

**CALIFORNIA ENTERPRISE
DEVELOPMENT AUTHORITY**

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

**FOR THE FISCAL YEARS ENDED
JUNE 30, 2018 AND 2017**

JAMES MARTA & COMPANY LLP
701 HOWE AVENUE, E3
SACRAMENTO, CA

(916) 993-9494
(916) 993-9489 FAX

CALIFORNIA ENTERPRISE DEVELOPMENT AUTHORITY

JUNE 30, 2018

BOARD OF DIRECTORS

Gurbax Sahota	Chair
Jason Crawford	Vice Chair
Kevin Ham	Secretary
Carrie Rogers	Treasurer
Mather Kearney	Member
Margaret Silveira	Member
Aaron Laurel	Member
Keith Boggs	Member

CALIFORNIA ENTERPRISE DEVELOPMENT AUTHORITY

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Statements of Net Position	6
Statements of Revenues, Expenses and Changes in Net Position	7
Statements of Cash Flows	8
Statement of Fiduciary Cash Receipts and Disbursements	9
Notes to Financial Statements	10
Other Auditor's Report	
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 <i>Government Auditing Standards</i>	14



James Marta & Company LLP

Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

INDEPENDENT AUDITOR'S REPORT

Board of Directors
California Enterprise Development Authority
Sacramento, California

Report on the Financial Statements

We have audited the accompanying statement of net position of California Enterprise Development Authority (the Authority) as of June 30, 2018 and 2017 and the related statement of revenues, expenses and changes in net position, statement of cash flows, statement of fiduciary cash receipts and disbursements and related notes to the financial statements for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these basic financial statements in accordance with accounting principles generally accepted in the United States of America and cash basis for the fiduciary activities as described in Note 1; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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 the basic financial statements based on our audit. We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic 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 basic 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 basic 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 respective financial position of California Enterprise Development Authority as of June 30, 2018 and 2017, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America as well as the fiduciary cash receipts and disbursements in accordance with the cash basis of accounting described in Note 1.

Basis of Accounting

As further described in Note 1 to the financial statements, the fiduciary activities related to the residential PACE program are presented on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

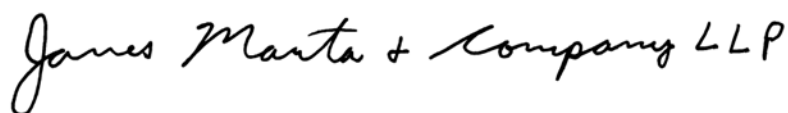
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted principally of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2018 on our consideration of California Enterprise Development Authority's internal control over financial reporting and our tests of its compliance with 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* in considering California Enterprise Development Authority internal control over financial reporting and compliance.



James Marta & Company LLP
Certified Public Accountants
Sacramento, California
November 8, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview

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 year that ended on June 30, 2018. 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 eight 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 (operating 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 2017-18, CEDA issued 32 bonds for a total of \$352,810,910. This is lower than in 2016-17 which saw a total dollar amount of authorized bonds at \$625,952,139 and 33 deals closed. Fee Revenues were lower this year than the previous year with \$752,577 in 2017-18 versus \$977,648 in 2016-17 due to the size and number of the bonds issued was much smaller than the bonds issued in the previous year.

The management fee payable to CALED of \$300,000 was approved by the CEDA board to commence fiscal year 2017-18, an increase from the \$200,000 that was approved for the prior fiscal year (2016-17).

The success of CEDA's conduit-bond issuances is best seen in the contributions made to economic development. CEDA was formed in 2006 with the specific mission of supporting economic development in California. CEDA's contributions help economic developers attend training events and further support economic development. Due to CEDA's strong year in revenues, additional contributions to economic development were approved by the CEDA Board on May 24, 2018 and June 28, 2018 to be directed to CALED and the California Academy for Economic Development, \$150,000 and \$130,000, respectively. CEDA's total contribution to economic development for the FY 2017-18 was \$296,024.

At the end of June 2018, net position was \$1,137,500 compared to \$1,033,872 in June 2017, which is evidence of CEDA's success and increased viability in 2018.

Condensed Statement of Net Position

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Current Assets	\$ 1,142,405	\$ 1,039,693	\$ 677,920
Current Liabilities	<u>4,905</u>	<u>5,821</u>	<u>3,372</u>
Net Position, unrestricted	<u>\$ 1,137,500</u>	<u>\$ 1,033,872</u>	<u>\$ 674,548</u>

Condensed Statement of Activities

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Revenues	\$ 752,577	\$ 977,648	\$ 312,835
Expenses	<u>648,949</u>	<u>618,324</u>	<u>289,091</u>
Change in Net Position	<u>\$ 103,628</u>	<u>\$ 359,324</u>	<u>\$ 23,744</u>

Economic Factors Affecting the Future

Primary sources of revenue are derived from application, issuance, annual fees and PACE management 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 Authority had a very successful year due to an improved economy enabling organizations to consider expansion of their operations and key partnerships that are promoting the Authority within their sphere of influence, thus bringing more projects to the Issuer. It is expected that this shall continue in the coming year especially with a focus on targeting new partners and potential deal flows.

Non-Profit 501(c)(3) bonds continued to drive CEDA's growth this past year and likely will continue to make up the majority of issuances in the coming fiscal year. These deals are a combination of new projects and refinances.

No industrial development bonds (IDBs) were issued in the 2017-18 fiscal year, compared to two being issued in the 2016-17 fiscal year. CEDA continues to market this financing tool which supports growth in the statewide manufacturing industry. Manufacturers' access to this financing tool now is easier with reduced costs due to the elimination of the California Industrial Development Financing Advisory Commission (CIDFAC) through AB 1547. With this barrier removed, the number of manufacturers using IDB financing in California may increase.

The California PACE program expanded to include residential PACE (R-PACE) starting in early 2017 with bonding of R-PACE projects beginning fiscal year 2017-18. Although there was progress in the R-PACE program, legislation passed in January 2018 resulted in Dividend Finance halting new project originations as of April 1, 2018 until solutions to meet the necessary underwriting requirements could be resolved. As of now, the program is being monitored while next steps are being gauged. Despite the halt of R-PACE originations in the fiscal year, commercial PACE (C-PACE) projects have shown an increase from the prior year. In 2017-18, CEDA issued over \$4.5 million in commercial PACE bonds, much higher than about \$2.3 million issued in 2016-17.

BASIC FINANCIAL STATEMENTS

CALIFORNIA ENTERPRISE DEVELOPMENT AUTHORITY

STATEMENTS OF NET POSITION

JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,130,630	\$ 1,015,051
Accounts receivable	9,431	23,875
Prepaid expenses	<u>2,344</u>	<u>767</u>
Total assets	<u>1,142,405</u>	<u>1,039,693</u>
LIABILITIES		
Current Liabilities		
Due to affiliated entity	1,905	3,321
Unearned revenue	<u>3,000</u>	<u>2,500</u>
Total liabilities	<u>4,905</u>	<u>5,821</u>
NET POSITION		
Unrestricted	<u>\$ 1,137,500</u>	<u>\$ 1,033,872</u>

CALIFORNIA ENTERPRISE DEVELOPMENT AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
OPERATING REVENUES		
Fee revenues	\$ 752,396	\$ 977,491
Total operating revenues	752,396	977,491
OPERATING EXPENSES		
Management fees	300,000	200,000
Contribution to economic development	296,024	322,500
Contribution to CALED	-	18,643
Direct program expenses	52,925	77,181
Total operating expenses	648,949	618,324
Operating income	103,447	359,167
NONOPERATING REVENUES		
Investment income	181	157
Change in net position	103,628	359,324
Net position, July 1	1,033,872	674,548
Net position, June 30	\$ 1,137,500	\$ 1,033,872

CALIFORNIA ENTERPRISE DEVELOPMENT AUTHORITY

STATEMENTS OF CASH FLOWS

FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Cash receipts from fees charged	\$ 767,340	\$ 959,116
Cash paid for management fees and economic development	(597,440)	(541,194)
Cash paid for direct program expenses	<u>(54,502)</u>	<u>(26,717)</u>
Net cash provided (used) by operating activities	<u>115,398</u>	<u>391,205</u>
Cash flows from investing activities:		
Interest income received	<u>181</u>	<u>157</u>
Increase (decrease) in cash	115,579	391,362
Beginning cash and cash equivalents	<u>1,015,051</u>	<u>623,689</u>
Ending cash and cash equivalents	<u>\$ 1,130,630</u>	<u>\$ 1,015,051</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 103,447	\$ 359,167
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Decrease (increase) in:		
Accounts receivable	14,444	(20,875)
Prepaid expenses	(1,577)	50,464
Increase (decrease) in:		
Due to affiliated entities	(1,416)	(51)
Unearned revenues	<u>500</u>	<u>2,500</u>
Net cash provided by operating activities	<u>\$ 115,398</u>	<u>\$ 391,205</u>

CALIFORNIA ENTERPRISE DEVELOPMENT AUTHORITY
STATEMENT OF FIDUCIARY CASH RECEIPTS AND DISBURSEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

Residential PACE Program Activity

	2018	2017
Cash Receipts		
PACE Funding	\$ 4,414,506	\$ 291,477
Prepayments Received	184,629	
Reimbursed Expenses	27,091	15,379
Prefund Deposit	2,500	2,500
County Remittances Received	3,928	
Total additions	\$ 4,632,654	\$ 309,356
Cash Disbursements		
Project Costs	4,241,715	279,660
Prepayments Paid Out	194,831	
Bank Fees	27,091	15,379
Amended Funding Documents	467	
Total deductions	\$ 4,464,103	\$ 295,039
Change in Cash Position	168,551	14,317
Cash - beginning	14,317	
Cash - ending	\$ 182,868	\$ 14,317

CALIFORNIA ENTERPRISE DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. 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.

Property Assessed Clean Energy (PACE) Program

Property assessed clean energy (PACE) is a mechanism for financing energy efficiency and renewable energy improvements on properties. Under Assembly Bill 811, California property owners in special assessment districts may enter into voluntary contractual assessments against their properties, to finance a range of authorized energy and water efficiency products and improvements. In partnership with Dividend Finance, CEDA offers PACE funding to property owners to amortize payments for eligible improvements for up to 20 years with long term, low interest rate loans and no money down, repaid as a line-item on the property owner's annual property tax bill.

CEDA contracted with Dividend Finance/Figtree Financing to provide program administration for the PACE program. The current agreement calls for Dividend Finance/Figtree Financing to pay CEDA an annual fee of \$75,000 to reimburse the Authority for administrative and overhead costs.

During fiscal year 2016-17, CEDA implemented a residential PACE (R-PACE) program in addition to commercial PACE (C-PACE) already in its portfolio. On behalf of Dividend Finance's clients, CEDA issues multijurisdictional bonds that generate private capital for PACE commercial property improvement projects and bonds to take out loans to finance residential property projects.

Legislation passed in January 2018 resulted in Dividend Finance halting new R-PACE project originations as of April 1, 2018 until solutions to meet the necessary underwriting requirements could be resolved. As of now, the R-PACE program is being monitored while next steps are being gauged.

Since these funds are controlled by a third party and not by CEDA, the Authority has elected to use the cash basis of accounting as described in Note 1.B.

CALIFORNIA ENTERPRISE DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

B. BASIS OF ACCOUNTING

The Authority is accounted for as an enterprise fund and its financial statements are prepared using the economic resources measurement focus and 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, issuance and annual 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 non-operating revenue and expense.

Fiduciary Funds – Cash Basis

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The Authority uses a fiduciary fund to account for the proceeds and expense associated with its Property Assessed Clean Energy (PACE) program. The fund activities are reported in a separate statement of fiduciary net position and statement of changes in fiduciary net position. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Authority's general operations. The fiduciary fund financial statement has been prepared on the cash receipts and disbursements basis of accounting, which is a basis of accounting other than generally accepted accounting principles. Under that basis, the only asset recognized is cash, and no liabilities are recognized. The cash basis differs from generally accepted accounting principles primarily because the effects of outstanding dues and obligations for assessments unpaid at the date of the financial statement are not included in the financial statement.

C. 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.

D. 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.

E. 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.

CALIFORNIA ENTERPRISE DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2018 and 2017 consisted of the following:

	<u>Governmental Activities</u>		<u>Fiduciary Activities</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Cash in banks	<u>\$ 1,130,630</u>	<u>\$ 1,015,051</u>	<u>\$ 182,868</u>	<u>\$ 14,317</u>

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, 2018 and 2017, the Authority's balances per the bank of \$1,130,630 and \$1,015,051, 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. As of June 30, 2018 and 2017, the Authority was not holding any performance deposits.

4. SUBSEQUENT EVENTS

Management has reviewed its financial statements and evaluated subsequent events for the period of time from its year ended June 30, 2018 through November 8, 2018, the date the financial statements were issued. Management is not aware of any subsequent events that would require recognition or disclosure in the accompanying financial statements.

CALIFORNIA ENTERPRISE DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

5. 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, 2018 and 2017, the Authority entered into a management agreement with CALED, an affiliated entity, for an annual fee of \$300,000 and \$200,000, respectively. CALED provides administrative oversight, office space and other related expenses and services under the management agreement.

As of June 30, 2018 and 2017, there was a balance due to CALED in the amount of \$1,905 and \$3,321, respectively, which represents expenses paid by CALED on behalf of the Authority.

6. CONDUIT DEBT OBLIGATIONS

The Authority has issued Conduit 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.

As of June 30, 2018, the Authority had the following number of Conduit Bonds authorized, related authorized bond issue amount, related aggregate principal balance due as of June 30 and related fees charged:

Fiscal Year Ended June 30:	Number of Bonds Authorized	Dollar Amount of Bonds Authorized	Outstanding Principal Balance	Issuance Fees
2018	32	\$ 352,810,910	\$ 352,791,566	\$ 525,569
2017	33	625,952,139	573,546,411	817,942
2016	14	113,606,718	104,276,514	199,665
2015	17	114,130,080	95,211,260	169,157
2014	16	209,824,479	123,179,733	208,162
2013	10	203,300,000	146,750,822	196,625
2012	4	70,650,000	14,330,543	65,625
2011	32	522,247,271	261,552,628	762,170
2010	7	82,184,455	37,958,105	147,886
2009	5	37,000,000	21,887,997	70,000
2008	13	188,192,839	68,607,977	292,715
2007	3	40,065,000		65,525
Totals	<u>121</u>	<u>\$ 1,581,200,842</u>	<u>\$ 1,800,093,556</u>	<u>\$ 2,177,530</u>



James Marta & Company LLP

Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

**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**

To the Board of Directors
California Enterprise Development Authority
Sacramento, 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 basic financial statements of California Enterprise Development Authority (the “Authority”), as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements, and have issued our report thereon dated November 8, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority’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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financials 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.

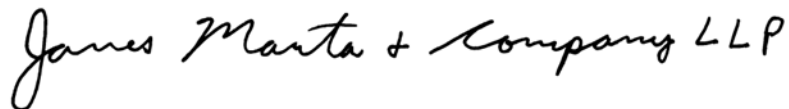
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether California Enterprise Development 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*.

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 the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "James Marta & Company LLP". The signature is written in a cursive, flowing style.

James Marta & Company LLP
Certified Public Accountants
Sacramento, California
November 8, 2018



James Marta & Company LLP

Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

**COMMUNICATION WITH THOSE CHARGED
WITH GOVERNANCE**

Board of Directors
California Enterprise Development Authority
Sacramento, California

We have audited the financial statements of the California Enterprise Development Authority (CEDA) for the years ended June 30, 2018 and 2017 and have issued our report thereon dated November 8, 2018. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As communicated in our engagement letter dated February 6, 2017, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of CEDA solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted the majority of our audit consistent with the planned scope and timing we previously communicated to you. A change in the scope of the audit occurred as a result of the new Property Assessed Clean Energy (PACE) program implemented by the Authority and administered by a third party. This program and the related sources and uses of funds are reported as a fiduciary fund of the Authority.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm has complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Organization's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by CEDA is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the fiscal year ended June 30, 2018. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

We are not aware of any significant estimates in the financial statements.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the California Enterprise Development Authority's financial statements relate to the conduit debt obligations in Note 6 to the financial statements.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. We are not aware of any uncorrected misstatements as a result of our audit procedures.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. We are not aware of any material misstatements as a result of our audit procedures. However, we did make audit adjustments identified by management as noted in attachment 1.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to California Enterprise Development Authority's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the attached letter dated November 8, 2018.

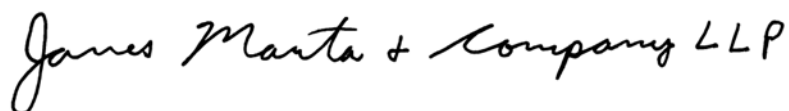
Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Findings or Issues

In the normal course of our professional association with California Enterprise Development Authority, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Organization, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Authority's auditors.

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

A handwritten signature in black ink that reads "James Marta & Company LLP". The signature is written in a cursive, flowing style.

James Marta & Company LLP
Certified Public Accountants
Sacramento, California
November 8, 2018

Attachment 1

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 1				
To adjust retained earnings to match PY audit report				
4000	Operating Revenue:Fee Revenues:Annual Fee		114.00	
3000	Retained Earnings			114.00
Total			<u>114.00</u>	<u>114.00</u>
Adjusting Journal Entries JE # 2				
To remove 2018-19 revenue from the current period				
4060	Operating Revenue:Fee Revenues:Issuance Fees:Issuance Fee-IDB	7117	38,000.00	
1010	Public Funds MMA			38,000.00
Total			<u>38,000.00</u>	<u>38,000.00</u>
Adjusting Journal Entries JE # 3				
to expense the 17-18 Alliant insurance that was prepaid in 16-17				
7040	Operating Expenses:Direct Expenses:Insurance		766.88	
1300	Prepaid Expenses			766.88
Total			<u>766.88</u>	<u>766.88</u>



California Enterprise Development Authority

Targeting Capital Resources to Grow Local Economies

MANAGEMENT REPRESENTATION LETTER

November 8, 2018

James Marta & Company LLP
Certified Public Accountants
Sacramento, California

This representation letter is provided in connection with your audit of the Statement of Financial Position, Statement of Activities, Statement of Cash Flows and statement of fiduciary cash receipts and disbursements of California Enterprise Development Authority (CEDA) as of June 30, 2018 and 2017 and for the years then ended, and the related notes to the financial statements, for the purpose of expressing opinions on whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows, where applicable, of the various opinion units of California Enterprise Development Authority in conformity with accounting principles generally accepted for governments in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of November 8, 2018:

Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated February 6, 2017, for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP.
- We acknowledge our responsibility for 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.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- We acknowledge our responsibility for compliance with the laws, regulations, and provisions of contracts and grant agreements.
- We have reviewed, approved, and taken responsibility for the financial statements and related notes.
- We have a process to track the status of audit findings and recommendations.
- We have identified and communicated to you all previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.

- All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
- The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
- All component units, as well as joint ventures with an equity interest, are included and other joint ventures and related organizations are properly disclosed.
- All funds and activities are properly classified.
- We have reviewed and approved the adjusting journal entries reflected in the audit statements and Attachment A.
- All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus* as amended, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for presentation as major are identified and presented as such and all other funds that are presented as major are considered important to financial statement users.
- All components of net position, nonspendable fund balance, and restricted, committed, assigned, and unassigned fund balance are properly classified and, if applicable, approved.
- Our policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position/fund balance are available is appropriately disclosed and net position/fund balance is properly recognized under the policy.
- All revenues within the statement of activities have been properly classified as program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
- All expenses have been properly classified in or allocated to functions and programs in the statement of activities, and allocations, if any, have been made on a reasonable basis.
- All interfund and intra-entity transactions and balances have been properly classified and reported.
- Special items and extraordinary items have been properly classified and reported.
- All cash activity has been properly reflected in the fiduciary fund.
- Deposit and investment risks have been properly and fully disclosed.
- Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.
- All required supplementary information is measured and presented within the prescribed guidelines.
- With regard to investments and other instruments reported at fair value:
 - The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action.
 - The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
 - The disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP.
 - There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.

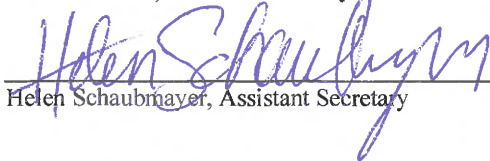
Information Provided

- We have provided you with:
 - Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the various opinion units referred to above, such as records, documentation, meeting minutes, and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - Management;
 - Employees who have significant roles in internal control; or
 - Others where the fraud could have a material effect on the financial statements.
- We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, vendors, regulators, or others.
- We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements and we have not consulted legal counsel concerning litigation or claims.
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
- There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
- California Enterprise Development Authority has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
- We have disclosed to you all guarantees, whether written or oral, under which California Enterprise Development Authority is contingently liable.
- We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB Statement No. 62 (GASB-62), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.
- We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
- There are no:
 - Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
 - Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB-62.
 - Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62
- California Enterprise Development Authority has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
- We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.



Gurbax Sahota, Chair



Helen Schaubmayer, Assistant Secretary

Attachment A

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 1				
To adjust retained earnings to match PY audit report				
4000	Operating Revenue:Fee Revenues:Annual Fee		114.00	
3000	Retained Earnings			114.00
Total			<u>114.00</u>	<u>114.00</u>
Adjusting Journal Entries JE # 2				
To remove 2018-19 revenue from the current period				
4060	Operating Revenue:Fee Revenues:Issuance Fees:Issuance Fee-IDB	7117	38,000.00	
1010	Public Funds MMA			38,000.00
Total			<u>38,000.00</u>	<u>38,000.00</u>
Adjusting Journal Entries JE # 3				
to expense the 17-18 Alliant insurance that was prepaid in 16-17				
7040	Operating Expenses:Direct Expenses:Insurance		766.88	
1300	Prepaid Expenses			766.88
Total			<u>766.88</u>	<u>766.88</u>

[Handwritten signature]



James Marta & Company LLP

Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

MANAGEMENT LETTER

To the Board of Directors
California Enterprise Development Authority
Sacramento, California

We have recently completed the audit of the financial statements of California Enterprise Development Authority (the "Authority") and have issued our report thereon dated November 8, 2018. In planning and performing our audit of your financial statements for year ended June 30, 2018, we applied generally accepted auditing standards (GAAS) as we considered your internal control over financial reporting as a basis for designing our auditing procedures. We did this for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of your internal controls.

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. Although our audit was not designed to provide assurance on the internal control structure and its operation, we are following up on items noted in the June 30, 2017 audit. This letter does not affect our report dated November 8, 2018 on the financial statements of the Authority.

Current Year Recommendations

2018-1 – Cash

The Wells Fargo Reserve account has a balance of \$600,352.36 with an interest rate of 0.03%. Management should consider a higher yield account or a certificate of deposit (CD).

Management Response:

We will consider this recommendation and research options.

2018-2 – Bank Reconciliations

There was an outstanding check of \$38,000 in the Wells Fargo Checking Bank reconciliation. Upon further inspection of the outstanding check, auditor noted the date of check did not match the date of the check in QuickBooks. Per discussion with Helen Schaubmayer, the outside bookkeeper incorrectly coded the date of the check.

Management Response:

We implemented a process where one of the CALED staff reviews reconciliations to identify and correct situations like these; however, due to staffing changes, we are revisiting the process and who does the review.

2018-3 – Prepaid Expenses

The 2017-18 Alliant insurance amount was prepaid in 2016-17, but was not expensed during the 2017-18 fiscal year. Payments need to be expensed in the year to which they apply.

Management Response:

We will institute a process where one of the CALED staff review prepaid expenses to ensure they are entered into the applicable year.

Prior Year Recommendations

2017-1 – Accounts Receivable

There was one issuance fee for \$14,625 for bonds issued in June 2017 that was not recorded until August 2017. We posted adjustment to accrue receivable in 2016/17.

Status: A new policy whereby project invoices are created in Quickbooks for the day of closing has been implemented

2017-2 – Bank Reconciliations

There was an outstanding deposit of \$1,500 in the Five Star Bank reconciliation since November 2016. This was an application fee that was actually deposited into the Wells Fargo Checking account.

Status: A process where one of the CALED staff review the reconciliations has been implemented

2017-3 – Contributions to Economic Development

The board budgets expenditures for contributions to economic development and typically approves additional amounts at a later date. The minutes should be clear that these are additional amounts over and above the amount previously budgeted.

Status: Implemented

2017-4 – Advisory Fees

During the year \$30,000 of advisory fees related to two bond financings were paid, but were not included in the budget. While these fees aren't common, the board should consider budgeting an amount for this each year or these fees should be separately approved when they occur.

Status: This has been implemented via a new line item in the budget for these fees

2017-5 – Outstanding Receivables

There was \$3,000 of outstanding receivables for annual fees from 5 different agencies that originated in the 2015/16 fiscal year. Management should investigate these receivables and determine if they are collectible or should be written off in the current year.

Status: Outstanding receivables have been investigated and collectability has been determined.

2017-6 – PACE Management Fee

The PACE management fee due to CEDA for June 2017 for \$6,250 was not accrued in the year-end financial statements. In addition, the May fee was recorded as dividend income. The invoices are currently prepared in a separate document. These should be invoiced in the QuickBooks accounting system to ensure they are recorded in the proper period.

Status: Implemented

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

James Marta & Company LLP

James Marta & Company LLP
Certified Public Accountants
Sacramento, California
November 8, 2018