

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

**FINANCIAL STATEMENTS**

**JUNE 30, 2017**

**ECONOMIC DEVELOPMENT & FINANCING CORPORATION, INC.  
JUNE 30, 2017**

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P.O. Box 160  
Lincoln, CA 95648  
Office (916) 434-1662  
Fax (916) 434-1090

## **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, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements. The financial statements of Economic Development & Financing Corporation, Inc. as of June 30, 2016 were audited by another auditor whose report dated November 3, 2016 expressed an unmodified opinion.

### **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, 2017, 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  
March 20, 2018

**ECONOMIC DEVELOPMENT FINANCING CORPORATION, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2017**  
**(With Summarized Financial Information for June 30, 2016)**

	<b>2017</b>	<b>As previously reported 2016</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 502,808	\$ 796,171
Accounts receivable	30,000	61,987
Loans receivable, current portion	198,062	164,893
Prepaid expenses	-	5,558
<b>Total Current Assets</b>	730,870	1,028,609
Loans receivable, net of loss reserve and current portion	1,893,196	1,686,478
<b>Total Assets</b>	\$ 2,624,066	\$ 2,715,087
<b>Current Liabilities</b>		
Accounts payable	\$ 13,848	\$ 1,078
Accrued expenses and other current liabilities	36,531	9,356
Notes payable, current portion	96,284	72,891
<b>Total Current Liabilities</b>	146,663	83,325
<b>Non-current Liabilities</b>		
Notes payable, net of current portion	2,175,993	2,278,893
<b>Total non-current liabilities</b>	2,175,993	2,278,893
<b>Total Liabilities</b>	2,322,656	2,362,218
<b>Net Assets</b>		
<b>Unrestricted Net Assets</b>		
Unrestricted, designated for investments in loans	199,406	263,002
Unrestricted - designated for reserve for bad debt	102,004	89,867
<b>Total Net Assets</b>	301,410	352,869
<b>Total Liabilities and Net Assets</b>	\$ 2,624,066	\$ 2,715,087

See Accompanying Notes

**ECONOMIC DEVELOPMENT FINANCING CORPORATION, INC.****STATEMENT OF ACTIVITIES****JUNE 30, 2017****(With Summarized Financial Information for June 30, 2016)**

		As previously reported
	<u>2017</u>	<u>2016</u>
<b>REVENUES</b>		
Grants and contracts	\$ 129,083	\$ 57,262
Loan interest and packaging fees income	150,011	126,095
Other revenue	<u>13,529</u>	<u>30,196</u>
<b>TOTAL REVENUES</b>	<u>292,623</u>	<u>213,553</u>
<b>EXPENSES</b>		
Program Services	\$ 98,264	\$ 22,861
General and administration	194,991	152,757
Total expenses	<u>293,255</u>	<u>175,618</u>
<b>CHANGE IN NET ASSETS</b>	(632)	37,935
Net assets, beginning of year	352,869	314,934
Prior period adjustments	<u>(50,827)</u>	<u>-</u>
Net assets, end of year	<u>\$ 301,410</u>	<u>\$ 352,869</u>

See Accompanying Notes

**ECONOMIC DEVELOPMENT FINANCING CORPORATION, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**JUNE 30, 2017**

(With Summarized Financial Information for June 30, 2016)

	<b>Program Services</b>	<b>General and Administration</b>	<b>Total 2017</b>	<b>As previously reported Total 2016</b>
<b>Expenses</b>				
Salaries	\$ -	\$ 98,085	\$ 98,085	\$ 68,129
Payroll taxes	-	8,083	8,083	6,150
Employee benefits	-	7,772	7,772	5,522
Travel	-	1,747	1,747	2,042
Contract services	-	33,917	33,917	24,609
Dues and subscriptions	-	5,972	5,972	-
Technical assistance	58,538	-	58,538	-
Facility and equipment rent	-	13,084	13,084	7,009
Office supplies and expenses	-	8,688	8,688	1,227
Insurance	-	5,156	5,156	4,287
Software	-	2,069	2,069	9,906
Marketing and website	-	4,586	4,586	18,051
Interest expense - IRP/RMAP load	21,997	-	21,997	14,440
Interest expense - DPO	8,050	-	8,050	-
Loan packaging	377	-	377	8,421
Other	-	5,832	5,832	5,825
Bad debt	9,302	-	9,302	-
<b>Total expenses</b>	<b>\$ 98,264</b>	<b>\$ 194,991</b>	<b>\$ 293,255</b>	<b>\$ 175,618</b>

See Accompanying Notes

**ECONOMIC DEVELOPMENT FINANCING CORPORATION, INC.**

**STATEMENT OF CASH FLOWS**

**JUNE 30, 2017**

**(With Summarized Financial Information for June 30, 2016)**

	<u>2017</u>	<u>As previously reported 2016</u>
<b>Cash Flows From Operating Activities:</b>		
Changes in net assets	\$ (632)	\$ 37,935
Prior period adjustments		
Loan payments and capitalized interest in prior periods	16,175	-
Errors in receivables, payables and prepaids	(36,231)	-
Errors in reporting pass-through activities	(30,771)	-
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
<b>Changes in certain assets and liabilities:</b>		
Accounts receivable	31,987	(38,566)
Prepaid expenses	5,558	(5,404)
Accounts payable	12,770	(10,844)
Accrued expenses and other current liabilities	<u>27,175</u>	<u>(2,523)</u>
Net cash provided (used) by operating activities	<u>26,031</u>	<u>(19,402)</u>
<b>Cash flows from investing activities:</b>		
Issuance of notes receivable	(483,700)	(962,099)
Collection of notes receivable	<u>243,813</u>	<u>356,654</u>
Net cash provided (used) by investing activities	<u>(239,887)</u>	<u>(605,445)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from notes payable	18,700	748,736
Payments on notes payable	<u>(98,207)</u>	<u>(84,989)</u>
Net cash provided (used) by financing activities	<u>(79,507)</u>	<u>663,747</u>
Net increase (decrease) in cash during the period	(293,363)	38,900
Cash and cash equivalents, beginning of period	<u>796,171</u>	<u>757,271</u>
Cash and cash equivalents, end of period	<u>\$ 502,808</u>	<u>\$ 796,171</u>
Supplemental disclosures of cash flow information:		
Interest paid	<u>\$ 30,047</u>	<u>\$ 14,440</u>

See Accompanying Notes



**ECONOMIC DEVELOPMENT & FINANCING CORPORATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**  
**(With Summarized Comparative Information for June 30, 2016)**

**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) *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.

**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.

**ECONOMIC DEVELOPMENT & FINANCING CORPORATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**  
**(With Summarized Comparative Information for June 30, 2016)**

**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.

**ECONOMIC DEVELOPMENT & FINANCING CORPORATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**  
**(With Summarized Comparative Information for June 30, 2016)**

**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, 2017. 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:

	2017	2016
WestAmerica Bank	\$ 492,626	\$ 796,071
Zions Bank	10,082	-
Petty Cash	100	100
Total	\$ 502,808	\$ 757,271

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 4 – 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.

The Corporation has not recognized any discount of loans receivable, as it is the opinion of management that the above amounts are realizable. In 2017 the Corporation wrote off one note receivable in the amount of \$9,302 that became uncollectible and reported the amount as bad debt.

**ECONOMIC DEVELOPMENT & FINANCING CORPORATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**(With Summarized Comparative Information for June 30, 2016)**

**NOTE 4 – LOANS RECEIVABLE – Continued**

At June 30, 2017 and 2016, property and equipment is stated at cost and consists of the following:

	2017	2016
Economic Development & Financing Corporation, Inc.	\$ 148,133	\$ 155,877
Direct Public Offering	214,384	-
Intermediary Relending Program	1,403,865	1,263,070
Rural Microentrepreneur Assistance Program	355,446	443,976
Loan Loss Reserve	(30,570)	(11,552)
Total	\$ 2,091,258	\$ 1,851,371
Current portion	\$ 198,062	\$ 164,893
Non-current portion	1,893,196	1,686,487
Total	\$ 2,091,258	\$ 1,851,371

**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, 2017 and 2016 were \$1,403,425 and \$1,497,784, 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 25th 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, 2017 and 2016 were \$514,852 and \$500,000, respectively.

**Direct Public Offering (DPO)**

During the fiscal year ended June 30, 2017, 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, 2017 and 2016 were \$354,000 for both years.

**ECONOMIC DEVELOPMENT & FINANCING CORPORATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

(With Summarized Comparative Information for June 30, 2016)

**NOTE 5 – NOTE PAYABLE - Continued**

The summary of notes payable is as follows:

	<u>2017</u>	<u>2016</u>
Intermediary Relending Program	\$ 1,403,425	\$ 1,497,784
Rural Microentrepreneur Assistance Program	514,852	500,000
Direct Public Offering	354,000	354,000
Total	<u>\$ 2,272,277</u>	<u>\$ 2,351,784</u>

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

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>
2018 – (current portion)	96,284
2019	97,772
2020	99,369
2021	108,172
2022	448,495
Thereafter	1,422,185
Total	<u>\$ 2,272,277</u>

Total interest paid on all notes payable was \$30,047 and \$14,440 for the fiscal years ended June 30, 2017 and 2016, 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 \$1,575 and \$1,800 on the behalf of all covered employees for the years ended June 30, 2017 and 2016, respectively.

**NOTE 7 – 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 8 – RECLASSIFICATIONS**

Certain amounts in the June 30, 2016 financial statements have been reclassified to conform with the June 30, 2017 presentation. These reclassifications have no effect on the change in net assets as previously reported.

**ECONOMIC DEVELOPMENT & FINANCING CORPORATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**(With Summarized Comparative Information for June 30, 2016)**

**NOTE 9 – PRIOR PERIOD ADJUSTMENTS**

Unrestricted net assets at the beginning of fiscal year ended June 30, 2017 have been adjusted for certain errors made in prior years. 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, 2017 by \$50,827. Had the errors not occurred, the change in net assets for the prior years would have decreased by \$50,827. The errors consisted of the following items:

Entries not recorded in activities of previous years:

Grant expenses	\$ (30,771)
Capitalized interest	(5,417)
IRP Loan payments	21,592
Insurance expense	(4,274)
Duplicated receivables	(30,650)
Unrecorded expenses	<u>(1,307)</u>
Total	\$ 50,827

**NOTE 10 – SUBSEQUENT EVENTS**

Events subsequent to June 30, 2017 have been evaluated through March 20, 2018, the date at which the organization's audited financial statements were available to be issued. The following items required disclosure:

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 2<sup>nd</sup> RMAP loan to \$251,400 leaving \$248,600 remaining funds to be drawn for future programs..