ECONOMIC DEVELOPMENT AND FINANCING CORPORATION, INC.

UKIAH, CALIFORNIA

FINANCIAL STATEMENTS

JUNE 30, 2013

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements
We have audited the accompanying financial statements of Economic Development and Financing Corporation, Inc., which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses, 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 organization'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 organization'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 opinions.

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, 2013, 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.

Report on Summarized Comparative Information
We have previously audited Economic Development and Financing Corporation, Inc.'s 2012 financial statements, and our report dated June 17, 2013, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

R.J. Ricciardi, Inc.

R.J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
March 27, 2014

1000 FOURTH STREET, SUITE 400 SAN RAFAEL, CA 94901 TEL (415) 457-1215 FAX (415) 457-6735 www.rjrcpa.com

Economic Development And Financing Corporation, Inc.

STATEMENTS OF FINANCIAL POSITION

June 30, 2013

(With Comparative Totals for June 30, 2012)

	2013	2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 855,153	$ 399,185
Accounts receivable	43,910	69,782
Loans receivable	120,014	110,884
Prepaid expenses	3,167	1,269
Total current assets	1,022,244	581,120
Non-current assets:		
Loans receivable	988,742	1,424,195
Total non-current assets	988,742	1,424,195
Total assets	$ 2,010,986	$ 2,005,315
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$ 4,803	$ 48,129
Accrued expenses	7,893	7,914
Other liabilities	10,016	21,156
Deferred revenue	-	7,485
Notes payable, current portion	59,702	59,207
Total current liabilities	82,414	143,891
Non-current liabilities:		
Notes payable, net of current portion	1,603,847	1,563,745
Total non-current liabilities	1,603,847	1,563,745
Total liabilities	1,686,261	1,707,636
Net assets:		
Unrestricted, designated for investments in loans	245,512	222,302
Unrestricted, designated for reserve for bad debt	79,213	75,377
Total net assets	324,725	297,679
Total liabilities and net assets	$ 2,010,986	$ 2,005,315

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

Economic Development And Financing Corporation, Inc.

STATEMENTS OF ACTIVITIES

For the Year Ended June 30, 2013

(With Comparative Totals for the Year Ended June 30, 2012)

	2013	2012
Revenues:		
Grants and contracts	$ 121,766	$ 127,742
Loan interest and packaging fees income	100,440	117,736
Other revenue	3,961	8,887
Total revenues	226,167	254,365
Expenses:		
Program services	92,249	65,989
General and administration	106,872	161,764
Total expenses	199,121	227,753
Change in net assets	27,046	26,612
Net assets, beginning of period	297,679	271,067
Net assets, end of period	$ 324,725	$ 297,679

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

Economic Development And Financing Corporation, Inc.

STATEMENTS OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2013

(With Comparative Totals for the Year Ended June 30, 2012)

	Program Services		General &		
	Program Expenses	Grant Expenses	Administrative Expenses	2013 Total	2012 Total
Expenses:					
Salaries	$ -	$ 5,000	$ 58,013	$ 63,013	$ 88,999
Employee benefits	-	59	4,608	4,667	12,447
Payroll taxes	-	445	5,397	5,842	7,883
Contract services					
Accounting	-	-	11,778	11,778	14,909
Clerical	5,000	5,810	1,597	12,407	7,400
Audit	-	-	5,300	5,300	4,200
Legal	-	-	160	160	160
Loan packaging	1,338	-	-	1,338	1,450
Interest expense - IRP loan	16,805	-	-	16,805	15,779
Technical assistance	-	52,499	-	52,499	47,502
Facility and equipment rent	-	1,933	7,972	9,905	15,377
Memberships	-	-	480	480	471
Insurance	-	-	2,068	2,068	1,843
Meeting expense	-	-	737	737	593
Marketing and advertisements, website	-	-	299	299	470
Travel	-	48	2,711	2,759	2,845
Postage	-	-	237	237	204
Supplies	-	-	1,997	1,997	2,176
Telephone	-	-	867	867	977
Taxes and licenses	-	-	22	22	85
Conferences	-	-	615	615	150
Equipment	-	-	-	-	20
Training	-	-	920	920	705
Software	-	-	983	983	998
Miscellaneous	-	3,312	111	3,423	110
Total	$ 23,143	$ 69,106	$ 106,872	$ 199,121	$ 227,753

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

Economic Development And Financing Corporation, Inc.
STATEMENTS OF CASH FLOWS
For the Year Ended June 30, 2013
(With Comparative Totals for the Year Ended June 30, 2012)

	2013	2012
Cash flows from operating activities:		
Change in net assets	$ 27,046	$ 26,612
Changes in certain operating assets and liabilities:		
Accounts receivable	25,872	(60,757)
Prepaid expenses	(1,898)	1,040
Accounts payable	(43,326)	45,058
Accrued expenses	(21)	407
Other liabilities	(11,140)	13,113
Deferred revenue	(7,485)	(48,760)
Net cash provided (used) by operating activities	(10,952)	(23,287)
Cash flows from investing activities:		
Acquisition of notes receivable	(90,000)	(50,000)
Collection of notes receivable	516,323	111,767
Net cash provided (used) by investing activities	426,323	61,767
Cash flows from financing activities:		
Proceeds from notes payable	90,000	50,000
Payments on notes payable	(49,403)	(49,054)
Net cash provided (used) by financing activities	40,597	946
Net increase (decrease) in cash during the period	455,968	39,426
Cash balance, beginning of period	399,185	359,759
Cash balance, end of period	$ 855,153	$ 399,185
Supplemental disclosures of cash flow information:		
Interest paid	$ 16,805	$ 15,779

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

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 that 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 March 27, 2014, the date the financial statements were available to be issued

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.

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 Corporation's financial condition, results of operations or cash flows. Accordingly, the Corporation has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at June 30, 2013.

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, were as follows:

	2013	2012
WestAmerica Bank Intermediary Relending Program (IRP)	$ 715,607	$ 290,505
WestAmerica Bank Checking	39,446	8,580
WestAmerica Bank CD	100,000	100,000
Petty Cash	100	100
Total cash and cash equivalents	$ 855,153	$ 399,185

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. WestAmerica 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.

NOTE 5 - LOANS RECEIVABLE (concluded)

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

	2013	2012
EDFC	$ 236,553	$ 387,283
IRP 3	81,041	96,797
IRP 2	157,610	175,703
IRP 4	114,716	409,920
IRP 5	250,705	275,303
IRP 6	268,131	190,073
Total	$ 1,108,756	$ 1,535,079
Current portion	$ 120,014	$ 110,884
Non–current portion	988,742	1,424,195
Total	$ 1,108,756	$ 1,535,079

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, 2013 and 2012 were $1,663,549 and $1,622,952, respectively.

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

	Principal Payment	Interest Payment
2014	$ 59,702	$ 16,635
2015	60,299	16,038
2016	60,902	15,435
2017	61,511	14,826
2018	62,126	14,211
Thereafter	1,359,009	156,490
Total	$ 1,663,549	$ 233,635

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. The Corporation paid $67 and $492 on the behalf of all covered employees for the years ended June 30, 2013 and 2012, respectively.