

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

FINANCIAL STATEMENTS

JUNE 30, 2019

**ECONOMIC DEVELOPMENT & FINANCING CORPORATION, INC.
JUNE 30, 2019**

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Economic Development & Financing Corporation, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, 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 an opinion 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 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 Economic Development & Financing Corporation, Inc. 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.

A handwritten signature in black ink that reads "Jensen Smith". The signature is written in a cursive, flowing style.

Jensen Smith
Certified Public Accountants, Inc.
Lincoln, California
November 14, 2019

ECONOMIC DEVELOPMENT FINANCING CORPORATION, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019
(With Summarized Financial Information for June 30, 2018)

	2019	2018
Assets		
Cash and cash equivalents	\$ 1,856,027	\$ 1,431,620
Accounts receivable	40,242	21,360
Loans receivable, current portion	288,085	304,739
Total Current Assets	2,184,354	1,757,719
Loans receivable, net of loss reserve and current portion	1,020,536	1,175,471
Deposits	650	600
Total Assets	\$ 3,205,540	\$ 2,933,790
 Current Liabilities		
Accounts payable	\$ 1,794	\$ 5,140
Accrued expenses and other current liabilities	41,230	44,597
Notes payable, current portion	112,203	107,819
Total Current Liabilities	155,227	157,556
 Non-current Liabilities		
Notes payable, net of current portion	2,221,691	2,333,727
Total non-current liabilities	2,221,691	2,333,727
Total Liabilities	2,376,918	2,491,283
 Net Assets		
Without Donor Restrictions		
Designated for investments in loans	139,693	114,207
With Donor Restrictions - CDFI Grant	688,929	328,300
Total Net Assets	828,622	442,507
Total Liabilities and Net Assets	\$ 3,205,540	\$ 2,933,790

See Accompanying Notes

ECONOMIC DEVELOPMENT FINANCING CORPORATION, INC.
STATEMENT OF ACTIVITIES
JUNE 30, 2019
(With Summarized Financial Information for June 30, 2018)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total 2019</u>	<u>2018</u>
REVENUES				
Grants and contracts	\$ -	\$ 578,340	\$ 578,340	\$ 445,681
Loan interest and packaging fees incom	107,168	-	107,168	147,155
Other revenue	4,988	-	4,988	4,030
Donations	30,421	-	30,421	-
Released from Restrictions	217,711	(217,711)	-	-
TOTAL REVENUES	<u>360,288</u>	<u>360,629</u>	<u>720,917</u>	<u>596,866</u>
EXPENSES				
Program Services	123,703	-	123,703	154,415
Support Services	211,099	-	211,099	165,649
Total expenses	<u>334,802</u>	<u>-</u>	<u>334,802</u>	<u>320,064</u>
CHANGE IN NET ASSETS				
Net assets, beginning of year	25,486	360,629	386,115	276,802
Prior period adjustments	114,207	328,300	442,507	301,410
Net assets, end of year	-	-	-	(135,705)
	<u>\$ 139,693</u>	<u>\$ 688,929</u>	<u>\$ 828,622</u>	<u>\$ 442,507</u>

See Accompanying Notes

ECONOMIC DEVELOPMENT FINANCING CORPORATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
JUNE 30, 2019
(With Summarized Financial Information for June 30, 2018)

	Program Services	Support Services Administration	Total 2019	Total 2018
Expenses				
Salaries	\$ -	\$ 117,364	\$ 117,364	\$ 80,836
Payroll taxes	-	9,808	9,808	6,549
Employee benefits	-	11,979	11,979	6,834
Travel, training and conferences	-	9,596	9,596	3,058
Contract services	-	32,230	32,230	37,939
Dues and subscriptions	-	887	887	1,283
Technical assistance	5,362	-	5,362	24,769
Facility, utilities and equipment rent	-	15,283	15,283	13,706
Office supplies and expenses	-	2,791	2,791	2,401
Insurance	-	4,506	4,506	5,109
Meetings	-	3,645	3,645	4,226
Marketing and website	-	2,804	2,804	1,971
Interest expense - IRP/RMAP load	27,763	-	27,763	28,486
Interest expense - DPO	6,840	-	6,840	7,080
Loan packaging	4,486	-	4,486	3,158
Other	-	206	206	1,737
Bad debt	79,252	-	79,252	90,922
Total expenses	\$ 123,703	\$ 211,099	\$ 334,802	\$ 320,064

See Accompanying Notes

ECONOMIC DEVELOPMENT FINANCING CORPORATION, INC.
STATEMENT OF CASH FLOWS
JUNE 30, 2019
(With Summarized Financial Information for June 30, 2018)

	2019	2018
Cash Flows From Operating Activities:		
Changes in net assets	\$ 386,115	276,802
Prior period adjustments	-	135,705
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Bad debt and debt allowance written off	79,252	90,922
Changes in certain assets and liabilities:		
Accounts receivable	(18,882)	8,640
Prepaid expenses and deposits	(50)	(600)
Accounts payable	(3,346)	(8,708)
Accrued expenses and other current liabilities	(3,367)	8,066
Net cash provided (used) by operating activities	439,722	510,827
Cash flows from investing activities:		
Issuance of notes receivable	(257,208)	(181,700)
Collection of notes receivable	349,545	464,686
Net cash provided (used) by investing activities	92,337	282,986
Cash flows from financing activities:		
Proceeds from notes payable	-	232,700
Payments on notes payable	(107,652)	(97,701)
Net cash provided (used) by financing activities	(107,652)	134,999
Net increase (decrease) in cash, cash equivalents and restricted cash, cash equivalents and restricted cash beginning	424,407	928,812
	1,431,620	502,808
Cash, cash equivalents and restricted cash ending	\$ 1,856,027	1,431,620
Supplemental disclosures of cash flow information:		
Interest paid	\$ 34,603	35,566

See Accompanying Notes

ECONOMIC DEVELOPMENT & FINANCING CORPORATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

(With Summarized Comparative Information for June 30, 2018)

NOTE 1 - NATURE OF THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

Method of Accounting

The financial statements of the Corporation have been prepared using the accrual method of accounting, whereby revenues are recognized when earned and expenses are recognized when the obligation is incurred, rather than when cash is collected or disbursed.

Basis of Presentation

Generally accepted accounting principles require that the organization present information about its financial position and the financial statements report amounts by class of net assets:

- a) *Net assets without donor restrictions* are those currently available for use in the activities of the Corporation under the direction of the board, and those resources invested in equipment and furniture. The board periodically designates a portion of their net assets without restriction for specific purposes. When an expense can meet either the designated purpose or a restricted purpose, it is the policy of the Corporation to use the designated net assets prior to using the restricted net assets as described below.
- b) *Net assets with donor restrictions* are those stipulated by donors for specific operating purposes or for the acquisition of property and equipment; those not currently available for use until commitments regarding their use have been fulfilled or lifetime beneficiary interests have ceased, or those contributed with the donor stipulation that they be held in perpetuity with use of income for future specific activities or future periods. At June 30, 2019, the Corporation had \$688,929 cash restricted by the Community Development Financial Institutions Fund Assistance for future loans.

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.

Accounts Receivable

The Corporation has not accrued a loss for allowances for uncollectible receivables since it is the opinion of management that it is highly probable that all receivables will be collected.

Allocated Expenses

Expenses by function have been allocated between program and supporting services classification on the basis of time records, direct costs for programs and administrative activities, and estimates made by the Corporation's management.

ECONOMIC DEVELOPMENT & FINANCING CORPORATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

(With Summarized Comparative Information for June 30, 2018)

NOTE 1 - NATURE OF THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

Vacation and Other Compensated Absences

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

Net Assets Without Restrictions

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.

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.

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.

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.

NOTE 2 – 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.

ECONOMIC DEVELOPMENT & FINANCING CORPORATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

(With Summarized Comparative Information for June 30, 2018)

NOTE 2 – INCOME TAXES - Continued

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, 2019. The Corporation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

NOTE 3 – CASH

Cash balances at June 30 were as follows:

	2019	2018
WestAmerica Bank	\$ 1,722,243	\$ 1,290,100
Zions Bank	133,634	141,520
Petty Cash	150	-
Total	\$ 1,856,027	\$ 1,431,620

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.

Zions Bank is the California Capital Access Program (CalCAP) loan loss reserve account. This program allows the Corporation to provide loans to small businesses that may not otherwise be able to get a loan. CalCAP is a loan loss reserve program that may provide some coverage on losses as a result of certain loan defaults. The balance in the Zion Bank is offset by an allowance for doubtful accounts on the loans receivable.

NOTE 4 – LOANS RECEIVABLE

Loans Receivable

The Corporation was the recipient of grants and 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, 2019

(With Summarized Comparative Information for June 30, 2018)

NOTE 4 – LOANS RECEIVABLE – Continued

Currently the Corporation holds title to thirty-four loans receivable with interest rates of 5.00% to 9.75% per annum. Most loans are secured with deeds of trust or UCC-1 filings. Some loans are unsecured but require 25% borrower contribution and are enrolled in the State of California loan insurance programs. In 2019 the Corporation wrote off loan receivables in the amount of \$89,794 that became uncollectible and reported the amount as bad debt, this was netted against the recoveries and adjustments to the reserve balance to a net amount of \$79,252.

At June 30, 2019 and 2018, loan receivables consisted of the following:

	2019	2018
Economic Development & Financing Corporation, Inc.	\$ 82,211	\$ 140,060
Direct Public Offering (DPO)	355,381	206,356
Intermediary Relending Program (IRP)	876,688	1,088,248
Rural Microentrepreneur Assistance Program (RMAP)	250,845	320,921
Loan Loss Reserve/Allowance	(256,504)	(275,375)
Total	\$ 1,308,621	\$ 1,480,210
Current portion	\$ 288,085	\$ 304,739
Non-current portion	1,020,536	1,175,471
Total	\$ 1,308,621	\$ 1,480,210

Allowance for Doubtful Accounts/Loan Loss Reserve

The Corporation uses the allowance method to determine uncollectible loan receivables. The allowance is based on prior years' experience and management's analysis of specific loans and the recommended/required loan loss reserves from IRP and CalCAP. For the CalCAP program the loan loss reserve/allowance was \$133,634 and the non CalCAP reserve/allowance was \$122,870 for a total of \$256,504. This amount is netted against the loan receivables and is approximately 11% of the outstanding loans at June 30, 2019.

NOTE 5 – NOTE PAYABLE

Intermediary Relending Program (IRP)

The Corporation has obtained five notes payable from the U.S. Department of Agriculture Intermediary Relending Program (IRP). The IRP loan 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, 2019 and 2018 were \$1,289,971 and \$1,364,201, respectively.

ECONOMIC DEVELOPMENT & FINANCING CORPORATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

(With Summarized Comparative Information for June 30, 2018)

NOTE 5 – NOTES PAYABLE - Continued

Rural Microentrepreneur Assistance Program (RMAP)

The Corporation has obtained notes payable from the Rural Microentrepreneur Assistance Program (RMAP). The RMAP loans have a complete deferral period for 24 months. Then in the 25th day of the month, monthly payments begin based on an 18-year amortized installment at 2% interest. On July 10, 2017 the Corporation drew down additional funds on the RMAP loan dated February 2017 in the amount of \$232,700. This draw brought the balance of the 2nd RMAP loan to \$251,400 leaving \$248,600 remaining funds to be drawn for future programs. The total outstanding loan balances as of June 30, 2019 and 2018 were \$701,923 and \$723,345, respectively.

Direct Public Offering (DPO)

The Corporation had a direct public offering up to \$1 million in unsecured subordinated promissory notes to finance a revolving loan fund which will provide loans to Mendocino and Lake County business and social entrepreneurs to assist with the development of economic development projects with social and community benefits. The notes have a term of 6 years and an interest rate of 2%, which will be paid annually. Principal will be paid at maturity. The outstanding loan balances as of June 30, 2019 and 2018 were \$342,000 and \$354,000, respectively.

The summary of notes payable is as follows:

	<u>2019</u>	<u>2018</u>
Intermediary Relending Program	\$ 1,289,971	\$ 1,364,201
Rural Microentrepreneur Assistance Program	701,923	723,345
Direct Public Offering	<u>342,000</u>	<u>354,000</u>
Total	<u>\$ 2,333,894</u>	<u>\$ 2,441,546</u>

Principal payments for all of the notes payable are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>
2020 – (current portion)	\$ 112,203
2021	124,951
2022	452,709
2023	118,973
2024	118,345
Thereafter	<u>1,406,713</u>
Total	<u>\$ 2,333,894</u>

Total interest paid on all notes payable was \$34,603 and \$35,566 for the fiscal years ended June 30, 2019 and 2018, respectively.

ECONOMIC DEVELOPMENT & FINANCING CORPORATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

(With Summarized Comparative Information for June 30, 2018)

NOTE 6 – 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 \$3,360 and \$1,506 on the behalf of all covered employees for the years ended June 30, 2019 and 2018, respectively.

NOTE 7 – LEASE

In April 2019, the Corporation signed a new lease for office space. This lease is for a two year period beginning April 1, 2019 and ending March 31, 2021. Rent is payable monthly at a rate of \$650 per month. Minimum rent payments for the future periods are as follows: fiscal years 2019-20 and 2020-21, \$7,800 and \$5,850 respectively.

NOTE 8 – NET ASSETS WITH DONOR RESTRICTIONS

In the fiscal years ended June 30, 2019 and 2018, the Corporation received federal grants in the amount of \$400,000 and \$350,000 respectively. The grants are to be used for funding loans over the next three years. At June 30, 2019, \$688,929 was remaining to be used for future periods and is reported as net assets with donor restrictions.

NOTE 9 – NEW ACCOUNTING PRONOUNCEMENT

On August 18, 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The Corporation has adjusted the presentation of its financial statements accordingly, applying the changes retrospectively to the comparative period presented. The new standards change the following aspects of the Corporation's financial statements:

- The temporarily restricted and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions.
- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The financial statements include a new disclosure about liquidity and availability of resources (Note 10).

The changes have the following effect on net assets at June 30, 2018:

<u>Net Asset Class</u>	<u>As Originally Presented</u>	<u>After Adoption of ASU 2016-14</u>
Unrestricted net assets	\$ 114,207	\$ -
Temporarily restricted net assets	328,300	-
Net assets without donor restrictions	-	114,207
Net assets with donor restrictions	-	328,300
Total net assets	<u>\$ 442,507</u>	<u>\$ 442,507</u>

In addition, certain amounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

ECONOMIC DEVELOPMENT & FINANCING CORPORATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019
(With Summarized Comparative Information for June 30, 2018)

NOTE 10 – LIQUIDITY

The Corporation relies primarily on grants and contracts restricted by donors and grantors as well as public support to provide cash flow for operations. Working capital varies during the year based on the timing of irregular receipt of grants and contracts, fundraising events, and other factors with a concentration of cash received. The Organization’s financial assets available within one year from June 30, 2019 for expenditures are:

	<u>Total</u>
Cash and cash equivalents	\$ 1,856,027
Grants and other receivables	40,242
Less: Amounts restricted for CDFI Grant	(688,929)
Less: Amounts reserved in loan loss accounts	<u>(256,504)</u>
Total	<u><u>\$ 950,836</u></u>

NOTE 11 – SUBSEQUENT EVENTS

Events subsequent to June 30, 2019 have been evaluated through November 14, 2019, the date at which the organization’s audited financial statements were available to be issued. No events requiring disclosure have occurred through this date.