

**ECONOMIC DEVELOPMENT AND FINANCING CORPORATION,
INC.**

UKIAH, CALIFORNIA

FINANCIAL STATEMENTS

JUNE 30, 2012

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1
Financial Section:	
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6-9

INDEPENDENT AUDITORS' REPORT

Board of Directors
Economic Development and Financing Corporation, Inc.
Ukiah, California

We have audited the accompanying statement of financial position of Economic Development and Financing Corporation, Inc. as of June 30, 2012, and the related statement of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of Economic Development and Financing Corporation, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 Economic Development and Financing Corporation, Inc. as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

R. J. Ricciardi, Inc.

R.J. Ricciardi, Inc.
Certified Public Accountants

June 17, 2013
San Rafael, California

Economic Development and Financing Corporation, Inc.

STATEMENT OF FINANCIAL POSITION

June 30, 2012

ASSETS

Current assets:	
Cash and cash equivalents	\$ 399,185
Accounts receivable	69,782
Loans receivable	110,884
Prepaid expenses	<u>1,269</u>
Total current assets	<u>581,120</u>
Non-current assets:	
Loans receivable	<u>1,424,195</u>
Total non-current assets	<u>1,424,195</u>
Total assets	<u><u>\$ 2,005,315</u></u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable	\$ 48,129
Accrued expenses	7,914
Other liabilities	21,156
Deferred revenue	7,485
Notes payable, current portion	<u>59,207</u>
Total current liabilities	<u>143,891</u>
Non-current liabilities:	
Notes payable, net of current portion	<u>1,563,745</u>
Total non-current liabilities	<u>1,563,745</u>
Total liabilities	<u>1,707,636</u>
Net assets:	
Unrestricted, designated for investments in loans	222,302
Unrestricted, designated for reserve for bad debt	<u>75,377</u>
Total net assets	<u>297,679</u>
Total liabilities and net assets	<u><u>\$ 2,005,315</u></u>

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

Economic Development and Financing Corporation, Inc.

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2012

Revenues:	
Grants and contracts	\$ 127,742
Loan interest and packaging fees income	117,736
Other revenue	<u>8,887</u>
Total revenues	<u>254,365</u>
Expenses:	
Program services	65,989
General and administration	<u>161,764</u>
Total expenses	<u>227,753</u>
Change in net assets	26,612
Net assets, beginning of period	<u>271,067</u>
Net assets, end of period	<u>\$ 297,679</u>

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

Economic Development and Financing Corporation, Inc.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2012

	<u>Program Services</u>		General &	<u>Total</u>
	<u>Program Expenses</u>	<u>Grant Expenses</u>	<u>Administrative Expenses</u>	
Expenses:				
Salaries	\$ -	\$ 32,726	\$ 56,273	\$ 88,999
Employee benefits	-	351	12,096	12,447
Payroll taxes	-	2,853	5,030	7,883
Contract services				
Accounting	-	-	14,909	14,909
Clerical	-	-	7,400	7,400
Audit	-	-	4,200	4,200
Legal	-	-	160	160
Loan packaging	1,450	-	-	1,450
Interest expense - IRP loan	15,779	-	-	15,779
Technical assistance	-	-	47,502	47,502
Facility and equipment rent	-	8,946	6,431	15,377
Memberships	-	-	471	471
Insurance	-	-	1,843	1,843
Meeting expense	-	31	562	593
Marketing and advertisements, website	-	-	470	470
Travel	-	1,520	1,325	2,845
Postage	-	-	204	204
Supplies	-	777	1,399	2,176
Telephone	-	59	918	977
Taxes and licenses	-	-	85	85
Conferences	-	150	-	150
Equipment	-	20	-	20
Training	-	355	350	705
Software	-	972	26	998
Miscellaneous	-	-	110	110
Total	<u>\$ 17,229</u>	<u>\$ 48,760</u>	<u>\$ 161,764</u>	<u>\$ 227,753</u>

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

Economic Development and Financing Corporation, Inc.

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2012

Cash flows from operating activities:	
Change in net assets	\$ 26,612
Changes in certain operating assets and liabilities:	
Accounts receivable	(60,757)
Prepaid expenses	1,040
Accounts payable	45,058
Accrued expenses	407
Other liabilities	13,113
Deferred revenue	<u>(48,760)</u>
Net cash provided (used) by operating activities	<u>(23,287)</u>
Cash flows from investing activities:	
Acquisition of notes receivable	(50,000)
Collection of notes receivable	<u>111,767</u>
Net cash provided (used) by investing activities	<u>61,767</u>
Cash flows from financing activities:	
Proceeds from notes payable	50,000
Payments on notes payable	<u>(49,054)</u>
Net cash provided (used) by financing activities	<u>946</u>
Net increase (decrease) in cash during the period	39,426
Cash balance, beginning of period	<u>359,759</u>
Cash balance, end of period	<u>\$ 399,185</u>
Supplemental disclosures of cash flow information:	
Interest paid	<u>\$ 15,779</u>

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

Economic Development and Financing Corporation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 1 - CORPORATION

Economic Development and Financing Corporation, Inc. (the Corporation) was incorporated in the State of California in January 1995 and was formed to provide coordination of countywide economic development efforts, development and facilitation of streamlined and accessible financial, regulatory and technical assistance programs and responsible management of federal, state and local funds for the express purpose of stimulating the economy of Mendocino County.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The financial statements and records of the Corporation are prepared on the accrual basis of accounting and, therefore, include all support and revenue when earned and all expenditures when incurred, regardless of whether such support and revenue or expenditures were received or paid as of the end of a fiscal period. Grants are recognized as support when earned in accordance with the terms of each grant or agreement.

B. Allocation of Expenses

In some cases, expenses are incurred that support the work performed under more than one grant or contract. Such expenses are allocated among the grantors as agreed to by these funding sources or, in the absence of an agreement, on the basis that appears most reasonable to the Corporation. Directly identifiable expenses are charged to program services. Expenses related to more than one function are charged to program services on the basis of full time equivalents. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Corporation.

C. Basis of Presentation

The financial statements of the Corporation have been prepared on the accrual basis in conformity with U.S. generally accepted accounting principles. The statements are presented in accordance with the provisions of Financial Accounting Standards Board Accounting Standards Codification (FASB ASC 958-205), *Financial Statements of Not-for-Profit Corporations*. Under FASB ASC 958-205, the Corporation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

D. Unrestricted Net Assets

Unrestricted net assets generally result from revenues obtained by providing services, receiving unrestricted contributions, and receiving interest and dividends from income-producing assets. The only limits on the use of unrestricted net assets are the broad limits resulting from the nature of the Corporation and purposes specified in its Articles of Incorporation or Bylaws and limits resulting from contractual agreements entered into by the Corporation in the course of its operations.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

E. Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include all cash accounts that are not subject to withdrawal restrictions or penalties and all highly liquid debt instruments purchased with a maturity of nine months or less.

F. Fixed Assets

The Corporation capitalizes furniture and equipment purchases and computer purchases over \$1,000. Capitalized fixed assets are valued at historical cost (estimated fair value for donated items) net of accumulated depreciation. Capitalized fixed assets are depreciated over a three to ten year period (depending on the class of fixed asset) on a straight line basis.

G. Vacation and Other Compensated Absences

Vacation pay is vested to the employees as it accrues and is payable upon retirement or termination.

H. Use of Estimates

These financial statements have been prepared in conformity with U.S. generally accepted accounting principles, and as such, include amounts based on informed estimates and judgments of management with consideration given to materiality. Actual results could differ from those amounts.

I. Risk Management

The Corporation is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Corporation carries commercial insurance.

J. Contingencies

The Corporation participates in several Federal, State and local assisted grant programs. These programs are subject to program compliance audits by the grantors at some future date. The amount, if any, of the expenditures, which may be disallowed, cannot be determined at this time. The Corporation expects such amounts, if any, to be immaterial.

K. Subsequent Events

In preparing these financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through June 17, 2013, the date the financial statements were available to be issued

Economic Development and Financing Corporation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 3 - INCOME TAXES

The Corporation is an exempt corporation under Section 501(c)(3) of the Internal Revenue Code and 23701(d) of the Revenue and Taxation Code and, therefore, has made no provision for Federal or California income taxes.

On July 1, 2011, the Corporation adopted the recognition requirements for uncertain income tax positions as required by generally accepted accounting principles, with no cumulative effect adjustment required. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities. The Corporation has analyzed tax positions taken for filing with the Internal Revenue Service and all state jurisdictions where it operates. The Corporation believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the Institute's financial condition, results of operations or cash flows. Accordingly, the Institute has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at June 30, 2012.

The Corporation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

NOTE 4 - CASH

Cash balances at June 30, 2012 are as follows:

West America Bank Intermediary Relending Program (IRP)	\$ 290,505
West America Bank Checking	8,580
West America Bank CD	100,000
Petty Cash	<u>100</u>
Total cash and cash equivalents	<u>\$ 399,185</u>

The bank balances were insured under the \$250,000 blanket umbrella by the Federal Deposit Insurance Corporation (FDIC). The remaining balances were exposed to risk; however under California Law, all public funds must be secured by investment grade securities at the rate of 110% deposits to current market value of pledged securities. West America Bank balances are collateralized by securities held by the pledging financial institution's trust department or agent, although not in the Corporation's name.

NOTE 5 - LOANS RECEIVABLE

The Corporation was the recipient of four grants and five loan programs with the goal of providing loans to others, for the express purpose of stimulating the economy of Mendocino County. The principal payments received from these loans receivable are restricted to making additional loans for the express purposes above. The Corporation holds principal payments received from these loans in cash or investments in non IRP loans receivable until invested into new loans.

Currently the Corporation holds title to twenty-one loans receivable with interest rates of 6.00% to 9.75% per annum. All loans are secured.

The Corporation has not provided an allowance for uncollectible loans receivable. Uncollectible loans receivable are provided for by the direct write-off method and are charged to bad debt when determined to be uncollectible.

Economic Development and Financing Corporation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 5 - LOANS RECEIVABLE (concluded)

At June 30, the balances of the revolving loans receivable were as follows:

EDFC	\$	387,283
IRP 3		96,797
IRP 2		175,703
IRP 4		409,920
IRP 5		275,303
IRP 6		<u>190,073</u>
Totals	\$	<u>1,535,079</u>
Current portion	\$	110,884
Non-current portion		<u>1,424,195</u>
Totals	\$	<u>1,535,079</u>

The Corporation has not recognized any discount of notes receivable, as it is the opinion of management that the above amounts are realizable.

NOTE 6 - NOTE PAYABLE

These are notes due to the US Department of Agriculture Intermediary Relending Program (IRP). The balances are to be amortized over 27 years, interest only for the first three years with principal payment commencing on the 4th anniversary date. The maximum amount of the loans available through these programs is \$2,070,000 and they carry a 1% interest rate on the outstanding balances. Within the first three years of these programs the Corporation must establish and maintain a reserve for bad debts of not less than 6% of the outstanding loan balances. The Corporation has pledged as collateral its IRP Revolving Fund, including its portfolio of investments derived from the proceeds of these loans. The outstanding loan balances as of June 30, 2012 were \$1,622,952.

The following are maturities of this note payable for the years ending June 30:

	<u>Principal Payment</u>	<u>Interest Payment</u>
2013	\$ 59,207	\$ 16,230
2014	59,799	15,638
2015	60,397	15,040
2016	61,001	14,436
2017	61,611	13,826
Thereafter	<u>1,320,937</u>	<u>148,297</u>
Total	<u>\$ 1,622,952</u>	<u>\$ 223,467</u>

NOTE 7 - RETIREMENT PLAN

The Corporation has adopted a SIMPLE IRA plan which covers all employees who have met certain requirements. The Corporation has elected to contribute a matching contribution up to a limit of 3% of the employee's compensation to the plan. For the year ended June 30, 2012 the Corporation paid \$492 of the behalf of all covered employees.