

**CALIFORNIA ENTERPRISE
DEVELOPMENT AUTHORITY**

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

**FOR THE FISCAL YEARS ENDED
JUNE 30, 2011 AND 2010**

CALIFORNIA ENTERPRISE DEVELOPMENT AUTHORITY

JUNE 30, 2011 AND 2010

BOARD OF DIRECTORS

Wayne Schell	Chair
Kathy Millison	Vice Chair
Bruce Kern *	Secretary/Treasurer
Danny Roberts	Member
Bruce Stenslie	Member
Cindy Trobitz-Thomas	Member

* Resigned in May 2011, position was vacant at June 30, 2011.

CALIFORNIA ENTERPRISE DEVELOPMENT AUTHORITY

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James Marta & Company
Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

INDEPENDENT AUDITOR'S REPORT

Board of Directors
California Enterprise Development Authority
Sacramento, California

We have audited the accompanying basic financial statements of the California Enterprise Development Authority (the "Authority") as of and for the fiscal years ended June 30, 2011 and 2010 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. An audit also includes 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, 2011 and 2010, 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 October 6, 2011, 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.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, consisting 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.

James Marta & Company

James Marta & Company
October 6, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

CALIFORNIA ENTERPRISE DEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

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 ended June 30, 2011. 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

As noted in prior audits, CEDA has experienced uneven growth. During FY 2008-2009, CEDA reported revenues of \$97,500. This represents a 64% decrease from the previous fiscal year revenue of \$269,179. In 2009, the Federal government released several bond provisions that helped CEDA rebound in 2010-2011. Revenues for 2010-2011 were \$827,779 as compared to \$176,620 the prior year, representing a 369% increase. This gain can be attributed to the Recovery Zone Bonds CEDA marketed and issued, as well as the extraordinarily large number of non-profit deals. The Recovery Zone program and bond provisions ended on December 31, 2010.

Our expenses were \$419,920 as compared with \$149,666 the previous year. The increase in expenses is attributable to actions taken by the board to increase our budget and legal reserves, as well as to contribute to economic development in California. The operating budget reserve has \$200,000 and the legal reserve has \$150,000. In addition, CEDA made a one-time contribution of \$150,000 to CALED in order to provide matching funds for a grant from the Federal Economic Development Administration. At June 30, 2011, net assets were \$477,681, compared with the previous year-end net asset amount of \$69,822.

CALIFORNIA ENTERPRISE DEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

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's 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, Statement of Activities and Statement of Cash Flows. 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, capital assets, debt, and other financial information contained in the statements.

Condensed Statement of Net Assets for the Years Ended June 30:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current Assets	\$ 477,981	\$ 386,347	\$ 44,469
Current Liabilities	<u>300</u>	<u>316,525</u>	<u>1,601</u>
Net assets, unrestricted	<u>\$ 477,681</u>	<u>\$ 69,822</u>	<u>\$ 42,868</u>

Condensed Statement of Activities for the Years Ended June 30:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Revenues	\$ 827,779	\$ 176,620	\$ 97,500
Expenses	<u>419,920</u>	<u>149,666</u>	<u>203,053</u>
Change in Net Assets	<u>\$ 407,859</u>	<u>\$ 26,954</u>	<u>\$ (105,553)</u>

CALIFORNIA ENTERPRISE DEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

Economic Factors Affecting the Future

Primary sources of revenue are derived from 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 continues to be impacted by the general economic downturn. Banks have been struggling with their own issues and have not been willing to provide the letter of credit needed for IDB issuances. Additionally, this business sector has been suffering from lower manufacturing demand and consequently has not been investing in large capital purchases like real estate and capital equipment. One brighter spot has been seen from the increase in 501(c)(3) bond activity. It is our hope to continue to grow our presence in the 501(c)(3) market as well as look for ways to expand CEDA's ability to issue into other areas.

BASIC FINANCIAL STATEMENTS

CALIFORNIA ENTERPRISE DEVELOPMENT AUTHORITY

STATEMENTS OF NET ASSETS

JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 402,909	\$ 357,279
Accounts receivable	72,100	29,068
Due from affiliated entity	<u>2,972</u>	<u></u>
Total assets	<u>477,981</u>	<u>386,347</u>
LIABILITIES		
Current Liabilities		
Accounts payable to affiliated entity	-	16,225
Performance deposit	<u>300</u>	<u>300,300</u>
Total liabilities	<u>300</u>	<u>316,525</u>
NET ASSETS		
Net assets, unrestricted	<u>\$ 477,681</u>	<u>\$ 69,822</u>

CALIFORNIA ENTERPRISE DEVELOPMENT AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
OPERATING REVENUES		
Fee revenues	\$ 823,849	168,386
Miscellaneous income	1,500	7,500
Total operating revenues	825,349	175,886
OPERATING EXPENSES		
Management fees	156,000	114,269
Contribution to affiliated entity	75,000	1,000
Direct program expenses	38,920	21,063
Grant match	150,000	13,334
Total operating expenses	419,920	149,666
Operating income	405,429	26,220
NONOPERATING REVENUES		
Interest income	2,430	734
Change in net assets	407,859	26,954
Net assets, July 1	69,822	42,868
Net assets, June 30	\$ 477,681	\$ 69,822

CALIFORNIA ENTERPRISE DEVELOPMENT AUTHORITY

STATEMENTS OF CASH FLOWS

FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Cash receipts from fees charged	\$ 782,317	\$ 156,318
Cash receipts for performance deposits	314,625	300,000
Cash paid to return performance deposits	(614,625)	-
Cash paid to affiliated entity	(250,197)	(115,269)
Cash paid for direct program expenses	(38,920)	(6,139)
Cash paid for grant match	<u>(150,000)</u>	<u>(13,334)</u>
Net cash provided by operating activities	<u>43,200</u>	<u>321,576</u>
Cash flows from investing activities:		
Interest income received	<u>2,430</u>	<u>734</u>
Increase in cash	45,630	322,310
Beginning cash and cash equivalents	<u>357,279</u>	<u>34,969</u>
Ending cash and cash equivalents	<u>\$ 402,909</u>	<u>\$ 357,279</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 405,429	\$ 26,220
Adjustments to reconcile operating income to net cash provided by operating activities:		
Decrease (increase) in:		
Accounts receivable	(43,032)	(19,568)
Due from affiliated entity	(2,972)	-
Increase (decrease) in:		
Accounts payable to affiliated entities	(16,225)	14,924
Performance deposits	<u>(300,000)</u>	<u>300,000</u>
Net cash provided by operating activities	<u>\$ 43,200</u>	<u>\$ 321,576</u>

CALIFORNIA ENTERPRISE DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND 2010

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.

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 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 non-operating 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.

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.

CALIFORNIA ENTERPRISE DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND 2010

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.

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2011 and 2010 consisted of the following:

	<u>2011</u>	<u>2010</u>
Cash in banks	<u>\$ 402,909</u>	<u>\$ 357,279</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, 2011 and 2010, the Authority's balances per the bank of \$402,909 and \$357,279, 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, 2011 and 2010, the Authority was holding the following performance deposits:

	<u>2011</u>	<u>2010</u>
Pocino Foods	\$ 300	\$ 300
GreenHunter Energy	-	100,000
Frank-Lin Distillers Products Ltd.	-	100,000
Trancas Retail Center Fund, LLC	-	100,000
	<u>\$ 300</u>	<u>\$ 300,300</u>

CALIFORNIA ENTERPRISE DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND 2010

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, 2011 and 2010, the Authority entered into a management agreement with CALED, an affiliated entity, for an annual fee of \$156,000 and \$114,269, respectively. CALED provides an executive director, office space and other related expenses and services under the management agreement.

For the year ended June 30, 2011, the Authority paid \$150,000 to CALED as a source of matching funds for a grant that CALED applied for which required contributing matching funds.

As of June 30, 2011, there was a balance due from CALED in the amount of \$2,972, which represents advances to CALED to pay expenses on behalf of the Authority. As of June 30, 2011/2010, there was a balance due to CALED in the amount of \$16,225, 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.

As of June 30, 2011, the Authority had the following number of Industrial Development Bonds authorized, related authorized bond issue amount, related aggregate principal balance due as of June 30 and related fees charged:

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>Total</u>
Number of bonds authorized	32	7	6	13	3	61
Amount of bonds authorized	\$ 520,747,271	\$ 73,684,455	\$ 45,500,000	\$ 188,192,839	\$ 40,065,000	\$ 868,189,565
Outstanding principal balance	414,812,899	61,581,702	41,513,573	175,226,511	35,500,000	728,634,685
Issuance fees	762,350	137,886	80,000	297,680	101,525	1,379,441

SUPPLEMENTARY INFORMATION



James Marta & Company
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 the financial statements of California Enterprise Development Authority as of and for the year ended June 30, 2011 and 2010, and have issued our report thereon dated October 6, 2011. 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.

Internal Control over Financial Reporting

Management of California Enterprise Development Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered California Enterprise Development 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 California Enterprise Development Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of California Enterprise Development Authority's internal control over financial reporting.

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 financial statements will not be prevented, or detected and corrected on a timely basis.

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 deficiencies, 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. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of audit findings and responses that we consider to be significant deficiencies in internal control over financial reporting. 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.

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*.

This report is intended 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.



James Marta & Company
October 6, 2011

CALIFORNIA ENTERPRISE DEVELOPMENT AUTHORITY

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Bond Issuance Fees

Finding

Two issuance fees were billed in December 2010, however the amounts were not recorded in the general ledger nor have the amounts been collected. The invoice for fees is prepared outside the accounting system and therefore must be entered separately as an accounting function. The result is an understatement of revenues and accounts receivable of \$68,600. The entries have been recorded in the audited financial statements.

Recommendation

Management should immediately follow up with the issuing agencies to collect the past due amount. In addition, invoices should only be generated out of the accounting system to ensure that all amounts are recorded and can be tracked and reconciled during the year.

Management Response

Management has followed up with the trustee and already received payment for one fee and the other will be paid before the end of September. Additionally, we agree with the auditor's recommendation to amend our invoicing process to better reconcile deposits so we don't have this issue in the future. We have discussed an alternative method with the auditor which would entail staff creating and updating a spreadsheet of deals and expected income that would be used by the CPA to reconcile deposits monthly when she does our bank reconciliation. We have created and updated that sheet and will continue to do so.