

**CALIFORNIA COASTAL RURAL
DEVELOPMENT CORPORATION**

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

**ANNUAL FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
WITH
INDEPENDENT AUDITORS' REPORTS**

JUNE 30, 2008 AND 2007

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

June 30, 2008 and 2007

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	4
Notes to Financial Statements	5
SUPPLEMENTARY INFORMATION	
Schedule of Expenditures of Federal Awards for the Year Ended June 30, 2008	17
Combining Statement of Financial Position at June 30, 2008	18
Combining Statement of Activities for the Year Ended June 30, 2008	19
Schedule of Allowance for Loan Losses History for the Year Ended June 30, 2008	20
Note to Supplementary Information	22
ADDITIONAL SUPPLEMENTARY INFORMATION (UNAUDITED)	
Guarantee Loan Portfolio Accountability Report for the Years Ended June 30, 2008 and 2007	23
Loan Guarantee Trust Fund - Fund Activity Report for the Year Ended June 30, 2008	24
Schedule of Loan Guarantee Balances at June 30, 2008	25
Schedule of Loans Originated for the Years Ended June 30, 2008 and 2007	27
Note to Additional Supplementary Information	28
INDEPENDENT AUDITORS' REPORTS	
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>	29
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	31
SUMMARY OF AUDITORS' RESULTS	33



INDEPENDENT AUDITORS' REPORT

Board of Directors
California Coastal Rural Development Corporation
Salinas, California

We have audited the accompanying statements of financial position of California Coastal Rural Development Corporation (Cal Coastal), a California non-profit public benefit corporation, as of June 30, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Cal Coastal'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 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 our audits 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 the 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 Coastal Rural Development Corporation as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2008, on our consideration of California Coastal Rural Development Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 audits.

Our audits were conducted for the purpose of forming an opinion on the financial statements of California Coastal Rural Development Corporation taken as a whole. The accompanying supplementary information, including the schedule of Federal awards, is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The unaudited supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
October 1, 2008

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

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2008 AND 2007

	2008	2007
ASSETS		
Cash and cash equivalents - undesignated	\$ 4,717,390	\$ 5,523,466
Cash and cash equivalents - designated	2,037,338	1,999,197
Accounts receivable	383,825	365,226
Interest receivable	296,382	325,560
Investments	324,851	224,358
Loans receivable, net	8,722,965	8,424,438
Fixed assets, net	73,443	84,567
Other assets	82,124	80,887
	\$ 16,638,318	\$ 17,027,699
LIABILITIES AND NET ASSETS		
Accounts payable and other accrued expenses	\$ 59,302	\$ 88,314
Resold commercial loans payable	3,467,518	4,502,732
Accrued compensation and benefits	426,017	395,928
Interest payable	271,922	368,752
Deferred revenue	104,027	69,164
Other liabilities	18,191	12,964
Trust funded loans	2,369,077	2,014,676
Farm Service Agency/U.S. Department of Agriculture payables	388,204	388,204
Bank lines of credit	685,032	440,000
Notes payable	6,834,671	6,875,589
	14,623,961	15,156,323
NET ASSETS		
Unrestricted Net Assets		
Undesignated	1,708,827	1,482,580
Designated	305,530	388,796
	2,014,357	1,871,376
	\$ 16,638,318	\$ 17,027,699

See the accompanying notes to financial statements.

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

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
REVENUES		
Contract support State OSB	\$ 705,450	\$ 547,692
Technical assistance contract income	242,667	234,721
Loan origination and guarantee fees	751,811	652,648
Loan late fees	23,538	55,905
Loan interest income	2,836,673	3,114,291
Investment income	7,172	7,360
Interest on deposit accounts	111,115	120,836
CDC income	111,386	137,383
Other income	28,058	12,824
TOTAL REVENUES	4,817,870	4,883,660
EXPENSES		
Salaries and wages	1,492,837	1,286,805
Payroll taxes and employee benefits	708,071	606,519
Interest expense	1,450,942	1,806,832
Provision for loan losses	90,996	107,096
California Capital Access Program contribution	28,140	14,880
Advertising and promotion	9,474	17,305
Meetings, education, and travel	118,228	111,102
Communication	83,807	85,497
Occupancy	206,904	182,450
Professional services	85,569	82,564
Office	65,086	69,821
Equipment repair and maintenance	25,098	26,374
Depreciation and amortization	45,817	46,464
Miscellaneous expenses	45,978	36,142
Loan expenses	217,942	203,604
TOTAL EXPENSES	4,674,889	4,683,455
Change in Net Assets	142,981	200,205
NET ASSETS, Beginning of Year	1,871,376	1,671,171
NET ASSETS, End of Year	\$ 2,014,357	\$ 1,871,376

See the accompanying notes to financial statements.

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

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 142,981	\$ 200,205
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities		
Depreciation and amortization	45,817	46,464
Provision for loan losses	90,996	107,096
(Increase) Decrease in Assets		
Accounts receivable	(18,599)	(108,674)
Interest receivable	29,178	75,134
Other assets	(1,237)	1,118
Increase (Decrease) in Liabilities		
Accounts payable and other accrued expenses	(29,012)	(15,354)
Resold commercial loans payable	(1,035,214)	2,610,248
Accrued compensation and benefits	30,089	152,029
Interest payable	(96,830)	56,022
Deferred revenue	34,863	4,419
Other liabilities	5,227	(1,126)
Net Cash Flows from Operating Activities	(801,741)	3,127,581
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(34,693)	(50,951)
Net increase in loans receivable	(389,523)	(995,477)
Purchase of investments	(100,493)	(47,788)
Net Cash Flows from Investing Activities	(524,709)	(1,094,216)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in trust funded loans payable	354,401	(212,077)
Net increase in lines of credit	245,032	440,000
Net increase (decrease) in other loans payable	(40,918)	643,698
Net Cash Flows from Financing Activities	558,515	871,621
NET CHANGE IN CASH AND CASH EQUIVALENTS	(767,935)	2,904,986
CASH AND CASH EQUIVALENTS, Beginning of Year	7,522,663	4,617,677
CASH AND CASH EQUIVALENTS, End of Year	\$6,754,728	\$7,522,663
 SUPPLEMENTAL DISCLOSURES		
Interest paid	\$1,547,772	\$1,750,810

See the accompanying notes to financial statements.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 and 2007

NOTE 1 - NATURE OF ORGANIZATION

California Coastal Rural Development Corporation (Cal Coastal or the Corporation) is a non-profit public benefit corporation serving the financial needs of small businesses and farmers. The Corporation was chartered in 1982 by the California Technology, Trade, and Commerce Agency to provide direct loans and loan guarantees to rural businesses located on the Central California Coast. Cal Coastal provides additional loan services to farmers and public jurisdictions in rural areas from offices in Salinas, Santa Barbara, Ventura, Monterey, and Santa Maria. Cal Coastal is not a Voluntary Health and Welfare Organization (VHWO) as defined by Statement of Financial Accounting Standards (SFAS) No. 117.

Cal Coastal has agreements with Monterey County and the Cities of Hollister and Guadalupe to provide the above-mentioned services on a pass-through basis for these jurisdictions. As Cal Coastal does not own the loans, they are not recorded on Cal Coastal's financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Basis of Presentation* - The accounting and reporting policies of Cal Coastal conform to accounting principles generally accepted in the United States of America (US GAAP). The financial statements are prepared on the accrual basis of accounting.

A summary of the significant accounting and reporting policies used in the preparation of the accompanying financial statements follows.

B. *Use of Estimates* - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to significant change relate to the determination of the allowance for losses on loans. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in local economic conditions.

C. *Fund Accounting* - In order to ensure observance of limitations and restrictions placed on the use of the resources available, the Corporation's accounts are maintained in accordance with the principles of "fund accounting." This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with activities or specified objectives. Separate accounts are maintained for each fund. Accordingly, all financial transactions have been recorded and reported by fund group and are disclosed in detail in the supplemental schedules.

The *Corporate Fund* accounts for the revenues and expenses of Cal Coastal, which are not otherwise accounted for in other funds. The functions financed through this fund are primarily contracts with the California Business, Transportation, and Housing Agency (the BTH); loan originations and servicing with the U.S. Small Business Administration's 504 loan program; contracts to provide loan origination and servicing with local agency jurisdictions; and other programmatic functions financed with Corporation-generated funds.

The *Direct Loan Program Fund* accounts for the resources generated and used by Cal Coastal's direct farm lending operations (i.e. loans made with Cal Coastal controlled funds.) The Farm Services Agency (the FSA), a Department of the United States Department of Agriculture (USDA), guarantees a portion of this loan portfolio (90 percent).

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 and 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Combined, these two funds represent the undesignated assets, liabilities, and net earnings of the Corporation. Operating results of the Direct Loan Program are used to support the Corporate Expenses, and these operating transfers are shown on the Combining Statement of Activities. The remaining individual funds, described below, represent designated funds for specific loan programs.

The Intermediary Relending Program (IRP-1, IRP-2, and IRP-3) Funds account for the receipt and subsequent disbursement of loan proceeds from the Rural Economic and Community Development Service (the RECDs). These funds are provided to the Corporation for the purpose of relending to small businesses engaged in non-agricultural industries and may be used as operating capital or for the purchase of equipment.

The Small Business Administration (SBA) Fund accounts for the resources generated and used by microloans funded through funds advanced from the SBA. These funds are provided to the Corporation for the purpose of relending to small businesses and may be used as operating capital, purchases of equipment, inventory, leasehold improvements, and real estate acquisitions.

The North American Development Bank Program (NADBank) Fund accounts for the advance and subsequent disbursement of loans made through the NADBank Program. The proceeds of such advances are used to fund portions of certain loans meeting the eligibility requirements of the United States Community Adjustment and Investment Program. The Rural Business-Cooperative Services (RBS), a department of the United States Department of Agriculture, guarantees 90 percent of these loans.

The California Economic Development Lending Initiative (CEDLI) Fund accounts for the advance and subsequent disbursement of loans made through the California Economic Development Lending Initiative. These funds are provided to the Corporation for the purpose of relending to small businesses and may be used as operating capital, purchases of equipment, inventory, leasehold improvements, and real estate acquisitions.

- D. Accounts Receivable - Accounts receivable consist primarily of amounts owed from grants and contracts. Grant and contract receivables are subject to review by the issuing agencies and, consequently, certain costs could be disallowed. Management is of the opinion that any adjustments made due to these reviews would be immaterial. Due to the nature of these receivables, such adjustments relating to prior year are taken against income in the year in which the amounts are determined to be uncollectible.
- E. Loans Receivable - Loans receivable are stated at the unpaid principal balance, less the allowance for loan losses and deferred loan fees net of deferred loans costs. Loan origination fees, offset by certain direct loan origination costs, are deferred and recognized over the contractual life of the loan as a yield adjustment. During the years ended June 30, 2008 and 2007, there were no deferred loan fees.

Non-accrual Loans - Loans on which the accrual of interest has been discontinued are designated as non-accrual loans. The accrual of interest on loans is discontinued when principal or interest is past due 90 days or when, in the opinion of management, there is reasonable doubt as to collectibility. When loans are placed on non-accrual status, all interest previously accrued but not collected is reversed against current period interest income. Income on non-accrual loans is subsequently recognized only to the extent that cash is received and the loan's principal balance is deemed collectible.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 and 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Cal Coastal has adopted SFAS No. 114 (as amended by SFAS No. 118). The statement generally requires those loans identified as "impaired" to be measured at the present value of expected future cash flows discounted at the loans' effective interest rate, except that as a practical expedient, a creditor may measure impairment based on a loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. A loan is impaired when it is probable the creditor will not be able to collect all contractual principal and interest payments due in accordance with the terms of the loan agreement.

Cal Coastal considers a loan to be impaired when it is probable that the Corporation will be unable to collect all amounts due (principal and interest) according to the contractual terms of the loan agreement. Measurement of impairment is based on the expected future cash flows of an impaired loan, which are to be discounted at the loan's effective interest rate, or measured by reference to an observable market value, if one exists, or the fair value of the collateral for a collateral-dependent loan. The Corporation selects the measurement method on a loan-by-loan basis except that collateral-dependent loans for which foreclosure is probable are measured at the fair value of the collateral. The Corporation recognizes interest income on impaired loans based on its existing methods of recognizing interest income on non-accrual and troubled debt restructured loans.

- F. Allowance for Loan Losses - The allowance for loan losses is established through provisions for loan losses charged against income. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is maintained at a level believed adequate by management to absorb estimated probable loan losses. Management's periodic evaluation of the adequacy of the allowance is based on Cal Coastal's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay (including the timing of future payments), the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions, and other relevant factors. This evaluation is inherently subjective, as it requires estimates, including the amounts and timing of future cash flows expected to be received on impaired loans that may be susceptible to significant change.

- G. Fixed Assets - Fixed assets are stated at cost, less accumulated depreciation and amortization. Depreciation on furniture, fixtures, and equipment is computed using the straight-line method over the estimated useful lives of the related assets, which range from three to five years. Leasehold improvements are amortized over the term of the lease or the estimated useful lives of the improvements, whichever is shorter, and computed on the straight-line method.
- H. Compensated Absences - Cal Coastal employees are credited twelve to thirty days of vacation and twelve days sick leave annually depending on seniority, to a maximum of thirty days vacation. The unused portion of vacation is payable to the employee at termination of employment. As of June 30, 2008 and 2007, the accrued vacation balance was \$138,899 and \$113,257, respectively. Sick leave is not vested and, therefore, is not paid nor is it accrued.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 and 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

- I. Revenues - Cal Coastal's principle sources of revenue are interest income, loan origination and guarantee fees, and a contract between the Corporation and the BTH. The contract provides for the Corporation to be reimbursed for authorized expenditures from interest earned by the California Small Business Financial Development Corporation Loan Guarantee Fund (the Trust Fund) and also from State General Fund. Cal Coastal further earns service fees for making loan guarantees. Contract revenue is recorded when a contract is awarded or when earned under the terms and conditions of the contract.
- J. Allocation of Expenditures - Cal Coastal charges all direct expenditures to the appropriate lending program. Indirect expenditures eligible to be charged to cost reimbursement programs are allocated to all funds, subject to contractual limits. Indirect costs which are not eligible to be charged to cost reimbursement programs are allocated prorata among the remaining funds
- K. Income Taxes - Cal Coastal is exempt from Federal income and California franchise taxes under Section 501(c)(3) of the Internal Revenue Code and corresponding California provisions. Accordingly, no provision for income taxes has been recorded in the financial statements. The Corporation annually files Forms 990, 199, and RRF-1 with the appropriate agencies. The Corporation has also been classified as an entity that is not a private foundation within the meaning of Section 509(a).
- L. Concentrations of Credit and Market Risk - Financial instruments that potentially expose the Corporation to concentrations of credit and market risk consists primarily of cash equivalents and investments. Cash equivalents are maintained at well-capitalized financial institutions and credit exposure is limited to any one institution. At June 30, 2008 and 2007, the total amount of cash and cash equivalents in excess of the Federal Deposit Insurance Corporation (FDIC) insured limits at all financial institutions totaled approximately \$6,997,484 and \$7,405,184, respectively. The Corporation has not experienced any losses on its cash equivalents. The funds held at financial institutions are closely monitored.
- M. Fair Value of Financial Instruments - SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, requires disclosures of fair value information about all financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate such value. Fair value estimates are made at year-end, based on relevant market information available about the financial instrument. In cases where quoted market prices are not available, fair values are based on estimates using present values. The present value estimates are based on judgments regarding future cash flow expectations, prepayment risk, perceived credit risk, economic conditions, and other subjective factors. In this regard, certain fair value estimates cannot be realized in immediate settlement of the instrument. SFAS No. 107 excludes all non-financial instruments from its disclosure requirements. The recorded value of the Corporation's cash, accounts receivable, accrued interest receivable, accounts payable, and other accrued liabilities are believed to approximate fair value based on the terms of the instruments. The recorded values for loans receivable and notes payable may differ from fair value, however, since a large majority of these instruments have variable interest rates and repriced frequently with no significant change in credit risk, fair value approximates the carrying value of these instruments.
- N. Cash and Cash Equivalents - For purposes of presentation in the Statement of Cash Flows, the Corporation considers all highly liquid financial instruments, with initial maturities of three months or less, to be cash equivalents. Investments include CDs maturing January 2009 and January 2008. These deposits are made to satisfy regulatory requirements to maintain a certain percentage of loan balances.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 and 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

O. Reclassifications - Certain prior year financial statement balances have been reclassified to conform to the current year presentation.

NOTE 3 - CASH IN BANKS

	June 30, 2008	
	Balance in Bank	Carrying Value
Cash - undesignated	\$ 5,360,145	\$ 4,717,390
Cash - designated	2,037,339	2,037,338
Total Cash and Cash Equivalents at June 30, 2008	\$ 7,397,484	\$ 6,754,728

	June 30, 2007	
	Balance in Bank	Carrying Value
Cash - undesignated	\$ 6,247,324	\$ 5,523,466
Cash - designated	2,031,237	1,999,197
Total Cash and Cash Equivalents at June 30, 2007	\$ 8,278,561	\$ 7,522,663

NOTE 4 - INVESTMENTS

Investments are carried at fair market value as follows:

	June 30, 2008		
	Adjusted Cost	Fair Value	Unrealized Appreciation (Depreciation)
Certificates of Deposit	\$ 315,942	\$ 315,942	\$ -
FmAc Equity Securities	12,706	8,909	(3,797)
	\$ 328,648	\$ 324,851	\$ (3,797)
Investment return is summarized as follows:			
Interest income on certificates of deposit			\$ 7,172
Net unrealized loss			(3,797)
			\$ 3,375

Investments are restricted to fund activities for loan loss reserves as follows: NADBank, \$156,309 and CEDLI, \$159,663.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 and 2007

NOTE 4 - INVESTMENTS, continued

	June 30, 2007		
	Adjusted Cost	Fair Value	Unrealized Appreciation (Depreciation)
Certificates of Deposit	\$ 211,652	\$ 211,652	\$ -
FmAc Equity Securities	10,160	12,706	2,546
	<u>\$ 221,812</u>	<u>\$ 224,358</u>	<u>\$ 2,546</u>
Investment return is summarized as follows:			
Interest income on certificates of deposit			\$ 7,360
Net unrealized gains			2,546
			<u>\$ 9,906</u>

Investments are restricted to fund activities for loan loss reserves as follows: NADBank, \$53,427 and CEDLI, \$158,225.

NOTE 5 - LOANS RECEIVABLE

Loans receivable at June 30, 2008 and 2007, consist of the following:

	June 30, 2008					
	Direct Loan Program	IRP-1, IRP-2, and IRP-3 Relending Programs	SBA-1 and SBA-2 Loan Program	NADBank Loan Program	CEDLI Loan Program	Total
Commercial loans, gross	\$24,479,611	\$ 2,234,377	\$1,251,486	\$3,207,577	\$ 1,383,953	\$ 32,557,004
Resold commercial loans	(20,235,947)	-	-	(2,541,714)	-	(22,777,661)
Commercial loans, net	4,243,664	2,234,377	1,251,486	665,863	1,383,953	9,779,343
Allowance for loan losses	(316,551)	(399,281)	(92,918)	(30,008)	(217,620)	(1,056,378)
	<u>\$ 3,927,113</u>	<u>\$ 1,835,096</u>	<u>\$1,158,568</u>	<u>\$ 635,855</u>	<u>\$ 1,166,333</u>	<u>\$ 8,722,965</u>

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 and 2007

NOTE 5 - LOANS RECEIVABLE, continued

	June 30, 2007					
	Direct Loan Program	IRP-1, IRP-2, and IRP-3 Relending Programs	SBA-1 and SBA-2 Loan Program	NADBank Loan Program	CEDLI Loan Program	Total
Commercial loans, gross	\$ 19,136,949	\$ 2,168,688	\$ 988,105	\$ 3,732,099	\$ 1,435,588	\$ 27,461,429
Resold commercial loans	(15,026,684)	-	-	(3,017,964)	-	(18,044,648)
Commercial loans, net	4,110,265	2,168,688	988,105	714,135	1,435,588	9,416,781
Allowance for loan losses	(293,330)	(429,781)	(51,300)	(55,012)	(162,920)	(992,343)
	\$ 3,816,935	\$ 1,738,907	\$ 936,805	\$ 659,123	\$ 1,272,668	\$ 8,424,438

The Corporation's loan portfolio is collateralized predominantly by farm equipment, real estate, and crops throughout the Central Coast area of California. As a result, these portfolios consist of similar collateral types in the same region. Although the Corporation has a diversified portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent upon the economy of this region of California.

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

At June 30, 2008, the Corporation had supervised loans, in gross, in the Direct Loan Program, the IRP-1, IRP-2, and IRP-3 Relending Programs, NADBank, SBA, and CEDLI of \$3,923,933, \$236,713, \$384,201, \$31,880, and \$94,900, respectively. At June 30, 2007, the Corporation had supervised loans, in gross, in the Direct Loan Program, the IRP-1 and IRP-2 Relending Programs, NADBank, and CEDLI of \$3,222,838, \$265,445, \$384,201, and \$44,107, respectively.

At June 30, 2008 and 2007, the total recorded investment in impaired loans, all of which has allowances determined in accordance with SFAS No. 114 and No. 118, amounted to \$4,671,627 and \$3,916,591, respectively. For the years ended June 30, 2008 and 2007, the average recorded investment related to impaired loans totaled approximately \$3,831,700 and \$3,000,000, respectively. The allowance for loan losses totaled approximately \$1,056,000 and \$992,000, respectively. The Corporation has no commitments to lend additional funds to borrowers whose loans have been modified. For the years ended June 30, 2008 and 2007, interest income from loans on non-accrual status would have been \$261,060 and \$310,171, respectively, had those loans been performing in accordance with their original terms and been outstanding throughout the period.

The total recorded investment in loans past due 90 days or more, and still accruing interest at June 30, 2008 and 2007, amounted to approximately \$1,052,000 and \$700,000, respectively.

Resold commercial loan payables at June 30, 2008 and 2007, were \$3,467,518 and \$4,502,732, respectively, and represent principal payments which were collected prior to June 30 and remitted subsequent to year end.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 and 2007

NOTE 5 - LOANS RECEIVABLE, continued

The following schedule summarizes the activity in the allowance for loan losses:

	Direct Loan Program	IRP-1 and IRP-2 Relending Program	SBA-1 and SBA-2 Loan Program	NADBank Loan Program	CEDLI Loan Program	Total
Balance, June 30, 2006	\$ 259,177	\$ 406,281	\$ 71,455	\$ 45,016	\$ 127,920	\$ 909,849
Loan loss provision	34,000	23,500	4,600	9,996	35,000	107,096
Charge-offs	-	-	(24,755)	-	-	(24,755)
Recoveries	153	-	-	-	-	153
Balance, June 30, 2007	293,330	429,781	51,300	55,012	162,920	992,343
Loan loss provision	42,000	24,000	-	9,996	15,000	90,996
Charge-offs	(117,591)	-	-	-	-	(117,591)
Recoveries	89,312	-	1,318	-	-	90,630
Reclassifications	9,500	(54,500)	40,300	(35,000)	39,700	-
Balance, June 30, 2008	<u>\$ 316,551</u>	<u>\$ 399,281</u>	<u>\$ 92,918</u>	<u>\$ 30,008</u>	<u>\$ 217,620</u>	<u>\$ 1,056,378</u>

At June 30, 2008, Cal Coastal maintained restricted cash and investment accounts at financial institutions in the amount of \$265,790 for the SBA Loan Program, \$156,309 for NADBank, and \$159,633 for CEDLI. Such reserves are in addition to the above reserves for loan loss.

In addition, Cal Coastal has enrolled certain of its SBA loans into the California Capital Access Program (Cal Cap), administered by the California Pollution Control Financing Authority. Under this program, Cal Coastal contributes four percent of an enrolled loan's initial principal balance to a Trust Fund held by the Bank of New York. For the first \$500,000 of enrolled loans, Cal Cap matched Cal Coastal's contribution 150 percent; contributions for enrolled loans in excess of the first \$500,000 are matched 100 percent. Losses on enrolled loans are paid by the Trust, with Cal Cap's approval. Cal Coastal recorded contribution expenses of \$28,140 in the fiscal year ended June 30, 2008. At June 30, 2008, the principal balance of enrolled loans aggregated \$1,233,433 and reserves of \$66,263 were held by the Trust. Cal Coastal recorded contribution expenses of \$14,880 in the fiscal year ended June 30, 2007. At June 30, 2007, the principal balance of enrolled loans aggregated \$875,058 and reserves of \$85,342 were held by the Trust.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 and 2007

NOTE 6 - FIXED ASSETS

Fixed assets and related depreciation consists of the following:

	2008	2007
Furniture, fixtures, and equipment	\$ 670,545	\$ 653,859
Leasehold improvements	67,353	49,345
	737,898	703,204
Less: accumulated depreciation and amortization	(664,455)	(618,637)
	\$ 73,443	\$ 84,567

Depreciation expenses of \$45,817 and \$46,464 were recorded in the fiscal years ended June 30, 2008 and 2007, respectively.

NOTE 7 - EMPLOYEE BENEFIT PLAN

Cal Coastal has adopted a Simplified Employee Pension Plan (SEP-IRA) which covers all eligible employees age 21 and over. The Board of Directors determines annual fringe benefits at the beginning of each year. The SEP-IRA contribution is based on employee salaries, with quarterly payment. Included in employee benefits for the fiscal years ended June 30, 2008 and 2007, was \$255,553 and \$213,349, respectively, which was contributed to the Cal Coastal SEP-IRA plan.

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

The Loan Guarantee Trust Fund, managed by First Northern Bank's Asset Management and Trust Department, allows Cal Coastal to guarantee loans to small businesses up to a limit of 90 percent of a qualified loan and \$500,000 per borrower. The investment portfolio of the Trust is divided into two different accounts: income and managed. Cal Coastal is allowed to specify the investments of the managed account.

At June 30, 2008, the Trust net assets were \$6,216,975. The balance, which approximated fair value, with outstanding Cal Coastal loan guarantee liabilities of \$25,194,738, and farm loan liabilities of \$2,855,421, resulted in an encumbrance level of 4.51 percent of trust balance. Direct farm loans sold to the Trust at June 30, 2008, were \$4,244,780. The direct farm loans were approximately 90 percent guaranteed by the FSA. Cal Coastal's liability at June 30, 2008, was \$2,369,077.

At June 30, 2007, the Trust net assets were \$6,524,296. The balance, which approximated fair value, with outstanding Cal Coastal loan guarantee liabilities of \$21,029,621, and farm loan liabilities of \$2,051,886, resulted in an encumbrance level of 3.54 percent of trust balance. Direct farm loans sold to the Trust at June 30, 2007, were \$4,361,141. The direct farm loans were approximately 90 percent guaranteed by the FSA. Cal Coastal's liability at June 30, 2007, was \$2,014,676.

A schedule of the Loan Guarantee Trust Fund – Fund Activity is presented on page 24.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 and 2007

NOTE 9 - NOTES PAYABLE

	2008	2007
Note payable to Opportunity Finance Network (formerly National Community Capital Association), unsecured, maturing on December 15, 2015. Principle is due and payable upon maturity. Interest accrues at a rate of 4.75% per annum, and is payable in arrears on a quarterly basis.	\$ 1,000,000	\$ 1,000,000
Note payable to The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States of America, unsecured, the principle amount of sum of \$350,000, together with interest on the unpaid principle balance at a simple interest rate 4.0%. Principle shall be payable on or before September 30, 2009. Payment schedule of interest only during the life of the loan, payable quarterly in arrears on the last business day of March, June, September, and December of each year.	350,000	350,000
Note payable to the United States Department of Agriculture, Rural Economic and Community Development Service (RECDS), secured by the Intermediary Relending Program Fund and all collateral obtained as a result of such relending activity. Annual payments of \$79,800, including interest of 1.0% per annum, maturing December 2020. The maximum amount available to borrow under the note is \$2,000,000, and as of June 30, 2008, Cal Coastal had drawn all of the available funds under this note.	957,945	1,027,442
Note payable to the RECDS, secured by the Intermediary Relending Program Fund and all collateral obtained as a result of such relending activity. Annual payments of \$79,800, including interest of 1.0% per annum, maturing June 2025. The maximum amount available to borrow under the note is \$2,000,000, and as of June 30, 2008, Cal Coastal had drawn all of the available funds under this note.	1,234,385	1,301,138
Note payable to the United States Department of Agriculture, RECDS, secured by the Intermediary Relending Program Fund and all collateral obtained as a result of such relending activity. Annual payments for the first three years consist of interest only payments, with the following year and thereafter principle and interest payments that will fully amortize the loan 30 years from the date of the note until fully paid, including interest of 1.0% per annum, maturing March 2035. The maximum amount available to borrow under the note is \$750,000, and as of June 30, 2008, Cal Coastal had not drawn all available funds under this note.	368,500	368,500
Note payable to the United States Small Business Administration (SBA), secured by the SBA Fund and all collateral obtained as a result of related relending activity. Monthly payments of \$5,960, including interest of 4.875% per annum matured January 2008. As of June 30, 2008, Cal Coastal had drawn all available funds under this note.	-	29,027
Note payable to the SBA, secured by the SBA Fund and all collateral obtained as a result of related relending activity. Monthly payments of \$6,367, including interest of 2.75% per annum maturing in June 2011. The maximum amount available to borrow under the note is \$500,000. As of June 30, 2008, Cal Coastal had drawn all of the available funds under this note.	222,000	257,481
Note payable to the United States SBA, secured by the SBA Fund and all collateral obtained as a result of related relending activity. Monthly payments of \$2,952 are required including interest of 1.5% per annum. The note will mature in September 2013. The maximum amount available to borrow under the note is \$500,000, and as of June 30, 2008, Cal Coastal had drawn all of the available funds under this note.	346,967	414,778

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 and 2007

NOTE 9 - NOTES PAYABLE, continued

	2008	2007
Note payable to the United States SBA, secured by the SBA Fund and all collateral obtained as a result of related relending activity. Monthly payments of \$1,080 including interest of 3.625% per annum, assuming certain conditions were met, began June 2005. The note will mature in April 2015. The maximum amount available to borrow under the note is \$250,000, and as of June 30, 2008, Cal Coastal had drawn all of the funds available under this note.	\$ 215,126	\$ 243,681
Note payable to the United States SBA, secured by the SBA Fund and all collateral obtained as a result of related relending activity. Monthly payments of \$1,150.00 including interest of 2.375% per annum maturing July 2016. The maximum amount available to borrow under the note is \$500,000, and as of June 30, 2008, Cal Coastal had drawn down \$350,000.	342,151	-
Line of credit to North American Development Bank, secured by all collateral obtained as a result of related relending activity. The line was originally approved December 31, 1999. The agreement has been amended to extend the terms. The current amendment was approved for the period to March 31, 2009. The terms call for payments of principal and interest in arrears. Interest is due in an amount equal to 50% of the interest received per program loan up to a maximum of 5% for any one loan. The maximum amount available is \$1,250,000.	320,833	373,749
Note payable to California Economic Development Lending Initiative (CEDLI), under a \$2,500,000 revolving line of credit. The agreement has been amended to extend the terms. The current amendment was approved for the period to April 30, 2009. Individual notes are secured by collateral obtained as a result of relending activity. The notes are payable in monthly installments, based upon the receipt of principle from relent advances, including interest of prime less 3.00% per annum. The notes have varying maturities not exceeding an 84 month term.	1,476,764	1,509,793
	\$ 6,834,671	\$ 6,875,589

Maturities as of June 30, 2008, on the notes payable are as follows:

Fiscal Year Ended June 30,	
2009	\$ 607,227
2010	1,021,330
2011	667,145
2012	588,082
2013	580,606
Thereafter	3,370,281
	\$ 6,834,671

NOTE 10 - LINE OF CREDIT

As of June 30, 2008, Cal Coastal has a \$4.0 million line of credit with a bank to be drawn down upon as needed, with an interest rate of prime plus ½ percent. The line expires on January 15, 2009. As of June 30, 2008 and 2007, the Corporation had \$0 and \$440,000, respectively, drawn on the line. Cal Coastal also had a \$2 million FSA line of credit with an interest rate of prime minus one percent and a maturity date of January 15, 2009, to fund the guaranteed portion of FSA Guaranteed Loans of \$100,000 or less. As of June 30, 2008, the balance on the line was \$685,032.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 and 2007

NOTE 11 - COMMITMENTS AND CONTINGENCIES

A. Program Funding - Cal Coastal's use of the Trust Fund's interest and principal for administrative support is determined on a year-to-year basis by negotiations between the OSB and the Corporation. The State retains a residual interest in the Trust Funds held by First Northern Bank. A cancellation of the administrative support agreement with the State would have an adverse effect on the Corporation's operations.

At June 30, 2008 and 2007, Cal Coastal was involved in several instances in which loans in default were not called for the guarantee. Management believes that any adjustments necessary for these loans will not have a material effect on the financial statements.

B. Litigation - Cal Coastal may be involved in various pending or threatened litigation. In the opinion of management and legal counsel, the disposition of all litigation pending will not have a material effect on the financial statements.

C. Federal and State Program Audits - Cal Coastal receives funds from Federal and State sources which may be used only for specified purposes that are subject to review and audit by the grantor agencies. Although such audits could generate comments of noncompliance or expenditure disallowances under terms of the funding source, in the opinion of management, any required adjustments would not be material to the financial statements.

D. Operating Leases - Cal Coastal has entered into various non-cancelable operating leases for its facilities and equipment. Minimum rental commitments under these leases are as follows:

	Fiscal Year Ended				
	June 30,				
	2009	2010	2011	2012	Total
Facilities	\$ 131,279	\$ 106,224	\$ 97,871	\$ 97,872	\$ 433,246
Equipment	6,300	6,300	5,775	-	18,375
Total	\$ 137,579	\$ 112,524	\$ 103,646	\$ 97,872	\$ 451,621

Rental expense for the years ended June 30, 2008 and 2007, was \$165,013 and \$141,874, respectively.

E. Deficit Fund Balances - Cal Coastal tracks allocated expenses between all funds. At June 30, 2008, the SBA Fund owed the Corporate Fund \$1,345,185 for their portion of these allocated costs. The SBA Fund has a deficit fund balance of \$904,593 at June 30, 2008. The ability of the SBA Fund to repay this balance to the Corporate Fund is dependent upon increased future revenues and cost controls within the SBA Fund. Should the SBA Fund not reach a profitable or break-even point, this amount will not be realized by the Corporate Fund. The CEDLI Fund has a deficit fund balance of \$73,922 at June 30, 2008. The ability of the CEDLI Fund to repay this balance to the Corporate Fund is dependent upon increased future revenues and cost controls. At June 30, 2008, the Corporate Fund has sufficient resources to absorb this potential deficit. While this will not have a negative impact on Cal Coastal's total net asset balance, the Corporate Fund may be impacted individually.

SUPPLEMENTARY INFORMATION

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

<u>FEDERAL GRANTOR/PROGRAM TITLE</u>	<u>Federal CFDA Number</u>	<u>Balances Outstanding July 1, 2007</u>	<u>2006-2007 Authorized</u>	<u>2006-2007 Unobligated</u>	<u>Balances Outstanding June 30, 2008</u>
<u>U.S. Department of Agriculture</u>					
Intermediary Relending Program	10.767 *	<u>\$2,168,017</u>	<u>\$ 520,000</u>	<u>\$ 784,774</u>	<u>\$ 1,903,243</u>
<u>U.S. Small Business Administration</u>					
Microloan Demonstration Program	59.046	<u>988,106</u>	<u>671,500</u>	<u>440,001</u>	<u>1,219,605</u>
Total Federal Programs					<u><u>\$ 3,122,848</u></u>

* Major Program

See accompanying note to supplementary information.

