

**REDWOOD REGION ECONOMIC DEVELOPMENT
COMMISSION**

FINANCIAL STATEMENTS

Year Ended June 30, 2013

With

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION

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REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION

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REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Board of Commissioners
Redwood Region Economic Development Commission
520 E Street
Eureka, California 95501

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Redwood Region Economic Development Commission (the "Commission") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of the Economic Development Administration. Management is also responsible for 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 and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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.

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS - CONTINUED

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Notes 1 and 2, the Commission prepares its financial statements on a regulatory basis of accounting that demonstrates compliance with the administrative requirements and procedures that apply to Revolving Loan Fund grants funded by the Economic Development Administration under Title IX of the Public Works and Economic Development Act of 1965, as amended, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting described in Notes 1 and 2 and accounting principles generally accepted in the United States of America are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statements referred to in the first paragraph do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Commission as of June 30, 2013, or the changes in its financial position for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Commission as of June 30, 2013, and the respective changes in financial position for the year then ended on the basis of the financial reporting provisions of the Economic Development Administration as described in Notes 1 and 2.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and budgetary comparison information on pages 4a through 4h and 29 through 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS - CONTINUED

We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The other supplementary schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The other supplementary schedules listed in the table of contents, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary schedules listed in the table of contents, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2014, on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

David L. Moonie + Co.
CERTIFIED PUBLIC ACCOUNTANTS
Eureka, California
January 21, 2014

**Redwood Region Economic Development Commission
Management's Discussion and Analysis
For The Year Ended June 30, 2013**

I. Introduction

a. Background

The Redwood Region Economic Development Commission (RREDC) is a Joint Powers Authority formed in 1977. The Commission was formed to distribute funds granted to Humboldt County by the U.S. Department of Commerce, Economic Development Administration (EDA). A portion of these funds, approximately \$2.9 million, was held by RREDC to create a revolving loan fund (RLF) to provide loans to small businesses in Humboldt County. This fund continues to this day. In addition, RREDC manages two additional "operational funds," including an RLF created by a subsequent grant from the U.S. Department of Housing and Urban Development (HUD) and a General Fund, which receives income from other RREDC activities. Finally, RREDC periodically administers grant funds from a variety of sources for special projects.

RREDC does not receive direct support for its operations. All revenue is derived from the operation of its loan programs, fees for service, and income from facilities.

b. Financial Highlights – FY 2013

- Net position on June 30, 2013 was \$4,623,050, an increase of \$58,966 from June 30, 2012
- Total revenues were \$496,993. Loan interest and fees accounted for \$407,148 or approximately 82% of all revenues. Rent and other fees for service totaled \$83,082 or 17%, and interest earned on investments totaled \$6,763 or 1%
- Total expenses for the year, not including net position adjustments, were \$366,410. Salaries and employee benefits were the largest expense at \$182,012 or 50% of total expenses. Professional fees were the second highest expenditure at \$63,687 or 17%. The next largest expenditure was rent at \$47,783.

Using this Annual Report

a. The Statement of Net Position and Statement of Activities

This annual report consists of a series of financial statements. The Statement of Net Position and Statement of Activities on pages 5 and 6 provide information about the activities of RREDC as a whole and include fixed assets and depreciation. Individual fund financial statements start on page 7. These statements provide more detail on individual fund balances and how funds were spent in individual programs of RREDC. These statements do not contain fixed assets or depreciation.

**Redwood Region Economic Development Commission
Management's Discussion and Analysis
For The Year Ended June 30, 2013**

b. RREDC's Individual Funds

RREDC has three "operational funds," which form the core of our program. Two of these funds are Revolving Loan Funds (RLF) and the third is the RREDC "General Fund". These three funds are reported as major funds in the individual fund financial statements. In addition to these three funds, RREDC will, from time to time, create additional non-major funds to manage grant-sponsored programs. Typically, these grants are managed on behalf of other entities and do not have a significant impact on the overall financial status of the organization.

The two RLFs were created by grants from the federal government. The EDA RLF was created in 1978 and the RREDC RLF was created in 1994. To survive over time, each of these funds must generate sufficient revenue through operations to cover all expenses and return excess revenues to the fund. Operations are centered in the making of loans to small businesses unable to obtain credit through traditional lenders. Loan interest and fees account for 97% of total revenue to these RLFs.

At their January 23, 2012 meeting, the RREDC Board of Directors directed staff to begin depositing funds into the RREDC Revolving Loan Fund from a new revenue source. As a result, a portion of the interest and the entire amount of servicing fees from loans made this year from the Headwaters Revolving Loan Fund (HWF-RLF), for which RREDC has fiduciary responsibility, were deposited in the RREDC Revolving Loan Fund. In the past, all revenue generated by loans made from this source was voluntarily deposited in the EDA Revolving Loan Fund, making them subject to the restrictions on that fund. In Fiscal Year 2013, three additional loans were made from the HWF-RLF, further increasing the size of the RREDC Revolving Loan Fund.

The General Fund is a discretionary fund. The largest single source of revenue for this fund is rental income from sub-leases of space at the RREDC facility. Other revenues include fees for service and grant revenues for specific projects.

These three operational funds are self-supporting and receive no direct public support.

RREDC also has fiduciary responsibility for certain loans made from the Headwaters Revolving Loan Fund (HWF). In July 2003, RREDC executed a contract with the County of Humboldt that allows RREDC to make loans from the Headwaters Fund. Essentially, RREDC draws from the HWF and is responsible for returning all principal and sixty-percent of the interest collected back to the HWF. RREDC retains forty percent of the collected interest as compensation for making and servicing the loans. The contract expired on September 30, 2013 and is now being put out to bid. RREDC expects to submit a new proposal on January 31, 2014.

**Redwood Region Economic Development Commission
Management's Discussion and Analysis
For The Year Ended June 30, 2013**

II. Financial Performance for Fiscal 2013

a. Net Position

RREDC's net position increased by \$58,966 from one year ago. Table 1 below compares the current statement of assets to that of the previous year.

TABLE 1 Comparative Statement of Net Position		
	June 30, 2012	June 30, 2013
Cash	1,225,337	1,273,844
Notes receivable	3,312,623	3,090,761
Other assets	194,542	372,496
Capital assets	374	2,723
Total Assets	4,732,876	4,739,824
Notes payable	125,021	1,700
Other liabilities	43,771	115,074
Total liabilities	168,792	116,774
Invested in capital assets	374	2,723
Reserved for grant programs	0	0
Reserved for loan servicing	4,243,341	4,345,862
Committed for loan servicing	222,759	172,141
Unreserved	97,610	102,324
Total Net Position	4,564,084	4,623,050

b. Changes In Net Position

Table 2 shows the change in net position for the year ended June 30, 2013 in comparison to the prior year.

TABLE 2 Comparative Statement of Activities		
	June 30, 2012	June 30, 2013
Revenues:		
Charges for services	473,818	490,230
Operating grants and contributions	0	0
Interest and investment earnings	10,786	6,763
Total Revenues	484,604	496,993
Expenses:		
Loan services	268,611	268,633
Economic development services	42,222	27,575
General administration	58,372	70,202
Total Expenses	369,205	366,410
Net Position Adjustments	0	(71,617)
Change in Net Position	115,399	58,966

**Redwood Region Economic Development Commission
Management's Discussion and Analysis
For The Year Ended June 30, 2013**

c. Fund Equity of the Individual Funds

Table 3 shows the end of year fund balances for each of RREDC's three operational funds and other governmental funds (grant or service fee funded projects).

TABLE 3			
Year End Fund Balance for Operational Funds			
	June 30, 2012	June 30, 2013	Change
EDA RLF	4,245,990	4,345,862	99,872
RREDC RLF	222,759	172,141	(50,618)
General Fund	94,961	102,324	7,363
Total	4,563,710	4,620,327	56,617

d. Revenues and Expenditures, Governmental Funds

Table 4 shows revenues for governmental funds for the past two years.

TABLE 4			
Agencywide Governmental Funds Revenues			
	June 30, 2012	June 30, 2013	Change
Grant revenue	0	0	
Loan interest	296,241	288,516	(7,725)
Investment interest	10,786	6,763	(4,023)
Late fees	21,400	26,290	4,890
Rental income	54,959	56,144	1,185
Loan Service Fee - Headwaters	70,388	86,192	15,804
Loan fees	21,368	6,150	(15,218)
Other revenue	9,462	26,938	17,476
Total Revenue	484,604	496,993	12,389

e. Discussion of Budget vs. Actual Revenues and Expenses

RREDC Revolving Loan Funds

Each year, RREDC creates a budget for each of its three operational funds. The RLF budgets are predicated on estimates of annual lending, notes receivable balances, average interest rates on loans and investments, and expenses. Revenue and expenses directly attributable to loan activity can vary significantly from predictions made during the budget process.

**Redwood Region Economic Development Commission
Management's Discussion and Analysis
For The Year Ended June 30, 2013**

Tables 5 and 6 show the budget-to-actual revenue and expenses for the two loan funds.

Revenues	Budget	Actual	Variance Favorable (Unfavorable)
Loan interest	261,000	287,330	26,330
Investment interest	4,000	5,278	1,278
Late fees	0	15,429	15,429
Loan Service Fee – Headwaters	56,891	54,567	(2,324)
Loan fees	10,000	5,150	(4,850)
Other revenue	0	1,683	1,683
Total Revenue	331,891	369,437	37
Expenditures			
Salaries and employee benefits	161,573	153,269	8,304
Rent	28,320	28,320	0
Professional fees	52,120	60,667	(8,547)
Credit investigation fees	1,000	0	1,000
Repairs and maintenance	500	19	481
Postage, copying, and printing	5,000	2,283	2,717
Supplies	2,500	1,930	570
Community education	8,500	2,888	5,612
Telephone	6,000	7,932	(1,932)
Software	2,900	5,764	(2,864)
Professional development	2,000	164	1,836
Books, publications, subscriptions	1,000	297	703
Dues	2,000	2,030	(30)
Travel	1,750	219	1,531
Lease/Purchase Equipment	600	551	49
Capital Outlay	0	2,701	(2,701)
Miscellaneous	1,000	531	469
Total Expenditures	276,763	269,565	7,198
Excess of Revenues Over (Under) Expenditures	55,128	99,872	44,744
Transfers In			
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	55,128	99,872	44,744
Fund Balance July 1, 2012	4,245,990	4,245,990	
Fund Balance Adjustment (Loan Loss)	0	0	0
Fund Balance June, 30, 2013	4,301,118	4,345,862	44,744

**Redwood Region Economic Development Commission
Management's Discussion and Analysis
For The Year Ended June 30, 2013**

Individual expenses for the RREDC Revolving Loan Fund are not budgeted separately. Instead, an indirect rate, created when the fund was started in 1994, is paid to the EDA RLF.

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Loan interest	0	1,186	1,186
Investment interest	0	727	727
Late fees	0	20	20
Loan Fees	0	1000	1000
Other Revenue	0	14,214	14,214
Total Revenue	0	17,147	17,147
Expenditures			
Salaries and employee benefits	0	956	(956)
Miscellaneous	0	492	(492)
Total Expenditures	0	1,448	(1,448)
Other Financing Sources – Transfers In	0	5,300	5,300
Excess of Revenues Over (Under)			
Expenditures	0	20,999	15,699
Fund Balance July 1, 2012		222,759	222,759
Fund Balance Adjustment		(71,617)	(71,617)
Fund Balance June, 30, 2013		172,141	166,841

**Redwood Region Economic Development Commission
Management's Discussion and Analysis
For The Year Ended June 30, 2013**

RREDC General Fund

The general fund budget is largely made up of revenue from rents and other services related to the operation of the RREDC facility. In addition, fees charged for direct services are accounted for in this fund. Funds for grant pass-throughs are not included in the annual agency budget because expenditure of these funds are generally influenced by third parties and these grants are either revenue neutral or provide only a small net income to RREDC. Net income from these grants is typically shown as "other revenue" for the RREDC general fund.

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Investment interest	2,250	758	(1,492)
Loan Fees	32,076	42,466	10,390
Rental income	52,681	56,144	3,463
Other revenue	12,756	11,041	(1,715)
Total Revenue	99,763	110,409	10,646
Expenditures			
Salaries and employee benefits	31,733	27,787	3,986
Rent	16,673	19,463	(2,790)
Utilities	10,000	10,036	(36)
Insurance	4,000	3,066	934
Janitorial	7,500	7,892	(392)
Professional Fees	2,480	3,020	(540)
Contracted Services	0	13,940	(13,940)
Repairs and maintenance	2,000	2,030	(30)
Postage, copying, and printing	750	538	212
Supplies	2,500	2,296	204
Community education	1,000	1,835	(835)
Telephone	0	90	(42)
Software Purchase & Support	0	400	(400)
Professional development	0	90	(90)
Dues	0	294	(294)
Travel	1,000	4,718	(3,718)
Indirect charges	5,000	0	5,000
Miscellaneous	0	251	(251)
Total Expenditures	84,676	97,746	(13,070)
Excess of Revenues Over (Under)	15,087	12,663	(2,424)
Expenditures			
Transfers out		(5,300)	(5,300)
Fund Balance July 1, 2012	94,961	94,961	
Fund Balance June, 30, 2013	110,048	102,324	(7,724)

**Redwood Region Economic Development Commission
Management's Discussion and Analysis
For The Year Ended June 30, 2013**

III. Economic Factors Affecting RREDC Operations

a. 2013 Results

RREDC continues to face the challenge of meeting its mission of providing relatively inexpensive, higher risk capital to local small businesses and generating sufficient income to grow its programs. The need for capital increased in 2012/2013 with several larger loans made in conjunction with the Headwaters Fund.

The larger EDA Fund made a "profit" of \$99,872 with no loan losses experienced. This compares to \$124,696 for FY 2011, a year with no loan losses. The EDA fund continues to concentrate on larger, better secured loans, which is necessary to ensure its continued operation and growth. We have been successful over the past years in reducing the amount of loss as a percentage of loans made. We continue to make higher risk loans to businesses not able to secure other financing. Meeting our goal of operating the fund in such a way that it consistently generates a net return requires us to contain expenses, limit loan losses, and expand our lending base.

The General Fund experienced a "profit" of \$7,363.

The small "RREDC Loan Fund" showed an operational gain of \$20,999. This fund is now being used for loans and is receiving income, growing for the first time in several years.

IV. Request for Information

This financial report is designed to provide a general overview of RREDC's finances for those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Executive Director, RREDC, 520 E Street, Eureka, CA 95501.

Don Ehnebuske
Executive Director

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION

STATEMENT OF NET POSITION

June 30, 2013

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash in County Treasury	\$ 1,040,491
Cash in banks	144,917
Restricted Cash in County Treasury	88,436
Accounts receivable	6,694
Interest receivable	57,866
Prepaid expenses	7,717
Other deposits	218,769
Capitalized interest receivable from HWF	44,471
Notes receivable - EDA revolving loan fund	3,058,613
Notes receivable - RREDC revolving loan fund	30,448
Note receivable - NLPA loan	1,700
Collection assets - EDA revolving loan fund	35,550
Collection assets - RREDC revolving loan fund	1,429
Property and Equipment:	
Office equipment	28,289
Leasehold improvements	46,594
Accumulated depreciation	(72,160)
Total assets	<u>4,739,824</u>
<u>Liabilities</u>	
Accounts payable	3,954
Collections payable	1,469
Deferred income	4,018
Employee insurance payable	573
Accrued salaries	8,666
Accrued payroll taxes	3,990
Accrued vacation	3,968
Note payable - NLPA loan	1,700
Liabilities payable from restricted assets:	
Refundable airline fund deposits	88,436
Total liabilities	<u>116,774</u>
<u>Net Position</u>	
Invested in capital assets, net of related debt	2,723
Restricted for:	
EDA revolving loan program	4,345,862
RREDC revolving loan program	172,141
Unassigned	102,324
Total net position	<u>\$ 4,623,050</u>

The accompanying notes are an integral part of this statement.

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION

STATEMENT OF ACTIVITIES

For The Year Ended June 30, 2013

		<u>Program Revenues</u>		Net (Expense) Revenue and Changes in Net Assets
	<u>Expenses</u>	<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental Activities				
Loan services	\$ 268,633	\$ 413,326		\$ 144,693
Economic development services	27,575	13,528		(14,047)
General administration	70,202	63,376		(6,826)
Total governmental activities	<u>\$ 366,410</u>	<u>\$ 490,230</u>	<u>\$ -</u>	<u>123,820</u>
General revenues:				
Interest and investment earnings				<u>6,763</u>
Total general revenues and transfers				<u>6,763</u>
Change in net position				130,583
Net position beginning				4,564,084
Net position adjustment				<u>(71,617)</u>
Net position ending				<u>\$ 4,623,050</u>

The accompanying notes are an integral part of this statement.

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2013

<u>ASSETS</u>	<u>General Fund</u>	<u>EDA Revolving Loan Fund</u>	<u>RREDC Revolving Loan Fund</u>	<u>Total</u>
Cash in County Treasury	\$ 118,188	\$ 790,405	\$ 131,898	\$ 1,040,491
Restricted Cash in County Treasury	88,436			88,436
Cash in banks		137,170	7,747	144,917
Accounts receivable	4,839	113		4,952
Due from RREDC Headwaters Fund		1,742		1,742
Prepaid expenses	6,902	815		7,717
Due from other funds		16,842	19	16,861
Accrued interest receivable	2,599	54,898	369	57,866
Capitalized interest due from Headwaters Fund		44,471		44,471
Other deposits		218,538	231	218,769
Notes receivable		3,058,613	30,448	3,089,061
Note receivable - NLPA loan	1,700			1,700
Collection assets		35,550	1,429	36,979
Total Assets	<u>\$ 222,664</u>	<u>\$ 4,359,157</u>	<u>\$ 172,141</u>	<u>\$ 4,753,962</u>
 <u>LIABILITIES AND FUND EQUITY</u>				
Liabilities:				
Accounts payable	\$ 372	\$ 3,582		\$ 3,954
Collections payable	1,469			1,469
Accrued salaries	1,826	6,840		8,666
Accrued payroll taxes	3,990			3,990
Accrued vacation	1,095	2,873		3,968
Refundable deposits	88,436			88,436
Deferred income	4,018			4,018
Employee insurance payable	573			573
Note payable - NLPA loan	1,700			1,700
Due to other funds	16,861			16,861
Total Liabilities	<u>120,340</u>	<u>13,295</u>	<u>-</u>	<u>133,635</u>
Fund Equity:				
Fund Balances:				
Restricted for:				
Loan servicing		4,345,862		4,345,862
Committed for:				
Loan servicing			172,141	172,141
Unassigned	102,324			102,324
Total Fund Equity	<u>102,324</u>	<u>4,345,862</u>	<u>172,141</u>	<u>4,620,327</u>
Total Liabilities and Fund Equity	<u>\$ 222,664</u>	<u>\$ 4,359,157</u>	<u>\$ 172,141</u>	<u>\$ 4,753,962</u>

The accompanying notes are an integral part of this statement.

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION

June 30, 2013

Total fund balances - governmental funds balance sheet \$ 4,620,327

Amounts reported for assets and liabilities for governmental activities in the statement of net position are different from amounts reported in governmental funds because:

Capital assets: In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation.

Capital assets at historical cost	\$	74,883	
Accumulated depreciation		<u>(72,160)</u>	
Net			<u>2,723</u>
Total Net Position, Governmental Activities			<u><u>\$ 4,623,050</u></u>

The accompanying notes are an integral part of this statement.

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION

STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS

For The Year Ended June 30, 2013

	General Fund	EDA Revolving Loan Fund	RREDC Revolving Loan Fund	Total
<u>REVENUES</u>				
Loan interest		\$ 287,330	\$ 1,186	\$ 288,516
Investment interest	\$ 758	5,278	727	6,763
Late/service/other fees	10,841	15,429	20	26,290
Rental income	56,144			56,144
Loan service fee - Headwaters Fund	31,625	54,567		86,192
Loan fees		5,150	1,000	6,150
Other revenue	11,041	1,683	14,214	26,938
Total Revenues	<u>110,409</u>	<u>369,437</u>	<u>17,147</u>	<u>496,993</u>
<u>EXPENDITURES</u>				
Salaries and employee benefits	27,787	153,269	956	182,012
Rent	19,463	28,320		47,783
Utilities	10,036			10,036
Insurance	3,066			3,066
Janitorial	7,892			7,892
Professional fees	3,020	60,667		63,687
Contracted services	13,940			13,940
Repairs and maintenance	2,030	19		2,049
Postage, copying and printing	538	2,283		2,821
Supplies	2,296	1,930		4,226
Community education	1,835	2,888		4,723
Telephone	90	7,932		8,022
Software purchase and support	400	5,764		6,164
Professional development	90	164		254
Books and publications		297		297
Dues	294	2,030		2,324
Travel	4,718	219		4,937
Lease/purchase equipment		551		551
Capital outlay		2,701		2,701
Miscellaneous	251	531	492	1,274
Total Expenditures	<u>97,746</u>	<u>269,565</u>	<u>1,448</u>	<u>368,759</u>
Excess of Revenues Over (Under) Expenditures	<u>12,663</u>	<u>99,872</u>	<u>15,699</u>	<u>128,234</u>
Other financing sources (uses):				
Transfers in			5,300	5,300
Transfers out	(5,300)			(5,300)
Total Other Financing Sources (Uses)	<u>(5,300)</u>	<u>-</u>	<u>5,300</u>	<u>-</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>7,363</u>	<u>99,872</u>	<u>20,999</u>	<u>128,234</u>
Fund Balance, July 1, 2012	94,961	4,245,990	222,759	4,563,710
Fund Balance Adjustment			(71,617)	(71,617)
Fund Balance, June 30, 2013	<u>\$ 102,324</u>	<u>\$ 4,345,862</u>	<u>\$ 172,141</u>	<u>\$ 4,620,327</u>

The accompanying notes are an integral part of this statement.

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE
STATEMENT OF ACTIVITIES

June 30, 2013

Total changes in fund balances, governmental funds \$ 128,234

Amounts reported for governmental activities in the statement of activities are different from amounts reported in governmental funds because:

Capital outlay: In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

Expenditures for capital outlay	\$ 2,701
Depreciation expense	(271)
Gain (loss) on disposition of capital assets	<u>(81)</u>
Net	<u>2,349</u>

Changes In Net Position, Governmental Activities \$ 130,583

The accompanying notes are an integral part of this statement.

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2013

	Agency Funds
	<u>Headwaters Fund</u>
<u>Assets</u>	
Cash in County Treasury	\$ 537
Interest receivable	28,501
Notes receivable	<u>2,450,211</u>
Total assets	<u>2,479,249</u>
<u>Liabilities</u>	
Accrued interest due to County of Humboldt Headwaters Fund	28,501
Capitalized interest due to EDA Fund	44,471
Due to EDA Fund	536
Notes payable to County of Humboldt Headwaters Fund	<u>2,405,741</u>
Total liabilities	<u>2,479,249</u>
<u>Net Position</u>	
Total net position	<u><u>\$ -</u></u>

The accompanying notes are an integral part of this statement.

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION

NOTES TO FINANCIAL STATEMENTS

For The Year Ended June 30, 2013

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Redwood Region Economic Development Commission (the Commission) was established on November 1, 1977 under a Joint Exercise of Powers Agreement between the nineteen public agencies listed in the supplemental information section of these financial statements. The Commission was created to aid, assist, and coordinate the formulation, administration, and implementation of an Economic Development Action Plan and Strategy for Humboldt County, California, in accordance with the purpose and intent of the Special Economic Development and Adjustment Assistance Program enacted by Congress in 1974 as Title IX of the Public Works and Economic Development Act of 1965, as amended. The Commission was empowered to establish appropriate operating and advisory committees to assist the Commission in carrying out the foregoing purpose and to assist the Commission in the implementation of economic development projects and programs to improve the quality of life in the area.

The Commission's combined financial statements include the accounts of all Commission operations. The criteria for including organizations as component units within the Commission's reporting entity, as set forth in Section 2100 of the Governmental Accounting Standards Board's (GASB) Codification of Government Accounting and Financial Reporting Standards, include whether:

1. The organization is legally separate
2. The Commission holds the corporate powers of the organization
3. The Commission appoints a voting majority of the organization's board
4. The Commission is able to impose its will on the organization
5. The organization has the potential to impose a financial benefit/burden on the Commission
6. There is fiscal dependency by the organization on the Commission.

Based on the aforementioned criteria, the Commission has no component units.

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION
NOTES TO FINANCIAL STATEMENTS

For The Year Ended June 30, 2013

B. Accounting Policies

The accounting and reporting policies of the Commission relating to the funds included in the accompanying financial statements follow a regulatory basis of accounting that demonstrates compliance with administrative requirements and procedures that apply to Revolving Loan Fund grants funded by the Economic Development Administration under Title IX of the Public Works and Economic Development Act of 1965, as amended. These policies differ from generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants.

C. Fund Accounting

The accounts of the Commission are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Commission resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The Commission's accounts are organized into major and non-major funds as follows:

Major Governmental Funds:

General Fund is the general operating fund of the Commission. It is used to account for all financial resources except those required to be accounted for in another fund.

EDA Revolving Loan Fund is used to account for receipts and disbursements of Economic Development Administration revolving loan fund grant monies.

RREDC Revolving Loan Fund is used to account for the revolving loans originally established under a grant awarded to the Commission by the Department of Housing and Urban Development on July 2, 1993. In the year 2000, the Commission completed the grant projects and closed out the grant. At that time the Commission's Board approved using the funds remaining after the closeout in a revolving loan fund.

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION
NOTES TO FINANCIAL STATEMENTS

For The Year Ended June 30, 2013

Fiduciary Funds:

Agency Funds are used to account for assets of others for which the Commission acts as an agent. The Commission maintains one agency fund.

Headwaters Revolving Loan Fund is used to account for receipts and disbursements of the Humboldt County Headwaters revolving loan funds.

D. Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Commission.

The government-wide statements are prepared using the economic resources measurement focus. This differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Commission's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The Commission does not allocate indirect expenses to functions in the Statement of Activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Commission, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Commission.

Fund Financial Statements:

Fund financial statements report detailed information about the Commission. The focus of governmental fund financial statements is on major funds, rather than

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION
NOTES TO FINANCIAL STATEMENTS

For The Year Ended June 30, 2013

reporting funds by type. Each major governmental fund is presented in a separate column, and non-major funds, if any, are aggregated into one column.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

E. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. “Available” means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Commission, “available” means collectible within the current period or within 60 days after year-end.

Non-exchange transactions, in which the Commission receives value without directly giving equal value in return, include grants and entitlements. Under the accrual basis, revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the Commission must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the Commission on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must be available before it can be recognized.

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION
NOTES TO FINANCIAL STATEMENTS

For The Year Ended June 30, 2013

Expenses/Expenditures:

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first, then unrestricted resources as they are needed.

F. Budgets and Budgetary Accounting

Annual budgets are adopted for the EDA Revolving Loan Fund and the RREDC Revolving Loan Fund on the basis of accounting used by those funds. An annual budget is adopted for the General Fund consistent with generally accepted accounting principles for governmental fund types. The following procedures are followed in establishing the budgetary data reflected in the financial statements:

1. On or before March 1 of each year, the Board of Directors prepares and submits a budget for the succeeding fiscal year beginning July 1.
2. After a ten-day public notice of the public meeting has been given, the Board of Directors conducts a public hearing on the proposed budget.
3. Prior to May 1 of each year, the Board of Directors adopts the budget as submitted or as revised by the Board of Directors. All annual appropriations lapse at fiscal year-end.

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION
NOTES TO FINANCIAL STATEMENTS

For The Year Ended June 30, 2013

G. Assets, Liabilities and Equity

1. Deposit and Investments

Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation. All cash held by financial institutions is fully insured or collateralized.

The Commission maintains substantially all of its cash in the Humboldt County Treasury. The County pools these funds with those of other government entities in the County and invests the cash. These pooled funds are carried at cost which approximates market value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

The County is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et seq. The funds maintained by the County are either secured by federal depository insurance or are collateralized.

The Humboldt County Treasury has no investments in derivatives.

The Commission does not have a specific policy which relates to interest rate risk.

2. Prepaid Expenditures

The Commission has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The Commission has chosen to report the expenditures during the benefiting period.

3. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$300 is used. Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION
NOTES TO FINANCIAL STATEMENTS

For The Year Ended June 30, 2013

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Leasehold improvements	10
Office furniture and equipment	5

4. Compensated Absences

All accumulated unpaid vacation leave is recognized as a liability of the Commission when incurred in the government-wide financial statements. In governmental funds, the current portion of the liabilities is recognized in the fund at year-end.

Accumulated sick leave benefits are not recognized as liabilities of the Commission since such benefits do not vest nor is payment probable. The Commission's policy is to record sick leave as an operating expense in the period taken.

5. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net assets.

6. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. In the fund financial statements, governmental funds report the face amount of the debt issued, premiums, or discount as other financing sources/uses.

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION
NOTES TO FINANCIAL STATEMENTS

For The Year Ended June 30, 2013

7. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

Nonspendable — amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted — amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed — amounts that can be used only for specific purposes determined by a formal action of the Commission's Governing Board. The Commission's Governing Board is the highest level of decision-making authority for the Commission. Commitments may be established, modified, or rescinded only through resolutions approved by the Governing Board.

Assigned — amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the Commission's adopted policy, only the Governing Board may assign amounts for specific purposes.

Unassigned — all other spendable amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Commission considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Commission considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Commission's Governing Board has provided otherwise in its commitment or assignment actions.

H. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION
NOTES TO FINANCIAL STATEMENTS

For The Year Ended June 30, 2013

amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

I. New Governmental Accounting Standards Board (GASB) Standard

In June 2011 the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASBS No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The statement of net assets is renamed the statement of net position and includes the following elements: assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. At June 30, 2013 the Commission had no balances required to be reported as deferred outflows or deferred inflows.

2. Departures From Generally Accepted Accounting Principles

The Commission has modified the basis of accounting for the EDA Revolving Loan Fund and the RREDC Revolving Loan Fund in order to demonstrate compliance with requirements of the Economic Development Administration. The departures from accounting principles generally accepted in the United States of America include the following:

a) Uncollectible Notes Receivable

Accounting principles generally accepted in the United States of America require that receivables be reported at their face value less an estimated amount that may become uncollectible. The Commission's practice, in accordance with requirements of the Economic Development Administration, is to write off notes receivable directly to the Revolving Loan Fund fund balance when they are determined to be uncollectible.

b) Investment Income From Collection Assets

Accounting principles generally accepted in the United States of America require that gains and losses on the sale and collection of assets be recorded as income or expense. The Commission's practice, in accordance with requirements of the Economic Development Administration, is to credit or charge these gains or losses to principal.

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION
NOTES TO FINANCIAL STATEMENTS

For The Year Ended June 30, 2013

c) Long Term Notes Receivables and Payables

Accounting principles generally accepted in the United States of America and Governmental Auditing Standards require that long-term receivables and payables are not included in the fund based financial statements. The Commission's practice, in accordance with requirements of the Economic Development Administration, is to record long-term notes receivables and payables and include them in the fund-based financial statements.

3. Cash and Investments

Cash at June 30, 2013 consisted of the following:

	Fair Value	Carrying Value
Deposits:		
Governmental Funds:		
Cash in bank - general checking account	\$ 137,170	\$ 137,170
Cash in bank - RREDC RLF checking account	7,747	7,747
Total Cash In Bank	144,917	144,917
Pooled Funds:		
Cash in County Treasury	1,124,777	1,128,927
Total Governmental Funds	\$ 1,269,694	\$ 1,273,844
Fiduciary Funds:		
Pooled Funds:		
Cash in County Treasury	\$ 535	\$ 537
Total Fiduciary Funds	\$ 535	\$ 537

Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation. All cash held by the financial institutions is fully insured or collateralized.

The Commission maintains substantially all of its cash in the Humboldt County Treasury as part of the common investment pool. The County is restricted by Government Code Section 53635 pursuant to Section 53601 to invest in time deposits, U.S. government securities, State registered warrants, notes or bonds, State Treasurer's investment pool, banker's acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements.

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION
NOTES TO FINANCIAL STATEMENTS

For The Year Ended June 30, 2013

Credit Risk - Investments

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

The County Treasurer's investments consist of 47.12 percent federal agencies, 30.39 percent money markets, and 22.49 percent certificates of deposit. The S & P credit ratings for these investments include AAA, AA, A+e, and Ae, and non-rated for certificates of deposit and the California State Treasurer's local agency investment fund.

Custodial Credit Risk – Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Commission will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that in the event of a failure of the counter party (e.g. broker-dealer) to a transaction, the Commission will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Neither the California Government Code nor the County's investment policy contains legal or policy requirements that would limit the Commission's exposure to custodial credit risk for deposits or investments, except that the California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure Commission deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits. As of June 30, 2013, none of the Commission's deposits were exposed to custodial credit risk.

Interest Rate Risk – Investments

Interest rate risk is the measurement of how changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the more sensitive to changes in market interest rates of its fair value. One of the ways the County of Humboldt Treasurer manages its exposure to interest rate risk is by purchasing a combination of short-term and long-term investments and by timing cash flows from maturities so a portion of its portfolio is maturing or coming close to maturity to ensure the cash flow and liquidity of operations. The weighted average maturity of the County of Humboldt Treasurer's investments is 842 days.

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION
NOTES TO FINANCIAL STATEMENTS

For The Year Ended June 30, 2013

4. Interfund Transactions

Interfund Receivables/Payables

Interfund balances at June 30, 2013 consisted of the following individual fund receivables and payables:

	<u>Receivables</u>	<u>Payables</u>
General Fund		\$ 16,861
EDA Revolving Loan Fund	\$ 16,842	
RREDC Revolving Loan Fund	<u>19</u>	
Total	<u>\$ 16,861</u>	<u>\$ 16,861</u>

Interfund Transfer

Interfund transfers during the year ended June 30, 2013 consisted of the following:

Transfer from the General Fund to the RREDC Revolving Loan Fund to establish micro-loan account	<u>\$ 5,300</u>
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5. Notes Receivable

EDA Revolving Loan Fund: Notes receivable in this fund consist of loans made through the revolving loan program funded by the Economic Development Administration (EDA). These loans must meet the criteria of the Revolving Loan Plan Guidelines approved by the EDA. Among other requirements, borrowers must demonstrate the inability to obtain financing through commercial sources. Consequently, loans made are likely to have higher risk of default than loans made by commercial lending institutions.

RREDC Revolving Loan Fund: Notes receivable in this fund consist of loans made through a supplement to the revolving loan program, initially funded by a grant from the Department of Housing and Urban Development and subsequently funded by the Commission with funds remaining to the Commission after the grant was closed out in the year 2000. Loans are issued in accordance with the Revolving Loan Plan Guidelines, for amounts between \$5,000 and \$25,000. Borrowers must demonstrate the inability to obtain financing through commercial sources. Consequently, loans made are likely to have higher risk of default than loans made by commercial lending institutions.

Headwaters Revolving Loan Fund: Notes receivable in this fund consist of loans made through the revolving loan program funded by the County of Humboldt Headwaters Fund. These loans must meet the criteria of the Humboldt County Headwaters Fund Revolving Loan Lender Manual. Among other requirements, borrowers must demonstrate the inability to obtain financing through commercial sources. Consequently,

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION
NOTES TO FINANCIAL STATEMENTS

For The Year Ended June 30, 2013

loans made are likely to have higher risk of default than loans made by commercial lending institutions. All principal collections on these notes, and 60 percent of interest collections, are payable to the Humboldt Headwaters Fund. The remaining 40 percent of interest collections are retained by the Commission as a fee for servicing the loans. A notes payable amount equal to the notes receivable balance less the capitalized interest due to the Commission is reflected in the Commission's financial statements.

NLPA Loan: This is a loan administered by the Commission that was funded by a one-time advance from the National Livestock Producer's Association (NLPA). This loan is being reported in the General Fund. The advance from the NLPA is reflected in the General Fund as "Note payable - NLPA loan".

Following is a summary of changes in the notes receivable for the fiscal year ended June 30, 2013:

	EDA Revolving <u>Loan Fund</u>	RREDC Revolving <u>Loan Fund</u>	Headwaters Revolving <u>Loan Fund</u>	NLPA <u>Loan</u>
Balance, June 30, 2012	\$3,186,799	\$ 803	\$2,454,105	\$125,021
Loans disbursed	358,344	33,600		
Transfer to collection assets				
Reclassify capitalized interest previously netted against total loan balance	(42,912)		42,912	
Principal payments received	<u>(443,618)</u>	<u>(3,955)</u>	<u>(46,806)</u>	<u>(123,321)</u>
Balance, June 30, 2013	<u>\$3,058,613</u>	<u>\$ 30,448</u>	<u>\$2,450,211</u>	<u>\$ 1,700</u>

6. Collection Assets

Collection assets are notes receivable that have become delinquent and are in various stages of collections. At the time collection efforts are intensified, the note balance is written off of the notes receivable account and reclassified as collection assets. In some cases, property on which the Commission has foreclosed to collect on the note is included in the collection assets account. Additional costs, including attorney's fees, are capitalized in the collection assets account.

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION
NOTES TO FINANCIAL STATEMENTS

For The Year Ended June 30, 2013

7. Capital Assets

Capital asset activity for the period ended June 30, 2013, was as follows:

	<u>Beginning</u> <u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balances</u>
Governmental activities:				
Capital assets being depreciated:				
Improvements - General Fund	\$ 46,594			\$ 46,594
Office Equipment - EDA Fund	11,672	\$ 2,701	\$ (5,264)	9,109
Office Equipment - General Fund	<u>19,180</u>			<u>19,180</u>
Total capital assets being depreciated	<u>77,446</u>	<u>2,701</u>	<u>(5,264)</u>	<u>74,883</u>
Less accumulated depreciation for:				
Equipment and improvements	<u>(77,072)</u>	<u>\$ (271)</u>	<u>5,183</u>	<u>(72,160)</u>
Total accumulated depreciation	<u>(77,072)</u>	<u>(271)</u>	<u>5,183</u>	<u>(72,160)</u>
Total capital assets being depreciated, net	<u>374</u>	<u>2,430</u>	<u>(81)</u>	<u>2,723</u>
Governmental activities capital assets, net	<u>\$ 374</u>	<u>\$ 2,430</u>	<u>\$ (81)</u>	<u>\$ 2,723</u>

Depreciation was charged to functions as follows:

Loan Services	<u>\$ 271</u>
Total	<u>\$ 271</u>

8. Excess of Expenditures Over Appropriations

Excesses of expenditures over appropriations in individual major funds are as follows:

<u>Fund</u>	<u>Excess Expenditures</u>
General Fund:	
Rent	\$ 2,790
Utilities	36
Janitorial	392
Professional fees	540
Contracted services	13,940
Repairs and maintenance	30
Community education	835
Telephone	90
Software purchase and support	400
Professional development	90
Dues	294
Travel	3,718
Miscellaneous	251

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION
NOTES TO FINANCIAL STATEMENTS

For The Year Ended June 30, 2013

EDA Revolving Loan Fund:

Professional fees	8,547
Telephone	1,932
Software	2,864
Dues	30
Capital outlay	2,701

RREDC Revolving Loan Fund:

Salaries and employee benefits	956
Miscellaneous	492

9. Employee Retirement Systems

The Commission implemented a retirement plan for the benefit of its employees effective July 1, 2000. The Commission matches the employee's contribution, up to five percent of each participating employee's gross wages. The employee must contribute a minimum of three percent to receive a matching contribution from the Commission. For the year ended June 30, 2013, the Commission's total matching contribution was \$7,449.

10. Adjustments to Fund Balance

The Commission made the following adjustments for the year ended June 30, 2013 to the RREDC Revolving Loan Fund balance for uncollectible notes receivable written off and posted directly to the fund balance in accordance with Commission and EDA accounting policies:

Northgate Recovery	\$ 25,000
The Seven Lamps	1,045
Mike's Baits	<u>45,572</u>
Total	<u>\$ 71,617</u>

There were no adjustments for the year ended June 30, 2013 to the EDA Revolving Loan Fund balance

11. Risk Management

The Commission is exposed to various risks of loss related to torts, theft or destruction of assets, errors and omissions, and natural disasters. The Commission manages those risks of loss through commercial insurance. There have been no significant reductions in insurance coverage from the prior year. For each of the past three years, settlements did not exceed insurance coverage.

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION
NOTES TO FINANCIAL STATEMENTS

For The Year Ended June 30, 2013

12. Commitments and Contingencies

A. Operating Lease

The Commission entered into a ten-year noncancellable operating lease for office space on May 3, 2001. The terms of the lease call for monthly payments beginning May 2001 in the amount of \$3,008, with annual rate adjustments based on the Consumer Price Index, and an option for an extended term of five additional years. The Commission approved the extended five-year option commencing on May 1, 2011. The monthly payment as of June 30, 2013 was \$3,885.

Future minimum payments required under this lease are as follows:

<u>Year Ending June 30</u>	
2014	\$ 46,623
2015	46,623
2016	<u>38,853</u>
Total	<u>\$ 132,099</u>

The Commission will receive a total of \$71,455 in the future for non-cancelable subleases.

B. Notes Payable - NLPA Loan

These are loans administered by the Commission that were funded by advances from the National Livestock Producer's Association (NLPA). These loans are being reported in the General Fund. The advance from the NLPA is reflected in the General Fund as "Note payable - NLPA loan".

C. Federal Grants

The Commission received federal funds in prior years for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement will not be material.

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION
NOTES TO FINANCIAL STATEMENTS

For The Year Ended June 30, 2013

13. Subsequent Event

Subsequent to June 30, 2013, management reclassified one note receivable to collection assets. As described above in Note 6, collection assets are notes receivable that have become delinquent and are in various stages of collections. At the time collection efforts are intensified, the note balance is reclassified from the notes receivable account to collection assets. This note was funded by a combination of EDA funds and Headwaters loan funds. At June 30, 2013 the outstanding balance of the note funded by EDA funds was \$200,007 and the outstanding balance funded by Headwaters funds was \$499,651.

In the event of a default and foreclosure, the Commission holds collateral on the note that will help to offset any loss. The amount of loss, if any, is not readily determinable at this time.

14. Evaluation of Subsequent Events

The Commission has evaluated events through January 21, 2014, the date on which the financial statements were available to be issued.

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION

STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND

BALANCE - BUDGET AND ACTUAL

GENERAL FUND

For The Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance
	Original	Final		With Final Budget - Favorable (Unfavorable)
<u>REVENUES</u>				
Investment interest	\$ 2,250	\$ 2,250	\$ 758	\$ (1,492)
Late/service/other fees	75	75	10,841	10,766
Loan service fee - Headwaters Fund	32,001	32,001	31,625	(376)
Rental income	52,681	52,681	56,144	3,463
Other revenue	12,756	12,756	11,041	(1,715)
Total Revenues	<u>99,763</u>	<u>99,763</u>	<u>110,409</u>	<u>10,646</u>
<u>EXPENDITURES</u>				
Salaries and employee benefits	31,773	31,773	27,787	3,986
Rent	16,673	16,673	19,463	(2,790)
Utilities	10,000	10,000	10,036	(36)
Insurance	4,000	4,000	3,066	934
Janitorial	7,500	7,500	7,892	(392)
Professional fees	2,480	2,480	3,020	(540)
Contracted services			13,940	(13,940)
Repairs and maintenance	2,000	2,000	2,030	(30)
Postage, copying and printing	750	750	538	212
Supplies	2,500	2,500	2,296	204
Community education	1,000	1,000	1,835	(835)
Telephone			90	(90)
Software purchase and support			400	(400)
Professional development			90	(90)
Dues			294	(294)
Travel	1,000	1,000	4,718	(3,718)
Indirect charges	5,000	5,000		5,000
Miscellaneous			251	(251)
Total Expenditures	<u>84,676</u>	<u>84,676</u>	<u>97,746</u>	<u>(13,070)</u>
Excess of Revenues Over (Under) Expenditures	<u>15,087</u>	<u>15,087</u>	<u>12,663</u>	<u>(2,424)</u>
Other financing sources (uses):				
Transfers out			(5,300)	(5,300)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(5,300)</u>	<u>(5,300)</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>15,087</u>	<u>15,087</u>	<u>7,363</u>	<u>(7,724)</u>
Fund Balance, July 1, 2012	<u>94,961</u>	<u>94,961</u>	<u>94,961</u>	<u>-</u>
Fund Balance, June 30, 2013	<u>\$ 110,048</u>	<u>\$ 110,048</u>	<u>\$ 102,324</u>	<u>\$ (7,724)</u>

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION

STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL
EDA REVOLVING LOAN FUND

For The Year Ended June 30, 2013

	Budget		Actual	Variance
	Original	Final		With Final Budget - Favorable (Unfavorable)
<u>REVENUES</u>				
Loan interest	\$ 261,000	\$ 261,000	\$ 287,330	\$ 26,330
Investment interest	4,000	4,000	5,278	1,278
Late/service/other fees			15,429	15,429
Loan service fee - Headwaters Fund	56,891	56,891	54,567	(2,324)
Loan fees	10,000	10,000	5,150	(4,850)
Miscellaneous fees			1,683	1,683
Total Revenues	<u>331,891</u>	<u>331,891</u>	<u>369,437</u>	<u>37,546</u>
<u>EXPENDITURES</u>				
Salaries and employee benefits	161,573	161,573	153,269	8,304
Rent	28,320	28,320	28,320	-
Professional fees	52,120	52,120	60,667	(8,547)
Credit investigation fees	1,000	1,000		1,000
Repairs and maintenance	500	500	19	481
Postage, copying and printing	5,000	5,000	2,283	2,717
Supplies	2,500	2,500	1,930	570
Community education	8,500	8,500	2,888	5,612
Telephone	6,000	6,000	7,932	(1,932)
Software	2,900	2,900	5,764	(2,864)
Professional development	2,000	2,000	164	1,836
Books, publications, subscriptions	1,000	1,000	297	703
Dues	2,000	2,000	2,030	(30)
Travel	1,750	1,750	219	1,531
Lease/purchase equipment	600	600	551	49
Capital outlay			2,701	(2,701)
Miscellaneous	1,000	1,000	531	469
Total Expenditures	<u>276,763</u>	<u>276,763</u>	<u>269,565</u>	<u>7,198</u>
Excess of Revenues Over (Under)				
Expenditures	<u>55,128</u>	<u>55,128</u>	<u>99,872</u>	<u>44,744</u>
Other financing sources (uses):				
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	55,128	55,128	99,872	44,744
Fund Balance, July 1, 2012	<u>4,245,990</u>	<u>4,245,990</u>	<u>4,245,990</u>	<u>-</u>
Fund Balance, June 30, 2013	<u>\$ 4,301,118</u>	<u>\$ 4,301,118</u>	<u>\$ 4,345,862</u>	<u>\$ 44,744</u>

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION

STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL
RREDC REVOLVING LOAN FUND

For The Year Ended June 30, 2013

	Budget		Actual	Variance With Final Budget - Favorable (Unfavorable)
	Original	Final		
<u>REVENUES</u>				
Loan interest			\$ 1,186	\$ 1,186
Investment interest			727	727
Late/service/other fees			20	20
Loan fees			1,000	1,000
Other revenue			14,214	14,214
Total Revenues	-	-	17,147	17,147
<u>EXPENDITURES</u>				
Salaries and employee benefits			956	(956)
Miscellaneous			492	(492)
Total Expenditures	-	-	1,448	(1,448)
Other financing sources (uses):				
Transfers in			5,300	5,300
Total Other Financing Sources (Uses)	-	-	5,300	5,300
Excess of Revenues Over (Under)				
Expenditures	-	-	20,999	15,699
Fund Balance, July 1, 2012			222,759	222,759
Fund Balance Adjustment			(71,617)	(71,617)
Fund Balance, June 30, 2013	\$ -	\$ -	\$ 172,141	\$ 166,841

SUPPLEMENTARY INFORMATION

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION

ORGANIZATION

June 30, 2013

The member agencies, their respective appointed board members, and the Commission's executive director were as follows:

MEMBER AGENCIES AND GOVERNING BOARD

<u>Agency Name</u>	<u>Board Member</u>
County of Humboldt	Mark Lovelace
Redwoods Community College District	Richard Dorn
Humboldt Bay Harbor, Recreation, and Conservation District	Mike Wilson
Humboldt Bay Municipal Water District	Bruce Rupp
McKinleyville Community Services District	Bill Wennerholm
Humboldt Community Services District	Frank Scolari
City of Eureka	Mike Newman
City of Arcata	Alex Stillman
City of Fortuna	Sue Long
City of Ferndale	Ken Mierzwa
City of Blue Lake	Kevin Benjamin
City of Rio Dell	Frank Wilson
City of Trinidad	Julie Fulkerson
Willow Creek Community Services District	Tyler Holmes
Manila Community Services District	John Woolley
Orick Community Services District	Nancy Koke
Redway Community Services District	Michael McKaskle
Hoopa Valley Tribe	No Representative Appointed
Orleans Community Services District	No Representative Appointed

ADMINISTRATION

Don Ehnebuske
Executive Director

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2013

<u>Federal Grantor/Pass Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Grant or Project Number</u>	<u>Federal Expenditures</u>
Federal Programs:			
U.S. Department of Commerce:			
Economic Development			
Administration Economic			
Adjustment Assistance Program	11.307	07-19-02074	<u>\$ 4,154,133</u>
Total Expenditures of Federal Awards			<u><u>\$ 4,154,133</u></u>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2013

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Redwood Region Economic Development Commission and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

2. Subrecipients

No federal awards were provided to subrecipients.

John R. Goff, CPA
Mark G. Wetzel, CPA
Michael R. Cline, CPA



DAVID L. MOONIE & CO., LLP
Certified Public Accountants

Kenneth X. Stringer, CPA
Aaron S. Weiss, CPA
Joshua S. Miller, CPA

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Commissioners
Redwood Region Economic Development Commission
520 E Street
Eureka, California 95501

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Redwood Region Economic Development Commission (the "Commission") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated January 21, 2014. In our report our opinion was modified because the Commission prepares the financial statements on a regulatory basis of accounting which is other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS - CONTINUED

detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Commission's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

David Z. Moonie + Co.

CERTIFIED PUBLIC ACCOUNTANTS

Eureka, California

January 21, 2014

John R. Goff, CPA
Mark G. Wetzel, CPA
Michael R. Cline, CPA



Kenneth X. Stringer, CPA
Aaron S. Weiss, CPA
Joshua S. Miller, CPA

DAVID L. MOONIE & CO., LLP
Certified Public Accountants

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
Redwood Region Economic Development Commission
520 E Street
Eureka, California 95501

Report on Compliance for Each Major Federal Program

We have audited Redwood Region Economic Development Commission's (the "Commission") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Commission's major federal programs for the year ended June 30, 2013. The Commission's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Audit Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Commission's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 - CONTINUED

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Commission's compliance.

Opinion on Each Major Federal Program

In our opinion, the Commission complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

The management of the Commission is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Commission's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133 - CONTINUED

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

David L. Moonie + Co.
CERTIFIED PUBLIC ACCOUNTANTS
Eureka, California
January 21, 2014

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

June 30, 2013

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Qualified

Internal control over financial reporting:

Material weakness(es) identified? No

Significant deficiencies identified not considered
to be material weaknesses? No

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? No

Reportable condition(s) identified not considered
to be material weaknesses? No

Type of auditor's report issued on compliance for
major programs: Unqualified

Any audit findings disclosed that are required to be
reported in accordance with Circular A-133,
Section .510(a) No

Identification of major programs:

CFDA Numbers

11.307

Name of Federal Program or Cluster

Economic Adjustment Assistance Program

Dollar threshold used to distinguish between
Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? No

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

June 30, 2013

Section II – Financial Statement Findings

No audit findings in the current fiscal year.

Section III – Federal Compliance Findings

No audit findings in the current fiscal year.

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

June 30, 2013

There were no audit findings for the year ended June 30, 2012.