

REDWOOD COMMUNITY ACTION AGENCY, INC.

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

IZABAL, BERNACIAK & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

**REDWOOD COMMUNITY ACTION AGENCY, INC.
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

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IZABAL, BERNACIAK & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditor's Report

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

Report on Financial Statements

We have audited the accompanying financial statements of Redwood Community Action Agency, Inc., which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express 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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Redwood Community Action Agency, Inc. as of December 31, 2016, and the respective changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements. The schedule of expenditures of federal awards, 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 the other supplementary contract information are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated April 20, 2017 on our consideration of the Redwood Community Action Agency, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Redwood Community Action Agency, Inc.'s internal control over financial reporting and compliance.



San Francisco, California

April 20, 2017

REDWOOD COMMUNITY ACTION AGENCY, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2016

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 654,238
Grants/Contracts Receivable	1,397,453
Revolving Loans	851,478
Prepays	41,722
Inventory	<u>47,477</u>
Total Current Assets	<u>2,992,368</u>

Deposits, Reserves and Custodial	<u>236,368</u>
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Fixed Assets

Land	1,071,730
Buildings	4,410,036
Leasehold Improvement	867,500
Equipment	552,439
Vehicles	384,265
Accumulated Depreciation	<u>(5,278,264)</u>
Total Fixed Assets	<u>2,007,706</u>

TOTAL ASSETS	<u>\$ 5,236,442</u>
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LIABILITIES AND NET ASSETS

Current Liabilities

Accounts Payable	\$ 249,044
Current Portion of Long-Term Debt	53,291
Accrued Expenses	363,609
Deferred Revenue	691,195
Deferred Revolving Loans	<u>851,478</u>
Total Current Liabilities	<u>2,208,617</u>

Long Term Liabilities

Security Deposits Payable	50,039
Long Term Debt less Current Portion	<u>3,714,840</u>
Total Long Term Liabilities	<u>3,764,879</u>

TOTAL LIABILITIES	<u>5,973,496</u>
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Net Assets

Unrestricted - Undesignated	<u>(558,820)</u>
Total Unrestricted	<u>(558,820)</u>

Temporarily Restricted	<u>(178,234)</u>
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TOTAL NET ASSETS	<u>(737,054)</u>
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TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,236,442</u>
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See notes to the financial statements

REDWOOD COMMUNITY ACTION AGENCY, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
REVENUE, GAINS AND OTHER SUPPORT			
Grant	\$ 6,832,532	\$ -	\$ 6,832,533
Contributions	79,632	195,890	275,522
Rents	460,681	-	460,681
Program Service Fees	91,758	-	91,758
Miscellaneous	7,316	-	7,316
Net Assets Released From Satisfaction of Usage Restrictions	17,656	(17,656)	-
Total Revenue	7,489,575	178,234	7,667,810
EXPENSES			
Personnel	4,685,104	-	4,685,104
Travel	94,834	-	94,834
Space	534,041	-	534,041
Equipment	27,000	-	27,000
Other Operating Cost	1,169,003	-	1,169,003
Interest	22,740	-	22,740
Consultants & Contractors	731,525	-	731,525
Direct Services	322,526	-	322,526
Total Expenses Before Depreciation	7,586,773	-	7,586,773
REVENUE IN EXCESS OF EXPENSES BEFORE DEPRECIATION	(97,198)	178,234	81,037
Accrued Interest Expense on Home Loans	69,673	-	69,673
Depreciation Expense	89,084	-	89,084
REVENUE IN EXCESS OF EXPENSES	(255,955)	178,234	(77,720)
Fixed assets disposed purchased with grants funds	(1,460)	-	(1,460)
Depreciation of fixed assets purchased with grant funds	(94,207)	-	(94,207)
CHANGE IN NET ASSETS - UNRESTRICTED	(351,622)	178,234	(173,388)
Net Assets at Beginning of the Year	(563,666)	-	(563,666)
NET ASSETS AT END OF THE YEAR	\$ (915,288)	\$ 178,234	\$ (737,054)

See notes to the financial statements

REDWOOD COMMUNITY ACTION AGENCY, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in Net Assets	\$ (77,720)
Depreciation Expense	89,084
MAC Center Loan Amortization	24,500
<i>(Increase)/Decrease In:</i>	
Grants/Contracts Receivable	(291,064)
Revolving Loans	9,149
Prepays	1,690
Inventory	(3,115)
Deposits, reserves and custodial	52,320
<i>Increase/(Decrease) In:</i>	
Accounts Payable	141,266
Accrued Expenses	86,417
Security Deposits Payable	7,829
Deferred Revenue	208,998
Deferred Revolving Loans	(9,149)
Net Cash Provided by Operations	<u>240,205</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Fixed Asset Purchases	<u>(15,500)</u>
Net Cash Used by Investing Activities	<u>(15,500)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Paydowns on Line of Credit	(100,000)
Increase on Long Term Debt	16,929
Net Cash Provided by Financing Activities	<u>(83,071)</u>
NET DECREASE IN CASH	141,634
Cash and Cash Equivalents Balance at 12/31/15	<u>512,604</u>
CASH AND CASH EQUIVALENTS BALANCE AT 12/31/16	<u>\$ 654,238</u>
<u>SUPPLEMENTAL DISCLOSURES</u>	
Cash Used by Payments of Interest	<u>\$ 22,740</u>

See notes to the financial statements

REDWOOD COMMUNITY ACTION AGENCY, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

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. 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. At December 31, 2016, RCAA did not have any 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 federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization is also exempt from state income taxes under Section 23701(d) of the California Revenue and Taxation Code.

Management believes RCAA has no uncertain tax positions as of December 31, 2016.

REDWOOD COMMUNITY ACTION AGENCY, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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 / Contracts / Grants Receivable

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

Inventory

At December 31, 2016 inventory is comprised of supplies used by the Agency in its energy weatherization programs. The inventory is stated at cost determined on the FIFO method.

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 assets 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, 2016 amounted to \$89,084 for unrestricted general operations and \$94,207 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.

REDWOOD COMMUNITY ACTION AGENCY, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE B: GRANTS / CONTRACTS RECEIVABLE

Grant / Contracts receivable represents the amount due for revenues earned but not yet reimbursed at December 31, 2016.

Account	Description	Amount
1200101	Rural Tooth Plus	\$ 49,875
1200116	StreetOutreach 16/17	11,204
1200216	BasicCenter 16/17	30,259
1200415	LaunchPad 15/17	6,854
1250116	AmeriCorps Housing	5,146
1250120	AmeriCorps Oral Health	1,182
21005216	HMIS 2016	6,985
2101215	Healthy Houses	14,598
2115213	LIHEAP Humboldt 16C-6009	16,648
2115214	LIHEAP Modoc 16C-6009	4,304
22001514	LIHEAP Modoc 15B-3010	16,015
22001613	LIHEAP Humboldt 16B-4009	207,604
22001614	LIHEAP Modoc 16B-4009	60,370
2200819	CSBG 2016	46,749
3600516	WCB Knotweeds	51,288
3600517	CSBG Elect Requisitions	5,672
3600518	2016 Explore the Coast	10,804
36503230	DWR Martin Slough	1,915
4050417	Hum First 5 Tooth	13,985
4450315	Title 19 YSB	19,081
4450320	Title 19 CSD	28,433
4450514	THP+ 14/17	7,193
4551201	PACT 2016	44,629
4551202	MAC House 16/17	366,922
4556214	CalFresh Adultt Svc	5,812
4556414	CalFresh Energy	25,003
4556514	CalFresh YSB	7,657
4556614	CalFresh NRS	21,062
4556814	CalFresh CP TOOTH	1,075
50504017	AFACTR 16/17	76,716
50504020	AmeriCorp APYR	13,053
5055119	Lafayette ATP 16	1,641
6025113	Indian Isle Spartina	60,206
6083113	Rohner Creek	38,845
61032	MAC Phone System	1,296
6128336	NCGMP TOOTH	20,545
72010	Fee / YSB / Shelter	13,462
7240516	Stillwater / Buhne Pt. 8	18,541
7260113	Safeway	1,147
7260116	Chah-GAH-Cho	28,220
7260119	Rohner Ck Plant	9,876
7260213	Safeway Monitor	1,676
8000315	RCAA to WCIA	10,820
	HOME Rent Receivables	7,431
	Miscellaneous Under \$1,000	5,654
	Total Grants/ Contracts Receivable	\$ 1,397,453

REDWOOD COMMUNITY ACTION AGENCY, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE C: DEFERRED REVENUE

Deferred revenue represents the excess of funds advanced less earned revenue for ongoing programs at December 31, 2016.

Account	Description	Amount
0	No Specific Revenue Source	\$ 55,479
1050109	Revolving Loan Fund	74,533
1150216	EFS MAC 2017	1,500
1150516	EFS YSB 2017	927
1400517	LTMR WEEDS	19,941
22001513	LIHEAP Humboldt 15B-3010	10,971
22001713	LIHEAP Humboldt 17B-3009	121,700
22004111	LIHEAP Del Norte 11B-5748 Excess Revenue	10,054
3500209	Revolving Loan Fund - Mobile Homes	9,922
350021	CalHOME 06 Revolving Loan Fund - Mobile Homes	118,436
350022	CalHOME 08 Revolving Loan Fund - Mobile Homes	31,893
3500311	CalHOME County	1,655
5055118	Redwood Mobility Education Program	4,327
600	NRS Excess Revenue	33,769
61030	HAF Corcoran Fund	1,937
61045	Sealant Program	6,787
6105315	Samoa Peninsula	32,477
61058	St. Joseph's EFS Initiative	10,944
61086	YSB Summer Recreation	900
61087	HAF Youth 2016	1,500
640	MAC Contribution	717
647	YSB Contribution	13,085
6550214	Humboldt Bay Project Coordinator	9,558
700	Property Management Rehab Fund	22,561
7201	MAC Meal Fees	21,209
72014	Safe Haven Fees	4,746
720516	Prairie Creek	1,630
720519	Old Arcata Road	2,305
72111	PacifiCorp WX	46,574
7240318	Stillwater Arcata Reconducting Mitigation Marsh	3,389
728114	Henderson Community Garden	2,253
728115	Bike Kitchen	10,018
7302	Simpson Vance	2,928
	Miscellaneous Under \$500	570
	Total Deferred Revenue	\$ 691,195

**REDWOOD COMMUNITY ACTION AGENCY, INC.
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2016**

NOTE D: NOTES PAYABLE

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

**California Department of Housing and
 Community Development – HOME LOANS:**

Interest Rate: 3% per annum, simple interest **\$ 715,850**

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.

Interest Rate: 3% per annum, simple interest **1,181,500**

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.

Interest Rate: 3% per annum, simple interest **557,600**

Maturity Date: March 2035

Collateral: 1015 Loni Drive, Fortuna, California

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

Interest Rate: 3% per annum, simple interest **422,185**

Annually beginning Jan. 2006

Maturity Date: July 2036

Collateral: 829 C Street, Eureka, California

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

Interest Rate: 3% per annum, simple interest **362,922**

Maturity Date: August 2027

Collateral: 1528 Third Street, Eureka, California

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

If Redwood Community Action Agency, Inc. is in full compliance with the conditions set forth in the HOME loan agreements, the remaining principal balance and accrued interest will be forgiven and the loan and accrued interest shall become grant income. It is management's intent to comply with the loan restrictions throughout the terms of the loans.

REDWOOD COMMUNITY ACTION AGENCY, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE D: NOTES PAYABLE (CONTINUED)

Crossland Mortgage Corporation	62,005
Interest Rate: 7%	
Maturity Date: August 2028	
Collateral: 924 & 926 G Street, Eureka, California	
 Umpqua Bank:	
Interest Rate: 0%	73,500
Maturity Date: December 2019	
Collateral: 139 Y Street, Eureka California	
Restrictive Comment: Provide temporary housing	
 Interest Rate: 4.5%	10,625
Maturity Date: October 2018	
Collateral: 523, 525, 537 9 th Street & 825 G Street, Eureka, Ca	
 Redwood Capital Bank:	
Interest Rate: 6.5%	120,289
Maturity Date: Until paid in full	
Collateral: 523 T Street and 3020 17 th Street, Eureka, California	
Restrictive Comment: Business and Real Estate Investment	
 Interest Rate: 6.5%	121,655
Maturity Date: Until paid in full	
Collateral: 539 T Street, Eureka, California	
Restrictive Comment: Business and Real Estate Investment	
 County of Humboldt	140,000
Interest Rate: 1%	
Maturity Date: Upon Sale of the property or intended use	
Collateral: 523 T Street, Eureka, California	
Restrictive Comment: RCAA intends for program use	
 Total Notes Payable	3,768,131
Less: Current Portion	<u>53,291</u>
Long-Term Notes Payable	\$ <u><u>3,714,840</u></u>

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

Year ended December 31:

2017	\$	53,291
2018		52,912
2019		50,204
2020		27,462
2021		29,340
Thereafter		<u>3,554,923</u>
Total Notes Payable	\$	<u><u>3,768,131</u></u>

REDWOOD COMMUNITY ACTION AGENCY, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE E: LINE OF CREDIT

RCAA draws funds on a line of credit to pay program expenditures in cases where payments from funding sources have not been received in a timely manner. The line of credit is with Umpqua Bank. The line of credit balance is repaid when program funds are received from funding sources. Outstanding balances are secured by real property. Outstanding balances incur interest rates at 5.5%. The outstanding balance on the line of credit at December 31, 2016 was \$0. The line of credit matures in March of 2021.

NOTE F: 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 Board of Directors will determine the amount of the employer base contribution (if any) that the employer will make for all eligible participants who are actively employed as of the last day of the plan year. Contributions will be allocated to the accounts of eligible participants on the basis of the ratio that each eligible participant's compensation bears to the total compensation of all participants for the plan year. This employer base contribution will be made whether or not eligible participants are making contributions. If a participant is not a key employee in any year in which the plan is top-heavy, the employer contribution must be at least 3% of the participant's compensation. A key employee is generally defined as an officer whose annual earnings are greater than \$160,000 for the 2016 plan year (adjusted annually). A plan will be considered top-heavy if the account balances for key employees exceeded 60% of the total account balances for all plan participants. Participants become vested 20% with 2 years of service, 40% with 3 years, 60% with 4 years, 80% with 5 years, and 100% with 6 years or more of service. For the year ended December 31, 2016 the Agency's contribution of \$58,711 is included with accrued expenses.

NOTE G: CLASSIFICATION OF EXPENSES

Expenses by function for the year ended December 31, 2016 are as follows:

Program Expense	\$ 7,101,448
Management and General	627,382
Fundraising	<u>16,700</u>
Total	\$ <u>7,745,530</u>

REDWOOD COMMUNITY ACTION AGENCY, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE H: INTERFUND RECEIVABLE/PAYABLE – HOME PROPERTIES

RCAA’s general fund provides the operating fund needs of the other programs as the situation may arise. RCAA is reimbursed upon receipts of funds under these programs from the grantors. Inter-fund receivables and payables for HOME Properties to the General fund as of December 31, 2016 is \$366,241. These funds are an accumulation of funds payable to RCAA beginning January 2009. These funds are being repaid to RCAA over time based upon available cash flow and HCD approval.

NOTE I: LEASE OBLIGATIONS

RCAA leases copier equipment with varying expirations dated through 2021. Future minimum principle payments are as follows:

2017	\$	5,801
2018		5,801
2019		5,801
2020		5,801
2021		4,831
Total	\$	28,036

NOTE J: TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2016, RCAA’s temporarily restricted net assets are temporarily restricted for YSB’s Transitional Housing Placement Plus Foster Care Apartment Building Purchase and Program in the amount of \$178,234.

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

RCAA maintains its cash balances in various financial institutions. The balances at the financial institutions are insured by the Federal Deposit Insurance Corporation up to \$250,000. RCAA maintains cash in banks and financial institutions in amounts within the federally insured limits. RCAA has not experienced any losses in such accounts and believes they are not exposed to any significant credit risk on cash.

REDWOOD COMMUNITY ACTION AGENCY, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE L: CONTINGENCIES

State and Federal Allowances, Award, and Grants

RCAA received a substantial amount of its support from federal, state, and county governments. A significant reduction in the level of this support, if this were to occur, may have an effect on RCAA's program and activities.

Grant awards require the fulfillment of certain conditions as set forth in the instrument of grant. Failure to fulfill the conditions could result in the return of the funds to the grantors. RCAA deems this contingency remote since by accepting the grants and their terms, it has accommodated the objectives of RCAA to the provisions of the grants. RCAA's management is of the opinion that RCAA has complied with the terms of all grants.

Lawsuits

RCAA has one pending claim asserted against them by a former employee. It is management's opinion that the outcome of the lawsuit will not have a material adverse effect on the accompanying financial statements.

NOTE M: REVOLVING LOANS / DEFERRED REVOLVING LOANS

Housing Preservation Grant (HPG) programs provide funds for rehabilitation of residences of qualifying low-income owner/occupants. Provisions of the rehabilitation contracts result in loans to the owners in the amount of the cost to rehabilitate the properties benefiting from the HPG programs. All loans are recorded as liens and secured by rehabilitated properties. RCAA follows default and foreclosure policies as contained in HPG Housing Rehabilitation Guidelines. Loan payments are recorded as program income and are restricted for use in connection with HPG program eligible activities.

NOTE N: SUBSEQUENT EVENTS

The Organization's management has evaluated its subsequent events through April 20, 2017, the date the financial statements were available to be issued.