

**CALIFORNIA COASTAL RURAL  
DEVELOPMENT CORPORATION**

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

---

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

---

**JUNE 30, 2014 AND 2013**

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

**JUNE 30, 2014 AND 2013**

**TABLE OF CONTENTS**

<b>INDEPENDENT AUDITOR'S REPORT</b>	1
<b>FINANCIAL STATEMENTS</b>	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Notes to Financial Statements	6
<b>SUPPLEMENTARY INFORMATION (UNAUDITED)</b>	
Guarantee Loan Portfolio Accountability Report	21
Loan Guarantee Trust Fund - Fund Activity Report	22
Schedule of Loan Guarantee Balances	23
Schedule of Loans Originated	24
Note to Supplementary Information	25
<b>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</b>	26



## 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, 2014 and 2013, 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, 2014 and 2013, 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 audits were conducted for the purpose of forming an opinion on the financial statements of California Coastal Rural Development Corporation. The 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 September 29, 2014, 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.

*Vaurinik, Fine, Day & Co. LLP*

Rancho Cucamonga, California  
September 29, 2014

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

**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2014 AND 2013**

	2014	2013
<b>ASSETS</b>		
Cash and cash equivalents - undesignated	\$ 5,094,325	\$ 4,184,041
Cash and cash equivalents - designated	2,559,798	2,444,999
Accounts receivable	86,092	89,424
Interest receivable	80,573	98,241
Investments	178,298	174,878
Loans receivable, net	7,100,624	6,082,918
Fixed assets, net	15,249	26,485
Other real estate owned	173,777	176,277
Other assets	60,718	60,190
<b>TOTAL ASSETS</b>	<b>\$ 15,349,454</b>	<b>\$ 13,337,453</b>
<b>LIABILITIES AND NET ASSETS</b>		
Accounts payable and other accrued expenses	\$ 2,000	\$ 4,791
Other liabilities	63,368	24,960
Accrued compensation and benefits	105,842	173,673
Interest payable	163,636	195,473
Trust funded loans	-	583,403
Resold commercial loans payable	2,761,708	3,340,386
Subordinated notes payable	5,870,000	1,465,000
Notes payable	2,857,694	4,036,340
<b>TOTAL LIABILITIES</b>	<b>11,824,248</b>	<b>9,824,026</b>
<b>NET ASSETS</b>		
Unrestricted Net Assets		
Undesignated	4,214,540	4,155,339
Designated	(689,334)	(641,912)
<b>TOTAL UNRESTRICTED NET ASSETS</b>	<b>3,525,206</b>	<b>3,513,427</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 15,349,454</b>	<b>\$ 13,337,453</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, 2014 AND 2013**

	2014	2013
<b>REVENUES</b>		
Contract support State OSB	\$ 127,014	\$ 124,377
Technical assistance contract income	256,647	284,849
Loan origination and guarantee fees	684,775	817,607
Loan late fees	12,513	13,625
Loan interest income	1,734,188	1,856,361
Interest on deposit accounts	5,493	6,604
CDC income	139,699	155,617
Other income	17,298	17,972
<b>TOTAL REVENUES</b>	<b>2,977,627</b>	<b>3,277,012</b>
<b>EXPENSES</b>		
Salaries and wages	1,030,811	1,103,216
Payroll taxes and employee benefits	269,351	281,282
Interest expense	745,695	783,278
Provision for loan losses	148,624	170,762
California Capital Access Program contribution	7,800	10,600
Advertising and promotion	8,450	14,220
Meetings, education, and travel	81,161	72,771
Communication	53,877	54,500
Occupancy	160,495	165,205
Professional services	123,293	136,958
Office	40,001	50,069
Equipment repair and maintenance	20,894	21,090
Depreciation	13,587	11,365
Miscellaneous expenses	29,947	29,047
Loan expenses	231,862	322,833
<b>TOTAL EXPENSES</b>	<b>2,965,848</b>	<b>3,227,196</b>
Change in Net Assets	11,779	49,816
NET ASSETS, Beginning of Year	3,513,427	3,463,611
NET ASSETS, End of Year	<b>\$ 3,525,206</b>	<b>\$ 3,513,427</b>

See the accompanying notes to financial statements.

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

**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 11,779	\$ 49,816
Adjustments to Reconcile Change in Net Assets to Net Cash Flows From Operating Activities		
Depreciation	13,587	11,365
Provision for loan losses	148,624	170,762
(Increase) Decrease in Assets		
Accounts receivable	3,332	27,937
Interest receivable	17,668	182,466
Other assets	(528)	23,925
Increase (Decrease) in Liabilities		
Accounts payable and other accrued expenses	(2,791)	(828)
Accrued compensation and benefits	(67,831)	(40,748)
Interest payable	(31,837)	229
Other liabilities	38,408	550
Net Cash Flows From Operating Activities	130,411	425,474
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of fixed assets	(2,351)	(10,435)
Net increase (decrease) in loans receivable	(1,163,830)	103,645
Net purchases of investments	(3,420)	(3,124)
Net Cash Flows From Investing Activities	(1,169,601)	90,086
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net decrease in trust funded loans payable	(583,403)	(250,592)
Resold commercial loans payable	(578,678)	413,975
Net increase in subordinated notes payable	4,405,000	-
Net decrease in notes payable	(1,178,646)	(537,216)
Net Cash Flows From Financing Activities	2,064,273	(373,833)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	1,025,083	141,727
<b>CASH AND CASH EQUIVALENTS, Beginning of Year</b>	6,629,040	6,487,313
<b>CASH AND CASH EQUIVALENTS, End of Year</b>	<u>\$ 7,654,123</u>	<u>\$ 6,629,040</u>
<b>SUPPLEMENTAL DISCLOSURES</b>		
Interest paid	\$ 777,532	\$ 783,049

See the accompanying notes to financial statements.

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

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014 and 2013**

***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 (as of June 30, 2013, the program was with the California Business, Transportation, and Housing Agency (the BTHA); 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, Santa Barbara, Ventura, Monterey, and Santa Maria. Cal Coastal is not a Voluntary Health and Welfare Organization (VHWO).

Cal Coastal has agreements with Monterey County to provide the above-mentioned services on a pass-through basis for these jurisdictions. 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 September 29, 2014, 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. Accordingly, all financial transactions have been recorded and reported by fund group and are disclosed in detail in the supplemental schedules.



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

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014 and 2013**

***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, 2014 and 2013, there were no deferred loan fees.

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

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014 and 2013**

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

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014 and 2013**

***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 twelve to thirty days of vacation and twelve days sick leave annually depending on seniority, to a maximum of thirty days vacation. The unused portion of vacation is payable to the employee at termination of employment. As of June 30, 2014 and 2013, the accrued vacation balance was \$96,049 and \$97,790, 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, 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).

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

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014 and 2013**

***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, 2011, 2012, and 2013, are open to audit by the Federal authorities. California State informational returns for the years ended June 30, 2010, 2011, 2012, and 2013, 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, 2014 and 2013, 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 \$6,657,521 and \$1,316,973, 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.

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

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014 and 2013**

**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 2014 and January 2013. 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, 2014
Cash - undesignated	\$ 5,094,325
Cash - designated	2,559,798
Total Cash and Cash Equivalents	\$ 7,654,123
	June 30, 2013
Cash - undesignated	\$ 4,184,041
Cash - designated	2,444,999
Total Cash and Cash Equivalents	\$ 6,629,040

**NOTE 4 - INVESTMENTS**

Investments are carried at fair market value as follows:

	June 30, 2014		
	Adjusted Cost	Fair Value	Unrealized Gain (Loss)
Certificates of Deposit	\$ 164,233	\$ 164,233	\$ -
FmAc Equity Securities	14,065	14,065	-
	\$ 178,298	\$ 178,298	\$ -

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

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014 and 2013**

**NOTE 4 - INVESTMENTS, continued**

Investments are carried at fair market value as follows:

	June 30, 2013		
	Adjusted Cost	Fair Value	Unrealized Gain (Loss)
Certificates of Deposit	\$ 163,964	\$ 163,964	\$ -
FmAc Equity Securities	10,914	10,914	-
	\$ 174,878	\$ 174,878	\$ -

**NOTE 5 - LOANS RECEIVABLE**

Loans receivable at June 30, 2014 and 2013, consist of the following:

	June 30, 2014				
	Direct Loan Program	IRP-1, IRP-2, and IRP-3 Relending Programs	SBA-1 and SBA-2 Loan Programs	NADBank Loan Program	Total
Commercial loans, gross	\$ 28,368,550	\$ 1,561,705	\$ 890,527	\$ 833,217	\$ 31,653,999
Resold commercial loans	(22,842,572)	-	-	(755,678)	(23,598,250)
Commercial loans, net	5,525,978	1,561,705	890,527	77,539	8,055,749
Allowance for loan losses	(636,704)	(140,579)	(172,462)	(5,380)	(955,125)
	\$ 4,889,274	\$ 1,421,126	\$ 718,065	\$ 72,159	\$ 7,100,624
	June 30, 2013				
	Direct Loan Program	IRP-1, IRP-2, and IRP-3 Relending Programs	SBA-1 and SBA-2 Loan Programs	NADBank Loan Program	Total
Commercial loans, gross	\$ 30,286,452	\$ 1,703,232	\$ 1,162,666	\$ 860,771	\$ 34,013,121
Resold commercial loans	(26,105,885)	-	-	(776,059)	(26,881,944)
Commercial loans, net	4,180,567	1,703,232	1,162,666	84,712	7,131,177
Allowance for loan losses	(610,097)	(170,202)	(251,246)	(16,714)	(1,048,259)
	\$ 3,570,470	\$ 1,533,030	\$ 911,420	\$ 67,998	\$ 6,082,918

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.

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

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014 and 2013**

**NOTE 5 - LOANS RECEIVABLE, continued**

The Corporation assesses loans individually and classifies a loan as supervised (impaired) when it has been restructured, the accrual of interest has been discontinued, or management has serious doubts about the future collectibility of principal and interest, even though the loan may be currently performing. Collection procedures may be pursued either through foreclosure, demand on the FSA or RBS guarantee, or both.

At June 30, 2014, the Corporation had supervised loans, in gross, in the Direct Loan Program, the IRP-1, IRP-2, and IRP-3 Relending Programs, and SBA of \$6,154,757, \$105,248, and \$134,198, respectively. At June 30, 2013, the Corporation had supervised loans, in gross, in the Direct Loan Program, the IRP-1, IRP-2, and IRP-3 Relending Programs, and SBA of \$7,192,849, \$165,648, and \$202,441, respectively.

At June 30, 2014 and 2013, the total recorded investment in impaired loans, all of which has allowances determined in accordance with generally accepted accounting principles, amounted to \$6,403,672 and \$7,560,939, respectively. For the years ended June 30, 2014 and 2013, the average recorded investment related to impaired loans totaled approximately \$6,982,305 and \$6,713,624, respectively. The allowance for loan losses totaled approximately \$955,000 and \$1,048,000, respectively. The Corporation has no commitments to lend additional funds to borrowers whose loans have been modified. For the years ended June 30, 2014 and 2013, interest income from loans on non-accrual status would have been \$431,779 and \$462,402, respectively, had those loans been performing in accordance with their original terms and been outstanding throughout the period.

Resold commercial loan payables at June 30, 2014 and 2013, were \$2,761,708 and \$3,340,386, respectively, and represent principal payments which were collected prior to June 30 and remitted subsequent to year-end.

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, 2012	\$ 577,351	\$ 189,657	\$ 224,336	\$ 6,718	\$ 998,062
Loan loss provision	113,856	24,000	22,910	9,996	170,762
Charge-offs	(743,195)	(43,455)	(46,595)	-	(833,245)
Recoveries	662,085	-	50,595	-	712,680
Balance, June 30, 2013	610,097	170,202	251,246	16,714	1,048,259
Loan loss provision	97,608	28,050	21,300	1,666	148,624
Charge-offs	(810,015)	(105,673)	(60,355)	-	(976,043)
Recoveries	729,014	-	5,271	-	734,285
Reclassifications	10,000	48,000	(45,000)	(13,000)	-
Balance, June 30, 2014	<u>\$ 636,704</u>	<u>\$ 140,579</u>	<u>\$ 172,462</u>	<u>\$ 5,380</u>	<u>\$ 955,125</u>

At June 30, 2014, Cal Coastal maintained restricted cash and investment accounts at financial institutions in the amount of \$190,578 for the SBA Loan Program and \$164,233 for NADBank. Such reserves are in addition to the above reserves for loan loss.

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

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014 and 2013**

***NOTE 5 - LOANS RECEIVABLE, continued***

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 Deutsche 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 \$7,800 in the fiscal year ended June 30, 2014. At June 30, 2014, the principal balance of enrolled loans aggregated \$805,757 and reserves of \$98,940 were held by the Trust. Cal Coastal recorded contribution expenses of \$10,600 in the fiscal year ended June 30, 2013. At June 30, 2013, the principal balance of enrolled loans aggregated \$1,043,183 and reserves of \$86,562 were held by the Trust.

***NOTE 6 - FIXED ASSETS***

Fixed assets and related depreciation consists of the following:

	2014	2013
Furniture, fixtures, and equipment	\$ 705,769	\$ 702,997
Leasehold improvements	67,353	67,353
	773,122	770,350
Less: accumulated depreciation	(757,873)	(743,865)
	\$ 15,249	\$ 26,485

Depreciation expenses of \$13,587 and \$11,365 were recorded in the fiscal years ended June 30, 2014 and 2013, 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, 2014 and 2013, was \$40,946 and \$41,147, respectively, which was contributed to the Cal Coastal SEP-IRA plan.



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

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014 and 2013**

***NOTE 8 - STATE OF CALIFORNIA, OFFICE OF SMALL BUSINESS TRUST FUND***

The Loan Guarantee Trust Fund (the Trust), managed by the Fiduciary Trust International of California, allows Cal Coastal to guarantee loans to small businesses up to a limit of 90 percent of a qualified loan and \$500,000 per borrower. The investment portfolio of the Trust is divided into two different accounts: income and managed. Cal Coastal is allowed to specify the investments of the managed account.

At June 30, 2014, the Trust net assets were \$3,091,520. The balance, which approximated fair value, with outstanding Cal Coastal loan guarantee liabilities of \$2,821,709, and with no farm loan liabilities, resulted in an encumbrance level of .94 percent of trust balance.

At June 30, 2013, the Trust net assets were \$3,236,946. The balance, which approximated fair value, with outstanding Cal Coastal loan guarantee liabilities of \$4,681,478, and farm loan liabilities of \$902,409, resulted in an encumbrance level of 1.73 percent of trust balance. Direct farm loans sold to the Trust at June 30, 2013, were \$687,347. The direct farm loans were approximately 90 percent guaranteed by the FSA. Cal Coastal's liability at June 30, 2013, was \$583,403.

A schedule of the Loan Guarantee Trust Fund – Fund Activity is included in the Supplementary Information (Unaudited) section.

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

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014 and 2013**

**NOTE 9 - NOTES PAYABLE**

	2014	2013
Note payable to Opportunity Finance Network, unsecured. Principal payments of \$25,000 are due monthly so that the note is fully paid by its maturity date. Interest accrued at a rate of 4.00% per annum and is payable in arrears on a quarterly basis.	\$ -	\$ 750,000
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, 2014, Cal Coastal had drawn all of the available funds under this note.	525,908	599,711
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, 2014, Cal Coastal had drawn all of the available funds under this note.	819,452	890,372
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, 2014, Cal Coastal has not drawn all available funds under this note.	485,385	512,336
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 \$5,691 are required including interest of 1.5% per annum. The note matured in September 2013.	-	22,001
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 \$2,785 including interest of 2.375% per annum, assuming certain conditions were met, began June 2005. The note will mature in April 2015. The maximum amount available to borrow under the note is \$250,000 and, as of June 30, 2014, Cal Coastal had drawn all of the funds available under this note.	30,808	63,085

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

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014 and 2013**

**NOTE 9 - NOTES PAYABLE, continued**

	2014	2013
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 \$5,578 including interest of 3.375% per annum, maturing July 2016. The maximum amount available to borrow under the note is \$500,000 and, as of June 30, 2014, Cal Coastal had drawn all of the available funds.	\$ 124,312	\$ 185,923
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, 2014, Cal Coastal had drawn all of the available funds.	290,918	350,454
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 \$7,251 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, 2014, Cal Coastal had drawn down all of the available funds.	580,911	662,458
	\$ 2,857,694	\$ 4,036,340

Maturities as of June 30, 2014, on the notes payable are as follows:

Fiscal Year Ended	
<u>June 30,</u>	
2015	\$ 402,154
2016	375,266
2017	329,923
2018	322,810
2019	315,433
Thereafter	1,112,108
	\$ 2,857,694

**NOTE 10 - LINE OF CREDIT**

As of June 30, 2014, Cal Coastal has a revolving line of credit with a bank. The line of credit totaling \$4 million to be drawn down upon as needed and expires on April 15, 2015, with an interest rate of prime (3.25 percent at June 30, 2014) plus ½ percent with a floor of 3.75 percent. As of June 30, 2014 and 2013, this line of credit had no amounts outstanding.

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

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014 and 2013**

***NOTE 11 - 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. As of June 30, 2014, Cal Coastal had \$5,000,000 outstanding on the note.

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, 2014 and 2013, was \$870,000.

***NOTE 12 - 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.

At June 30, 2014 and 2013, 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.

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

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014 and 2013**

**NOTE 12 - COMMITMENTS AND CONTINGENCIES, continued**

**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>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>Total</u>
Facilities	\$ 135,518	\$ 117,136	\$ 116,048	\$ 119,529	\$ 488,231
Equipment	3,288	-	-	-	3,288
Total	<u>\$ 138,806</u>	<u>\$ 117,136</u>	<u>\$ 116,048</u>	<u>\$ 119,529</u>	<u>\$ 491,519</u>

Rental expense for the years ended June 30, 2014 and 2013, was \$123,737 and \$130,648, respectively.

***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, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
Balance of Loan Guarantee, Beginning of Year	\$ 4,681,478	\$ 7,142,676
Loans Guaranteed	7,743,500	2,954,595
Loan Payoffs	<u>(9,603,269)</u>	<u>(5,415,793)</u>
Balance of Loan Guarantee, End of Year	<u><u>\$ 2,821,709</u></u>	<u><u>\$ 4,681,478</u></u>

Unaudited - see accompanying note to supplementary information.

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

**LOAN GUARANTEE TRUST FUND – FUND ACTIVITY REPORT (UNAUDITED)**  
**FOR THE YEAR ENDED JUNE 30, 2014**

	Managed Account			Income Account	Total
	Cash and Securities	Farm Loans	Total		
<b>Balance at July 1, 2013</b>	<u>\$ 2,503,455</u>	<u>\$ 699,013</u>	<u>\$ 3,202,468</u>	<u>\$ 34,478</u>	<u>\$ 3,236,946</u>
<b>Receipts</b>					
Interest - investments	25,657	-	25,657	(6)	25,651
Interest on farm loans	6,657	-	6,657	-	6,657
Recoveries received	26,876	-	26,876	-	26,876
Principal farm loan repayments	699,013	(699,013)	-	-	-
Total Receipts	<u>758,203</u>	<u>(699,013)</u>	<u>59,190</u>	<u>(6)</u>	<u>59,184</u>
<b>Disbursements</b>					
Capital gains (losses)	(4,603)	-	(4,603)	-	(4,603)
Fixed contract payment	-	-	-	(41,459)	(41,459)
Trustee and bank fees	-	-	-	(8,597)	(8,597)
Loss payouts	(149,950)	-	(149,950)	-	(149,950)
Total Disbursements	<u>(154,553)</u>	<u>-</u>	<u>(154,553)</u>	<u>(50,056)</u>	<u>(204,609)</u>
Intrafund transfers	(32,199)	-	(32,199)	32,199	-
	<u>(32,199)</u>	<u>-</u>	<u>(32,199)</u>	<u>32,199</u>	<u>-</u>
<b>Ending Balance at June 30, 2014</b>	<u><u>\$ 3,074,906</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 3,074,906</u></u>	<u><u>\$ 16,615</u></u>	<u><u>\$ 3,091,521</u></u>

Unaudited - see accompanying note to supplementary information.



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

**SCHEDULE OF LOAN GUARANTEE BALANCES (UNAUDITED)**  
**JUNE 30, 2014**

<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	\$ 4,338
CC1283	-	CC1509	-	CC1633	-
CC1297	-	CC1511	15,163	CC1634	-
CC1316	-	CC1512	426,861	CC1635	-
CC1320	-	CC1517	195,952	CC1636	-
CC1322	-	CC1523	45,241	CC1639	-
CC1333	-	CC1526	-	CC1647X	-
CC1335	-	CC1530	26,399	CC1654	20,000
CC1351	-	CC1533	20,352	CC1661	138,523
CC1353	-	CC1534	12,916	CC1664	120,000
CC1361	-	CC1540	-	CC1673	29,851
CC1362	-	CC1548	-	CC1676	279,746
CC1363	-	CC1549	-	CC1683	79,799
CC1378	-	CC1551	-	CC1687	171,322
CC1383	-	CC1554	423,703		<u>\$ 2,821,711</u>
CC1392	-	CC1555	-		
CC1407	-	CC1560	52,549		
CC1414	-	CC1564	-		
CC1427	-	CC1568	-		
CC1430	-	CC1570	-		
CC1433	-	CC1571	-		
CC1437	-	CC1575	-		
CC1439	451,323	CC1578	-		
CC1442	-	CC1580	58,090		
CC1448	-	CC1583	-		
CC1450	11,880	CC1586	-		
CC1456	-	CC1588	-		
CC1457	13,145	CC1589	-		
CC1465	-	CC1592	-		
CC1469	-	CC1596	12,672		
CC1472	-	CC1598	-		
CC1473	-	CC1599	72,282		
CC1477	2,819	CC1602	122,521		
CC1482	10,560	CC1603	-		
CC1492	3,704	CC1611	-		
CC1493	-	CC1612	-		
CC1496	-	CC1618	-		
CC1500	-	CC1621	-		
CC1501	-	CC1625	-		

Unaudited - see accompanying note to 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, 2014 AND 2013**

<b>2014</b>	Gross Loans Originated	Number of Loans	Net Loans Originated
Direct Farm Loan Program - Farm Ownership	\$ 1,805,000	3	\$ 1,805,000
Direct Farm Loan Program - Operating Loans	14,633,000	33	14,633,000
Guaranteed loans	7,743,500	25	6,044,800
Intermediary Relending Program - 3	245,000	2	245,000
Small Business Administration (SBA)	155,000	4	155,000
SBA 504 Loan Program	3,037,000	5	3,037,000
Direct Loan Program - Workout Loans	211,906	2	211,906
Monterey County EDA	100,000	1	100,000
Total Loans by Product	<u>\$ 27,930,406</u>	<u>75</u>	<u>\$ 26,231,706</u>
<b>2013</b>	Gross Loans Originated	Number of Loans	Net Loans Originated
Direct Farm Loan Program - Farm Ownership	\$ 4,220,000	9	\$ 4,220,000
Direct Farm Loan Program - Operating Loans	18,305,000	40	18,305,000
Guaranteed loans	2,954,595	12	2,094,291
Intermediary Relending Program - 3	265,000	2	265,000
Small Business Administration (SBA)	320,000	10	320,000
SBA 504 Loan Program	5,369,000	9	5,369,000
Direct Loan Program - Workout Loans	494,659	2	494,659
Total Loans by Product	<u>\$ 31,928,254</u>	<u>84</u>	<u>\$ 31,067,950</u>

Unaudited - see accompanying note to supplementary information.

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

**NOTE TO SUPPLEMENTARY INFORMATION (UNAUDITED)**  
**FOR THE YEAR ENDED JUNE 30, 2014**

***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.

**Loan Guarantee Trust Fund - Fund Activity Report**

This schedule provides detail information related specifically to Farm Loan advances, repayments, and activity within the Farm Loan Program. This schedule is required by State agencies providing Farm Loan 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 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) as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise California Coastal Rural Development Corporation's basic financial statements, and have issued our report thereon dated September 29, 2014.

**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.

*Varrick, Fine, Day & Co. LLP*

Rancho Cucamonga, California  
September 29, 2014