

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

UKIAH, CALIFORNIA

FINANCIAL STATEMENTS

JUNE 30, 2015

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1
Financial Section:	
Statements of Financial Position	2
Statements of Activities	3
Statements of Functional Expenses	4
Statements of Cash Flows	5
Notes to Financial Statements	6-10

R. J. RICCIARDI, INC.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Economic Development & Financing Corporation, Inc., which comprise the statement of financial position as of June 30, 2015, 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 & Financing Corporation, Inc. as of June 30, 2015, 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 & Financing Corporation, Inc.'s 2014 financial statements, and our report dated October 23, 2014, 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, 2014, 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
August 1, 2016

Economic Development & Financing Corporation, Inc.

STATEMENTS OF FINANCIAL POSITION

June 30, 2015

(With Comparative Totals for June 30, 2014)

	<u>2015</u>	<u>2014</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 757,271	\$ 772,281
Accounts receivable	23,421	39,943
Loans receivable	80,475	247,981
Prepaid expenses	<u>154</u>	<u>6,125</u>
Total current assets	<u>861,321</u>	<u>1,066,330</u>
Non-current assets:		
Loans receivable	<u>1,165,451</u>	<u>942,013</u>
Total non-current assets	<u>1,165,451</u>	<u>942,013</u>
Total assets	<u>\$ 2,026,772</u>	<u>\$ 2,008,343</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 11,922	\$ 2,892
Accrued expenses	11,040	10,209
Other liabilities	839	19,807
Notes payable, current portion	<u>60,902</u>	<u>60,299</u>
Total current liabilities	<u>84,703</u>	<u>93,207</u>
Non-current liabilities:		
Notes payable, net of current portion	<u>1,627,135</u>	<u>1,593,549</u>
Total non-current liabilities	<u>1,627,135</u>	<u>1,593,549</u>
Total liabilities	<u>1,711,838</u>	<u>1,686,756</u>
Net assets:		
Unrestricted, designated for investments in loans	231,708	238,361
Unrestricted, designated for reserve for bad debt	<u>83,226</u>	<u>83,226</u>
Total net assets	<u>314,934</u>	<u>321,587</u>
Total liabilities and net assets	<u>\$ 2,026,772</u>	<u>\$ 2,008,343</u>

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

Economic Development & Financing Corporation, Inc.
STATEMENTS OF ACTIVITIES
 For the Year Ended June 30, 2015
 (With Comparative Totals for the Year Ended June 30, 2014)

	2015	2014
Revenues:		
Grants and contracts	\$ 75,565	\$ 40,500
Loan interest and packaging fees income	80,987	79,463
Other revenue	2,431	16,920
Total revenues	158,983	136,883
Expenses:		
Program services	30,629	35,804
General and administration	135,007	104,217
Total expenses	165,636	140,021
Change in net assets	(6,653)	(3,138)
Net assets, beginning of period	321,587	324,725
Net assets, end of period	\$ 314,934	\$ 321,587

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

Economic Development & Financing Corporation, Inc.
STATEMENTS OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2015
(With Comparative Totals for the Year Ended June 30, 2014)

	<u>Program Services</u>		<u>General &</u>	<u>2015</u>	<u>2014</u>
	<u>Program</u>	<u>Grant</u>	<u>Administrative</u>		
	<u>Expenses</u>	<u>Expenses</u>	<u>Expenses</u>	<u>Total</u>	<u>Total</u>
Expenses:					
Salaries	\$ -	\$ -	\$ 66,596	\$ 66,596	\$ 58,624
Employee benefits	-	-	7,264	7,264	6,814
Payroll taxes	-	-	5,942	5,942	5,098
Contract services					
Accounting	-	-	12,199	12,199	12,884
Clerical	-	-	-	-	2,799
Audit	-	-	5,300	5,300	5,460
Legal	-	-	9,621	9,621	-
Loan packaging	873	-	-	873	5,712
Interest expense - IRP loan	17,328	-	-	17,328	17,400
Technical assistance	-	12,428	-	12,428	12,079
Facility and equipment rent	-	-	5,300	5,300	5,860
Memberships	-	-	921	921	567
Insurance	-	-	3,897	3,897	1,800
Meeting expense	-	-	755	755	450
Marketing and advertisements, website	-	-	3,567	3,567	314
Travel	-	-	1,505	1,505	1,239
Postage	-	-	417	417	161
Supplies	-	-	1,294	1,294	482
Telephone	-	-	936	936	927
Taxes and licenses	-	-	134	134	206
Bank charges	-	-	129	129	-
Equipment	-	-	-	-	1,009
Software	-	-	5,669	5,669	-
Bad debt expense	-	-	1,240	1,240	-
Miscellaneous	-	-	2,321	2,321	136
Total	<u>\$ 18,201</u>	<u>\$ 12,428</u>	<u>\$ 135,007</u>	<u>\$ 165,636</u>	<u>\$ 140,021</u>

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

Economic Development & Financing Corporation, Inc.
STATEMENTS OF CASH FLOWS
For the Year Ended June 30, 2015
(With Comparative Totals for the Year Ended June 30, 2014)

	2015	2014
Cash flows from operating activities:		
Change in net assets	\$ (6,653)	\$ (3,138)
Changes in certain operating assets and liabilities:		
Accounts receivable	16,522	3,967
Prepaid expenses	5,971	(2,958)
Accounts payable	9,030	(1,911)
Accrued expenses	831	2,316
Other liabilities	(18,968)	9,791
Net cash provided (used) by operating activities	6,733	8,067
Cash flows from investing activities:		
Acquisition of notes receivable	(255,000)	(214,125)
Collection of notes receivable	199,068	132,887
Net cash provided (used) by investing activities	(55,932)	(81,238)
Cash flows from financing activities:		
Proceeds from notes payable	94,578	50,000
Payments on notes payable	(60,389)	(59,701)
Net cash provided (used) by financing activities	34,189	(9,701)
Net increase (decrease) in cash during the period	(15,010)	(82,872)
Cash balance, beginning of period	772,281	855,153
Cash balance, end of period	\$ 757,271	\$ 772,281
Supplemental disclosures of cash flow information:		
Interest paid	\$ 17,328	\$ 17,400

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

Economic Development & Financing Corporation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 1 - CORPORATION

Economic Development & 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.

Economic Development & Financing Corporation, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

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 August 1, 2016, the date the financial statements were available to be issued.

Economic Development & Financing Corporation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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, 2015.

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:

	<u>2015</u>	<u>2014</u>
WestAmerica Bank Intermediary Relending Program (IRP)	\$ 603,502	\$ 635,033
WestAmerica Bank Checking	41,303	37,148
WestAmerica Bank CD	100,000	100,000
WestAmerica Bank Checking RMAP	7,077	-
WestAmerica Bank Savings RMAP	5,289	-
Petty Cash	<u>100</u>	<u>100</u>
Total cash and cash equivalents	<u>\$ 757,271</u>	<u>\$ 772,281</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. 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.

Economic Development & Financing Corporation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 5 - LOANS RECEIVABLE (concluded)

Currently the Corporation holds title to twenty-one loans receivable with interest rates of 6.00% to 9.75% per annum. Most loans are secured with deeds of trust, or UCC-1 filings. Some micoloans are unsecured but require 25% borrower contribution and are enrolled in the State of California loan insurance programs.

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.

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

	<u>2015</u>	<u>2014</u>
EDFC	\$ 178,096	\$ 219,179
IRP 3	59,265	75,695
IRP 2	118,529	138,107
IRP 4	466,244	306,665
IRP 5	153,262	158,543
IRP 6	171,758	291,805
RMAP	<u>98,772</u>	<u>-</u>
Total	<u>\$ 1,245,926</u>	<u>\$ 1,189,994</u>
Current portion	\$ 80,475	\$ 247,981
Non-current portion	<u>1,165,451</u>	<u>942,013</u>
Total	<u>\$ 1,245,926</u>	<u>\$ 1,189,994</u>

The Corporation has not recognized any discount of loans 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) and the Rural Microentrepreneur Assistance Program (RMAP). The IRP 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 RMAP loans have a complete deferral period for 24 months. Then in the 25th month monthly payments begin based on an 18 year amortized installment at 2% interest. The outstanding loan balances as of June 30, 2015 and 2014 were \$1,688,037 and \$1,653,848, respectively.

Economic Development & Financing Corporation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 6 - NOTE PAYABLE (concluded)

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

	<u>Principal Payment</u>	<u>Interest Payment</u>
2016	\$ 60,902	\$ 15,935
2017	61,511	15,326
2018	67,974	16,763
2019	68,595	16,025
2020	69,223	15,281
Thereafter	<u>1,359,832</u>	<u>147,650</u>
Total	<u>\$ 1,688,037</u>	<u>\$ 226,980</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. The Corporation paid \$1,800 and \$1,602 on the behalf of all covered employees for the years ended June 30, 2015 and 2014, respectively.