



Annual Financial Statements
June 30, 2019 and 2018

**California Coastal Rural
Development Corporation**

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

JUNE 30, 2019 AND 2018

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Independent Auditor's Report

Board of Directors
California Coastal Rural Development Corporation
Salinas, California

Report on the Financial Statements

We have audited the accompanying financial statements of California Coastal Rural Development Corporation (a California non-profit public benefit corporation) which comprise the statements of financial position as of June 30, 2019, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes 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.

Auditor's Responsibility

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 *Governmental Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial position of California Coastal Rural Development Corporation as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of Federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

The additional supplementary information (unaudited) listed in the Table of Contents is presented at the request of management 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 or assurance on the information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2019, 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, grant agreements, and other matters. The purpose of that report is solely 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 effectiveness of California Coastal Rural Development Corporation's 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 Coastal Rural Development Corporation's internal control over financial reporting and compliance.



Rancho Cucamonga, California
November 22, 2019

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

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

	2019	2018
ASSETS		
Cash and cash equivalents - undesignated	\$ 2,802,877	\$ 5,699,110
Cash and cash equivalents - designated	1,967,945	1,045,787
Total cash and cash equivalents	4,770,822	6,744,897
Accounts receivable	80,581	116,188
Interest receivable	117,968	76,512
Investments	195,825	202,256
Loans receivable, net	8,217,782	8,508,245
Fixed assets, net	18,744	31,199
Other assets	24,224	86,097
	\$ 13,425,946	\$ 15,765,394
TOTAL ASSETS		
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and other accrued expenses	\$ 2,000	\$ 2,000
Other liabilities	224,200	367,936
Accrued compensation and benefits	117,876	91,718
Interest payable	327,058	231,193
Trust funded loans	-	595,626
Resold commercial loans payable	1,475,405	3,467,945
Subordinated notes payable	5,870,000	5,870,000
Notes payable	1,713,815	1,525,777
	9,730,354	12,152,195
TOTAL LIABILITIES		
 NET ASSETS		
Net Assets without Donor Restrictions		
Undesignated	5,441,395	5,456,233
Designated	(1,745,803)	(1,843,034)
	3,695,592	3,613,199
TOTAL NET ASSETS		
	\$ 13,425,946	\$ 15,765,394
TOTAL LIABILITIES AND NET ASSETS		

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, 2019 AND 2018

	2019	2018
REVENUES		
Loan interest income	\$ 2,286,479	\$ 2,110,049
State contract income	232,428	275,040
Technical assistance contract income	91,419	107,315
Grant income	292,580	30,802
Loan origination and guarantee fees	977,138	922,448
Loan late fees	15,616	15,273
Interest on deposit accounts	1,030	754
CDC income	71,510	69,866
Other income	5,847	26,840
	3,974,047	3,558,387
EXPENSES		
Salaries and wages	1,073,372	1,044,003
Payroll taxes and employee benefits	461,068	422,259
Interest expense	1,169,219	907,677
Provision for loan losses	96,748	72,986
Loan expenses	249,561	265,194
Advertising and promotion	19,690	12,873
Meetings, education, and travel	132,335	88,664
Communication	48,287	54,865
Occupancy	207,988	193,408
Professional services	271,156	174,216
Office	65,997	61,389
Equipment repair and maintenance	18,626	19,418
Depreciation	22,654	16,446
Miscellaneous expenses	54,953	37,289
	3,891,654	3,370,687
Change in Net Assets without Donor Restrictions	82,393	187,700
NET ASSETS, Beginning of Year (As Restated)	3,613,199	3,425,499
NET ASSETS, End of Year	\$ 3,695,592	\$ 3,613,199

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, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 82,393	\$ 187,700
Adjustments to Reconcile Change in Net Assets to Net Cash Flows From Operating Activities		
Depreciation	22,654	16,446
Provision for loan losses	96,748	72,986
(Increase) Decrease in Assets		
Accounts receivable	35,607	(80,645)
Interest receivable	(41,456)	4,644
Other assets	61,873	(82,424)
Increase (Decrease) in Liabilities		
Accrued compensation and benefits	26,158	(110,614)
Interest payable	95,865	68,909
Other liabilities	(143,736)	310,203
Net Cash Flows From Operating Activities	236,106	387,205
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(10,199)	(16,168)
Collections on loans receivables	(33,330,965)	(30,873,588)
Disbursements on loans receivable	33,524,680	30,157,577
Collections on investments	6,431	754
Purchases of investments	-	(10,064)
Net Cash Flows From Investing Activities	189,947	(741,489)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on trust funded loans payable	(595,626)	-
Receipts on trust funded loans payable	-	241,668
Resold commercial loans payable	(1,992,540)	1,227,232
Payments on notes payable	(330,175)	(322,254)
Receipts on notes payable	518,213	-
Net Cash Flows From Financing Activities	(2,400,128)	1,146,646
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,974,075)	792,362
CASH AND CASH EQUIVALENTS, Beginning of Year	6,744,897	5,952,535
CASH AND CASH EQUIVALENTS, End of Year	\$ 4,770,822	\$ 6,744,897
SUPPLEMENTAL DISCLOSURES		
Interest paid	\$ 1,073,354	\$ 776,116

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, 2019 AND 2018

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; effective July 1, 2013, the program was moved to the California Infrastructure and Economic Development Bank (IBank), a part of the California Governor's Office of Business and Economic Development (GoBiz) 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 and Santa Maria. Cal Coastal is not affiliated with a governmental entity.

Cal Coastal has an agreement with Monterey County to provide the above-mentioned services on a pass-through basis for this jurisdiction. 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

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis. The Financial Accounting Standards Board ("FASB") has established the Accounting Standards Codification ("ASC") as the source of authoritative accounting principles to be applied in the preparation of financial statements in accordance with GAAP. Effective July 1, 2018, Cal Coastal adopted ASU No. 2016-14 *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Accordingly, net assets and revenues, expenses, gains, and losses are classified based on the existence of donor-imposed restrictions. Net assets and changes therein are classified and reported as follows:

- *Net Assets Without Donor Restrictions* - Net assets available for general use that are not subject to donor-imposed restrictions. Items that affect this net asset category principally consist of interest income and interest expense, fees for services and related program and operational expenses associated with the core activities of Cal Coastal. This includes grants and contributions without restrictions, including those designated by the Board of Directors, and restricted grants and contributions whose donor-imposed restrictions were met during the fiscal year.
- *With Donor Restrictions* - Net assets whose use by Cal Coastal is subject to either explicit donor-imposed stipulations or operation of law that can be fulfilled by actions of Cal Coastal or that expire by the passage of time. Items that affect this net asset category are grants for which donor-imposed restrictions have not been met in the year of receipt. Expirations of restrictions on net assets with donor restrictions are reported as net assets released from restrictions. Negative balances associated with this category represent losses on certain restricted programs in past years.

Cal Coastal has received no donations for the years ended June 30, 2019 and 2018.

CALIFORNIA COASTAL RURAL DEVELOPMENT CORPORATION
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from 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.

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.

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 IBank; 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).

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. 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.

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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.

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, 2019 and 2018, 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 collectability. 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.

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 loans.

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 a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off. Amounts are charged-off when available information confirms that specific loans or portions thereof, are uncollectible. This methodology for determining charge-offs is consistently applied to each loan.

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

The allowance consists of specific and general reserves. Specific reserves relate to loans that are individually classified as impaired. A loan is impaired when, based on current information and events, it is probable that Cal Coastal will be unable to collect all amounts due according to the contractual terms of the loan agreement. Factors considered in determining impairment include payment status, collateral value, and the probability of collecting all amounts when due. 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. Cal Coastal 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.

Cal Coastal recognizes interest income on impaired loans based on its existing methods of recognizing interest income on nonaccrual loans.

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.

Compensated Absences

Cal Coastal employees are credited nine to thirty days of vacation and twelve days sick leave annually depending on seniority, to a maximum of thirty-six days vacation. The unused portion of vacation is payable to the employee at termination of employment. As of June 30, 2019 and 2018, the accrued vacation balance was approximately \$50,000 and \$80,000, respectively, and is recorded as accrued compensation and benefits. Sick leave is not vested and, therefore, is not paid nor is it accrued.

Revenues and Revenue Recognition

Cal Coastal's principle sources of revenue are interest income, loan origination and guarantee fees, state contract income, and a technical assistance grant from the United States Small Business Administration for the Microloan Program. The grant provides for the Corporation to be reimbursed for authorized expenditures; contract revenue is recorded when a contract is awarded or when earned under the terms and conditions of the contract. The Corporation's federal and state contracts and grants are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses.

Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and wages, benefits, payroll taxes, interest, occupancy, professional services, office expenses, insurance, and other, which are allocated based on estimates of time and effort.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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, as well as Forms 990T and 109, when applicable. The Corporation has also been classified as an entity that is not a private foundation within the meaning of Section 509(a).

Cal Coastal has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 that clarifies the accounting for uncertainty in tax positions taken, or expected to be taken, on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Management believes that all tax positions taken to date are highly certain and, accordingly, no accounting adjustment has been made to the financial statements. Interest and penalties related to uncertain tax positions are recorded as part of income tax expense.

Concentrations of Credit and Market Risk

Financial instruments that potentially expose the Corporation to concentrations of credit and market risk consist primarily of cash equivalents and investments. Cash equivalents are maintained at well-capitalized financial institutions and credit exposure is limited to any one institution. The Corporation has not experienced any losses on its cash equivalents. The funds held at financial institutions are closely monitored.

Fair Value of Financial Instruments

Cal Coastal determines the fair market values of certain financial instruments based on the fair value hierarchy established in Statement of Financial Accounting Standards, *Fair Value Measurements*, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

The following provides a summary of the hierarchical levels used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs (other than Level 1 prices) such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect an entity's own assumptions about the factors that market participants would use in pricing an asset or liability.

Cal Coastal's investments in securities as are considered to be Level 1 investments. Investments in CDs are deemed to be Level 2, the fair value of which is based on interest rates and time to maturity.

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Cash and Cash Equivalents

For purposes of presentation in the statements of cash flows, the Corporation considers all highly liquid financial instruments, with initial maturities of three months or less, to be cash equivalents for the fiscal years of 2019 and 2018. Investments include CDs maturing January 2020 and January 2019, respectively. These deposits are made to satisfy regulatory requirements to maintain a certain percentage of loan balances.

Recent Accounting Guidance

Adopted effective October 1, 2018

Cal Coastal adopted ASU No. 2016-14 *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* as more fully described in Note 1.

Effective after fiscal 2019

Cal Coastal will adopt ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This Update requires an entity to recognize revenue as performance obligations are met, in order to reflect the transfer of promised goods or services to customers in an amount that reflects the consideration the entity is entitled to receive for those goods or services. The following steps are applied in the updated guidance: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when, or as, the entity satisfies a performance obligation.

This update was originally effective for annual reporting periods beginning on or after December 15, 2016, and interim periods therein for public business entities and for annual reporting periods beginning on or after December 15, 2017, and for interim reporting periods within annual reporting periods beginning after December 15, 2018, for all other entities. In July 2015 the FASB issued ASU 2015-14, which provided for a deferral of ASU 2014-09 effective dates for one year for all entities while also permitting early adoption as of annual reporting periods beginning after December 15, 2016. The Corporation does not believe this guidance will have a material impact on its financial statements and disclosures.

On February 25, 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The most significant change for lessees is the requirement under the new guidance to recognize right-of-use assets and lease liabilities for all leases not considered short-term leases, which is generally defined as a lease term of less than 12 months. This change will result in lessees recognizing right-of-use assets and lease liabilities for most leases currently accounted for as operating leases under current lease accounting guidance. The amendments in this update are effective for interim and annual periods beginning after December 15, 2020. The Corporation is currently evaluating the effects of ASU 2016-02 on its financial statements and disclosures.

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

In June 2016, the FASB issued ASU 2016-13 *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* which introduces new guidance for the accounting for credit losses on certain types of financial instruments. It also provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. The new model, referred to as the current expected credit losses (CECL) model, will apply to financial assets subject to credit losses, measured at amortized cost, and certain off-balance sheet credit exposures. Upon initial recognition of the exposure, the CECL model requires an entity to estimate the credit losses expected over the life of an exposure. This update is effective for the Organization for annual periods beginning after December 15, 2020 (recently moved to annual periods beginning after December 15, 2022 for non-public entities), and interim periods within those annual periods. The Corporation is currently evaluating the effects of ASU 2016-13 on its financial statements and disclosures.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*, which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. ASU 2016-18 is effective for annual periods beginning on January 1, 2019. ASU 2016-18 must be applied using a retrospective transition method with early adoption permitted. The Corporation is currently evaluating the effects of ASU 2016-18 on its financial statements and disclosures.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 605)*. ASU 2018-08 clarifies and refines existing guidance to help explain the scope of contributions, including addressing and clarifying revenue recognition issues related to identifying grants and similar contracts with government agencies as exchange transactions or contributions and distinguishing between conditional and unconditional contributions. ASU 2018-08 is effective for resource recipients for annual reporting periods beginning after December 15, 2018. The Corporation is currently evaluating the effects of ASU 2018-08 on its financial statements and disclosures.

Change in Accounting Policy

As of July 1, 2018, the Corporation adopted the provisions of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities*. The provisions of the ASU replace the existing three classes of net assets with two new classes (net assets without donor restrictions and net assets with donor restrictions). The ASU introduces new disclosure requirements to improve a financial statement user's ability to assess the Corporation's liquidity and exposure to risk. The ASU also introduces new reporting requirements to present expenses by both function and natural classification in a single location and to present investment returns on the statements of activities net of external and direct internal investment expenses.

The amendments should be applied on a retrospective basis; however, if presenting comparative financial statements, the ASU allows for the option to omit, for any periods presented before the period of adoption, the analysis of expenses by both natural classification and functional classification, and the disclosure about liquidity and availability of resources. The Corporation has elected not to present comparative information for these amendments.

The Corporation has adopted this standard as management believes the standard improves the usefulness and understandability of the Corporation's financial reporting.

CALIFORNIA COASTAL RURAL DEVELOPMENT CORPORATION
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

As of July 1, 2018, the Corporation adopted the provisions of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities*. The provisions of the ASU replace the existing three classes of net assets with two new classes (net assets without donor restrictions and net assets with donor restrictions) and adds disclosures to improve a financial statement user’s ability to assess the Corporation’s liquidity and exposure to risk. The ASU also introduces new reporting requirements to present expenses by both function and natural classification in a single location and to present investment returns on the statements of activities net of external and direct internal investment expenses.

The amendments should be applied on a retrospective basis; however, if presenting comparative financial statements, the ASU allows for the option to omit, for any periods presented before the period of adoption, the analysis of expenses by both natural classification and functional classification, and the disclosure about liquidity and availability of resources. The Corporation has elected not to present comparative information for the functional expense amendment.

The Corporation has adopted this standard as management believes the standard improves the usefulness and understandability of the Corporation’s financial reporting.

Reclassification

Certain amounts in the accompanying 2018 statement of cash flows were reclassified to conform with the current year presentation. The changes had no impact on the totals of operating activities, investing activities, financing activities, or total cash.

NOTE 3 - LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position sheet date, comprise the following.

	2019	2018
Financial assets:		
Cash and cash equivalents	\$ 2,802,877	\$ 5,699,110
Investments	195,825	202,256
Accounts and interest receivables	119,856	118,191
	3,118,558	6,019,557
Liquidity resources:		
Bank lines of credit	\$ 2,500,000	\$ 2,500,000

Cal Coastal uses these sources to meet its ongoing obligations with respect to general expenditures, liabilities and other obligations as they become due. Cal Coastal has a policy to maintain available cash and short-term investments to meet 90 days of normal operating expenses, which are, on average, approximately \$675,000. Cash in excess of daily requirements is invested in various short-term investments with maturities designed to meet obligations as they come due.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 4 - CASH IN BANKS

	<u>June 30, 2019</u>
Cash - undesignated	\$ 2,802,877
Cash - designated	<u>1,967,945</u>
Total Cash and Cash Equivalents	<u><u>\$ 4,770,822</u></u>
	 <u>June 30, 2018</u>
Cash - undesignated	\$ 4,625,436
Cash - designated	<u>1,327,099</u>
Total Cash and Cash Equivalents	<u><u>\$ 5,952,535</u></u>

NOTE 5 - INVESTMENTS

Investments are carried at fair market value as follows:

	<u>Fair Value Measurements</u>			
	<u>June 30, 2019</u>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Certificates of Deposit/ Money Market	\$ 165,647	\$ -	\$ 165,647	\$ -
FmAc Equity Securities	<u>30,178</u>	<u>30,178</u>	<u>-</u>	<u>-</u>
	<u><u>\$ 195,825</u></u>	<u><u>\$ 30,178</u></u>	<u><u>\$ 165,647</u></u>	<u><u>\$ -</u></u>
	 <u>June 30, 2018</u>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Certificates of Deposit	\$ 165,310	\$ -	\$ 165,310	\$ -
FmAc Equity Securities	<u>36,946</u>	<u>36,946</u>	<u>-</u>	<u>-</u>
	<u><u>\$ 202,256</u></u>	<u><u>\$ 36,946</u></u>	<u><u>\$ 165,310</u></u>	<u><u>\$ -</u></u>

CALIFORNIA COASTAL RURAL DEVELOPMENT CORPORATION
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 6 - LOANS RECEIVABLE

Loans receivable at June 30, 2019 and 2018, consist of the following:

	June 30, 2019				Total
	Direct Loan Program	IRP-1, IRP-2, and IRP-3 Relending Programs	SBA-1 and SBA-2 Loan Programs	NADBank Loan Program	
Commercial loans, gross	\$ 36,656,098	\$ 1,817,917	\$ 984,825	\$ 687,334	\$ 40,146,174
Resold commercial loans	(30,089,400)	-	-	(621,127)	(30,710,527)
Commercial loans, net	6,566,698	1,817,917	984,825	66,207	9,435,647
Allowance for loan losses	(828,380)	(291,482)	(92,623)	(5,380)	(1,217,865)
	<u>\$ 5,738,318</u>	<u>\$ 1,526,435</u>	<u>\$ 892,202</u>	<u>\$ 60,827</u>	<u>\$ 8,217,782</u>

	June 30, 2018				Total
	Direct Loan Program	IRP-1, IRP-2, and IRP-3 Relending Programs	SBA-1 and SBA-2 Loan Programs	NADBank Loan Program	
Commercial loans, gross	\$ 34,063,315	\$ 2,138,697	\$ 1,097,933	\$ 719,561	\$ 38,019,506
Resold commercial loans	(27,575,805)	-	-	(650,180)	(28,225,985)
Commercial loans, net	6,487,510	2,138,697	1,097,933	69,381	9,793,521
	<u>_____</u>	<u>_____</u>	<u>_____</u>	<u>_____</u>	<u>_____</u>
	<u>_____</u>	<u>_____</u>	<u>_____</u>	<u>_____</u>	<u>_____</u>

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.

CALIFORNIA COASTAL RURAL DEVELOPMENT CORPORATION
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 6 - LOANS RECEIVABLE, continued

The Corporation assesses loans individually and categorizes its loans receivables into risk categories based on relevant information about the ability of borrowers to service the debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends among other factors. The Corporation analyzes loans individually by classifying the loans as to credit risk periodically throughout the year. The following definitions are used for the risk ratings:

Pass: Loans that are current in payments and in general compliance with all debt covenants. Management considers the likelihood of loss on these credits to be low.

Deficient Quality: Loans reflecting a lack of primary and secondary sources of repayment.

Watch: Loan exhibits evidence of weakness normally of a temporary nature which, if not corrected within a reasonable period of time, could result in continued financial deterioration and a possible loss.

Substandard: A loan which may or may not be current, but requires special attention. May be inadequately protected by the current net worth and paying capacity of the obligor, or of the collateral pledged, if any.

Doubtful: Loans have all the elements of a substandard loan, with the added characteristic that the weakness makes collection or liquidation in full highly questionable and improbable.

Pending Default/Loss: Loans are considered uncollectible, or the chances for any recovery are long term and highly doubtful.

At June 30, 2019, the Corporation has supervised loans which are those put on non-accrual from various categories noted above based on parameters deemed by management. The Corporation had supervised loans, in gross, in the Direct Loan Program, the IRP-1, IRP-2 and IRP-3 Relending Programs, and SBA of \$7,526,261, \$217,815, and \$44,520, respectively. At June 30, 2018, the Corporation had supervised loans, in gross, in the Direct Loan Program, the IRP-1 and IRP-2 Relending Programs, and SBA of \$6,392,978, \$710,328, and \$153,709, respectively.

At June 30, 2019 and 2018, the total recorded investment in impaired loans, all of which have allowances determined in accordance with generally accepted accounting principles, amounted to \$7,788,596 and \$7,257,015, respectively. For the years ended June 30, 2019 and 2018, the average recorded investment related to impaired loans totaled \$7,522,805 and \$6,657,397, respectively. The allowance for loan losses totaled \$1,217,865 and \$1,285,276, respectively. The Corporation has no commitments to lend additional funds to borrowers whose loans have been modified. For the years ended June 30, 2019 and 2018, interest income from loans on non-accrual status would have been \$577,293 and \$380,852, respectively, had those loans been performing in accordance with their original terms and been outstanding throughout the period.

There were no loans receivable that were modified in troubled debt restructuring as of June 30, 2019 and 2018.

Resold commercial loan payables at June 30, 2019 and 2018, were \$1,475,405 and \$3,467,945, respectively, and represent principal payments which were collected prior to June 30 and remitted subsequent to year end.

CALIFORNIA COASTAL RURAL DEVELOPMENT CORPORATION
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 6 - LOANS RECEIVABLE, continued

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

	Direct Loan Program	IRP-1, 2, & 3 Relending Programs	SBA-2 and SBA-3 Loan Programs	NADBank Loan Program	Total
Balance, June 30, 2017	\$ 792,287	\$ 275,852	\$ 154,152	\$ 5,380	\$ 1,227,671
Loan loss provision	35,986	24,000	13,000	-	72,986
Charge-offs	-	-	(20,081)	-	(20,081)
Recoveries	-	-	4,700	-	4,700
Reclassifications	(10,000)	10,000	-	-	-
Balance, June 30, 2018	818,273	309,852	151,771	5,380	1,285,276
Loan loss provision	54,747	74,000	18,000	-	146,747
Charge-offs	(64,640)	(72,370)	(77,668)	-	(214,678)
Recoveries	-	-	520	-	520
Reclassifications	20,000	(20,000)	-	-	-
Balance, June 30, 2019	<u>\$ 828,380</u>	<u>\$ 291,482</u>	<u>\$ 92,623</u>	<u>\$ 5,380</u>	<u>\$ 1,217,865</u>

At June 30, 2019, Cal Coastal maintained restricted cash and investment accounts at financial institutions in the amount of \$133,009 for the SBA Loan Program and \$165,647 for NADBank. Such reserves are in addition to the above reserves for loan loss.

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 6 - LOANS RECEIVABLE, continued

Based on the most recent analysis performed, the risk category of the loans receivable, including loans sold, as of June 30 is as follows:

	Pass	Deficient Quality	Watch	Substandard	Doubtful/ Loss	Total
June 30, 2019						
Direct Loan Program	\$ 15,204,274	\$ 2,826,718	\$ 11,964,672	\$ 3,935,008	\$ 2,725,427	\$ 36,656,099
IRP Loan Programs	1,270,483	250,000	219,683	77,750	-	1,817,916
SBA Loan Programs	424,240	451,567	72,532	19,000	17,486	984,825
NADBank Loan Program	687,334	-	-	-	-	687,334
	<u>\$ 17,586,331</u>	<u>\$ 3,528,285</u>	<u>\$ 12,256,887</u>	<u>\$ 4,031,758</u>	<u>\$ 2,742,913</u>	<u>\$ 40,146,174</u>
June 30, 2018						
Direct Loan Program	\$ 17,923,971	\$ 511,002	\$ 10,242,988	\$ 2,535,670	\$ 2,849,684	\$ 34,063,315
IRP Loan Programs	1,336,112	-	478,966	251,248	72,370	2,138,696
SBA Loan Programs	637,653	228,636	127,070	-	104,572	1,097,931
NADBank Loan Program	719,561	-	-	-	-	719,561
	<u>\$ 20,617,297</u>	<u>\$ 739,638</u>	<u>\$ 10,849,024</u>	<u>\$ 2,786,918</u>	<u>\$ 3,026,626</u>	<u>\$ 38,019,503</u>

Past due and nonaccrual loans receivable were as follows as of June 30:

	Current	Still Accruing			Nonaccrual	Total
		30-59 Days Past Due	60-89 Days Past Due	Over 90 Days Past Due		
June 30, 2019						
Direct Loan Program	\$ 28,987,380	\$ 142,458	\$ -	\$ -	\$ 7,526,261	\$ 36,656,099
IRP Loan Programs	1,520,483	-	79,618	-	217,815	1,817,916
SBA Loan Programs	812,837	82,292	-	45,176	44,520	984,825
NADBank Loan Program	687,334	-	-	-	-	687,334
	<u>\$ 32,008,034</u>	<u>\$ 224,750</u>	<u>\$ 79,618</u>	<u>\$ 45,176</u>	<u>\$ 7,788,596</u>	<u>\$ 40,146,174</u>
June 30, 2018						
Direct Loan Program	\$ 27,476,518	\$ 49,760	\$ 23,775	\$ 120,284	\$ 6,392,978	\$ 34,063,315
IRP Loan Programs	1,428,368	-	-	-	710,328	2,138,696
SBA Loan Programs	882,688	-	61,535	-	153,708	1,097,931
NADBank Loan Program	719,561	-	-	-	-	719,561
	<u>\$ 30,507,135</u>	<u>\$ 49,760</u>	<u>\$ 85,310</u>	<u>\$ 120,284</u>	<u>\$ 7,257,014</u>	<u>\$ 38,019,503</u>

CALIFORNIA COASTAL RURAL DEVELOPMENT CORPORATION
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 6 - LOANS RECEIVABLE, continued

Information relating to individually impaired loans receivable presented by class of loans was as follows as of June 30:

	Impaired Loans					
	Unpaid Principal Balance	Recorded Investment	With Specific Allowance	Without Specific Allowance	Average Recorded Investment	Interest Income Recognized
June 30, 2019						
Direct Loan Program	\$ 2,725,427	\$ 2,725,427	\$ 272,543	\$ 2,452,884	\$ 2,787,556	\$ -
IRP Loan Programs	-	-	-	-	36,185	-
SBA Loan Programs	17,486	17,486	17,486	-	61,029	-
	<u>\$ 2,742,913</u>	<u>\$ 2,742,913</u>	<u>\$ 290,029</u>	<u>\$ 2,452,884</u>	<u>\$ 2,884,770</u>	<u>\$ -</u>
June 30, 2018						
Direct Loan Program	\$ 2,849,684	\$ 2,849,684	\$ 284,968	\$ 2,564,716	\$ 2,498,812	\$ -
IRP Loan Programs	72,370	72,370	72,370	-	72,370	-
SBA Loan Programs	104,572	104,572	104,572	-	96,436	-
	<u>\$ 3,026,626</u>	<u>\$ 3,026,626</u>	<u>\$ 461,910</u>	<u>\$ 2,564,716</u>	<u>\$ 2,667,618</u>	<u>\$ -</u>

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 Zions Bank. For the first \$500,000 of enrolled loans, Cal Cap matched Cal Coastal's contribution 150 percent; contributions for enrolled loans are matched 100 percent. Losses on enrolled loans are paid by the Trust, with Cal Cap's approval. Cal Coastal recorded no contribution expenses in the fiscal year ended June 30, 2019. At June 30, 2019, the principal balance of enrolled loans aggregated \$174,103 and reserves of \$139,477 were held by the Trust. Cal Coastal recorded no contribution expenses in the fiscal year ended June 30, 2018. At June 30, 2018, the principal balance of enrolled loans aggregated \$337,469 and reserves of \$139,477 were held by the Trust.

NOTE 7 - FIXED ASSETS

Fixed assets and related depreciation consists of the following:

	2019	2018
Furniture, fixtures, and equipment	\$ 781,094	\$ 770,896
Leasehold improvements	73,348	73,347
	<u>854,442</u>	<u>844,243</u>
Less: accumulated depreciation	<u>(835,698)</u>	<u>(813,044)</u>
	<u>\$ 18,744</u>	<u>\$ 31,199</u>

Depreciation expenses of \$22,654 and \$16,446 were recorded in the fiscal years ended June 30, 2019 and 2018, respectively.

CALIFORNIA COASTAL RURAL DEVELOPMENT CORPORATION
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 8 - 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, 2019 and 2018, was \$69,992 and \$43,270, respectively, which was contributed to the Cal Coastal SEP-IRA plan.

NOTE 9 - NOTES PAYABLE

	2019	2018
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, 2019, Cal Coastal had drawn all of the available funds under this note.	\$ 145,692	\$ 223,265
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 June 2025. The maximum amount available to borrow under the note is \$2,000,000 and, as of June 30, 2018, Cal Coastal had drawn all of the available funds under this note.	454,189	528,702
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 \$31,837 for the first three years consist of interest only payments, and thereafter, principal and interest payments to be paid to fully amortize the loan 30 years from the date of the note until principal and interest are fully paid, 1.0% per annum, maturing March 2035. The maximum amount available to borrow under the note is \$750,000 and, as of June 30, 2019, Cal Coastal had drawn all available funds under this note.	448,696	475,789
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 \$5,062 including interest of .375% per annum, maturing April 2019. The maximum amount available to borrow under the note is \$500,000 and, as of June 30, 2019, Cal Coastal had drawn all of the available funds.	162,300	50,528
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 \$7,521 including interest of .375% per annum, maturing May 2021. The maximum amount available to borrow under the note is \$750,000 and, as of June 30, 2019, Cal Coastal had drawn down all of the available funds.	502,938	247,493
	\$ 1,713,815	\$ 1,525,777

CALIFORNIA COASTAL RURAL DEVELOPMENT CORPORATION
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 9 - NOTES PAYABLE, continued

Maturities as of June 30, 2019, on the notes payable are as follows:

Fiscal Year Ended	
June 30,	
2020	\$ 365,780
2021	324,426
2022	154,671
2023	130,717
2024	105,000
Thereafter	<u>633,221</u>
	<u>\$ 1,713,815</u>

NOTE 10 - LINE OF CREDIT

As of June 30, 2019, Cal Coastal has a revolving line of credit with a bank. The line of credit totaling \$2.5 million to be drawn down upon as needed and expires on April 30, 2020, with an interest rate of prime plus ½ percent (6.0 percent at June 30, 2019) with a floor of 4.00 percent. As of June 30, 2019 and 2018, this line of credit had no amounts outstanding.

NOTE 11 - SUBORDINATED NOTES PAYABLE

Effective July 18, 2013, an additional line of credit for \$5 million was converted into an EQ2 investment by the bank as evidenced by a \$5 million promissory note with an initial maturity date of July 18, 2023. Interest at 2.50 percent is due quarterly. The note may be extended for an additional five-year period provided the Corporation satisfies the conditions for extension. The balance outstanding at June 30, 2019 and 2018, was \$5,000,000.

Effective September 11, 2011, the Corporation entered into a note payable to the U.S. Treasury which is unsecured and matured on September 21, 2019. Principal is due and payable upon maturity. Interest accrues at a rate of 2.0 percent per annum and is payable in arrears on a quarterly basis. The balance outstanding at June 30, 2019 and 2018, was \$870,000. See further discussion regarding this note payable in Note 14.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

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 IBank and the Corporation. The State retains a residual interest in the Trust Funds held by the Fiduciary Trust International of California. Cal Coastal merely gets paid to administer the State Loan Guarantee Program for IBank.

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 12 - COMMITMENTS AND CONTINGENCIES, continued

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.

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:

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>Total</u>
Facilities	\$ 180,927	\$ 184,650	\$ 179,763	\$ 179,763	\$ 725,103
Equipment	<u>6,699</u>	<u>6,699</u>	<u>7,200</u>	<u>-</u>	<u>20,598</u>
Total	<u>\$ 187,626</u>	<u>\$ 191,349</u>	<u>\$ 186,963</u>	<u>\$ 179,763</u>	<u>\$ 745,701</u>

Rental expense for the years ended June 30, 2019 and 2018, was \$157,777 and \$149,747, respectively.

NOTE 13 - FUNCTIONAL ALLOCATION OF EXPENSES

The financial statements report expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. All expenses, excluding depreciation, are allocated on the basis of estimates of time and effort.

	<u>Program</u>	<u>Operating</u>	<u>Total</u>
Salaries and wages	\$ 867,929	\$ 205,443	\$ 1,073,372
Payroll taxes and employee benefits	383,137	77,931	461,068
Interest expense	945,430	223,789	1,169,219
Provision for loan losses	78,230	18,518	96,748
Loan expenses	201,795	47,766	249,561
Advertising and promotion	15,921	3,769	19,690
Meetings, education, and travel	107,006	25,329	132,335
Communication	39,045	9,242	48,287
Occupancy	168,179	39,809	207,988
Professional services	219,257	51,899	271,156
Office	53,365	12,632	65,997
Equipment repair and maintenance	15,061	3,565	18,626
Depreciation	18,318	4,336	22,654
Miscellaneous expenses	<u>44,435</u>	<u>10,518</u>	<u>54,953</u>
Total Expenses	<u>\$ 3,157,108</u>	<u>\$ 734,546</u>	<u>\$ 3,891,654</u>

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 13 - FUNCTIONAL ALLOCATION OF EXPENSES, continued

The following schedule presents expenses by function as of June 30, 2018

Program expenses	\$ 2,725,538
Operating expenses	<u>645,149</u>
Total functional expenses	<u><u>\$ 3,370,687</u></u>

NOTE 14 - SUBSEQUENT EVENTS

On September 21, 2019, the note payable with the U.S. Department of Treasury matured, at which time the interest rate increased to 9 percent. Cal Coastal decided to pay off the entire principal balance plus accrued interest, totaling \$873,480.

Cal Coastal has evaluated subsequent events for recognition and disclosure through November ____, 2019, which is the date the financial statements were available to be issued.

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, 2019

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture</u>			
Intermediary Relending Program	10.767	N/A	\$ 2,638,697 *
<u>U.S. Small Business Administration</u>			
Microloan Demonstration Program	59.046	N/A	<u>1,353,989</u> *
Total Federal Programs			<u><u>\$ 3,992,686</u></u>

N/A – Direct Funded

NOTES TO SUPPLEMENTARY INFORMATION

NOTE 1 – PURPOSE OF SCHEDULE

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity of the Corporation and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The Corporation has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of uniform guidance.

NOTE 2 – LOAN AND LOAN GURANTEE PROGRAMS

The programs noted in the Schedule of Expenditures of Federal Awards represent outstanding loans with their respective awarding agencies with continuing compliance requirements. The balance on the Intermediary Relending Program outstanding loan at June 30, 2019 was \$1,817,917. The balance on the Microloan Demonstration Program outstanding loan at June 30, 2019 was \$984,825.

**Additional Supplementary Information
(Unaudited)**

CALIFORNIA COASTAL RURAL DEVELOPMENT CORPORATION
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GUARANTEE LOAN PORTFOLIO ACCOUNTABILITY REPORT (UNAUDITED)
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Balance of Loan Guarantee, Beginning of Year	\$ 8,698,833	\$ 6,444,735
Loans Guaranteed	17,046,550	12,656,500
Loan Payoffs	<u>(8,519,438)</u>	<u>(10,402,402)</u>
Balance of Loan Guarantee, End of Year	<u>\$ 17,225,945</u>	<u>\$ 8,698,833</u>

Unaudited - see accompanying note to additional supplementary information.

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

SCHEDULE OF LOAN GUARANTEE BALANCES (UNAUDITED)
JUNE 30, 2019

Loan Number	Guarantee Liability	Loan Number	Guarantee Liability	Loan Number	Guarantee Liability	Loan Number	Guarantee Liability
CC1280	\$ -	CC1507	\$ -	CC1626	\$ -	CC1822	\$ 189,078
CC1283	-	CC1509	-	CC1633	-	CC1826	-
CC1297	-	CC1511	-	CC1634	-	CC1836	1,073,040
CC1316	-	CC1512	-	CC1635	-	CC1838	-
CC1320	-	CC1517	-	CC1636	-	CC1839	120,998
CC1322	-	CC1523	-	CC1639	-	CC1840	590,562
CC1333	-	CC1526	-	CC1637	-	CC1841	120,000
CC1335	-	CC1530	-	CC1639	-	CC1842	71,255
CC1351	-	CC1533	-	CC1654	-	CC1843	280,000
CC1353	-	CC1534	-	CC1661	23,472	CC1845	279,711
CC1361	-	CC1540	-	CC1664	-	CC1849	40,000
CC1362	-	CC1548	-	CC1673	8,255	CC1850	2,000,000
CC1363	-	CC1549	-	CC1676	84,328	CC1851	85,000
CC1378	-	CC1551	-	CC1683	-	CC1852	514,197
CC1383	-	CC1554	-	CC1687	56,159	CC1853	540,452
CC1392	-	CC1555	-	CC1689	184,367	CC1856	280,000
CC1407	-	CC1560	-	CC1695	209,269	CC1857	144,325
CC1414	-	CC1564	-	CC1698	174,587	CC1859	114,384
CC1427	-	CC1568	-	CC1699	-	CC1860	40,000
CC1430	-	CC1570	-	CC1700	-	CC1861	40,000
CC1433	-	CC1571	-	CC1701	-	CC1862	37,659
CC1437	-	CC1575	-	CC1710	14,068	CC1864	650,086
CC1439	-	CC1578	-	CC1714	64,350	CC1865	680,220
CC1442	-	CC1580	-	CC1718	-	CC1869	40,000
CC1448	-	CC1583	-	CC1720	13,742	CC1872	80,000
CC1450	-	CC1586	-	CC1721	99,509	CC1875	1,016,941
CC1456	-	CC1588	-	CC1725	2,274,365	CC1876	40,000
CC1457	-	CC1589	-	CC1727	29,685	CC1878	520,000
CC1465	-	CC1592	-	CC1750	-	CC1879	254,756
CC1469	-	CC1596	-	CC1760	-	CC1880	65,365
CC1472	-	CC1598	-	CC1773	618,316	CC1881	310,542
CC1473	-	CC1599	-	CC1774	78,710	CC1882	271,725
CC1477	-	CC1602	-	CC1775	63,706	CC1885	24,000
CC1482	-	CC1603	-	CC1778	85,135	CC1886	221,001
CC1492	-	CC1611	-	CC1779	-	CC1888	1,200,000
CC1493	-	CC1612	-	CC1780	-	CC1889	480,000
CC1496	-	CC1618	-	CC1781	-	CC1890	161,140
CC1500	-	CC1621	-	CC1801	231,485	CC1891	16,000
CC1501	-	CC1625	-	CC1820	-	CC1893	20,000
						CC1897	300,000
							\$ 17,225,945

Unaudited - see accompanying note to additional supplementary information.

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

SCHEDULE OF LOANS ORIGINATED (UNAUDITED)
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

2019	Gross Loans Originated	Number of Loans	Net Loans Originated
Direct Farm Loan Program - Comm Advantage	\$ 947,000	5	\$ 947,000
Direct Farm Loan Program - Farm Ownership	2,525,000	3	2,525,000
Direct Farm Loan Program - Operating Loans	15,674,000	30	15,674,000
Direct Farm Loan Program - Direct Loans	49,760	1	49,760
Guaranteed loans	17,046,550	36	13,149,920
Intermediary Relending Program - 1	250,000	1	250,000
Intermediary Relending Program - 2	250,000	1	250,000
Small Business Administration (SBA)	294,000	7	294,000
SBA 504 Loan Program	205,000	1	205,000
Monterey County EDA	180,000	2	180,000
Jumpstart	30,000	3	30,000
Total Loans by Product	<u>\$ 37,421,310</u>	<u>87</u>	<u>\$ 33,524,680</u>
2018	Gross Loans Originated	Number of Loans	Net Loans Originated
Direct Farm Loan Program - Comm Advantage	\$ 250,000	1	\$ 250,000
Direct Farm Loan Program - Operating Loans	19,005,000	33	19,005,000
Guaranteed loans	12,656,500	31	9,918,400
Small Business Administration (SBA)	534,190	13	534,190
Rust Loan Program	449,987	1	449,987
Total Loans by Product	<u>\$ 32,895,677</u>	<u>79</u>	<u>\$ 30,157,577</u>

Unaudited - see accompanying note to additional supplementary information.

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

NOTE TO ADDITIONAL SUPPLEMENTARY INFORMATION (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2019

NOTE 1 – PURPOSE OF SCHEDULES

These schedules have been included at the request of management and the State agencies providing funding to the Corporation. This information has not been subjected to the audit procedures applied during the course of the audit.

Schedule of Federal Expenditures

This Organization has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

Guarantee Loan Portfolio Accountability Report

This schedule provides detail information related to the Loan Guarantees Portfolio maintained by the State of California on behalf of the Corporation. The schedule is required by State agencies providing funding to the Corporation.

Schedule of Loan Guarantee Balances

This schedule provides information related to the Guaranteed Loans administered through the Corporation about the total activity regarding the specific Loans and the balance held in the Guarantee Loan Portfolio. This schedule is required by State agencies providing funding to the Corporation.

Schedule of Loans Originated

This schedule provides information regarding the loan activity by "product" line. This information is provided to satisfy reporting requirements of various funding agencies.

Independent Auditor's Reports



Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
California Coastal Rural Development Corporation
Salinas, 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 financial statements of California Coastal Rural Development Corporation (a California non-profit public benefit corporation) which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities and cash flows for the year then ended and the notes to the financial statements, and have issued our report thereon dated November 22, 2019.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered California Coastal Rural Development Corporation'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of California Coastal Rural Development Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of California Coastal Rural Development Corporation'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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2019-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether California Coastal Rural Development Corporation's financial statements are free from 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 audits 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*.

Response to Findings

California Coastal Rural Development's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. California Coastal Rural Development's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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



Rancho Cucamonga, California
November 22, 2019



Independent Auditor's Report on Compliance for the Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance

Board of Directors
California Coastal Rural Development Corporation
Salinas, California

Report on Compliance for the Major Federal Program

We have audited California Coastal Rural Development Corporation's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on California Coastal Rural Development Corporation's major Federal program for the year ended June 30, 2019. California Coastal Rural Development Corporation's major Federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with Federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for California Coastal Rural Development Corporation's major Federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about California Coastal Rural Development Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major Federal program. However, our audit does not provide a legal determination of California Coastal Rural Development Corporation's compliance.

Opinion on the Major Federal Program

In our opinion, California Coastal Rural Development Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major Federal program for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of California Coastal Rural Development Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered California Coastal Rural Development Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of California Coastal Rural Development Corporation's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Rancho Cucamonga, California
November 22, 2019

Schedule of Findings And Questioned Costs

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

**SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2019**

FINANCIAL STATEMENTS

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major Federal programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>None reported</u>
Type of auditor's report issued on compliance for major Federal programs:	<u>Unmodified</u>

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a) of the Uniform Guidance?	<u>Yes</u>
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Identification of major Federal programs:	
<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
<u>10.767</u>	<u>Intermediary Relending Program</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

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

FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019

The following finding represents a significant deficiency related to the financial statements that is required to be reported in accordance with *Government Auditing Standards*.

2019-001 Schedule of Expenditures of Federal Awards

Criteria

Proper controls over financial reporting include a system designed to ensure the schedule of expenditures of federal awards (SEFA) is prepared and presented in accordance with Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance).

Condition

During our audit of the schedule of expenditures of federal awards incorrect amounts were being used to report federal expenditures related to the loan programs and quantitatively material adjustments were made to the SEFA.

Cause

The adjustments noted were the result of an incorrect interpretation of the uniform guidance rules for reporting loan programs.

Effect

Material adjustments to the SEFA were necessary to ensure the correct reporting.

Recommendation

We recommend management continually be aware of the financial reporting requirements impacting the SEFA and evaluate the internal controls that affect reporting to ensure compliance with the Uniform Guidance.

Views of Responsible Officials:

Management has taken action and correctly recorded all amounts in the Schedule of Expenditures of Federal Awards. Management understands all reporting compliance requirements.

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

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019

None reported.

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

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019

None reported.