

# CALIFORNIA ENTERPRISE DEVELOPMENT AUTHORITY

## REGULAR MEETING \*\*\*TELECONFERENCE MEETING NOTICE and AGENDA\*\*\* LOCATIONS LISTED BELOW

10:30 A.M.

Thursday, June 7, 2012

Teleconference Phone Information

(605) 475-3200 - Conference Code: 305911#

Call to Order and Roll Call

### **Approval of Minutes**

1. Approve the Regular Meeting Minutes of May 31, 2012.

### **Action Items**

2. Approve Resolution 12-19 of The California Enterprise Development Authority Authorizing and Approving a Master Loan Agreement with First Republic Bank and Live Oak, a Learning Center for Children, Doing Business as Live Oak School Pursuant to which the California Enterprise Development Authority will Make a Loan in an Amount not to Exceed \$6,750,000 for the Purpose of Refinancing the Currently Outstanding California Statewide Community Development Authority Series 2000 Revenue Bonds (Live Oak School), for the Benefit of Live Oak School, Providing the Terms and Condition for such Master Loan Agreement and Other Matters Relating Thereto Herein Specified.
3. Approve the engagement of James Marta & Company, Certified Public Accountants to complete the Annual CEDA Audit.

### **Public Comment**

### **Chair Report**

### **PACE Report**

### **Other Business**

### **Adjournment**

Members of CEDA and members of the public may access this meeting at the following locations:

California Association for Local  
Economic Development  
550 Bercut Drive, Suite G  
Sacramento, CA 95811

City of Eureka City Hall  
531 K Street  
Eureka, CA 95501

Tuolumne County EDA  
99 North Washington St.  
Sonora, CA 95370

City of Elk Grove  
8401 Laguna Palms Way  
Elk Grove, CA 95758

City of Selma  
1710 Tucker St.  
Selma, CA 93662

Economic Development Collaborative-  
Ventura County  
1601 Carmen Drive, #215  
Camarillo, CA 93010

City of Santa Rosa City Hall  
100 Santa Rosa Avenue  
Santa Rosa, CA 95404

City of Vista  
200 Civic Center Dr.  
Vista, CA 92084

This agenda can be obtained at [www.ceda.caled.org](http://www.ceda.caled.org). The California Enterprise Development Authority complies with the Americans with Disabilities Act (ADA) by ensuring that the facilities are accessible to persons with disabilities and by providing this notice and information in alternative formats when requested. If you need further assistance, you may contact us before the meeting at (916) 448-8252, ext. 12.

550 Bercut Drive, Suite G, Sacramento, CA 95814 • (916) 448-8252, ext. 12

**CALIFORNIA ENTERPRISE DEVELOPMENT AUTHORITY**

# CALIFORNIA ENTERPRISE DEVELOPMENT AUTHORITY

## MINUTES

### Regular Meeting

\*\*\*TELECONFERENCE MEETING \*\*\*

### CEDA BOARD OF DIRECTORS

Thursday, May 31, 2012

#### Teleconference Locations

California Association for Local Economic Development  
550 Bercut Drive, Suite G  
Sacramento, CA 95811

City of Selma  
1710 Tucker St.  
Selma, CA 93662

City of Santa Rosa City Hall  
100 Santa Rosa Avenue  
Santa Rosa, CA 95404

City of Vista  
200 Civic Center Dr.  
Vista, CA 92084

City of Eureka City Hall  
531 K Street  
Eureka, CA 95501

Tuolumne County EDA  
99 North Washington St.  
Sonora, CA 95370

Economic Development Collaborative-Ventura County  
1601 Carmen Drive, #215  
Camarillo, CA 93010

City of Elk Grove  
8401 Laguna Palms Way  
Elk Grove, CA 95758

#### Call to Order

Wayne Schell, Board Chair of the California Enterprise Development Authority, called the meeting to order at 10:40 am.

#### Roll Call

Members Present: Larry Cope  
Wayne Schell  
Cindy Trobitz-Thomas

CALED Management/Staff  
Present: Gurbax Sahota  
Michelle Stephens

Public Present: Michael Chapin, Founder & President, Figtree Energy Resource Company  
Joe Flores, Figtree Energy Resource Company  
Jessica Shaham, Kutak Rock, Llc.

#### Action Items

1. Approve the Regular Meeting Minutes of April 26, 2012.

**Motion:** Board Secretary, Larry Cope made the motion to approve the Regular Meeting Minutes of April 26, 2012. Board Chair Wayne Schell seconded the motion on the floor and it passed with the following roll call vote:

Larry Cope	Aye
Wayne Schell	Aye
Cindy Trobitz-Thomas	Aye

Board Chair, Wayne Schell opened the Public Hearing and asked for comments from the public. Upon hearing none, he closed the Public Hearing.

2. Approve Resolution 12-12 of The Board of Directors of The California Enterprise Development Authority Making Certain Findings and Determinations In Connection with and

Confirming the Report Regarding the Establishment of a Contractual Assessment Program to Finance Distributed Generation Renewable Energy Sources and Energy and Water Efficiency Improvements Within the County of Alameda; Confirming Assessments to Be Levied within the Parameters of the Report; and Taking Certain Other Actions.

Approve Resolution 12-13 of The Board of Directors of The California Enterprise Development Authority Making Certain Findings and Determinations In Connection with and Confirming the Report Regarding the Establishment of a Contractual Assessment Program to Finance Distributed Generation Renewable Energy Sources and Energy and Water Efficiency Improvements Within the County of Kern; Confirming Assessments to Be Levied within the Parameters of the Report; and Taking Certain Other Actions.

Approve Resolution 12-14 of The Board of Directors of The California Enterprise Development Authority Making Certain Findings and Determinations In Connection with and Confirming the Report Regarding the Establishment of a Contractual Assessment Program to Finance Distributed Generation Renewable Energy Sources and Energy and Water Efficiency Improvements Within the City of Dublin; Confirming Assessments to Be Levied within the Parameters of the Report; and Taking Certain Other Actions.

Approve Resolution 12-15 of The Board of Directors of The California Enterprise Development Authority Making Certain Findings and Determinations In Connection with and Confirming the Report Regarding the Establishment of a Contractual Assessment Program to Finance Distributed Generation Renewable Energy Sources and Energy and Water Efficiency Improvements Within the City of Pittsburg; Confirming Assessments to Be Levied within the Parameters of the Report; and Taking Certain Other Action.

Approve Resolution 12-16 of The Board of Directors of The California Enterprise Development Authority Making Certain Findings and Determinations In Connection with and Confirming the Report Regarding the Establishment of a Contractual Assessment Program to Finance Distributed Generation Renewable Energy Sources and Energy and Water Efficiency Improvements Within the City of Rancho Cordova; Confirming Assessments to Be Levied within the Parameters of the Report; and Taking Certain Other Actions.

Approve Resolution 12-17 of The Board of Directors of The California Enterprise Development Authority Making Certain Findings and Determinations In Connection with and Confirming the Report Regarding the Establishment of a Contractual Assessment Program to Finance Distributed Generation Renewable Energy Sources and Energy and Water Efficiency Improvements Within the City of Redlands; Confirming Assessments to Be Levied within the Parameters of the Report; and Taking Certain Other Actions.

Approve Resolution 12-18 of The Board of Directors of The California Enterprise Development Authority Making Certain Findings and Determinations In Connection with and Confirming the Report Regarding the Establishment of a Contractual Assessment Program to Finance Distributed Generation Renewable Energy Sources and Energy and Water Efficiency Improvements Within the City of South San Francisco; Confirming Assessments to Be Levied within the Parameters of the Report; and Taking Certain Other Actions.

**Motion:** Board Secretary Larry Cope made the motion to approve Resolutions 12-12 through 12-18. Board Member Cindy Trobitz-Thomas seconded the motion on the floor and it passed with the following roll call vote:

Larry Cope	Aye
Wayne Schell	Aye
Cindy Trobitz-Thomas	Aye

**Discussion:** Board Chair, Wayne Schell asked the board if they could approve Action Items 2-8 in one action since each resolution was the same with the exception of the community location. The board agreed and Resolutions 12-12, 12-13, 12-14, 12-15, 12-16, 12-17, and 12-18 were approved with the same action.

**Public Comment**

**Staff Report**

Michelle Stephens informed the board that the next CEDA Board meeting would be June 7, 2012 and they would be discussing the annual audit and the Live Oak School transaction.

**PACE Report**

Michael Chapin, of Figtree Energy, thanked the board for approving the formation of the new district.

**Other Business**

**Adjournment**

**Motion:** Board Secretary, Larry Cope moved to adjourn the meeting. Board Member Cindy Trobitz-Thomas seconded the motion. The motion passed unanimously by voice vote.

Board Chair, Wayne Schell adjourned the meeting at 10:50 am.

## Staff Report

<b>Action Requested</b>	Approve Resolution 12-19 of The California Enterprise Development Authority Authorizing and Approving a Master Loan Agreement with First Republic Bank and Live Oak, a Learning Center for Children, Doing Business as Live Oak School Pursuant to which the California Enterprise Development Authority will Make a Loan in an Amount not to Exceed \$6,750,000 for the Purpose of Refinancing the Currently Outstanding California Statewide Community Development Authority Series 2000 Revenue Bonds (Live Oak School), for the Benefit of Live Oak School, Providing the Terms and Condition for such Master Loan Agreement and Other Matters Relating Thereto Herein Specified.
<b>Borrower(s)</b>	Live Oak, a Learning Center for Children (the “Borrower”).
<b>Borrower Description</b>	Live Oak School is an independent school serving approximately 275 students in a K-8 program. Serving families from a wide variety of San Franciscan neighborhoods, Live Oak School focuses on experimental learning with an emphasis on academic achievement and social development. Live Oak school also encourages strong participation by the parents in order to form a partnership between the home and school in the students’ education.
<b>Public Benefits</b>	This financing will reduce the interest rates associated with the Borrower’s current indebtedness. The refinancing of the Borrower’s existing debt frees up cash flow to support day-to-day operations and continue the employment of 40 full-time employees. CEDA works cooperatively with local agencies to enhance the delivery of conduit financings for local organizations at an economical cost and in an expeditious manner.
<b>TEFRA Hearing</b>	The Board of Supervisors of the City and County of San Francisco held a Public Hearing on April 27, 2012 and approved the financing for the benefit of the Borrower.
<b>Eligibility and Policy Review</b>	<p>CEDA staff has reviewed the project. The proposed financing is eligible pursuant to state and federal law and addresses the objectives contained in CEDA’s Bond Issuance Polices and Procedures</p> <ul style="list-style-type: none"> <li>■ The payments to be made under the bond documents are adequate to pay the expenses of CEDA in connection with the financing and to pay debt service.</li> <li>■ Proposed financing is appropriate for the project.</li> </ul>
<b>Recommendation</b>	Staff recommends approval of Resolution 12-19 of The California Enterprise Development Authority Authorizing and Approving a Master Loan Agreement with First Republic Bank and Live Oak, a Learning Center for Children, Doing Business as Live Oak School Pursuant to which the California Enterprise Development Authority will Make a Loan in an Amount not to Exceed \$6,750,000 for the Purpose of Refinancing the Currently Outstanding California Statewide Community Development Authority Series 2000 Revenue Bonds (Live Oak School), for the Benefit of Live Oak School, Providing the Terms and Condition for such Master Loan Agreement and Other Matters Relating Thereto Herein Specified.

**RESOLUTION NO. 12-19**

**CALIFORNIA ENTERPRISE DEVELOPMENT AUTHORITY**

**RESOLUTION OF THE CALIFORNIA ENTERPRISE DEVELOPMENT AUTHORITY AUTHORIZING AND APPROVING A MASTER LOAN AGREEMENT WITH FIRST REPUBLIC BANK AND LIVE OAK, A LEARNING CENTER FOR CHILDREN, DOING BUSINESS AS LIVE OAK SCHOOL PURSUANT TO WHICH THE CALIFORNIA ENTERPRISE DEVELOPMENT AUTHORITY WILL MAKE A LOAN IN AN AMOUNT NOT TO EXCEED \$6,750,000 FOR THE PURPOSE OF REFINANCING THE CURRENTLY OUTSTANDING CALIFORNIA STATEWIDE COMMUNITY DEVELOPMENT AUTHORITY SERIES 2000 REVENUE BONDS (LIVE OAK SCHOOL), FOR THE BENEFIT OF LIVE OAK SCHOOL, PROVIDING THE TERMS AND CONDITION FOR SUCH MASTER LOAN AGREEMENT AND OTHER MATTERS RELATING THERETO HEREIN SPECIFIED**

**WHEREAS**, pursuant to the provisions of the Joint Exercise of Powers Act, comprising Articles 1, 2, 3 and 4 of Chapter 5 of Division 7 of Title 1 (commencing with Section 6500) of the Government Code of the State of California (the "Act"), the cities of Eureka, Lancaster and Selma entered into a joint exercise of powers agreement (the "Agreement") pursuant to which the California Enterprise Development Authority (the "Authority") was organized;

**WHEREAS**, the Authority is authorized by the Agreement and the Act to issue bonds, notes or other evidences of indebtedness, or certificates of participation in leases or other agreements, or enter into loan agreements to, among other things, finance or refinance facilities owned and/or leased and operated by organizations described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code") which are determined by the Authority to satisfy certain criteria (each, an "Eligible Organization");

**WHEREAS**, pursuant to the provisions of the Act, the public agencies which are members of the Authority are authorized to jointly exercise any power common to such public agency members, including, without limitation, the power to acquire and dispose of property, both real and personal; and

**WHEREAS**, the City and County of San Francisco (the "City") is an associate member of the Authority; and

**WHEREAS**, pursuant to the provisions of the Act, the Authority may, at its option, issue bonds or other evidences of indebtedness, rather than certificates of participation, and enter into a loan agreement with an Eligible Organization; and

**WHEREAS**, Live Oak, A Learning Center for Children, doing business as Live Oak School ("Live Oak School" or the "Borrower") wishes: (i) to refinance the \$7,000,000 California Statewide Communities Development Authority Series 2000 Revenue Bonds (Live Oak School) (the "Prior Bonds"), currently outstanding in the aggregate principal amount of \$6,170,000, which

Prior Bonds financed and refinanced the acquisition, construction, improvement and equipping of certain of the Borrower's educational facilities located at 1555 Mariposa Street, San Francisco, California (the "Project"), owned and operated by the Borrower and (ii) to pay certain costs of issuance in connection with the financing; and

**WHEREAS**, there has been filed with the Secretary of the Authority a proposed form of a (i) Master Loan Agreement (the "Master Loan Agreement"), by and among First Republic Bank, as lender (the "Lender"), the Authority and the Borrower, and (ii) Assignment Agreement (the "Assignment Agreement") between the Authority and the Lender; and

**WHEREAS**, the Authority intends to use the proceeds of a tax-exempt loan from First Republic Bank (the "Lender") to the Authority (the "Authority Loan") in an amount not to exceed \$6,750,000 to make a loan of equal amount to Borrower (the "Borrower Loan"); and

**WHEREAS**, in accordance with the requirements of Section 147(f) of the Code, the Board of Supervisors of the City is expected to adopt a resolution approving the Authority Loan, in order to refinance the Project (the "Board of Supervisors Approval"); and

**WHEREAS**, Live Oak School is expected to provide significant benefits to the residents of the City and surrounding communities and will also create and retain employment opportunities for residents of the City and surrounding communities over the long term;

**NOW THEREFORE, BE IT RESOLVED** by the Board of Directors of the California Enterprise Development Authority (the "Board"), as follows:

**Section 1.** The Board hereby finds and determines that the foregoing recitals are true and correct. The Board finds that it is in the public interest to assist the Borrower in refinancing the Project.

**Section 2.** Subject to the receipt by the Authority of the Board of Supervisors Approval, the Authority hereby approves of the entering into the Authority Loan on a tax-exempt basis and using the proceeds thereof to make the Borrower Loan pursuant to the terms and provisions of the Master Loan Agreement. The Authority understands that the payments under the Borrower Loan will be assigned to the Lender to satisfy the Authority's payments under the Authority Loan. The payments to be made by the Authority to the Lender under the Authority Loan will be satisfied solely from payments made by the Borrower to the Lender (as assignee of Authority) under the Borrower Loan.

**Section 3.** The proposed form of the Master Loan Agreement by and among the Authority, the Lender and the Borrower, on file with the Secretary of the Authority, is hereby approved in substantially the form presented to and considered at the meeting of the Board. The Chairman or the Vice Chairman of the Board of Directors, or the Executive Director of the Authority (individually, an "Authorized Signatory" and, collectively, the "Authorized Signatories"), acting alone, is hereby authorized and directed, for and in the name and on behalf of the Authority, to execute and deliver the Master Loan Agreement in substantially the form filed with the Authority prior to this meeting, with such changes and insertions therein consistent with the stated terms of this Resolution as the Authorized Signatory executing the same, with the



advice of counsel to the Authority, may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof. The Secretary or Assistant Secretary of the Authority is authorized to attest the execution of the Master Loan Agreement.

**Section 4.** The proposed form of the Assignment Agreement executed by the Borrower in favor of the Lender and the Authority, on file with the Secretary of the Authority, is hereby approved. Each of the Authorized Signatories, acting alone, is hereby authorized and directed, for and in the name and on behalf of the Authority, to execute and deliver the Assignment Agreement in substantially the form filed with the Authority prior to this meeting, with such changes and insertions therein consistent with the stated terms of this Resolution as the Authorized Signatory executing the same, with the advice of counsel to the Authority, may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

**Section 5.** Subject to the receipt by the Authority of the Board of Supervisors Approval, the Authority approves the Authority Loan on a tax-exempt basis and the making of the Borrower Loan to the Borrower in an amount not to exceed \$6,750,000 in accordance with the terms of and to be secured by the Master Loan Agreement. Repayment of the principal of, premium, if any, and the interest on, the Authority Loan shall be made solely from the revenues to be received by the Authority from the Borrower Loan pursuant to the Master Loan Agreement, and the Authority Loan shall not be deemed to constitute a debt or liability of the State or any political subdivision thereof. The Authority Loan shall bear interest at the rate or rates set forth in the Master Loan Agreement.

**Section 6.** All assignments, consents, approvals, notices, orders, requests and other actions permitted or required by any of the documents authorized by this Resolution, whether before or after the borrowing of amounts from the Lender and the making of the Borrower Loan to the Borrower, any of the foregoing which may be necessary or desirable in connection with any default under or amendment of such documents, any transfer or other disposition of the Project, any assignment by Lender to an affiliate of Lender or qualified institutional buyer or any prepayment of the Borrower Loan, may be given or taken by the Chairman or the Executive Director or any designee of either of them without further authorization by this Board of Directors of the Authority, and such officers are hereby authorized and directed to give any such consent, approval, notice, order or request and to take any such action which such officers may deem necessary or desirable to further the purposes of this Resolution.

**Section 7.** All actions heretofore taken by the officials and agents of the Authority with respect to the Authority Loan and the Borrower Loan are hereby approved, confirmed and ratified, and the officials of the Authority are hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all certificates, agreements and documents, including, without limitation, a tax certificate and agreement, which they or counsel may deem necessary or advisable in order to consummate the Borrower Loan and the Authority Loan and otherwise to effectuate the purposes of this Resolution, and the Secretary or Assistant Secretary of the Authority is authorized to attest the execution of such certificates, agreements and documents.

The provisions of this Resolution are hereby declared to be separable, and if any action, phrase or provision is for any reason declared to be invalid, such declaration does not affect the validity of the remainder of the sections, phrases and provisions.

This Resolution shall take effect from and after its adoption.

PASSED AND ADOPTED this June 7, 2012.

CALIFORNIA ENTERPRISE  
DEVELOPMENT AUTHORITY

By: \_\_\_\_\_  
Wayne Schell, Chairman

ATTEST:

\_\_\_\_\_  
Gurbax Sahota, Assistant Secretary

I, the undersigned, the duly appointed and qualified Assistant Secretary of the California Enterprise Development Authority, do hereby certify that the foregoing resolution was duly adopted by the Board of Directors of said Authority at a duly called meeting of the Board of Directors of said Authority held in accordance with law on June 7, 2012.

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Gurbax Sahota, Assistant Secretary



**James Marta & Company**  
**Certified Public Accountants**

*Accounting, Auditing, Consulting, and Tax*

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February 29, 2012

Gurbax Sahota  
California Enterprise Development Authority  
550 Bercut Drive, Suite G  
Sacramento, California 95811

We are pleased to confirm our understanding of the services we are to provide for California Enterprise Development Authority for the year ending June 30, 2012.

**I. SCOPE OF WORK**

We have been engaged to perform an audit of California Enterprise Development Authority's statement of Nets Assets as of June 30, 2012 and the related statements of Activities and Cash Flows for the year then ended.

**II. MANAGEMENT'S RESPONSIBILITIES**

At the outset, it is imperative that we state the scope of your responsibilities in connection with this engagement. The financial statements are the responsibility of California Enterprise Development Authority's management. Encompassed in that responsibility is the establishment and maintenance of effective internal control over financial reporting, the establishment and maintenance of proper accounting records, and the selection of appropriate accounting principles.

Management is responsible for the design and implementation of programs and controls to prevent or detect fraud, and for informing us about all known or suspected fraud affecting the government involving (a) management, (b) employees who have significant roles in internal control, and (c) others where the fraud could have a material effect on the financial statements. Management is also responsible for informing us of its knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, regulators, or others. In addition, management is responsible for identifying and ensuring that the entity complies with applicable laws and regulations.

We will assist in the preparation of your financial statements, but the responsibility for the financial statements remains with you. You are responsible for adjusting the financial statements to correct material misstatements and for confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. As part of our engagement we may propose standard, adjusting, or correcting journal entries to your financial statements. You are responsible for reviewing the entries and understanding the nature of any proposed entries and the impact they have on your financial statements. Further, you are responsible for designating a qualified management-level individual to be responsible and accountable for overseeing these services.

Management hereby promises that it will make every diligent effort to maintain proper books and records that accurately reflect its business activities that it will be completely truthful with James Marta & Company and that James Marta & Company may rely upon both oral and written statements and responses to questions. Management further promises to immediately advise James Marta & Company if it becomes aware of any inaccuracy in its record-keeping or dishonesty in any of its business dealings, including its statements to James Marta & Company. Management acknowledges that the promises are the cornerstone of its relationship with James Marta & Company and are made to induce James Marta & Company to accept this audit engagement, and that James Marta & Company would not accept this audit engagement without such promises.

### **III. OUR RESPONSIBILITY**

Our responsibility is to express an opinion as to whether your financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles, and is limited to the period covered by our audit. Facts and circumstances may require us to qualify that opinion, or to disclaim it, or to express an adverse opinion. Other facts and circumstances may require us to provide additional information on our report. We will keep you informed if and when we begin to reach conclusions that our report may need to be modified because of such facts and circumstances.

### **IV. CHARACTER AND LIMITATIONS OF AN AUDIT**

Our audit will be conducted in accordance with generally accepted auditing standards (GAAS), Government Auditing Standards (GAGAS) and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we initially assess the risk that errors, fraud, irregularities, and illegal acts may cause the financial statements to contain a material misstatement. This is necessary because we do not audit all the transactions and balances in the financial statements, only a selected portion of them, in some cases a very small portion. The costs for us to examine a large portion of them, or all of them of a certain category, or all of them in all categories, would be prohibitive. Consequently, there are risks.

In making this initial assessment, we are required to obtain an understanding of the entity and its environment, including its internal control, sufficient to assess the risks of material misstatement of financial statements and to design appropriate audit procedures. Those considerations mandate your complete cooperation and honesty about your knowledge and understanding of the possibility of the existence of errors, fraud, irregularities and illegal acts. By signing this letter, you agree that you will provide this cooperation and that you will be totally honest with us.

Based on that assessment, the standards require us to design the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by errors, fraud, irregularities and illegal acts. Accordingly, a material misstatement may remain undetected. Furthermore, an audit is not designed to detect error or fraud that is immaterial to the financial statements. While we are required to exercise due care and professional skepticism, since our opinion is based on the concept of reasonable assurance, we are not an insurer and our report does not constitute a guarantee. We will inform you of all matters of fraud that come to our attention. We will also inform you of illegal acts that come to our attention, unless they are clearly inconsequential. We will inform you of any need to extend our procedures because of them and our estimate of their additional cost.

The discovery, subsequent to the date of the auditor's report, that one or more errors, frauds, irregularities, or illegal acts causing the financial statements to contain one or more material misstatements, have occurred does not necessarily mean that our audit was not conducted in accordance with generally accepted auditing standard.

An audit includes obtaining an understanding of internal control sufficient to plan the audit, but is not designed to provide assurance on internal control or to identify significant deficiencies conditions. However, during the audit, if we become aware of such reportable conditions or ways that we believe management practices can be improved, we will communicate them to you in a separate letter.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, legal counsel, creditors, and financial institutions.

Management is responsible for making all financial records and related information available for purposes of the audit. In the event that the financial information provided is incomplete or inaccurate, then we will either complete the work at our standard rate, or delay the audit until this information is complete and accurate.

At the conclusion of our audit, we will require you to furnish us a management representation letter confirming, among others, your responsibility for your financial statements and for the design and implementation of program and controls to prevent and detect fraud. This letter is a required audit procedure prior to issuing our report. By signing this engagement letter and furnishing a management representation letter, California Enterprise Development Authority agrees to indemnify us and hold us harmless for any damages, including attorney's fees, caused in whole or in part by California Enterprise Development Authority failure to fulfill these responsibilities.

## **V. OTHER STIPULATIONS**

### **Fees**

Our fees are based on the amount of time required at various levels of responsibility, plus actual out-of-pocket expenses. Invoices are payable upon presentation. Unpaid fee balances will bear interest at 18 percent per annum. Our fee for the audit will not exceed \$9,500 for the year ending June 30, 2012. This fee also includes the cost to present the audit to the Board.

Whenever possible, we will attempt to use your organization's personnel to assist in the preparation of schedules and analyses of accounts. We understand that your employees will prepare all cash or other confirmations we request and will locate any invoices selected by us for testing. This effort could substantially reduce our time requirements, facilitate the timely conclusion of the audit, and help you hold down audit fees. If assistance is not provided or accounting is not complete and we must complete these items, the additional time and costs will be charged at our standard hourly rates.

Our initial fee estimate assumes we will receive the aforementioned assistance from your personnel and unexpected circumstances will not be encountered. In the event that the [*GASB, FASB, AICPA, GAO, OMB, or the State*] issues additional standards or audit procedures that require additional work during the audit period, we will discuss these requirements with you before proceeding further. Before starting the additional work, we will prepare an estimate of the time necessary, as well as the fee for performing the additional work. Our fee for addressing the additional requirements will be our standard hourly rates for each person involved in the additional work.

### **Reports**

We will provide you with 15 copies of the report. If you intend to publish or otherwise reproduce the financial statements and make reference to our firm, you agree to provide us with printers' proofs or masters for our review and approval before printing. You also agree to provide us with a copy of the final reproduced material for our approval before it is distributed.

### **Working Papers**

The working papers for this engagement are the property of James Marta & Company and constitute confidential information. However, we may be requested to make certain working papers available or provide copies of them to certain regulators pursuant to authority given to it by law or regulation. If requested, access to such working papers will be provided under the supervision of James Marta & Company.

We agree to retain our workpapers related to this audit for a period of at least seven (7) years from the date of our report.

### **Mediation Provision**

Disputes arising under this agreement (including scope, nature, and quality of services to be performed by us, our fees and other terms of the engagement) shall be submitted to mediation. A competent and impartial third party, acceptable to both parties shall be appointed to mediate, and each disputing party shall pay an equal percentage of the mediator's fees and expenses. No suit or arbitration proceedings shall be commenced under this agreement until at least 60 days after the mediator's first meeting with the involved parties. If the dispute requires litigation, the court shall be authorized to impose all defense costs against any non-prevailing party found not to have participated in the mediation process in good faith.

### **Assignment**

It is understood by the parties that James Marta & Company, an unincorporated entity, may, in the future, convert to an incorporated entity, James Marta & Company, Inc. It is further understood that this change is just a change in legal form of James Marta and Company and in no way affects the members of the audit team assigned on the audit.

Therefore, it is hereby agreed by the parties to this contract that James Marta & Company can assign to the successor corporation, in whole or in part, this Contract or its rights, duties, obligations, and responsibilities hereunder by providing a written notice to the Authority.


Several technical accounting and auditing words and phrases have been used herein. We presume you to understand their meaning or that you will notify us otherwise so that we can furnish appropriate explanations.



If the foregoing is in accordance with your understanding, please indicate your agreement by signing the duplicate copy of this letter and returning it to us.

We appreciate the opportunity to serve you and look forward to working with you and your staff.

Sincerely,

A handwritten signature in black ink that reads "James Marta". The signature is written in a cursive style with a large, looped initial "J".

James Marta & Company

RESPONSE:

This letter correctly sets forth our understanding.

Approved by: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_