ECONOMIC DEVELOPMENT & FINANCING CORPORATION, INC.

FINANCIAL STATEMENTS

JUNE 30, 2018

ECONOMIC DEVELOPMENT & FINANCING CORPORATION, INC.
JUNE 30, 2018

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Jensen Smith
CERTIFIED PUBLIC ACCOUNTANTS, INC.

Making a Lasting Contribution
To our Clients, To our Community, To our Profession

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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, 2018, 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, 2018, 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.

Jensen Smith
Certified Public Accountants, Inc.
Lincoln, California
October 3, 2018

ECONOMIC DEVELOPMENT FINANCING CORPORATION, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018
(With Summarized Financial Information for June 30, 2017)

	2018	As previously reported 2017
Assets		
Cash and cash equivalents	$ 1,431,620	$ 502,808
Accounts receivable	21,360	30,000
Loans receivable, current portion	304,739	198,062
Total Current Assets	1,757,719	730,870
Loans receivable, net of loss reserve and current portion	1,175,471	1,893,196
Deposits	600	-
Total Assets	$ 2,933,790	$ 2,624,066
Current Liabilities		
Accounts payable	$ 5,140	$ 13,848
Accrued expenses and other current liabilities	44,597	36,531
Notes payable, current portion	107,819	96,284
Total Current Liabilities	157,556	146,663
Non-current Liabilities		
Notes payable, net of current portion	2,333,727	2,175,993
Total non-current liabilities	2,333,727	2,175,993
Total Liabilities	2,491,283	2,322,656
Net Assets		
Unrestricted Net Assets		
Unrestricted, designated for investments in loans	114,207	199,406
Unrestricted - designated for reserve for bad debt	-	102,004
Temporarily Restricted Net Assets	328,300	-
Total Net Assets	442,507	301,410
Total Liabilities and Net Assets	$ 2,933,790	$ 2,624,066

See Accompanying Notes

ECONOMIC DEVELOPMENT FINANCING CORPORATION, INC.
STATEMENT OF ACTIVITIES
JUNE 30, 2018
(With Summarized Financial Information for June 30, 2017)

	2018	As previously reported 2017
REVENUES		
Grants and contracts	$ 445,681	$ 129,083
Loan interest and packaging fees income	147,155	150,011
Other revenue	4,030	13,529
TOTAL REVENUES	596,866	292,623
EXPENSES		
Program Services	$ 154,415	$ 98,264
General and administration	165,649	194,991
Total expenses	320,064	293,255
CHANGE IN NET ASSETS	276,802	(632)
Net assets, beginning of year	301,410	352,869
Prior period adjustments	(135,705)	(50,827)
Net assets, end of year	$ 442,507	$ 301,410

See Accompanying Notes

ECONOMIC DEVELOPMENT FINANCING CORPORATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
JUNE 30, 2018
(With Summarized Financial Information for June 30, 2017)

	Program Services	General and Administration	Total 2018	As previously reported Total 2017
Expenses				
Salaries	$ -	$ 80,836	$ 80,836	$ 98,085
Payroll taxes	-	6,549	6,549	8,083
Employee benefits	-	6,834	6,834	7,772
Travel and conferences	-	3,058	3,058	1,747
Contract services	-	37,939	37,939	33,917
Dues and subscriptions	-	1,283	1,283	5,972
Technical assistance	24,769	-	24,769	58,538
Facility, utilities and equipment rent	-	13,706	13,706	13,084
Office supplies and expenses	-	2,401	2,401	8,688
Insurance	-	5,109	5,109	5,156
Software	-	4,226	4,226	2,069
Marketing and website	-	1,971	1,971	4,586
Interest expense - IRP/RMAP load	28,486	-	28,486	21,997
Interest expense - DPO	7,080	-	7,080	8,050
Loan packaging	3,158	-	3,158	377
Other	-	1,737	1,737	5,832
Bad debt and debt allowance	90,922	-	90,922	9,302
Total expenses	$ 154,415	$ 165,649	$ 320,064	$ 293,255

See Accompanying Notes

ECONOMIC DEVELOPMENT FINANCING CORPORATION, INC.
STATEMENT OF CASH FLOWS
JUNE 30, 2018
(With Summarized Financial Information for June 30, 2017)

	2018	As previously reported 2017
Cash Flows From Operating Activities:		
Changes in net assets	$ 276,802	$ (632)
Prior period adjustments	135,705	(50,827)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Bad debt and debt allowance written off	90,922	-
Changes in certain assets and liabilities:		
Accounts receivable	8,640	31,987
Prepaid expenses and deposits	(600)	5,558
Accounts payable	(8,708)	12,770
Accrued expenses and other current liabilities	8,066	27,175
Net cash provided (used) by operating activities	510,827	26,031
Cash flows from investing activities:		
Issuance of notes receivable	(181,700)	(483,700)
Collection of notes receivable	464,686	243,813
Net cash provided (used) by investing activities	282,986	(239,887)
Cash flows from financing activities:		
Proceeds from notes payable	232,700	18,700
Payments on notes payable	(97,701)	(98,207)
Net cash provided (used) by financing activities	134,999	(79,507)
Net increase (decrease) in cash during the period	928,812	(293,363)
Cash and cash equivalents, beginning of period	502,808	796,171
Cash and cash equivalents, end of period	$ 1,431,620	$ 502,808
Supplemental disclosures of cash flow information:		
Interest paid	$ 35,566	$ 30,047

See Accompanying Notes

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.

<u>Basis of Presentation</u>
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) *Unrestricted net assets* are those currently available for use in the activities of the Agency under the direction of the board, and those resources invested in equipment, furniture and buildings. The board periodically designates a portion of their unrestricted assets for specific purposes. When an expense can meet either the designated purpose or a temporarily restricted purpose, it is the policy of the Agency to use the designated unrestricted assets prior to using the temporarily restricted net assets as described below.

b) *Temporarily restricted net assets* are those stipulated by donors for specific operating purposes or for the acquisition of property and equipment; or those not currently available for use until commitment regarding their use have been fulfilled or lifetime beneficiary interests have ceased.

c) *Permanently restricted net assets* are those contributed with the donor stipulation that they be held in perpetuity with use of income for unrestricted or temporarily restricted purposes.

<u>Cash and Cash Equivalents</u>
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.

<u>Accounts Receivable</u>
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.

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.

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.

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.

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.

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, 2018. 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:

	2018	2017
WestAmerica Bank	$ 1,290,100	$ 492,626
Zions Bank	141,520	10,082
Petty Cash	-	100
Total	$ 1,431,620	$ 502,808

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.

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 2018 the Corporation wrote off notes receivable in the amount of $75,252 that became uncollectible and reported the amount as bad debt. The Corporation also increased the loan loss reserve or allowance for doubtful accounts. The allowance for doubtful accounts was adjusted this year as a change in accounting policies and is described below as part of the prior period adjustments made on the financial statements for the year ended June 30, 2018.

At June 30, 2018 and 2017, property and equipment is stated at cost and consists of the following:

	2018	2017
Economic Development & Financing Corporation, Inc.	$ 140,060	$ 148,133
Direct Public Offering (DPO)	206,356	214,384
Intermediary Relending Program (IRP)	1,088,248	1,403,865
Rural Microentrepreneur Assistance Program (RMAP)	320,921	355,446
Loan Loss Reserve/Allowance	(275,375)	(30,570)
Total	$ 1,480,210	$ 2,091,258
Current portion	$ 304,739	$ 198,062
Non-current portion	1,175,471	1,893,196
Total	$ 1,480,210	$ 2,091,258

Allowance for Doubtful Accounts/Loan Loss Reserve

The Corporation now 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 $141,520 and the non CalCAP reserve/allowance was $133,855 for a total of $275,375. This amount is netted against the loan receivables and is approximately 16% of the outstanding loans at June 30, 2018.

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, 2018 and 2017 were $1,364,201 and $1,403,425, respectively.

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 brings 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, 2018 and 2017 were $723,345 and $514,852, 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, 2018 and 2017 were $354,000 for both years.

The summary of notes payable is as follows:

	2018	2017
Intermediary Relending Program	$ 1,364,201	$ 1,403,425
Rural Microentrepreneur Assistance Program	723,345	514,852
Direct Public Offering	354,000	354,000
Total	$ 2,441,546	$ 2,272,277

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

Fiscal Year Ended June 30	Principal
2019 – (current portion)	$ 107,819
2020	116,702
2021	124,951
2022	464,709
2023	118,973
Thereafter	1,508,392
Total	$ 2,441,546

Total interest paid on all notes payable was $35,566 and $30,047 for the fiscal years ended June 30, 2018 and 2017, respectively.

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 $1,506 and $1,575 on the behalf of all covered employees for the years ended June 30, 2018 and 2017, respectively.

NOTE 7 – LEASE

In November 2017, the Corporation signed a new lease for office space. This lease is for a one year period beginning December 1, 2017 and ending November 30, 2018. Rent is payable monthly at a rate of $600 per month. The lease has two one year renewal options. Minimum rent payments for the future periods (including the renewal options) are as follows: fiscal years 2018-19, 2019-20 and 2020-21, $7,200, $7,200 and $3,000 respectively.

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS

In the fiscal year ended June 30, 2018, the Corporation received a federal grant in the mount of $350,000. The grant is to be used for funding loans over the next three years. At June 30, 2018, $21,700 had been expended of the $350,000 leaving $328,300 as temporarily restricted net assets for the future periods.

NOTE 9 – RECLASSIFICATIONS

Certain amounts in the June 30, 2017 financial statements have been reclassified to conform with the June 30, 2018 presentation. These reclassifications have no effect on the change in net assets as previously reported.

NOTE 10 – PRIOR PERIOD ADJUSTMENTS

Unrestricted net assets at the beginning of fiscal year ended June 30, 2018 have been adjusted for certain errors in the prior year and changes in accounting policies. These corrections did not have an effect on the results of the current year’s activities; however, the cumulative effect decreases the beginning net assets for the fiscal year ended June 30, 2018 by $135,705. Had the errors not occurred, the change in net assets for the prior years would have decreased by $135,705. The errors and changes in accounting policies consisted of the following items:

IRP Loan balances – The loan balances reported at June 30, 2017 included payments made after that date. The IRP loan balances at June 30, 2017 should have been higher by $34,270.

Change in Accounting Policies – During the fiscal year ended June 30, 2018, the Corporation changed its accounting policies to report the loan loss reserve and allowance for doubtful accounts as a reduction of the outstanding loans receivable. The portion of the loan loss reserve/allowance related to prior years was $101,435.

NOTE 11 – SUBSEQUENT EVENTS

Events subsequent to June 30, 2018 have been evaluated through October 3, 2018, the date at which the organization's audited financial statements were available to be issued. No events requiring disclosure have occurred through this date.