

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

**UKIAH, CALIFORNIA**

**FINANCIAL STATEMENTS**

**JUNE 30, 2016**

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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. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, 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, 2016, 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 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 1, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, 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  
November 3, 2016

Economic Development & Financing Corporation, Inc.

STATEMENTS OF FINANCIAL POSITION

June 30, 2016

(With Comparative Totals for June 30, 2015)

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 796,171	\$ 757,271
Accounts receivable	61,987	23,421
Loans receivable	164,893	80,475
Prepaid expenses	5,558	154
Total current assets	<u>1,028,609</u>	<u>861,321</u>
Non-current assets:		
Loans receivable	<u>1,686,478</u>	<u>1,165,451</u>
Total non-current assets	<u>1,686,478</u>	<u>1,165,451</u>
Total assets	<u>\$ 2,715,087</u>	<u>\$ 2,026,772</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 1,078	\$ 11,922
Accrued expenses and other current liabilities	9,356	11,879
Notes payable, current portion	72,891	60,902
Total current liabilities	<u>83,325</u>	<u>84,703</u>
Non-current liabilities:		
Notes payable, net of current portion	<u>2,278,893</u>	<u>1,627,135</u>
Total non-current liabilities	<u>2,278,893</u>	<u>1,627,135</u>
Total liabilities	<u>2,362,218</u>	<u>1,711,838</u>
Net assets:		
Unrestricted, designated for investments in loans	263,002	231,708
Unrestricted, designated for reserve for bad debt	89,867	83,226
Total net assets	<u>352,869</u>	<u>314,934</u>
Total liabilities and net assets	<u>\$ 2,715,087</u>	<u>\$ 2,026,772</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, 2016  
(With Comparative Totals for the Year Ended June 30, 2015)

	Unrestricted	
	2016	2015
Revenues:		
Grants and contracts	\$ 57,262	\$ 75,565
Loan interest and packaging fees income	126,095	80,987
Other revenue	30,196	2,431
Total revenues	213,553	158,983
Expenses:		
Program services	22,861	30,629
General and administration	152,757	135,007
Total expenses	175,618	165,636
Change in net assets	37,935	(6,653)
Net assets, beginning of period	314,934	321,587
Net assets, end of period	\$ 352,869	\$ 314,934

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, 2016  
(With Comparative Totals for the Year Ended June 30, 2015)

	Program Services	General and Admini- stration	Total 2016	Total 2015
Expenses:				
Salaries	\$ -	\$ 68,129	\$ 68,129	\$ 66,596
Payroll taxes	-	6,150	6,150	5,942
Employee benefits	-	5,522	5,522	7,264
Travel	-	2,042	2,042	1,505
Contract services	-	24,609	24,609	27,120
Technical assistance	-	-	-	12,428
Facility and equipment rent	-	7,009	7,009	5,300
Supplies	-	1,227	1,227	1,294
Insurance	-	4,287	4,287	3,897
Software	-	9,906	9,906	5,669
Marketing and website	-	18,051	18,051	3,567
Interest expense - IRP loan	14,440	-	14,440	17,328
Loan packaging	8,421	-	8,421	873
Other	-	5,825	5,825	6,853
	<u>-</u>	<u>5,825</u>	<u>5,825</u>	<u>6,853</u>
Total expenses	<u>\$ 22,861</u>	<u>\$ 152,757</u>	<u>\$ 175,618</u>	<u>\$ 165,636</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, 2016  
(With Comparative Totals for the Year Ended June 30, 2015)

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ 37,935	\$ (6,653)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Changes in certain assets and liabilities:		
Accounts receivable	(38,566)	16,522
Prepaid expenses	(5,404)	5,971
Accounts payable	(10,844)	9,030
Accrued expenses and other current liabilities	(2,523)	(18,137)
Net cash provided (used) by operating activities	(19,402)	6,733
Cash flows from investing activities:		
Issuance of notes receivable	(962,099)	(255,000)
Collection of notes receivable	356,654	199,068
Net cash provided (used) by investing activities	(605,445)	(55,932)
Cash flows from financing activities:		
Proceeds from notes payable	748,736	94,578
Payments on notes payable	(84,989)	(60,389)
Net cash provided (used) by financing activities	663,747	34,189
Net increase (decrease) in cash during the period	38,900	(15,010)
Cash and cash equivalents, beginning of period	757,271	772,281
Cash and cash equivalents, end of period	\$ 796,171	\$ 757,271
Supplemental disclosures of cash flow information:		
Interest paid	\$ 14,440	\$ 17,328

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

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. 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.

C. 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.

D. 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.

E. 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.

F. Vacation and Other Compensated Absences

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



NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

G. 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.

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 November 3, 2016, the date the financial statements were available to be issued

Economic Development & Financing Corporation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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, 2016. 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>2016</u>	<u>2015</u>
WestAmerica Bank	\$ 796,071	\$ 757,171
Petty cash	<u>100</u>	<u>100</u>
Total	<u>\$ 796,171</u>	<u>\$ 757,271</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 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.

Currently the Corporation holds title to twenty-one 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.

Economic Development & Financing Corporation, Inc.  
NOTES TO FINANCIAL STATEMENTS  
 June 30, 2016

NOTE 5 - LOANS RECEIVABLE (concluded)

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

	2016	2015
Economic Development & Financing Corporation, Inc.	\$ 155,877	\$ 178,096
Intermediary Relending Program	1,263,070	969,058
Rural Microentrepreneur Assistance Program	443,976	98,772
Loan loss reserve	(11,552)	-
Total	\$ 1,851,371	\$ 1,245,926
Current portion	\$ 164,893	\$ 80,475
Non-current portion	1,686,478	1,165,451
Total	\$ 1,851,371	\$ 1,245,926

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

**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, 2016 and 2015 were \$1,497,784 and \$1,582,773, respectively.

**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 25<sup>th</sup> day of the month, monthly payments begin based on an 18-year amortized installment at 2% interest. The outstanding loan balances as of June 30, 2016 and 2015 were \$500,000 and \$105,264, respectively.

**Direct Public Offering (DPO)**

During the fiscal year ended June 30, 2016, 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, 2016 and 2015 were \$354,000 and \$0, respectively.

Economic Development & Financing Corporation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 6 - NOTE PAYABLE (concluded)

The summary of notes payable is as follows:

	<u>2016</u>	<u>2015</u>
Intermediary Relending Program	\$ 1,497,784	\$ 1,582,773
Rural Microentrepreneur Assistance Program	500,000	105,264
Direct Public Offering	<u>354,000</u>	<u>-</u>
Total	<u>\$ 2,351,784</u>	<u>\$ 1,688,037</u>

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

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2017 (current portion)	\$ 72,891	\$ 23,028
2018	87,332	26,178
2019	102,134	30,064
2020	102,877	28,765
2021	111,128	27,416
Thereafter	<u>1,875,422</u>	<u>155,992</u>
Total	<u>\$ 2,351,784</u>	<u>\$ 291,443</u>

Total interest paid on all notes payable was \$14,440 and \$17,328 for the fiscal years ended June 30, 2016 and 2015, respectively.

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 \$1,800 on the behalf of all covered employees for the years ended June 30, 2016 and 2015, respectively.

NOTE 8 - RELATED PARTY TRANSACTION

During the year, the Corporation entered into an agreement with Social Media Sisters, a company owned by a board member of the Corporation, to provide marketing services. For the year ended June 30, 2016, the Corporation paid \$7,566 to Social Media Sisters.

NOTE 9 - RECLASSIFICATIONS

Certain amounts in the June 30, 2015 financial statements have been reclassified to conform with the June 30, 2016 presentation. These reclassifications have no effect on the change in net assets as previously reported.