programs	SBA-1 and SBA-2 Loan Programs	NADBank Loan Program	
Commercial loans, gross	\$ 31,485,259	\$ 2,351,648	\$ 836,676	\$ 749,801	\$ 35,423,384
Resold commercial loans	(25,652,938)	-	-	(677,555)	(26,330,493)
Commercial loans, net	5,832,321	2,351,648	836,676	72,246	9,092,891
Allowance for loan losses	(792,287)	(275,852)	(154,152)	(5,380)	(1,227,671)
	\$ 5,040,034	\$ 2,075,796	\$ 682,524	\$ 66,866	\$ 7,865,220
	June 30, 2016				Total
	Direct Loan Program	IRP-1, IRP-2, and IRP-3 Relending Programs	SBA-1 and SBA-2 Loan Programs	NADBank Loan Program	
Commercial loans, gross	\$ 32,602,638	\$ 1,649,820	\$ 948,521	\$ 779,270	\$ 35,980,249
Resold commercial loans	(26,830,259)	-	-	(703,715)	(27,533,974)
Commercial loans, net	5,772,379	1,649,820	948,521	75,555	8,446,275
Allowance for loan losses	(680,951)	(203,302)	(142,258)	(5,380)	(1,031,891)
	\$ 5,091,428	\$ 1,446,518	\$ 806,263	\$ 70,175	\$ 7,414,384

The Corporation's loan portfolio is collateralized predominantly by farm equipment, real estate, and crops throughout the Central Coast area of California. As a result, these portfolios consist of similar collateral types in the same region. Although the Corporation has a diversified portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent upon the economy of this region of California.

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**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

***NOTE 5 – LOANS RECEIVABLE, continued***

The Corporation assesses loans individually and categorizes its loans receivables into risk categories based on relevant information about the ability of borrowers to service the debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends among other factors. The Corporation analyzes loans individually by classifying the loans as to credit risk periodically throughout the year. The following definitions are used for the risk ratings:

**Pass:** Loans that are current in payments and in general compliance with all debt covenants. Management considers the likelihood of loss on these credits to be low.

**Deficient Quality:** Loans reflecting a lack of primary and secondary sources of repayment.

**Watch:** Loan exhibits evidence of weakness normally of a temporary nature which, if not corrected within a reasonable period of time, could result in continued financial deterioration and a possible loss.

**Substandard:** A loan which may or may not be current, but requires special attention. May be inadequately protected by the current net worth and paying capacity of the obligor, or of the collateral pledged, if any.

**Doubtful:** Loans have all the elements of a substandard loan, with the added characteristic that the weakness makes collection or liquidation in full highly questionable and improbable.

**Pending Default/Loss:** Loans are considered uncollectible, or the chances for any recovery are long term and highly doubtful.

At June 30, 2017, the Corporation had supervised loans, in gross, in the Direct Loan Program, the IRP-1 and IRP-2 Relending Programs, and SBA of \$5,461,351, \$123,662, and \$365,756, respectively. At June 30, 2016, the Corporation had supervised loans, in gross, in the Direct Loan Program, the IRP-1 and IRP-2 Relending Programs, and SBA of \$6,073,334, \$132,254, and \$382,671, respectively.

At June 30, 2017 and 2016, the total recorded investment in impaired loans, all of which has allowances determined in accordance with generally accepted accounting principles, amounted to \$6,057,779 and \$6,473,982, respectively. For the years ended June 30, 2017 and 2016, the average recorded investment related to impaired loans totaled approximately \$6,265,880 and \$6,696,409, respectively. The allowance for loan losses totaled \$1,227,671 and \$1,031,891, respectively. The Corporation has no commitments to lend additional funds to borrowers whose loans have been modified. For the years ended June 30, 2017 and 2016, interest income from loans on non-accrual status would have been \$147,218 and \$343,459, respectively, had those loans been performing in accordance with their original terms and been outstanding throughout the period.

There were no loans receivable that were modified in troubled debt restructuring as of June 30, 2017 and 2016.

Resold commercial loan payables at June 30, 2017 and 2016, were \$2,240,713 and \$3,377,900, respectively, and represent principal payments which were collected prior to June 30 and remitted subsequent to year end.

**CALIFORNIA COASTAL RURAL DEVELOPMENT CORPORATION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

**NOTE 5 – LOANS RECEIVABLE, continued**

The following schedule summarizes the activity in the allowance for loan losses:

	Direct Loan Program	IRP-1 and IRP-2 Relending Programs	SBA-1 and SBA-2 Loan Programs	NADBank Loan Program	Total
Balance, June 30, 2015	\$ 652,564	\$ 194,580	\$ 152,029	\$ 5,380	\$ 1,004,553
Loan loss provision	69,245	24,000	18,000	-	111,245
Charge-offs	(463,529)	(31,278)	(11,771)	-	(506,578)
Recoveries	422,671	-	-	-	422,671
Reclassifications	-	16,000	(16,000)	-	-
Balance, June 30, 2016	680,951	203,302	142,258	5,380	1,031,891
Loan loss provision	111,336	32,550	18,000	-	161,886
Charge-offs	-	-	(6,331)	-	(6,331)
Recoveries	-	40,000	225	-	40,225
Balance, June 30, 2017	<u>\$ 792,287</u>	<u>\$ 275,852</u>	<u>\$ 154,152</u>	<u>\$ 5,380</u>	<u>\$ 1,227,671</u>

At June 30, 2017, Cal Coastal maintained restricted cash and investment accounts at financial institutions in the amount of \$277,008 for the SBA Loan Program and \$165,151 for NADBank. Such reserves are in addition to the above reserves for loan loss.

Based on the most recent analysis performed, the risk category of the loans receivable as of June 30 is as follows:

	Pass	Deficient Quality	Watch	Substandard	Doubtful/ Loss	Total
<b>June 30, 2017</b>						
Direct Loan Program	\$ 22,989,330	\$ 4,704,840	\$ 1,622,150	\$ 21,001	\$ 2,147,939	\$ 31,485,260
IRP Loan Programs	1,578,316	283,913	151,991	265,057	72,370	2,351,647
SBA Loan Programs	650,923	38,872	30,826	27,757	88,299	836,677
NADBank Loan Program	749,801	-	-	-	-	749,801
	<u>\$ 25,968,370</u>	<u>\$ 5,027,625</u>	<u>\$ 1,804,967</u>	<u>\$ 313,815</u>	<u>\$ 2,308,608</u>	<u>\$ 35,423,385</u>
<b>June 30, 2016</b>						
Direct Loan Program	\$ 24,615,621	\$ 2,669,746	\$ 629,711	\$ 1,056,218	\$ 3,631,342	\$ 32,602,638
IRP Loan Programs	1,125,150	9,745	162,161	280,393	72,370	1,649,820
SBA Loan Programs	708,390	35,347	67,772	32,121	104,891	948,521
NADBank Loan Program	779,270	-	-	-	-	779,270
	<u>\$ 27,228,432</u>	<u>\$ 2,714,838</u>	<u>\$ 859,644</u>	<u>\$ 1,368,732</u>	<u>\$ 3,808,603</u>	<u>\$ 35,980,249</u>



**CALIFORNIA COASTAL RURAL DEVELOPMENT CORPORATION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

**NOTE 5 – LOANS RECEIVABLE, continued**

Past due and nonaccrual loans receivable were as follows as of June 30:

	Current	Still Accruing			Nonaccrual	Total
		30-59 Days Past Due	60-89 Days Past Due	Over 90 Days Past Due		
<b>June 30, 2017</b>						
Direct Loan Program	\$ 26,196,780	\$ -	\$ -	\$ 776,273	\$ 4,512,207	\$ 31,485,260
IRP Loan Programs	1,634,009	228,220	-	-	489,418	2,351,647
SBA Loan Programs	717,552	-	-	12,115	107,009	836,676
NADBank Loan Program	749,801	-	-	-	-	749,801
	<u>\$ 29,298,142</u>	<u>\$ 228,220</u>	<u>\$ -</u>	<u>\$ 788,388</u>	<u>\$ 5,108,634</u>	<u>\$ 35,423,384</u>
<b>June 30, 2016</b>						
Direct Loan Program	\$ 26,289,917	\$ -	\$ 92,465	\$ 146,922	\$ 6,073,334	\$ 32,602,638
IRP Loan Programs	1,134,895	-	-	-	514,924	1,649,819
SBA Loan Programs	697,223	19,095	8,679	44,371	179,153	948,521
NADBank Loan Program	779,271	-	-	-	-	779,271
	<u>\$ 28,901,306</u>	<u>\$ 19,095</u>	<u>\$ 101,144</u>	<u>\$ 191,293</u>	<u>\$ 6,767,411</u>	<u>\$ 35,980,249</u>

Information relating to individually impaired loans receivable presented by class of loans was as follows as of June 30:

	Impaired Loans					
	Unpaid Principal Balance	Recorded Investment	With Specific Allowance	Without Specific Allowance	Average Recorded Investment	Interest Income Recognized
<b>June 30, 2017</b>						
Direct Loan Program	\$ 2,147,939	\$ 3,097,081	\$ 309,708	\$ 2,787,372	\$ 3,364,211	\$ -
IRP Loan Programs	72,370	72,370	72,370	-	72,370	-
SBA Loan Programs	88,299	88,299	88,299	-	96,595	-
NADBank Loan Program	-	-	-	-	-	-
	<u>\$ 2,308,608</u>	<u>\$ 3,257,750</u>	<u>\$ 470,377</u>	<u>\$ 2,787,372</u>	<u>\$ 3,533,176</u>	<u>\$ -</u>
<b>June 30, 2016</b>						
Direct Loan Program	\$ 3,631,342	\$ 3,631,342	\$ 363,134	\$ 3,268,208	\$ 4,187,018	\$ -
IRP Loan Programs	72,370	72,370	72,370	-	91,544	-
SBA Loan Programs	104,891	104,891	104,891	-	113,666	-
NADBank Loan Program	-	-	-	-	-	-
	<u>\$ 3,808,603</u>	<u>\$ 3,808,603</u>	<u>\$ 540,395</u>	<u>\$ 3,268,208</u>	<u>\$ 4,392,228</u>	<u>\$ -</u>

In addition, Cal Coastal has enrolled certain of its SBA loans into the California Capital Access Program (Cal Cap), administered by the California Pollution Control Financing Authority. Under this program, Cal Coastal contributes four percent of an enrolled loan's initial principal balance to a Trust Fund held by the Zions Bank. For the first \$500,000 of enrolled loans, Cal Cap matched Cal Coastal's contribution 150 percent; contributions for enrolled loans are matched 100 percent. Losses on enrolled loans are paid by the Trust, with Cal Cap's approval. Cal Coastal recorded contribution expenses of \$1,240 in the fiscal year ended June 30, 2017. At June 30, 2017, the principal balance of enrolled loans aggregated \$570,344 and reserves of \$136,433 were held by the Trust. Cal Coastal recorded contribution expenses of \$13,880 in the fiscal year ended June 30, 2016. At June 30, 2016, the principal balance of enrolled loans aggregated \$892,933 and reserves of \$126,356 were held by the Trust.

**CALIFORNIA COASTAL RURAL DEVELOPMENT CORPORATION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

**NOTE 6 - FIXED ASSETS**

Fixed assets and related depreciation consists of the following:

	<u>2017</u>	<u>2016</u>
Furniture, fixtures, and equipment	\$ 754,728	\$ 742,285
Leasehold improvements	<u>73,347</u>	<u>73,347</u>
	828,075	815,632
Less: accumulated depreciation	<u>(796,598)</u>	<u>(777,258)</u>
	<u>\$ 31,477</u>	<u>\$ 38,374</u>

Depreciation expenses of \$19,340 and \$8,121 were recorded in the fiscal years ended June 30, 2017 and 2016, respectively.

**NOTE 7 – EMPLOYEE BENEFIT PLAN**

Cal Coastal has adopted a Simplified Employee Pension Plan (SEP-IRA) which covers all eligible employees age 21 and over. The Board of Directors determines annual fringe benefits at the beginning of each year. The SEP-IRA contribution is based on employee salaries, with quarterly payment. Included in employee benefits for the fiscal years ended June 30, 2017 and 2016, was \$38,120 and \$42,950, respectively, which was contributed to the Cal Coastal SEP-IRA plan.

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**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

**NOTE 8 – NOTES PAYABLE**

	<u>2017</u>	<u>2016</u>
<p>Note payable to the United States Department of Agriculture, Rural Economic and Community Development Service (RECDs), secured by the Intermediary Relending Program Fund and all collateral obtained as a result of such relending activity. Annual payments of \$79,800, including interest of 1.0% per annum, maturing December 2020. The maximum amount available to borrow under the note is \$2,000,000 and, as of June 30, 2017, Cal Coastal had drawn all of the available funds under this note.</p>	\$ 300,072	\$ 376,081
<p>Note payable to the United States Department of Agriculture, Rural Economic and Community Development Service (RECDs), secured by the Intermediary Relending Program Fund and all collateral obtained as a result of such relending activity. Annual payments of \$79,800 including interest of 1.0% per annum, maturing June 2025. The maximum amount available to borrow under the note is \$2,000,000 and, as of June 30, 2017, Cal Coastal had drawn all of the available funds under this note.</p>	602,478	675,523
<p>Note payable to the United States Department of Agriculture, Rural Economic and Community Development Service (RECDs), secured by the Intermediary Relending Program Fund and all collateral obtained as a result of such relending activity. Annual payments for the first three years consist of interest only payments, and, thereafter, principal and interest payments to be paid to fully amortize the loan 30 years from the date of the note until principal and interest are fully paid, 1.0% per annum, maturing March 2035. The maximum amount available to borrow under the note is \$750,000 and, as of June 30, 2017, Cal Coastal had drawn all available funds under this note.</p>	502,573	529,119
<p>Note payable to the United States Small Business Administration (SBA), secured by the SBA Fund and all collateral obtained as a result of related relending activity. Monthly payments of \$5,062 including interest of .375% per annum, maturing April 2019. The maximum amount available to borrow under the note is \$500,000 and, as of June 30, 2017, Cal Coastal had drawn all of the available funds.</p>	110,964	171,173
<p>Note payable to the United States Small Business Administration (SBA), secured by the SBA Fund and all collateral obtained as a result of related relending activity. Monthly payments of \$415,660 including interest of .375% per annum, maturing May 2021. The maximum amount available to borrow under the note is \$750,000 and, as of June 30, 2017, Cal Coastal had drawn down all of the available funds.</p>	<u>331,944</u> <u>\$ 1,848,031</u>	<u>415,660</u> <u>\$ 2,167,556</u>

**CALIFORNIA COASTAL RURAL DEVELOPMENT CORPORATION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

**NOTE 8 – NOTES PAYABLE, continued**

Maturities as of June 30, 2017, on the notes payable are as follows:

Fiscal Year Ended	
<u>June 30,</u>	
2018	\$ 322,346
2019	315,061
2020	266,841
2021	247,476
2022	100,733
Thereafter	595,574
	<u>\$ 1,848,031</u>

**NOTE 9 – LINE OF CREDIT**

As of June 30, 2017, Cal Coastal has a revolving line of credit with a bank. The line of credit totaling \$2.5 million to be drawn down upon as needed and expires on April 17, 2017, with an interest rate of prime (4.25 percent at June 30, 2017) plus ½ percent with a floor of 4.00 percent. As of June 30, 2017 and 2016, this line of credit had no amounts outstanding.

**NOTE 10 – SUBORDINATED NOTES PAYABLE**

Effective July 18, 2013, an additional line of credit for \$5 million was converted into an EQ2 investment by the bank as evidenced by a \$5 million promissory note with an initial maturity date of July 18, 2018. Interest at 2.50 percent is due quarterly. The note may be extended for two additional five-year periods provided the Corporation satisfies the conditions for extension. The balance outstanding at June 30, 2017 and 2016, was \$5,000,000 and \$5,000,000, respectively.

Effective September 11, 2011, the Corporation entered into a note payable to the U.S. Treasury which is unsecured and maturing on September 21, 2019. Principal is due and payable upon maturity. Interest accrues at a rate of 2.0 percent per annum and is payable in arrears on a quarterly basis. The balance outstanding at June 30, 2017 and 2016, was \$870,000 and \$870,000, respectively.

**NOTE 11 – COMMITMENTS AND CONTINGENCIES**

**Program Funding**

Cal Coastal's use of the Trust Fund's interest and principal for administrative support is determined on a year-to-year basis by negotiations between IBank and the Corporation. The State retains a residual interest in the Trust Funds held by the Fiduciary Trust International of California.

**CALIFORNIA COASTAL RURAL DEVELOPMENT CORPORATION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

**NOTE 11 – COMMITMENTS AND CONTINGENCIES, continued**

At June 30, 2017 and 2016, Cal Coastal was involved in several instances in which loans in default were not called for the guarantee. Management believes that any adjustments necessary for these loans will not have a material effect on the financial statements.

**Litigation**

Cal Coastal may be involved in various pending or threatened litigation. In the opinion of management and legal counsel, the disposition of all litigation pending will not have a material effect on the financial statements.

**Federal and State Program Audits**

Cal Coastal receives funds from Federal and State sources which may be used only for specified purposes that are subject to review and audit by the grantor agencies. Although such audits could generate comments of noncompliance or expenditure disallowances under terms of the funding source, in the opinion of management, any required adjustments would not be material to the financial statements.

**Operating Leases**

Cal Coastal has entered into various non-cancelable operating leases for its facilities and equipment. Minimum rental commitments under these leases are as follows:

	<u>2018</u>	<u>2019</u>	<u>Total</u>
Facilities	\$ 162,175	\$ 93,464	\$ 255,639
Equipment	7,128	2,376	9,504
Total	<u>\$ 169,303</u>	<u>\$ 95,840</u>	<u>\$ 265,143</u>

Rental expense for the years ended June 30, 2017 and 2016, was \$145,685 and \$133,868, respectively.

***SUPPLEMENTARY INFORMATION***

**CALIFORNIA COASTAL RURAL DEVELOPMENT CORPORATION**  
(A CALIFORNIA NON-PROFIT PUBLIC BENEFIT CORPORATION)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture</u>			
Intermediary Relending Program	10.767	N/A	\$ 2,085,672 *
<u>U.S. Small Business Administration</u>			
Microloan Demonstration Program	59.046	N/A	<u>1,221,858</u> *
Total Federal Programs			<u><u>\$ 3,307,530</u></u>

N/A – Direct Funded

\* Amount of expenditures presented for the programs actually represents beginning outstanding loan balances for the fiscal year and new loans originating during the 2017 fiscal year with continuing compliance requirements.

See accompanying note to supplementary information.

**CALIFORNIA COASTAL RURAL DEVELOPMENT CORPORATION**  
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**NOTE TO SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2017**

***NOTE 1 – PURPOSE OF SCHEDULE***

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity of the Corporation and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The Corporation has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of uniform guidance.

***NOTE 2 – LOAN AND LOAN GURANTEE PROGRAMS***

The programs noted in the Schedule of Expenditures of Federal Awards represent outstanding loans with their respective awarding agencies with continuing compliance requirements. The balance on the Intermediary Relending Program outstanding loan at June 30, 2017 was \$2,388,340. The balance on the Microloan Demonstration Program outstanding loan at June 30, 2017 was \$891,129.



***ADDITIONAL SUPPLEMENTARY INFORMATION  
(UNAUDITED)***

**CALIFORNIA COASTAL RURAL DEVELOPMENT CORPORATION**  
**(A CALIFORNIA NON-PROFIT PUBLIC BENEFIT CORPORATION)**

**GUARANTEE LOAN PORTFOLIO ACCOUNTABILITY REPORT (UNAUDITED)**  
**FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Balance of Loan Guarantee, Beginning of Year	\$ 4,668,688	\$ 5,435,412
Loans Guaranteed	13,737,500	7,343,868
Loan Payoffs	<u>(11,961,453)</u>	<u>(8,110,592)</u>
Balance of Loan Guarantee, End of Year	<u>\$ 6,444,735</u>	<u>\$ 4,668,688</u>

Unaudited - see accompanying note to additional supplementary information.

**CALIFORNIA COASTAL RURAL DEVELOPMENT CORPORATION**  
(A CALIFORNIA NON-PROFIT PUBLIC BENEFIT CORPORATION)

**SCHEDULE OF LOAN GUARANTEE BALANCES (UNAUDITED)**  
**JUNE 30, 2017**

<u>Loan Number</u>	<u>Guarantee Liability</u>	<u>Loan Number</u>	<u>Guarantee Liability</u>	<u>Loan Number</u>	<u>Guarantee Liability</u>
CC1280	\$ -	CC1507	\$ -	CC1626	\$ -
CC1283	-	CC1509	-	CC1633	-
CC1297	-	CC1511	-	CC1634	-
CC1316	-	CC1512	-	CC1635	-
CC1320	-	CC1517	-	CC1636	-
CC1322	-	CC1523	-	CC1639	-
CC1333	-	CC1526	-	CC1637X	13,120
CC1335	-	CC1530	-	CC1639	-
CC1351	-	CC1533	-	CC1654	-
CC1353	-	CC1534	-	CC1661	74,431
CC1361	-	CC1540	-	CC1664	-
CC1362	-	CC1548	-	CC1673	17,953
CC1363	-	CC1549	-	CC1676	170,373
CC1378	-	CC1551	-	CC1683	-
CC1383	-	CC1554	-	CC1687	107,169
CC1392	-	CC1555	-	CC1689	259,396
CC1407	-	CC1560	-	CC1695	272,087
CC1414	-	CC1564	-	CC1698	206,923
CC1427	-	CC1568	-	CC1699	16,641
CC1430	-	CC1570	-	CC1700	7,385
CC1433	-	CC1571	-	CC1701	119,670
CC1437	-	CC1575	-	CC1710	37,721
CC1439	-	CC1578	-	CC1714	82,181
CC1442	-	CC1580	-	CC1718	24,163
CC1448	-	CC1583	-	CC1720	25,672
CC1450	-	CC1586	-	CC1721	123,531
CC1456	-	CC1588	-	CC1725	2,392,081
CC1457	-	CC1589	-	CC1727	195,940
CC1465	-	CC1592	-	CC1750	18,213
CC1469	-	CC1596	-	CC1760	80,000
CC1472	-	CC1598	-	CC1773	983,864
CC1473	-	CC1599	-	CC1774	147,392
CC1477	-	CC1602	-	CC1775	88,748
CC1482	-	CC1603	-	CC1778	183,828
CC1492	-	CC1611	-	CC1779	120,000
CC1493	-	CC1612	-	CC1780	200,000
CC1496	-	CC1618	-	CC1781	163,412
CC1500	-	CC1621	-	CC1801	312,841
CC1501	-	CC1625	-		<u>\$ 6,444,735</u>

Unaudited - see accompanying note to additional supplementary information.

**CALIFORNIA COASTAL RURAL DEVELOPMENT CORPORATION**  
**(A CALIFORNIA NON-PROFIT PUBLIC BENEFIT CORPORATION)**

**SCHEDULE OF LOANS ORIGINATED (UNAUDITED)**  
**FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

<b>2017</b>	<b>Gross Loans Originated</b>	<b>Number of Loans</b>	<b>Net Loans Originated</b>
Direct Farm Loan Program - Farm Ownership	\$ 508,000	1	\$ 508,000
Direct Farm Loan Program - Operating Loans	16,648,000	34	16,648,000
Direct Farm Loan Program - Direct Loans	140,000	2	140,000
Guaranteed loans	13,737,500	31	10,990,000
Intermediary Relending Program - 1	390,000	2	390,000
Intermediary Relending Program - 3	255,000	3	255,000
Small Business Administration (SBA)	311,000	7	311,000
SBA 504 Loan Program	943,000	3	943,000
Rust Loan Program	249,948	1	249,948
Monterey County EDA	20,000	1	20,000
Total Loans by Product	<u>\$ 33,202,448</u>	<u>85</u>	<u>\$ 30,454,948</u>
<b>2016</b>	<b>Gross Loans Originated</b>	<b>Number of Loans</b>	<b>Net Loans Originated</b>
Direct Farm Loan Program - Farm Ownership	\$ 2,760,000	4	\$ 2,760,000
Direct Farm Loan Program - Operating Loans	15,256,000	34	15,256,000
Guaranteed loans	7,343,868	32	5,875,094
Intermediary Relending Program - 2	816,000	4	816,000
Small Business Administration (SBA)	397,000	10	397,000
SBA 504 Loan Program	1,242,000	1	1,242,000
Monterey County EDA	150,000	1	150,000
Total Loans by Product	<u>\$ 27,964,868</u>	<u>86</u>	<u>\$ 26,496,094</u>

Unaudited - see accompanying note to additional supplementary information.

**CALIFORNIA COASTAL RURAL DEVELOPMENT CORPORATION**  
(A CALIFORNIA NON-PROFIT PUBLIC BENEFIT CORPORATION)

**NOTE TO ADDITIONAL SUPPLEMENTARY INFORMATION (UNAUDITED)**  
**FOR THE YEAR ENDED JUNE 30, 2017**

***NOTE 1 – PURPOSE OF SCHEDULES***

These schedules have been included at the request of management and the State agencies providing funding to the Corporation. This information has not been subjected to the audit procedures applied during the course of the audit.

**Guarantee Loan Portfolio Accountability Report**

This schedule provides detail information related to the Loan Guarantees Portfolio maintained by the State of California on behalf of the Corporation. The schedule is required by State agencies providing funding to the Corporation.

**Schedule of Loan Guarantee Balances**

This schedule provides information related to the Guaranteed Loans administered through the Corporation about the total activity regarding the specific Loans and the balance held in the Guarantee Loan Portfolio. This schedule is required by State agencies providing funding to the Corporation.

**Schedule of Loans Originated**

This schedule provides information regarding the loan activity by "product" line. This information is provided to satisfy reporting requirements of various funding agencies.

***INDEPENDENT AUDITOR'S REPORTS***



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

Board of Directors  
California Coastal Rural Development Corporation  
Salinas, California

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 California Coastal Rural Development Corporation (a California non-profit public benefit corporation) which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and cash flows for the year then ended and the notes to the financial statements, and have issued our report thereon dated October 12, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audits of the financial statements, we considered California Coastal Rural Development Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of California Coastal Rural Development Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of California Coastal Rural Development Corporation'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 that is less severe than a material 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 audits, 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 California Coastal Rural Development Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits 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 and compliance and the results of that testing, and not to provide an opinion on the effectiveness of California Coastal Rural Development Corporation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering California Coastal Rural Development Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Varrault, Trine, Day & Co. LLP

Rancho Cucamonga, California  
October 12, 2017





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

Board of Directors  
California Coastal Rural Development Corporation  
Salinas, California

**Report on Compliance for Each Major Federal Program**

We have audited California Coastal Rural Development Corporation's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of California Coastal Rural Development Corporation's major Federal programs for the year ended June 30, 2017. California Coastal Rural Development Corporation's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with Federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its Federal programs.

**Auditor's Responsibility**

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of California Coastal Rural Development Corporation's compliance.

## **Opinion on Each Major Federal Program**

In our opinion, California Coastal Rural Development Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2017.

## **Report on Internal Control Over Compliance**

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

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

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

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

*Varrault, Trice, Day & Co. LLP*

Rancho Cucamonga, California  
October 12, 2017

***SCHEDULE OF FINDINGS AND QUESTIONED COSTS***

**CALIFORNIA COASTAL RURAL DEVELOPMENT CORPORATION**  
(A CALIFORNIA NON-PROFIT PUBLIC BENEFIT CORPORATION)

**SUMMARY OF AUDITOR'S RESULTS  
FOR THE YEAR ENDED JUNE 30, 2017**

**FINANCIAL STATEMENTS**

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

**FEDERAL AWARDS**

Internal control over major Federal programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>None reported</u>
Type of auditor's report issued on compliance for major Federal programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a) of the Uniform Guidance?	<u>No</u>

Identification of major Federal programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
<u>59.046</u>	<u>Microloan Demonstration Program</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

**CALIFORNIA COASTAL RURAL DEVELOPMENT CORPORATION**  
**(A CALIFORNIA NON-PROFIT PUBLIC BENEFIT CORPORATION)**

**FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

None reported.

**CALIFORNIA COASTAL RURAL DEVELOPMENT CORPORATION**  
(A CALIFORNIA NON-PROFIT PUBLIC BENEFIT CORPORATION)

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

None reported.

**CALIFORNIA COASTAL RURAL DEVELOPMENT CORPORATION**  
**(A CALIFORNIA NON-PROFIT PUBLIC BENEFIT CORPORATION)**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

None reported.