

**REDWOOD COMMUNITY ACTION AGENCY, INC.**

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**AUDITED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2005**

IZABAL, BERNACIAK & COMPANY  
CERTIFIED PUBLIC ACCOUNTANTS

**REDWOOD COMMUNITY ACTION AGENCY, INC.**  
**AUDITED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

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CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
**Redwood Community Action Agency, Inc.**  
Eureka, California

We have audited the accompanying statement of financial position of Redwood Community Action Agency, Inc. as of and for the year ended December 31, 2005 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Redwood Community Action Agency, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, *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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Redwood Community Action Agency, Inc. for the year ended December 31, 2005 and the change in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 31, 2006 on our consideration of Redwood Community Action Agency, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



San Francisco, California  
March 31, 2006

**REDWOOD COMMUNITY ACTION AGENCY, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2005**

**ASSETS**

**Current Assets**

Cash	\$ 523,627
Grants/Contracts Receivable	867,258
Accounts Receivable	3,137
Prepays	48,574
Inventory	236,576
Investment	2,455
Total Current Assets	<u>1,681,627</u>

**Deposits, Reserves and Custodial**

211,422

**Fixed Assets**

Land	791,730
Buildings	3,844,311
Leasehold Improvement	771,571
Equipment	272,143
Vehicles	201,345
Accumulated Depreciation	<u>(2,194,013)</u>
Total Fixed Assets	<u>3,687,087</u>

**TOTAL ASSETS**

\$ 5,580,136

**LIABILITIES AND NET ASSETS**

**Current Liabilities**

Accounts Payable	\$ 158,096
Current Portion of Long-Term Debt	256,009
Accrued Expenses	248,047
Deferred Revenue	734,396
Other Payables	2,455
Total Current Liabilities	<u>1,399,003</u>

**Long Term Liabilities**

Deferred Revenue	135,732
Security Deposits Payable	48,686
Long Term Debt less Current Portion	<u>3,359,979</u>
Total Long Term Liabilities	<u>3,544,397</u>

**TOTAL LIABILITIES**

4,943,400

**Net Assets**

Unrestricted - Designated	162,333
Unrestricted - Undesignated	474,403
TOTAL NET ASSETS	<u>636,736</u>

**TOTAL LIABILITIES AND NET ASSETS**

\$ 5,580,136

See notes to the financial statements

**REDWOOD COMMUNITY ACTION AGENCY, INC.**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>UNRESTRICTED</u>
<b>REVENUE, GAINS AND OTHER SUPPORT</b>	
Grant	\$ 7,438,947
Contributions	23,291
Rents	489,412
Miscellaneous	<u>1,002,188</u>
Total Revenue	<u>8,953,838</u>
<b>EXPENSES</b>	
Personnel	3,769,340
Travel	110,591
Space	374,191
Equipment	118,393
Other Operating Cost	369,787
Interest	73,106
Consultants & Contractors	1,174,470
Direct Services	2,544,127
Cost of Goods Sold	<u>173,994</u>
Total Expenses Before Depreciation	<u>8,707,999</u>
<b>REVENUE IN EXCESS OF EXPENSES BEFORE DEPRECIATION</b>	245,839
Depreciation Expense	<u>125,888</u>
<b>REVENUE IN EXCESS OF EXPENSES</b>	119,951
Fixed assets purchased with grant funds	50,951
Depreciation on fixed assets purchased with grant funds	<u>(175,292)</u>
<b>CHANGE IN NET ASSETS - UNRESTRICTED</b>	(4,390)
Net Assets at Beginning of the Year	<u>641,126</u>
<b>NET ASSETS AT END OF THE YEAR</b>	<u><u>\$ 636,736</u></u>

See notes to the financial statements

**REDWOOD COMMUNITY ACTION AGENCY, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Change in Net Assets	\$ (4,390)
Depreciation Expense	125,888
Fixed Assets Purchased with Grant Funds	(50,950)
MAC center depreciation	(95,930)
Grant fixed assets depreciation	175,292

*(Increase)/Decrease In:*

Grants/Contracts Receivable	2,783
Accounts Receivable	(1,439)
Prepays	65,368
Inventory	(43,981)
Deposits, reserves and custodial	(7,622)

*Increase/(Decrease) In:*

Accounts Payable	(109,103)
Accrued Expenses	44,704
Security Deposits Payable	4,509
Other Payables	(1,572)
Deferred Revenue	188,790

<b>Net Cash Provided by Operations</b>	<u>292,347</u>
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**CASH FLOWS FROM INVESTING ACTIVITIES**

Investments	1,572
Land	24,408
Building	18,841
Leasehold Improvement	(271,571)
<b>Net Cash Used by Investing Activities</b>	<u>(226,750)</u>

**CASH FLOWS FROM FINANCING ACTIVITIES**

Increase in Long Term Debt	490,697
Paydowns on Long Term Debt	(321,899)
<b>Net Cash Provided by Financing Activities</b>	<u>168,798</u>

<b>NET INCREASE IN CASH</b>	234,395
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Cash Balances at 12/31/04	<u>289,232</u>
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<b>CASH BALANCE AT 12/31/05</b>	<u><u>\$ 523,627</u></u>
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**SUPPLEMENTAL DISCLOSURES**

Cash Used by Payments of Interest	<u><u>\$ 29,304</u></u>
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See notes to the financial statements

**REDWOOD COMMUNITY ACTION AGENCY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**General**

The Redwood Community Action Agency, Inc. (RCAA) was designated the Community Action Agency for Humboldt County on July 1, 1980. The purpose of this organization is to mobilize and coordinate anti-poverty resources within Humboldt County and to preserve land for scenic, scientific educational and open space opportunities.

**Basis of Accounting**

The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

**Financial Statement Presentation**

Redwood Community Action Agency, Inc. follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No.117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

**Revenue Recognition**

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of the donor restrictions.

All donor-restricted contributions are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

**Income Taxes**

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

**Cash and Cash Equivalents**

For purposes of the statements of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

**Accounts / Grants Receivable**

The Organization considers accounts / grants receivable to be fully collectable; accordingly no allowance for doubtful accounts is required. If amounts become uncollectable, they will be charged to operations when that determination is made.

**Estimates**

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

**Depreciation**

Depreciation is calculated using the straight-line method over the estimated useful lives of the asset which range as follows:

Buildings	20 to 30 years
Equipment	3 to 5 years
Vehicles	3 to 5 years

Depreciation expense for the fiscal year ended December 31, 2005 amounted to \$125,888 for unrestricted general operations and \$175,292 for grant fixed assets.

Assets purchased or donated to unrestricted general operation funds are capitalized and depreciated as an operating expense. Assets purchased with grant funds are recorded as operating expenditures in the period in which they were purchased. Capitalization and depreciation for assets purchased with grant funds are accounted for as adjustments in the Statement of Changes in Net Assets.

## NOTE B: GRANTS/CONTRACTS RECEIVABLE

Grant/Contracts receivable represents the amount due for revenues earned but not yet reimbursed at December 31, 2005. The following amounts are due Redwood Community Action Agency, Inc. at December 31, 2005:

<u>Description</u>	<u>Acct</u>	<u>Amount</u>
CSBG Capital	(127)	\$ 5,018
COE Home Admin.	(128)	4,178
Mentoring Children of Prisoners	(141)	10,940
Mentoring DOEd Year 3	(149)	1,320
CSBG	(156)	4,619
HAF Energy Education	(166)	138
AmeriCorps	(185)	3,276
1st Time Homebuyer 2004	(199)	15,158
FESG	(231)	28,524
FESG – MAC	(232)	12,187
Mentoring Children of Prisoners	(241)	4,725
MAC CDBG Ops	(253)	42,325
County MAC Y2	(256)	13,373
Housing Loans	(300)	4,539
City of Arcata 01 HOME	(328)	19,294
Arcata Roof	(329)	1,200
Rio Dell 2004 CDBG Gen. Admin.	(340)	4,663
Rio Dell 2004 CDBG Prog. Del.	(341)	15,626
Rio Dell Portfolio	(342)	5,590
Rio Dell CSBG Prog. Del.	(348)	36,031
Blue Lake Revolving	(351)	10,936
Blue Lake CDBG Gen. Admin.	(355)	313
Blue Lake CDBG Prog. Del.	(356)	19,947
Blue Lake CDBG Gen. Admin.	(358)	1,662
Blue Lake CDBG Prog. Del	(359)	22,309
Eureka HOME	(361)	39,583
County HOME	(371)	28,836
County Cal-Home	(374)	16,625
Fortuna Revolving Loan	(391)	38,766
Fortuna Revolving Loan	(392)	1,599
Fortuna Revolving Loan	(393)	17,720
PG&E Refrigerator Replacement	(407)	39,657
Assurance 16	(451)	63
Wood Propane 2003	(452)	18,710
DOE 2005/2006	(461)	44,900
PVEA	(471)	3,175

Lead Video	(477)	132
Lead	(478)	48,510

<u>Description</u>	<u>Acct</u>	<u>Amount</u>
Humboldt County	(501)	3,997
School Lunch	(503)	1,880
HAF Hans Olsen	(510)	7,480
McLean	(511)	3,149
WIA - Eureka	(523)	895
Basic Center 05/06	(531)	5,795
Raven-HHS 05/06	(537)	5,101
SHP	(590)	1,439
Freshwater Farms	(604)	197
Trinity Gateway	(635)	59
Coastal Assessment	(639)	5,670
Elk River trail Design	(653)	3,073
Healthy Rural Roads	(654)	38,724
Humboldt Bay Water Quality	(660)	23,264
Lindsay Creek	(690)	1,365
HBWAC	(693)	2,585
Martin Slough SCC	(942)	16,924
Salmon Pass	(956)	46,015
Coastal Access Improvement	(960)	42,500
Punta Gorda Lighthouse	(962)	2,000
Barri Ranch Lot	(968)	28,476
Hole in the Hammond	(972)	13,048
Mattole Barn	(981)	24,884
McDaniel Slough	(990)	2,571
<b>TOTAL GRANTS/CONTRACTS RECEIVABLE</b>		<hr/> <b>\$867,258</b> <hr/>

### NOTE C: DEFERRED REVENUE

Deferred revenue represents the excess of funds advanced less earned revenue for ongoing programs at December 31, 2005:

<u>Description</u>	<u>Acct</u>	<u>Amount</u>
Mentoring Children of Prisoners	(140)	39
AFACTR Americorps 05/06	(181)	5,493
Americorps 05/06	(186)	29,639
First Time Homebuyers Humboldt Co.	(198)	10,434
St. Joes 05/06	(224)	2,093
CalEndow	(225)	37,457
SJHS MAC	(250)	15,921
MAC Fundraising	(251)	7,054
EHAP XII	(274)	18,816
Revolving Loan Fund	(305)	220,025
CalHome Revolving	(306)	11,389
CalHome	(381)	14,629
ULTS	(419)	19,119
LIHEAP 2003 WX	(450)	6,885
Duct Blasters	(470)	674
HAF	(500)	1,000
Green Diamond Resource	(501)	5,000
CWF	(520)	200,735
St. Joseph Health Care	(527)	35,395
HumPal	(612)	21,210
NFF	(928)	1,087
Native Grass	(961)	18
City of Eureka FTHB Match		68,989
Miscellaneous		<u>1,295</u>
<b>Total Current Deferred Revenue</b>		<b>\$ 734,396</b>
Total Long Term Deferred Revenue:		
AGENCY FUND: 1100 California Street		<u>135,732</u>
<b>TOTAL DEFERRED REVENUE</b>		<b><u>\$ 870,128</u></b>

## NOTE D: NOTES PAYABLE

Redwood Community Action Agency, Inc. has the following notes payable:

**Lender: California Department of Housing and  
Community Development - HOME** **\$545,900**

Interest Rate: 3%

Maturity Date: 40 years from Certificate of Occupancy,  
projected at September 2034.

Collateral: Apartment Building, Fortuna, California

Restricted Covenant: Provide regulated rent housing  
until loan is paid in full.

**Lender: City of Eureka** **20,685**

Interest Rate: 3% per annum, simple interest

Maturity Date: September 2007

Collateral: Building, Eureka, California

**Lender: California Department of Housing and  
Community Development - HOME** **901,000**

Interest Rate: 3% per annum, simple interest

Maturity Date: 40 years from Certificate of Occupancy,  
projected at December 2033

Collateral: Duplexes, McKinleyville, California

Restrictive Covenant: Provide regulated rent housing  
until loan is paid in full.

**Lender: Umpqua Bank** **146,250**

Interest Rate: 5.180%

Maturity Date: July 2006

Collateral: 3303 Summer St., Eureka, California

**Lender: Umpqua Bank** **6,690**

Interest Rate: 7.750%

Maturity Date: *April 2007*  
Collateral: *Diesel Truck*

**Lender: *California Department of Housing and  
Community Development - HOME*** **422,300**  
Interest Rate: 3%  
Collateral: *1015 Loni Drive, Fortuna, California*  
Maturity Date: *March 2035*  
Restricted Covenant: *Provide regulated rental housing  
until loan is paid*

**Lender: *Umpqua Bank*** **28,363**  
Interest Rate: 8.50%  
Maturity Date: *August 15, 2012*  
Collateral: *1528 Third St., Eureka*

**Lender: *Department of Housing and  
Community Development - HOME*** **287,022**  
Interest Rate: 3%  
Maturity Date: *August 2027*  
Collateral: *1528 Third Street, Eureka, California*

**Lender: *Umpqua Bank*** **63,000**  
Interest Rate: 8.50%  
Maturity Date: *October, 2018*  
Collateral: *523, 525, 537 9<sup>th</sup> Street, Eureka, California  
& 825 G Street, Eureka, California*

**Lender: *Crossland Mortgage Corp.*** **105,775**  
Interest Rate: 7%  
Maturity Date: *August, 2028*  
Collateral: *924 & 926 G Street, Eureka, California*

**Lender: *Department of Housing and  
Community Development - Home*** **317,432**

Interest Rate: 3% annually beginning Jan. 2006  
Maturity Date: July 2036  
Collateral: 829 C Street, Eureka, California  
Restrictive Comment: Provide regulated rent housing  
until loan is paid

**Lender: Umpqua Bank** **343,000**  
Interest Rate: 0%  
Maturity Date: December 2019  
Collateral: 139 Y Street, Eureka California  
Restrictive Comment: Provide temporary housing for  
homeless families and individuals.

**Lender: Department of Housing and  
Community Development - EHAP** **428,571**  
Interest Rate: 3%  
Maturity Date: 7 years from Date of Recordation by  
County Recorder  
Collateral: 2415 Second Street, Eureka, California  
Restrictive Comment: Provide temporary housing for  
homeless families and individuals.

<b>Total Notes Payable</b>	<b>\$3,615,988</b>
Less: Current Portion	<u>(256,009)</u>
 Long-Term Notes Payable, December 31, 2005	 <b><u>\$3,359,979</u></b>

Principal payments for the next five fiscal years are project as follows:

Year ended December 31:	
2006	\$256,009
2007	127,087
2008	105,843
2009	106,681
2010	<u>107,580</u>
Total	<b><u>\$703,200</u></b>
Thereafter,	\$2,912,788

Interest expense for the fiscal year ended December 31, 2005 amounted to \$73,106.

**NOTE E: INVESTMENT**

The investment represents Redwood Community Action, Inc.'s wholly owned subsidiary, Redwood Economic Opportunities, Inc. (REO). Redwood Economic Opportunities, Inc. is currently non-operative. The investment is valued at net book value which approximates market value at December 31, 2005.

**NOTE F: INVENTORY**

At December 31, 2005 inventory is comprised of supplies used by the Agency in its energy weatherization programs and houses held for resale. The inventory is stated at cost.

**NOTE G: DESIGNATED NET ASSETS**

The Board of Directors of RCAA has designated these funds for the following purposes:

Shelter	(200)	\$ 26,698
Housing	(300)	10,977
Energy	(400)	123,761
Mentoring		<u>897</u>
Total Designated Fund Balance		<u>\$162,333</u>

**NOTE H: CLASSIFICATION OF EXPENSES**

Expenses by function for the year ended December 31, 2005 are as follows:

Program Expense	\$8,262,854
Management and General	567,731
Fundraising	<u>3,302</u>
Total	<u>\$8,833,887</u>

**NOTE I: RETIREMENT PLAN**

RCAA has established a profit sharing plan. A participant must have attained the age of 21, completed 12 months of service, and been credited with 1000

hours of service during the eligibility computation period. Each plan year, the Employer will contribute to the Plan the amount determined by the Employer at its discretion. The Employer may choose not to contribute to the Plan for a particular year. An Advisory committee will base an employee's allocation upon the total compensation paid during that plan year to all participants in the Plan. Participants become vested 20% with 3 years of service, 40% with 4 years, 60% with 5 years, 80% with 6 years, 100% with 7 years of service. For the year ended December 31, 2005 the Agency's contribution of \$45,164 is included with accrued expenses.

**NOTE J: LEASE COMMITMENT**

As of December 31, 2005, RCAA has entered into various noncancelable operating operating lease agreements for the rental of office and residential facilities, expiring from January 2006 to September 2018. Minimum rentals, on an annual basis, are as follows:

2006	\$ 301
2007	301
2008	51
2009	1
2010	1
Thereafter	<u>8</u>
	<u>\$ 663</u>

**NOTE K: CONCENTRATION OF CREDIT RISK ARISING FROM CASH DEPOSITS IN EXCESS OF INSURED LIMITS**

RCAA maintains cash balances at various financial institutions located in Eureka, California. The balances are insured by the Federal Deposit Insurance Corporation up to \$100,000. At December 31, 2005 the Agency's uninsured cash balance totaled approximately \$470,331.