

**REDWOOD REGION ECONOMIC DEVELOPMENT
COMMISSION**

FINANCIAL STATEMENTS

Year Ended June 30, 2017

With

INDEPENDENT AUDITOR'S REPORT

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION

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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
Matthew J. Hague, CPA

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION
INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities and each major fund of the Redwood Region Economic Development Commission (the "Commission") as of and for the year ended June 30, 2017, 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, as described in Note 2. 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 *Government 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.

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

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS - CONTINUED

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

As described in Note 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 Note 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 above 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, 2017, or the changes in its financial position for the year then ended.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above 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, 2017, 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 Note 2.

Other Matters

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 Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The notes to the schedule of expenditures of federal awards 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

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION

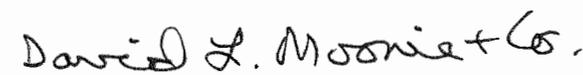
INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS - CONTINUED

accepted in the United States of America. In our opinion, the notes to the schedule of expenditures of federal awards and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements as a whole.

The management's discussion and analysis, the budgetary comparison information, and the organization schedule have not been subjected to the auditing procedures applied in the audit of the basic financial statements. We have applied certain limited procedures to the management's discussion and analysis, the budgetary comparison information, and the organization schedule 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. We do not express an opinion or provide any assurance on the management's discussion and analysis, the budgetary comparison information, and the organization schedule, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2018, 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, 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.


CERTIFIED PUBLIC ACCOUNTANTS
Eureka, California
January 17, 2018

**Redwood Region Economic Development Commission
Management's Discussion and Analysis
For The Fiscal Year Ended June 30, 2017**

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. 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. Periodically, RREDC also 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 its facility.

b. Financial Highlights – FY 2017

- Total fund balance on June 30, 2017 was \$5,364,979, an increase of \$348,862 from July 1, 2016.
- Total revenues were \$544,032. Loan interest and fees accounted for \$450,741 or approximately 83% of all revenues. Rent and other fees for service totaled \$85,217 or 16%, and interest earned on investments totaled \$8,074 or 1%.
- Total expenditures for the year, not including net position adjustments, were \$398,558. Salaries and employee benefits were the largest expenditure at \$217,957 or 55% of total expenditures. Rent was the second highest expenditure at \$66,445 or 17%. The next largest expenditure was airline recruitment at \$31,358 or 8%.
- Excess of revenues over expenditures was \$145,474 or 27% of revenues. Per EDA policy, loan losses of \$78,612 are not included in expenditures. These are written directly to the fund balance.

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.

Individual fund financial statements start on page 7. These statements provide more detail on individual fund balances and how dollars were spent in individual programs of RREDC. These statements do not contain capital assets or depreciation. Capital Assets and Accumulated Depreciation are shown on page 8.

**Redwood Region Economic Development Commission
Management's Discussion and Analysis
For The Fiscal Year Ended June 30, 2017**

Page 9 shows the revenues and expenditures for the agency, delineated by the three major activities of RREDC.

Page 11 includes the Statement of Net Position (Assets and Liabilities) for the part of the Headwaters Fund that RREDC uses to make loans. While RREDC is responsible for servicing these loans and reporting performance to the Headwaters Fund, we do not hold significant cash. Each month, cash received for Headwaters Fund loans is transferred to the County of Humboldt.

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. To survive over time, this fund must generate sufficient revenue through operations to cover all expenditures 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 98% of total revenue to these RLFs.

During the 2017 fiscal year, the U.S. Economic Development Administration awarded RREDC a grant to create a new revolving loan fund. This fund is noted as "EDA2." Grant funds are drawn at the time of funding of a loan and are shown as fund balance adjustments rather than revenue per the requirements of the EDA.

The General Fund is a discretionary fund. In FY 2017, RREDC has restated the fund balance in this fund to reflect our inclusion of our non-EDA loan program into the General Fund. The largest single source of revenue for this fund is income from our Headwaters Fund loan activity. This is followed by rental income from sub-leases of space at the RREDC facility (The Prosperity Center 520/530 E Street in Eureka). Other revenues include reimbursement for airline recruitment expenditures, non-EDA loan interest, fees for service and grant revenues for specific projects.

RREDC's programs 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

**Redwood Region Economic Development Commission
Management's Discussion and Analysis
For The Fiscal Year Ended June 30, 2017**

to the HWF. Under that contract, RREDC retained forty percent of the collected interest as compensation for making and servicing the loans.

In April 2014, the County of Humboldt signed a new agreement with RREDC for participation in the Headwaters Fund. Since the signing of that agreement, RREDC receives the following compensation from the Headwaters Fund (note that "Participant" refers to the Headwaters Fund and "Lender" refers to RREDC):

- A. If the total loan is less than \$300,000, thirty-five percent (35%) of interest collected on the Participating Interest as a Service Fee. As of the date of this contract, new loans underwritten in the amount of \$300,000 or less cannot exceed 25% of the total Participant's portfolio, unless with prior consent of Participant.
- B. If the total loan is greater than \$300,000, one percent (1%) will be collected on the unpaid balance as a Service Fee;
- C. Non-interest late charges arising in connection with the Participation Loan, but only after all interest payments are brought current;
- D. Origination fees and related charges received by Lender in connection with the Participation Loan.

II. Financial Performance for Fiscal 2017

a. Net Position

RREDC's net position increased by \$338,061 from one year ago. Table 1 below compares the current statement of net position to that of the previous year.

TABLE 1			
Comparative Statement of Net Position			
	30-Jun-16	30-Jun-17	Change
Cash	1,115,545	708,310	(407,235)
Notes receivable	3,863,018	4,699,318	836,300
Other assets	166,936	99,928	(67,008)
Capital assets	3,133	1,999	(1,134)
Total Assets	5,148,632	5,509,555	360,923
Notes payable	-	-	
Other liabilities	39,895	71,689	31,794
Airline recruitment fund	89,487	80,555	(8,932)
Total liabilities	129,382	152,244	22,862
Invested in capital assets	3,133	1,999	(1,134)
Restricted for loan servicing	4,672,400	4,990,887	318,487
Unrestricted	343,717	364,425	20,708
Total Net Position	5,019,250	5,357,311	338,061

**Redwood Region Economic Development Commission
Management's Discussion and Analysis
For The Fiscal Year Ended June 30, 2017**

b. Comparative Statement of Activities

Table 2 shows the statement of activities for the year ended June 30, 2016 and compares it to the previous fiscal year.

TABLE 2			
Comparative Statement of Activities			
	30-Jun-16	30-Jun-17	Change
Revenues:			
Charges for services	497,741	513,072	15,331
Operating grants and contributions	-	-	-
Interest and investment earnings	5,276	8,074	2,798
Total Revenues	503,017	521,146	18,129
Expenses:			
Loan services	283,942	277,551	(6,391)
Economic development services	725	9,499	8,774
General administration	85,552	99,423	13,871
Total Expenses	370,219	386,473	16,254
Change in Net Position	147,325	134,673	(12,652)
Beginning Net Position	4,871,925	5,019,250	147,325
Net Position Adjustments	14,527	203,388	188,861
Ending Net Position	5,019,250	5,357,311	
Change	147,325	338,061	

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			
	30-Jun-16	30-Jun-17	Change
EDA RLF	4,672,400	4,702,849	30,449
EDA2 RLF	-	288,038	288,038
General Fund	343,717	374,092	30,375
Total*	5,016,117	5,364,979	348,862

*does not include \$1,134 depreciation of capital assets

**Redwood Region Economic Development Commission
Management's Discussion and Analysis
For The Fiscal Year Ended June 30, 2017**

d. Revenues for Governmental Funds

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

TABLE 4			
Agencywide Governmental Funds Revenues			
	30-Jun-16	30-Jun-17	Change
Loan interest	337,343	338,699	1,356
Investment interest	5,276	8,074	2,798
Late fees	3,467	7,268	3,801
Rental income	49,932	52,440	2,508
Loan Service Fee - Headwaters	87,940	86,234	(1,706)
Loan fees	17,810	18,540	730
Other revenue	15,917	32,777	16,860
Total Revenue	517,685	544,032	26,347

e. Discussion of Budget vs. Actual Revenues and Expenditures

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 expenditures. Revenue and expenditures directly attributable to loan activity can vary significantly from predictions made during the budget process.

Tables 5 and 6 on the following two pages show the budget-to-actual revenue and expenditures for the two EDA loan funds.

**Redwood Region Economic Development Commission
Management's Discussion and Analysis
For The Fiscal Year Ended June 30, 2017**

TABLE 5			
Budget vs. Actual Revenues and Expenditures			
EDA Revolving Loan Fund			
Revenues	Budget	Actual	Favorable
Loan interest	360,000	318,714	(41,286)
Investment interest	2,925	6,271	3,346
Late/service/other fees	2,500	5,493	2,993
Loan Service Fee – Headwaters	30,000	25,713	(4,287)
Loan fees	3,750	11,125	7,375
Other revenue	-	4,213	4,213
Total Revenue	399,175	371,529	(27,646)
Expenditures			
Salaries and employee benefits	188,920	181,866	7,054
Rent	30,000	32,568	(2,568)
Utilities	8,670	-	8,670
Professional fees	14,450	18,013	(3,563)
Credit investigation fees	1,275	-	1,275
Contracted Services	10,200	-	10,200
Depreciation	1,020	-	1,020
Repairs and maintenance	425	-	425
Postage, copying, and printing	5,377	360	5,017
Supplies	2,125	2,647	(522)
Community education	6,035	9,375	(3,340)
Telephone	4,080	5,362	(1,282)
Software	2,312	3,661	(1,349)
Professional development	638	408	230
Books, publications, subscriptions	425	228	197
Recruitment	-	-	-
Dues	1,700	2,649	(949)
Travel	2,125	992	1,133
Lease/Purchase Equipment	638	6,160	(5,522)
Miscellaneous	850	199	651
Total Expenditures	281,265	264,488	16,777
Excess of Revenues Over (Under) Expenditures	117,910	107,041	(10,869)
Transfers In	-	2,020	2,020
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	117,910	109,061	(8,849)
Fund Balance July 1, 2016	4,672,400	4,672,400	
Fund Balance Adjustment (Loan Loss)	-	(78,612)	(78,612)
Fund Balance June, 30, 2017	4,790,310	4,702,849	(87,461)

**Redwood Region Economic Development Commission
Management's Discussion and Analysis
For The Fiscal Year Ended June 30, 2017**

Revenues	Budget	Actual	Variance Favorable (Unfavorable)
Loan Interest	67,500	4,548	(62,952)
Investment interest	20,000	554	(19,446)
Loan Fees	9,375	6,515	(2,860)
Total Revenue	96,875	11,617	(85,258)
Expenditures			
Salaries and employee benefits	35,422	1,184	34,238
Utilities	1,530	-	1,530
Professional Fees	2,550	4,380	(1,830)
Credit investigation fees	225	9	216
Contracted Services	1,800	-	1,800
Depreciation	180	-	180
Repairs and maintenance	75	-	75
Postage, copying, and printing	949	6	943
Supplies	375	-	375
Telephone	720	-	720
Software Purchase and Support	408	-	408
Professional development	113	-	113
Books, publications, subscriptions	75	-	75
Dues	300	-	300
Travel	375	-	375
Lease/purchase equipment	113	-	113
Miscellaneous	1,215	-	1,215
Total Expenditures	46,425	5,579	40,846
Excess of Revenues Over (Under) Expenditures	50,450	6,038	(44,412)
Fund Balance Adjustment	-	282,000	282,000
Fund Balance July 1, 2016		-	
Fund Balance June, 30, 2017	50,450	288,038	237,588

RREDC General Fund The general fund budget is largely made up of revenue from rents, loan fund revenue, 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-through 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. Table 7 is on following page.

**Redwood Region Economic Development Commission
Management's Discussion and Analysis
For The Fiscal Year Ended June 30, 2017**

Revenues	Budget	Actual	Variance Favorable (Unfavorable)
Loan interest	-	15,437	15,437
Investment interest	618	1,803	1,185
Late fees	-	1,221	1,221
Loan service fee - Headwaters Fund	56,463	60,521	4,058
Loan fees	1,500	900	(600)
Rental Income	48,306	52,440	4,134
Airline recruitment reimbursement	-	22,886	22,886
Other revenue	1,000	5,678	4,678
Total Revenue	107,887	160,886	52,999
Expenditures	-		
Salaries and employee benefits	20,286	34,907	(14,621)
Rent	35,900	33,877	2,023
Utilities	10,200	11,745	(1,545)
Insurance	5,500	2,585	2,915
Janitorial	8,800	9,566	(766)
Professional fees	500	-	500
Repairs and maintenance	3,000	1,405	1,595
Postage, copying and printing	1,375	8	1,367
Supplies	500	1,429	(929)
Community Education	-	803	(803)
Software purchase and support	-	213	(213)
Dues	-	250	(250)
Travel	250	-	250
Airline recruitment	-	31,358	(31,358)
Miscellaneous	-	345	(345)
Total Expenditures	86,311	128,491	(42,180)
Excess of Revenues Over (Under) Expenditures	21,576	32,395	10,819
Other Financing Sources – Transfers In/Out	-	(2,020)	(2,020)
Fund Balance July 1, 2016 as restated	343,717	343,717	-
Fund Balance Adjustment	-	-	-
Fund Balance June 30, 2017	365,293	374,092	8,799

**Redwood Region Economic Development Commission
Management's Discussion and Analysis
For The Fiscal Year Ended June 30, 2017**

III. RREDC Operational Results

a. 2017 Results

RREDC has the challenge of meeting its mission of providing relatively inexpensive, higher risk capital to local small businesses while generating sufficient income to grow its programs. The need for capital increased in Fiscal Year 2015 with several larger loans made in conjunction with the Headwaters Fund. Low cash balances had negative effect on RREDC's ability to meet loan demand. To mitigate this, RREDC submitted a request to the Economic Development Administration for an additional \$1,000,000 in loan funds. The grant request was awarded in the latter half of FY 2016 and in late FY 2017, we were able to draw down \$282,000 of those funds, which were loaned to new customers.

The larger EDA Fund had net revenues over expenditures of \$109,041. However, this "profit" was reduced to \$30,449 after accounting for \$80,283 in loan losses and \$1,672 in recovery of costs written off in a prior year. 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 expenditures, limit loan losses, and expand our lending base.

The new "EDA2" fund showed net revenues over expenditures of \$6,038.

The General Fund, which now includes "RREDC Loan Fund" experienced a net return of \$30,375.

b. Factors Affecting Results

Overall, RREDC performed close to budget. The adopted budget for FY 2017 anticipated a net profit of \$188,936 with the actual profit being \$145,474 or 77% of budget. Major factors affecting these results included a delay in implementing the "EDA2" loan program due to additional auditing required by the EDA grant agreement. This delay meant that the EDA2 loan program showed significantly less revenue and expenditures than budgeted. Net revenue was budgeted at \$50,451 but was only \$6,038. The EDA RLF returned 91% of the budgeted net revenue while the General Fund returned 157% of its budgeted net revenue.

**Redwood Region Economic Development Commission
Management's Discussion and Analysis
For The Fiscal Year Ended June 30, 2017**

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.

Gregg Foster
Executive Director

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION

STATEMENT OF NET POSITION (REGULATORY BASIS)

June 30, 2017

	<u>Governmental Activities</u>
ASSETS	
Cash in County Treasury	\$ 432,738
Cash in banks	193,492
Restricted Cash in County Treasury	81,980
Cash on hand	100
Accounts receivable	22,802
Accrued interest receivable	53,058
Prepaid expenses	2,550
Capitalized interest receivable from HWF	21,518
Notes receivable - EDA revolving loan funds	4,522,846
Notes receivable - RREDC revolving loan fund	171,869
Collection assets - EDA revolving loan fund	4,603
Property and equipment, net of accumulated depreciation	<u>1,999</u>
Total assets	<u>\$ 5,509,555</u>
LIABILITIES	
Accounts payable	\$ 26,423
Unearned revenue	10,162
Employee insurance payable	1,104
Accrued salaries	7,639
Accrued payroll taxes	2,626
Accrued vacation	9,667
Other deposits	13,468
Liabilities payable from restricted assets:	
Refundable tenant deposits	600
Refundable airline fund deposits	<u>80,555</u>
Total liabilities	<u>152,244</u>
NET POSITION	
Net investment in capital assets	1,999
Restricted for EDA revolving loan program	4,990,887
Unrestricted	<u>364,425</u>
Total net position	<u>\$ 5,357,311</u>

The accompanying notes are an integral part of this statement.

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION

STATEMENT OF ACTIVITIES (REGULATORY BASIS)

For The Year Ended June 30, 2017

		<u>Program Revenues</u>		<u>Net (Expense)</u>
		<u>Charges For</u>	<u>Operating</u>	<u>Revenue and</u>
	<u>Expenses</u>	<u>Services</u>	<u>Grants and</u>	<u>Changes in</u>
			<u>Contributions</u>	<u>Net Position</u>
				<u>Governmental</u>
				<u>Activities</u>
Governmental Activities				
Loan services	\$ 277,551	\$ 450,741		\$ 173,190
Economic development services	9,499			(9,499)
General administration	99,423	62,331		(37,092)
Total governmental activities	<u>\$ 386,473</u>	<u>\$ 513,072</u>	<u>\$ -</u>	<u>126,599</u>
General revenues:				
Interest and investment earnings				<u>8,074</u>
Total general revenues				<u>8,074</u>
Change in net position				134,673
Net position, beginning				5,019,250
Net position adjustment				<u>203,388</u>
Net position, ending				<u>\$ 5,357,311</u>

The accompanying notes are an integral part of this statement.

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION
BALANCE SHEET - GOVERNMENTAL FUNDS (REGULATORY BASIS)

June 30, 2017

	General Fund	EDA Revolving Loan Fund	EDA2 Revolving Loan Fund	Total
ASSETS				
Cash in County Treasury	\$ 118,360	\$ 310,847	\$ 3,531	\$ 432,738
Cash in banks	82,579	110,913		193,492
Restricted Cash in County Treasury	81,980			81,980
Cash on hand	100			100
Accounts receivable	21,646	563		22,209
Due from RREDC Headwaters Fund		593		593
Prepays		2,550		2,550
Due from other funds	2,321		13,507	15,828
Accrued interest receivable	6,804	43,626	2,628	53,058
Capitalized interest due from Headwaters Fund		21,518		21,518
Notes receivable	171,869	4,254,360	268,486	4,694,715
Collection assets		4,603		4,603
Total assets	<u>\$ 485,659</u>	<u>\$ 4,749,573</u>	<u>\$ 288,152</u>	<u>\$ 5,523,384</u>
LIABILITIES				
Accounts payable	\$ 20,687	\$ 5,721	\$ 15	\$ 26,423
Unearned revenue	4,614	5,548		10,162
Accrued salaries	1,571	5,969	99	7,639
Accrued payroll taxes	2,626			2,626
Other deposits		13,468		13,468
Liabilities payable from restricted assets:				
Refundable tenant deposits	600			600
Refundable airline fund deposits	80,555			80,555
Employee insurance payable	914	190		1,104
Due to other funds		15,828		15,828
Total liabilities	<u>111,567</u>	<u>46,724</u>	<u>114</u>	<u>158,405</u>
FUND BALANCES				
Restricted for:				
Loan servicing		4,702,849	288,038	4,990,887
Committed for:				
Loan servicing	204,378			204,378
Unassigned	169,714			169,714
Total fund balances	<u>374,092</u>	<u>4,702,849</u>	<u>288,038</u>	<u>5,364,979</u>
Total liabilities and fund balances	<u>\$ 485,659</u>	<u>\$ 4,749,573</u>	<u>\$ 288,152</u>	<u>\$ 5,523,384</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 (REGULATORY BASIS)

June 30, 2017

Total fund balances - governmental funds balance sheet \$ 5,364,979

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

Accrued liabilities: In governmental funds, only the matured portion of accrued vacation payable is reported. In the statement of net position, the entire balance of accrued vacation is reported.

Accrued vacation payable	\$ (9,667)	
Less: Matured portion of accrued vacation	<u> -</u>	
Net Unmatured Accrued Vacation Payable		(9,667)

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	\$ 77,855	
Accumulated depreciation	<u>(75,856)</u>	
Net		<u>1,999</u>

Total Net Position, Governmental Activities \$ 5,357,311

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 (REGULATORY BASIS)

For The Year Ended June 30, 2017

	General Fund	EDA Revolving Loan Fund	EDA2 Revolving Loan Fund	Total
<u>REVENUES</u>				
Loan interest	\$ 15,437	\$ 318,714	\$ 4,548	\$ 338,699
Investment interest	1,803	6,271		8,074
Late/service/other fees	1,221	5,493	554	7,268
Rental income	52,440			52,440
Loan service fee - Headwaters Fund	60,521	25,713		86,234
Loan fees	900	11,125	6,515	18,540
Airline recruitment reimbursement	22,886			22,886
Other revenue	5,678	4,213		9,891
Total Revenues	<u>160,886</u>	<u>371,529</u>	<u>11,617</u>	<u>544,032</u>
<u>EXPENDITURES</u>				
Salaries and employee benefits	34,907	181,866	1,184	217,957
Rent	33,877	32,568		66,445
Utilities	11,745			11,745
Insurance	2,585			2,585
Janitorial	9,566			9,566
Professional fees		18,013	4,380	22,393
Credit investigation fees			9	9
Repairs and maintenance	1,405			1,405
Postage, copying and printing	8	360	6	374
Supplies	1,429	2,647		4,076
Community education	803	9,375		10,178
Telephone		5,362		5,362
Software purchase and support	213	3,661		3,874
Professional development		408		408
Books and publications		228		228
Dues	250	2,649		2,899
Travel		992		992
Lease/purchase equipment		6,160		6,160
Airline Recruitment	31,358			31,358
Miscellaneous	345	199		544
Total Expenditures	<u>128,491</u>	<u>264,488</u>	<u>5,579</u>	<u>398,558</u>
Excess of Revenues Over (Under) Expenditures	<u>32,395</u>	<u>107,041</u>	<u>6,038</u>	<u>145,474</u>
Other financing sources (uses):				
Transfers in		2,020		2,020
Transfers out	(2,020)			(2,020)
Total Other Financing Sources (Uses)	<u>(2,020)</u>	<u>2,020</u>	<u>-</u>	<u>-</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses				
	30,375	109,061	6,038	145,474
Fund Balance, July 1, 2016, as restated	343,717	4,672,400		5,016,117
Fund Balance Adjustment		(78,612)	282,000	203,388
Fund Balance, June 30, 2017	<u>\$ 374,092</u>	<u>\$ 4,702,849</u>	<u>\$ 288,038</u>	<u>\$ 5,364,979</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 (REGULATORY BASIS)

For The Year Ended June 30, 2017

Total changes in fund balances, governmental funds \$ 145,474

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

Accrued expenses: In governmental funds, only the matured portion of accrued vacation payable is reported as an expenditure. In the statement of activities, the entire balance of accrued vacation is reported as an expense.

Accrued vacation payable	\$	(9,667)	
Less: Matured portion of accrued vacation		-	
Net Unmatured Accrued Vacation Payable			(9,667)

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	\$	-	
Depreciation expense		(1,134)	
Net			(1,134)

Changes In Net Position, Governmental Activities \$ 134,673

The accompanying notes are an integral part of this statement.

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION
STATEMENT OF FIDUCIARY NET POSITION (REGULATORY BASIS)

June 30, 2017

	Agency Funds
	Headwaters Fund
<u>Assets</u>	
Cash in County Treasury	\$ 593
Interest receivable	17,880
Approved loan pending distribution to borrower	13,468
Notes receivable	3,105,712
Total assets	\$ 3,137,653
 <u>Liabilities</u>	
Accrued interest due to County of Humboldt Headwaters Fund	\$ 17,880
Capitalized interest due to EDA Fund	21,518
Due to EDA Fund	593
Notes payable to County of Humboldt Headwaters Fund	3,097,662
Total liabilities	\$ 3,137,653

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, 2017

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 - CONTINUED

For The Year Ended June 30, 2017

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 (EDA) 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, deferred outflows, liabilities, deferred inflows, fund equity, revenues, and expenditures, 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, including the Commission's non-EDA micro-loan program, airport and airline recruitment support, and non-federal grant pass-through activity.

EDA Revolving Loan Fund is used to account for receipts and disbursements of Economic Development Administration revolving loan fund grant monies that were granted to the Commission in 1977 under EDA Award Number 07-19-02074.

EDA2 Revolving Loan Fund is used to account for receipts and disbursements of Economic Development Administration revolving loan fund grant monies that were granted to the Commission in 2017 under EDA Award Number 07-79-07332.

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION
NOTES TO FINANCIAL STATEMENTS - CONTINUED
For The Year Ended June 30, 2017

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 - CONTINUED

For The Year Ended June 30, 2017

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 - CONTINUED

For The Year Ended June 30, 2017

Unearned revenue:

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as unearned revenue.

Deferred Inflows and Outflows of Resources:

Deferred outflows of resources represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until that future period.

Deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that future period.

For the year ended June 30, 2017, the Commission had no reportable deferred inflows or deferred outflows.

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 EDA2 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:

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For The Year Ended June 30, 2017

1. On or before March 1 of each year, the Executive Director 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.

G. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Fund Balances

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 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.

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For The Year Ended June 30, 2017

3. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated acquisition 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 \$500 is used. Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

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

No interest was capitalized or expensed during the year ended June 30, 2017.

4. Unearned Revenue

The Commission recognizes unearned revenue when grant cash receipts exceed qualified grant expenditures.

5. Deferred Inflows and Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until that future period. The Commission had no items that qualified for reporting in this category as of June 30, 2017.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that future period. The Commission had no items that qualified for reporting in this category as of June 30, 2017.

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For The Year Ended June 30, 2017

6. 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 matured 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.

7. 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 position.

8. Noncurrent Obligations

In the government-wide financial statements, noncurrent debt and other noncurrent obligations are reported as liabilities in the statement of net position.

In the fund financial statements, governmental funds report the face amount of the debt issued, premiums, or discount as other financing sources/uses.

9. 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

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For The Year Ended June 30, 2017

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.

10. Net Position

Net position is classified into three components: net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

Net investment in capital assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For The Year Ended June 30, 2017

Restricted - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position - This component of net position consists of net position that does not meet the definition of "net investment in capital assets" or "restricted".

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.

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

2. Departures From Generally Accepted Accounting Principles

The Commission has modified the basis of accounting for the EDA Revolving Loan Fund and the EDA2 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 and net position 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

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION
NOTES TO FINANCIAL STATEMENTS - CONTINUED

For The Year Ended June 30, 2017

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.

c) Receipt of EDA Revolving Loan Fund Award Proceeds

Accounting principles generally accepted in the United States of America require that grant awards be recorded as revenue when they are measurable and available. The Commission's practice, in accordance with requirements of the Economic Development Administration, is to credit the receipt of EDA Revolving Loan Fund proceeds directly to fund balance and net position.

3. Cash and Investments

Cash at June 30, 2017 consisted of the following:

Statement of net position and Governmental Funds
 balance sheet:

Cash in banks	\$	193,492
Pooled Cash in County Treasury		514,718
Sub-total	\$	708,210

Fiduciary Funds:

Pooled Cash in County Treasury		593
Total Cash and Investments	\$	708,803

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. Cash in banks at June 30, 2017 consisted of the following:

		Reported Amount	Bank Balance
Cash in banks	\$	193,492	\$ 207,294
Total	\$	193,492	\$ 207,294

The bank balance is the balance prior to adjustment for items that had not yet cleared the bank as of June 30, 2017.

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION
NOTES TO FINANCIAL STATEMENTS - CONTINUED
 For The Year Ended June 30, 2017

The Commission does not have a formal investment policy. 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.

Fair Value Measurements

The Commission categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The three levels of the fair value hierarchy under generally accepted accounting principles are as follows:

Level 1 - inputs are quoted prices in active markets for identical assets or liabilities.

Level 2 - inputs include:

- a) Quoted prices for similar assets or liabilities in active markets;
- b) Quoted prices for identical assets or liabilities in inactive markets;
- c) Inputs other than quoted prices that are observable for the asset or liability;
- d) Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - inputs are significant unobservable inputs.

As of June 30, 2017, the Commission held no individual investments. The Commission's fair value measurements were as follows at June 30, 2017:

Investment Type	Fair Value	Level
Pooled Cash in County Treasury	\$ 512,456	2

The Commission has not recorded fair value adjustments in the basic financial statements as they were determined to be immaterial to the Commission.

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

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For The Year Ended June 30, 2017

recognized statistical rating organization.

The County Treasurer's investments consist of 83.72 percent federal agencies, 10.22 percent money markets, 0.58 percent municipal bonds, 4.33 percent treasury coupons, and 1.15 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, 2017, 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 953 days.

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION
NOTES TO FINANCIAL STATEMENTS - CONTINUED
 For The Year Ended June 30, 2017

4. Interfund Transactions

Interfund Receivables/Payables

Interfund balances at June 30, 2017 consisted of the following individual fund receivables and payables:

	<u>Receivables</u>	<u>Payables</u>
General Fund	\$ 2,321	
EDA Revolving Loan Fund		\$ 15,828
EDA2 Revolving Loan Fund	<u>13,507</u>	
Total	<u>\$ 15,828</u>	<u>\$ 15,828</u>

Interfund receivables and payables are generated due to timing difference between when cash is transferred between funds and when actual accruals for accrued interest and expenditures and loan disbursements are recorded.

Interfund Transfer

Interfund transfers during the year ended June 30, 2017 consisted of the following:

Transfer from the General Fund to the EDA Revolving Loan Fund for operating expenditures	<u>\$ 2,020</u>
--	-----------------

5. Notes Receivable

EDA and EDA2 Revolving Loan Funds: Notes receivable in these funds 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.

General Fund RREDC Micro-loans: Notes receivable in the General 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 Commission's Revolving Loan Plan Guidelines. 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.

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For The Year Ended June 30, 2017

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, loans made are likely to have higher risk of default than loans made by commercial lending institutions.

Under the terms of the agreement with the Humboldt County Headwaters Fund dated May 21, 2010, all principal collections on notes issued pursuant to this agreement, 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.

An updated agreement was entered into on April 8, 2014. The terms of the new agreement with the Humboldt County Headwaters Fund provide that for loans less than \$300,000 the Commission receives 35 percent of interest collected on the loan as a service fee. Loans under \$300,000 cannot exceed 25 percent of the total loan portfolio under this new agreement. For loans over \$300,000, the Commission's service fee consists of one percent of the unpaid loan balance.

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.

Following is a summary of changes in the notes receivable for the fiscal year ended June 30, 2017:

	EDA Revolving Loan Fund	EDA2 Revolving Loan Fund	General Fund RREDC Micro-Loans	Headwaters Revolving Loan Fund
Balance, June 30, 2016	\$ 3,722,222		\$ 140,796	\$ 2,670,685
Loans disbursed	858,386	\$ 268,532	68,228	490,853
Principal payments received	(326,248)	(46)	(37,155)	(55,826)
Balance, June 30, 2017	<u>\$ 4,254,360</u>	<u>\$ 268,486</u>	<u>\$ 171,869</u>	<u>\$ 3,105,712</u>

6. Collection Assets

Collection assets are notes receivable that have become delinquent and are in various

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For The Year Ended June 30, 2017

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.

7. Capital Assets

Capital asset activity for the period ended June 30, 2017, 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	\$ 46,595			\$ 46,595
Office Equipment - EDA Fund	12,080			12,080
Office Equipment - General Fund	<u>19,180</u>	_____	_____	<u>19,180</u>
Total capital assets being depreciated	<u>77,855</u>	-	-	<u>77,855</u>
Less accumulated depreciation for:				
Equipment and improvements	<u>(74,722)</u>	\$ (1,134)	_____	<u>(75,856)</u>
Total accumulated depreciation	<u>(74,722)</u>	<u>(1,134)</u>	-	<u>(75,856)</u>
Total capital assets being depreciated, net	<u>3,133</u>	<u>(1,134)</u>	-	<u>1,999</u>
Governmental activities capital assets, net	<u>\$ 3,133</u>	<u>\$ (1,134)</u>	<u>\$ -</u>	<u>\$ 1,999</u>

Depreciation was charged to functions as follows:

Loan Services	<u>\$ 1,134</u>
Total	<u>\$ 1,134</u>

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION
NOTES TO FINANCIAL STATEMENTS - CONTINUED
 For The Year Ended June 30, 2017

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:	
Salaries and employee benefits	\$ 14,621
Utilities	1,545
Janitorial	766
Supplies	929
Community education	803
Software purchase and support	213
Dues	250
Airline recruitment	31,358
Miscellaneous	345
EDA Revolving Loan Fund:	
Rent	2,568
Professional fees	3,563
Supplies	522
Community education	3,340
Telephone	1,282
Software	1,349
Dues	949
Lease/purchase equipment	5,522
EDA2 Revolving Loan Fund:	
Professional fees	1,830

9. Employee Retirement Plan

The Commission maintains a defined contribution retirement plan for the benefit of its employees under the provisions of Internal Revenue Code Section 457(b). The plan is administered through an independent insurance company. 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, 2017, the Commission's total matching contribution was \$2,558.

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For The Year Ended June 30, 2017

10. 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.

11. Fund Balance and Net Position Adjustments

The Commission made the following adjustments to fund balance/net position during the year ended June 30, 2017, in accordance with requirements of the Economic Development Administration's accounting policies for revolving loan programs:

	EDA Revolving Loan Fund	EDA2 Revolving Loan Fund	Total
Recognize write-off of uncollectible loans	\$ (80,283)		\$ (80,283)
Recovery of costs written off in prior year	1,671		1,671
New Revolving Loan Fund for EDA2		\$ 282,000	282,000
	<u>\$ (78,612)</u>	<u>\$ 282,000</u>	<u>\$ 203,388</u>

12. Fund Balance Restatement

The Commission restated beginning fund balance in the General Fund to reflect the reclassification of the RREDC Revolving Loan Fund as a program of the General Fund rather than as a separate special revenue fund. The funds maintained by the Commission to operate the RREDC revolving loan fund program are not restricted by any outside entity or agency. The Commission restated fund balances as follows:

	General Fund	RREDC Revolving Loan Fund	Total
Fund Balance, 6/30/16, prior to restatement	\$ 156,129	\$ 187,588	\$ 343,717
Restatement to reclassify the unrestricted RREDC Revolving Loan Fund ending fund balance.	187,588	(187,588)	-
Fund Balance, 6/30/16, as restated	<u>\$ 343,717</u>	<u>\$ -</u>	<u>\$ 343,717</u>

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION
NOTES TO FINANCIAL STATEMENTS - CONTINUED
For The Year Ended June 30, 2017

13. Commitments and Contingencies

A. Operating Lease

The Commission renewed its existing lease for office space by entering into a five-year operating lease in June 2016. The terms of the lease call for monthly payments in the amount of \$5,375, with annual rate adjustments based on the Consumer Price Index. The Commission also entered into a five-year lease of office equipment in April 2016. The terms of this lease include monthly payments of \$460 through March 2021.

Future minimum payments required under these leases are as follows:

<u>Year Ending June 30</u>	
2018	\$ 78,600
2019	87,120
2020	95,640
2021	96,960
Thereafter	<u>-</u>
Total	<u>\$ 358,320</u>

The Commission will receive a total of \$110,374 in the future for non-cancelable subleases. Total lease expense for the year ended June 30, 2017 was \$72,605.

B. 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.

SUPPLEMENTARY INFORMATION

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND

BALANCE - BUDGET AND ACTUAL
GENERAL FUND (REGULATORY BASIS)

For The Year Ended June 30, 2017

	<u>Budgeted Amounts</u>			<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>With Final</u>
				<u>Budget -</u>
				<u>Favorable</u>
				<u>(Unfavorable)</u>
<u>REVENUES</u>				
Loan interest			\$ 15,437	\$ 15,437
Investment interest	\$ 618	\$ 618	1,803	1,185
Late/service/other fees			1,221	1,221
Loan service fee - Headwaters Fund	56,463	56,463	60,521	4,058
Loan fees	1,500	1,500	900	(600)
Rental income	48,306	48,306	52,440	4,134
Airline recruitment reimbursement			22,886	22,886
Other revenue	1,000	1,000	5,678	4,678
Total Revenues	<u>107,887</u>	<u>107,887</u>	<u>160,886</u>	<u>52,999</u>
<u>EXPENDITURES</u>				
Salaries and employee benefits	20,286	20,286	34,907	(14,621)
Rent	35,900	35,900	33,877	2,023
Utilities	10,200	10,200	11,745	(1,545)
Insurance	5,500	5,500	2,585	2,915
Janitorial	8,800	8,800	9,566	(766)
Professional fees	500	500	500	500
Repairs and maintenance	3,000	3,000	1,405	1,595
Postage, copying and printing	1,375	1,375	8	1,367
Supplies	500	500	1,429	(929)
Community education			803	(803)
Software purchase and support			213	(213)
Dues			250	(250)
Travel	250	250		250
Airline recruitment			31,358	(31,358)
Miscellaneous			345	(345)
Total Expenditures	<u>86,311</u>	<u>86,311</u>	<u>128,491</u>	<u>(42,180)</u>
Excess of Revenues Over (Under)				
Expenditures	<u>21,576</u>	<u>21,576</u>	<u>32,395</u>	<u>10,819</u>
Other financing sources (uses):				
Transfers out			(2,020)	(2,020)
Total Other Financing				
Sources (Uses)	<u>-</u>	<u>-</u>	<u>(2,020)</u>	<u>(2,020)</u>
Excess of Revenues and Other Financing				
Sources Over (Under) Expenditures				
and Other Financing Uses	<u>21,576</u>	<u>21,576</u>	<u>30,375</u>	<u>8,799</u>
Fund Balance, July 1, 2016, as restated	<u>343,717</u>	<u>343,717</u>	<u>343,717</u>	<u>-</u>
Fund Balance, June 30, 2017	<u>\$ 365,293</u>	<u>\$ 365,293</u>	<u>\$ 374,092</u>	<u>\$ 8,799</u>

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL
EDA REVOLVING LOAN FUND (REGULATORY BASIS)

For The Year Ended June 30, 2017

	Budget		Actual	Variance
	Original	Final		With Final Budget - Favorable (Unfavorable)
<u>REVENUES</u>				
Loan interest	\$ 360,000	\$ 360,000	\$ 318,714	\$ (41,286)
Investment interest	2,925	2,925	6,271	3,346
Late/service/other fees	2,500	2,500	5,493	2,993
Loan service fee - Headwaters Fund	30,000	30,000	25,713	(4,287)
Loan fees	3,750	3,750	11,125	7,375
Miscellaneous fees			4,213	4,213
Total Revenues	<u>399,175</u>	<u>399,175</u>	<u>371,529</u>	<u>(27,646)</u>
<u>EXPENDITURES</u>				
Salaries and employee benefits	188,920	188,920	181,866	7,054
Rent	30,000	30,000	32,568	(2,568)
Utilities	8,670	8,670		8,670
Professional fees	14,450	14,450	18,013	(3,563)
Credit investigation fees	1,275	1,275		1,275
Contracted services	10,200	10,200		10,200
Depreciation	1,020	1,020		1,020
Repairs and maintenance	425	425		425
Postage, copying and printing	5,377	5,377	360	5,017
Supplies	2,125	2,125	2,647	(522)
Community education	6,035	6,035	9,375	(3,340)
Telephone	4,080	4,080	5,362	(1,282)
Software	2,312	2,312	3,661	(1,349)
Professional development	638	638	408	230
Books, publications, subscriptions	425	425	228	197
Dues	1,700	1,700	2,649	(949)
Travel	2,125	2,125	992	1,133
Lease/purchase equipment	638	638	6,160	(5,522)
Miscellaneous	850	850	199	651
Total Expenditures	<u>281,265</u>	<u>281,265</u>	<u>264,488</u>	<u>16,777</u>
Excess of Revenues Over (Under)				
Expenditures	<u>117,910</u>	<u>117,910</u>	<u>107,041</u>	<u>(10,869)</u>
Other financing sources (uses):				
Transfers in			2,020	2,020
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>2,020</u>	<u>2,020</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	117,910	117,910	109,061	(8,849)
Fund Balance, July 1, 2016	4,672,400	4,672,400	4,672,400	-
Fund Balance Adjustment			(78,612)	(78,612)
Fund Balance, June 30, 2017	<u>\$ 4,790,310</u>	<u>\$ 4,790,310</u>	<u>\$ 4,702,849</u>	<u>\$ (87,461)</u>

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL
EDA2 REVOLVING LOAN FUND (REGULATORY BASIS)

For The Year Ended June 30, 2017

	Budget		Actual	Variance
	Original	Final		With Final Budget - Favorable (Unfavorable)
<u>REVENUES</u>				
Loan interest	\$ 67,500	\$ 67,500	\$ 4,548	\$ (62,952)
Late/service/other fees	20,000	20,000	554	(19,446)
Loan fees	9,375	9,375	6,515	(2,860)
Total Revenues	<u>96,875</u>	<u>96,875</u>	<u>11,617</u>	<u>(85,258)</u>
<u>EXPENDITURES</u>				
Salaries and employee benefits	35,422	35,422	1,184	34,238
Utilities	1,530	1,530		1,530
Professional fees	2,550	2,550	4,380	(1,830)
Credit investigation fees	225	225	9	216
Contracted services	1,800	1,800		1,800
Depreciation	180	180		180
Repairs and maintenance	75	75		75
Postage, copying and printing	949	949	6	943
Supplies	375	375		375
Telephone	720	720		720
Software	408	408		408
Professional development	113	113		113
Books, publications, subscriptions	75	75		75
Dues	300	300		300
Travel	375	375		375
Lease/purchase equipment	113	113		113
Miscellaneous	1,215	1,215		1,215
Total Expenditures	<u>46,425</u>	<u>46,425</u>	<u>5,579</u>	<u>40,846</u>
Excess of Revenues Over (Under)				
Expenditures	<u>50,450</u>	<u>50,450</u>	<u>6,038</u>	<u>(44,412)</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	50,450	50,450	6,038	(44,412)
Fund Balance, July 1, 2016	-	-	-	-
Fund Balance Adjustment			282,000	282,000
Fund Balance, June 30, 2017	<u>\$ 50,450</u>	<u>\$ 50,450</u>	<u>\$ 288,038</u>	<u>\$ 237,588</u>

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION

ORGANIZATION

June 30, 2017

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	Virginia Bass
Humboldt Bay Harbor, Recreation, and Conservation District	Greg Dale
Humboldt Bay Municipal Water District	Neal Latt
McKinleyville Community Services District	Dennis Mayo
Humboldt Community Services District	David Tyson
City of Eureka	Marian Brady
City of Arcata	Sofia Pereira
City of Fortuna	Sue Long
City of Ferndale	Patrick O'Rourke
City of Blue Lake	Summer Daugherty
City of Rio Dell	Frank Wilson
City of Trinidad	Jim Baker
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
Redwoods Community College District	No Representative Appointed
Hoop Valley Tribe	No Representative Appointed
Orleans Community Services District	No Representative Appointed

ADMINISTRATION

Gregg Foster
Executive Director

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended June 30, 2017

Federal Grantor/Pass Through Grantor/ Program or Cluster Title	Federal CFDA Number	Grant or Project Number	Federal Expenditures
Federal Programs:			
U.S. Department of Commerce:			
Economic Development Administration Economic Adjustment Assistance Program	11.307	07-19-02074	\$ 4,901,113
Economic Development Administration Economic Adjustment Assistance Program	11.307	07-79-07332	<u>291,064</u>
Total Economic Development Administration Economic Adjustment Assistance Program			<u>5,192,177</u>
Total U.S. Department of Commerce			<u>5,192,177</u>
Total Expenditures of Federal Awards			<u><u>\$ 5,192,177</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

For The Year Ended June 30, 2017

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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

The Commission did not use the ten percent de minimis indirect cost rate.

2. Subrecipients

No federal awards were provided to subrecipients.

3. Computation of Federal Expenditures

Federal expenditures for the Economic Adjustment Assistance Program were calculated in accordance with the U.S. Office of Management and Budget April 2017 Compliance Supplement, as follows:

	EDA Revolving Loan Fund	EDA2 Revolving Loan Fund
Balance of Revolving Loan Fund (RLF) loans outstanding at June 30, 2017	\$ 4,258,963	\$ 268,486
Cash and investment balance in RLF at June 30, 2017	297,379	16,999
Administrative expenses paid out of RLF income during the year ended June 30, 2017	264,488	5,579
Unpaid principal of loans written off during the year ended June 30, 2017	80,283	-
Total	4,901,113	291,064
Multiply: Federal share of the RLF	100%	100%
Total Federal Expenditures	\$ 4,901,113	\$ 291,064

OTHER INDEPENDENT AUDITOR'S REPORTS

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
Matthew J. Hague, 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, 2017, and the related notes to the financial statements, which collectively comprise the Commission's regulatory basis financial statements, and have issued our report thereon dated January 17, 2018. In our report we issued an adverse opinion because the Commission prepared the financial statements on the basis of the financial reporting provisions of the Economic Development Administration, which is a 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 and accounting principles generally accepted in the United States of America are presumed to be material. However, our report also stated that the financial statements present fairly, in all material respects, the respective regulatory basis financial position of each major governmental fund of the Commission as of June 30, 2017, and the respective regulatory basis changes in financial position thereof for the year then ended, on the basis of accounting described in Note 2.

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

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

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 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 L. Moarie + Co.
CERTIFIED PUBLIC ACCOUNTANTS
Eureka, California
January 17, 2018

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
Matthew J. Hague, CPA

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Commissioners
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 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, 2017. The Commission's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 REQUIRED BY THE UNIFORM GUIDANCE - 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, 2017.

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 the Uniform Guidance, 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 REQUIRED
BY THE UNIFORM GUIDANCE - 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.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

David L. Moonie + Co.

CERTIFIED PUBLIC ACCOUNTANTS

Eureka, California

January 17, 2018

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2017

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Generally accepted accounting principles basis of accounting	Adverse
Regulatory basis of accounting	Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	No
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Significant deficiencies identified not considered to be material weaknesses?	None reported
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Noncompliance material to financial statements noted?	No
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Federal Awards

Internal control over major programs:

Material weakness(es) identified?	No
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Reportable condition(s) identified not considered to be material weaknesses?	None reported
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Type of auditor's report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance section 200.516(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:	\$750,000
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Auditee qualified as low-risk auditee?	No
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REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2017

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, 2017

There were no audit findings for the year ended June 30, 2016.