

CALIFORNIA ENTERPRISE DEVELOPMENT AUTHORITY

FINANCIAL STATEMENTS

WITH SUPPLEMENTARY INFORMATION

FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

AND

INDEPENDENT AUDITOR'S REPORT

CALIFORNIA ENTERPRISE DEVELOPMENT AUTHORITY

**FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION**

For the Years Ended June 30, 2008 and 2007

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
California Enterprise Development Authority
Sacramento, California

We have audited the accompanying basic financial statements of California Enterprise Development Authority (the "Authority"), as of and for the years ended June 30, 2008 and 2007, as listed in the accompanying table of contents. These financial statements are the responsibility of the Authority's management. 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, the State Controller's Minimum Audit Requirements for California Special Districts and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of California Enterprise Development Authority as of June 30, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2008, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Management's discussion and analysis on pages 3 through 4 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Perry-Smith LLP

Sacramento, California
December 15, 2008

Management's Discussion and Analysis

Overview and Response to of the Supplementary Information Findings

This section of the California Enterprise Development Authority (CEDA) annual financial report presents management's discussion and analysis of its financial performance during the fiscal years ended June 30, 2007 and June 30, 2008. It is being provided for the purpose of enhancing the information in the financial audit and should be reviewed in concert with that report.

CEDA is a joint powers authority created in 2006. The Authority has a governing Board of seven members who comprise the Executive Committee of the California Association for Local Economic Development (CALED) and the President/CEO of CALED. Public agency members of CEDA join to facilitate the issuance of private activity bonds for the purpose of economic and community development.

Guiding Principles for Budget Development: CEDA prepares a budget using the following principles to align its financial resources with its mission and organizational priorities:

- CEDA's financial and administrative activities are governed by means of a Management Agreement with CALED.
- Programs and services are funded within the limits of fee revenue derived from bond issuance.
- Two reserve funds (budget and legal) are budgeted and shown in the adopted budget. At the end of the year, excess funds may be committed to the reserves.

Financial Highlights:

In its two years of operations, CEDA has experienced significant growth. FY 2007-2008 was CEDA's second full year of operation. CEDA reported revenues of \$296,179, more than double the previous fiscal year revenue of \$110,775. Total expenditures in 2008-09 were \$128,158, a decrease from the previous year's figure of \$134,875.

Net assets at June 30, 2008 were \$143,921, compared with the previous year end net asset amount of (\$24,100). The negative figure was due to an accounting adjustment, not the result of an operations deficit. CEDA has funded a Legal Reserve and a Budget Reserve in its two-year existence. The current reserve balance is \$60,000.

Overview of the financial statements: The annual financial report consists of four parts: the independent auditor's report, management's discussion and analysis, the basic financial statements including notes, and supplementary information.

This section of the report, Management Discussion and Analysis, is where CEDA's activities are analyzed at a summary level for financial statement users. The analysis is based on current facts and conditions.

The basic financial statements include a Statement of Net Assets and a Statement of Activities. These statements provide an overall financial picture of CEDA as a whole and can be used to assess the overall financial performance of the reported fiscal year.

The notes to the basic financial statement are an integral part of the financial statements and provide details on significant accounting policies, assets, liabilities, and other financial information contained in the statements.

Financial Position:

The following statements illustrate the Net Assets and Change in Net Assets for both 2006-07 and 2007-08.

	2007-08	2006-07
Assets	346,480	221,900
Liabilities	202,559	246,000
Net Assets	143,921	(24,100)

Statement of Activities

	2007-08	2006-07
Revenues	296,179	110,775
Expenses	128,158	134,875
Change in Net Assets	168,021	(24,100)
Beginning Net Assets	(24,100)	
Ending Net Assets	143,921	(24,100)

Primary sources of revenue are application, issuance and annual fees. Primary expenditures are the Management Agreement with CALED, various direct expenses (such as travel), and contributions of excess funds to CALED for economic development purposes.

The bond market in which CEDA operates has recently experienced some of the slow down related to the general economic downturn. Interest rates for borrowers have been fluid during the second quarter of the 2008-09 fiscal year. Tightened credit markets could affect the ability of CEDA's private sector borrowers to obtain credit support or to place or sell bonds.

CALIFORNIA ENTERPRISE DEVELOPMENT AUTHORITY

STATEMENT OF NET ASSETS

June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
Cash and cash equivalents (Note 2)	\$ 324,515	\$ 193,900
Accounts receivable	<u>21,965</u>	<u>28,000</u>
Total assets	<u>346,480</u>	<u>221,900</u>
LIABILITIES		
Accounts payable to affiliated entity (Note 4)	7,559	50,000
Performance deposit (Note 3)	<u>195,000</u>	<u>196,000</u>
Total liabilities	<u>202,559</u>	<u>246,000</u>
NET ASSETS		
Net assets	<u>\$ 143,921</u>	<u>\$ (24,100)</u>

The accompanying notes are an integral
part of these financial statements.

CALIFORNIA ENTERPRISE DEVELOPMENT AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating revenues:		
Fee revenues	\$ 296,179	\$ 110,775
Operating expenses:		
Management fees	65,000	57,500
Contract start up fees		50,000
Contribution to affiliated entity (Note 4)	48,600	20,000
Direct program expenses	<u>14,558</u>	<u>7,375</u>
Total operating expenses	<u>128,158</u>	<u>134,875</u>
Change in net assets	168,021	(24,100)
Net assets, January 1, 2007	<u>(24,100)</u>	
Net assets, December 31, 2007	<u>\$ 143,921</u>	<u>\$ (24,100)</u>

The accompanying notes are an integral
part of these financial statements.

CALIFORNIA ENTERPRISE DEVELOPMENT AUTHORITY

STATEMENT OF CASH FLOWS

For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Cash receipts from fees charged	\$ 302,214	\$ 82,775
Cash receipts for performance deposits	195,000	196,000
Cash paid to return performance deposits	(196,000)	
Cash paid to affiliated entity	(163,600)	(77,500)
Cash paid for direct program expenses	<u>(6,999)</u>	<u>(7,375)</u>
Net cash provided by operating activities	130,615	193,900
Cash and cash equivalents, January 1, 2007	<u>193,900</u>	
Cash and cash equivalents, December 31, 2007	<u>\$ 324,515</u>	<u>\$ 193,900</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 118,021	\$ (24,100)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Decrease (increase) in:		
Accounts receivable	6,035	(28,000)
Increase (decrease) in:		
Performance deposits	(1,000)	196,000
Accounts payable to affiliated entities	<u>7,559</u>	<u>50,000</u>
Net cash provided by operating activities	<u>\$ 130,615</u>	<u>\$ 193,900</u>

The accompanying notes are an integral
part of these financial statements.

CALIFORNIA ENTERPRISE DEVELOPMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

California Enterprise Development Authority (the "Authority") is a joint powers agency formed on June 1, 2006 pursuant to the provisions of Title I, Division 7, Chapter 5, Article I of the Government Code of the State of California. The purpose of the Authority is to assist the members, for-profit and non-profit organizations located within the jurisdictions of the members in financing industrial and commercial development projects and other public purpose projects.

The Authority issues conduit debt for the express purpose of providing capital financing for a specific third party that is not part of the Authority's financial reporting entity. Although the conduit debt obligations may bear the name of California Enterprise Development Authority, the Authority has no obligation for such debt beyond the resources provided by a lease or a loan with the third party on whose behalf they are issued.

Basis of Accounting

The Authority is accounted for as an enterprise fund and its financial statements are prepared on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flows.

Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority include application and issuance fees. Operating expenses of the Authority include the cost of providing the services, administrative expenses and management fees. All revenues and expenses not meeting this definition are reported as nonoperating revenue and expense.

The Authority presents its financial statements in accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, and has elected not to apply Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989.

Cash and Cash Equivalents

The Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash and cash equivalents.

Income Taxes

The Authority is a tax-exempt corporation under Section 115(1) of the Internal Revenue Code and Section 23701d of the California and Taxation Code. Accordingly, no provision for federal or state income taxes has been made in the accompanying financial statements.

CALIFORNIA ENTERPRISE DEVELOPMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 these estimates.

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2008 and 2007 consisted of the following:

	<u>2008</u>	<u>2007</u>
Cash in bank	\$ 324,515	\$ 193,900

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. Cash and cash equivalents include deposits with financial institutions. As of June 30, 2008 and 2007, the Authority's balances per the bank of \$300,165 and \$274,439, respectively, are entirely insured or collateralized. Section 53652 of the California Governmental Code requires financial institutions to secure deposits made by governmental units in excess of insured amounts, by the pledging of governmental securities as collateral. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by governmental units.

3. PERFORMANCE DEPOSIT

Any organization applying for Industrial Development Bonds is required to submit a performance deposit to the Authority equal to 0.5% of the amount of the Qualified Private Activity Bond Allocation being requested, not to exceed \$100,000. Upon issuance of the Bonds, the state notifies the Authority who returns the performance deposit to the applicant.

At June 30, 2008 and 2007, the Authority was holding the following performance deposits:

	<u>2008</u>		<u>2007</u>
Redbarn Pet Products	\$ 30,000	Tri Tool Inc.	\$ 50,000
Ramar International Company	30,000	Anheuser-Busch Company	60,000
Sconza Candy Company	50,000	Le Chef Bakery	36,000
JBR Coffee Company	50,000	Alvarado Bakery	50,000
EVAPCO, Inc.	35,000		
	<u>\$ 195,000</u>		<u>\$ 196,000</u>

CALIFORNIA ENTERPRISE DEVELOPMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

4. RELATED PARTY TRANSACTIONS

The Joint Powers Agreement has designated California Association for Local Economic Development (CALED), a California nonprofit corporation, as the administrator and executor of the agreement. The agreement also designates the Executive Committee of the Board of Directors of CALED and the President of CALED as the Board of Directors of the Authority.

For the years ended June 30, 2008 and 2007, the Authority entered into a management agreement with CALED, an affiliated entity, for an annual fee of \$65,000 and \$57,500, respectively. CALED provides an executive director, office space and other related expenses and services under the management agreement. In addition, the Authority agreed to pay a one-time fee of \$50,000 to CALED for oversight, monitoring and organizational services in the establishment of the Authority.

In June 2007, the Authority paid \$20,000 to CALED as a source of matching funds for a grant that CALED applied for which required contributing matching funds. During the year ended June 30, 2008, the Authority paid an additional \$48,600 to CALED to support its ongoing purpose.

At June 30, 2008, there was a balance due to CALED in the amount of \$7,559, which represents expenses paid by CALED on behalf of the Authority.

5. CONDUIT DEBT OBLIGATIONS

The Authority has issued Industrial Development Bonds to provide financial assistance to organizations for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the organization served by the bond issuance. The Authority is not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

At June 20, 2008 and 2007, the Authority had the following number of Industrial Development Bonds outstanding, related original bond issue amount, related aggregate principal balance due as of June 30 and related fees charged:

	<u>2008</u>	<u>2007</u>
Number of bonds	16	4
Original bond issue amount	\$ 226,840,838	\$ 49,350,000
Principal balance at June 30	\$ 226,459,737	\$ 49,278,800
Fees charged	\$ 297,680	\$ 101,525

SUPPLEMENTARY INFORMATION

**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 Enterprise Development Authority
Sacramento, California

We have audited the financial statements of California Enterprise Development Authority (the "Authority"), a California nonprofit mutual benefit corporation, as of and for the years ended June 30, 2008 and 2007, and have issued our report dated December 15, 2008. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**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**

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of 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 audit 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*.

We noted certain matters that we reported to management of the Authority in a separate letter dated December 15, 2008.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

Perry-Smith LLP

Sacramento, California
December 15, 2008