# 3CORE, INC.

# CHICO, CA

# FINANCIAL STATEMENTS
# AND
# SINGLE AUDIT REPORT

# JUNE 30, 2013

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INDEPENDENT AUDITORS' REPORT

Board of Directors
3CORE, Inc.
Chico, California

Report on the Financial Statements
We have audited the accompanying financial statements of 3CORE, Inc., which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses 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 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 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 organization'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 organization'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 opinions.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of 3CORE, Inc. as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information
We have previously audited 3CORE, Inc.'s 2012 financial statements, and our report dated January 10, 2013, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.



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Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary data in schedule 1 is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is 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 consolidated 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 March 3, 2014 on our consideration of the 3CORE, 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 3CORE, Inc.'s internal control over financial reporting and compliance.

*R.J. Ricciardi, Inc.*

R.J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
March 3, 2014

3CORE, Inc.
STATEMENTS OF FINANCIAL POSITION
June 30, 2013
(With Comparative Totals for June 30, 2012)

| | 2013 | 2012 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 133,950 | $ 179,511 |
| Restricted cash | 1,850,827 | 1,571,169 |
| Accounts receivable | 49,336 | 12,522 |
| Prepaid expenses | 101 | 206 |
| Notes receivable | 499,812 | 549,096 |
| Total current assets | 2,534,026 | 2,312,504 |
| Non-current assets: | | |
| Asset held for sale | - | 20,000 |
| Notes receivable | 1,667,065 | 1,835,481 |
| Fixed assets, net of accumulated depreciation | 6,674 | 6,348 |
| Total non-current assets | 1,673,739 | 1,861,829 |
| Total assets | $ 4,207,765 | $ 4,174,333 |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities: | | |
| Accounts payable | $ 54,816 | $ 25,872 |
| Accrued expenses | 21,608 | 17,089 |
| Deposits held in custody for others | 273,841 | 301,832 |
| Loan loss reserve deposits | 143,360 | 59,080 |
| Pass-through funds | 11,741 | 15,702 |
| Over advances | 56,808 | 75,122 |
| Line of credit | 50,000 | - |
| Notes payable, current portion | 525,514 | 25,452 |
| Total current liabilities | 1,137,688 | 520,149 |
| Non-current liabilities: | | |
| Refundable advances for loan funds | 1,850,230 | 2,066,514 |
| Notes payable, net of current portion | 1,100,760 | 1,376,156 |
| Total non-current liabilities | 2,950,990 | 3,442,670 |
| Total liabilities | 4,088,678 | 3,962,819 |
| Net assets - Exhibit A: | | |
| Unrestricted | 119,087 | 211,514 |
| Total net assets | 119,087 | 211,514 |
| Total liabilities and net assets | $ 4,207,765 | $ 4,174,333 |

The accompanying notes are an integral part of these financial statements.

3CORE, Inc.
STATEMENTS OF ACTIVITIES
For the Year Ended June 30, 2013
(With Comparative Totals for the Year Ended June 30, 2012)

| | 2013 | 2012 |
|---|---|---|
| Revenues: | | |
| Grants and contracts | $ 476,550 | $ 477,394 |
| Cash match | 115,368 | 99,965 |
| Contributions | 90,748 | 12,560 |
| Loan interest and fees | 169,512 | 184,328 |
| Bank interest | 4,043 | 3,217 |
| Other revenue | 14,596 | 16,796 |
| Adjustment to refundable advances | (25,366) | 26,762 |
| Total revenues | 845,451 | 821,022 |
| Expenses: | | |
| Program services | 821,107 | 726,212 |
| General and administration | 52,108 | 75,372 |
| Total expenses | 873,215 | 801,584 |
| Change in net assets | (27,764) | 19,438 |
| Net assets, beginning of period | 211,514 | 2,337,897 |
| Prior period adjustment | (64,663) | (2,145,821) |
| Net assets, beginning of period (restated) | 146,851 | 192,076 |
| Net assets, end of period | $ 119,087 | $ 211,514 |

The accompanying notes are an integral part of these financial statements.

## 3CORE, Inc.

## STATEMENTS OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2013

(With Comparative Totals for the Year Ended June 30, 2012)

| | Program Services | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Activity Delivery | Business & Technical Assistance | Planning | Portfolio Management | Total Program Services | Management and General | Total 2013 | Total 2012 |
| Salary cost: | | | | | | | | |
| Salaries, vacation & other employee benefits | $ 42,703 | $ 11,530 | $ 157,635 | $ 97,249 | $ 309,117 | $ 13,342 | $ 322,459 | $ 291,698 |
| Payroll taxes | 3,809 | 974 | 12,741 | 8,462 | 25,986 | 526 | 26,512 | 24,405 |
| Medical insurance | 5,198 | 1,254 | 15,411 | 10,958 | 32,821 | 756 | 33,577 | 34,835 |
| Worker's compensation | 368 | 92 | 1,246 | 806 | 2,512 | 49 | 2,561 | 1,883 |
| Total salary cost | 52,078 | 13,850 | 187,033 | 117,475 | 370,436 | 14,673 | 385,109 | 352,821 |
| Bank service charges | - | - | - | - | - | 3,426 | 3,426 | 1,023 |
| Contract labor & other outside services | 88,530 | 153,551 | 69,848 | 756 | 312,685 | 4,116 | 316,801 | 266,639 |
| Dues & subscriptions | 1,352 | 215 | 3,427 | 2,086 | 7,080 | 2,414 | 9,494 | 8,039 |
| Depreciation | - | - | - | - | - | 1,336 | 1,336 | 1,637 |
| Equipment lease & use fees | 612 | 115 | 2,152 | 1,299 | 4,178 | 2,227 | 6,405 | 12,885 |
| Janitorial | 191 | 34 | 583 | 371 | 1,179 | 21 | 1,200 | 1,200 |
| Small furniture purchases | - | - | - | - | - | - | - | 177 |
| Insurance | 1,399 | 280 | 3,723 | 4,084 | 9,486 | 1,360 | 10,846 | 9,750 |
| Interest | - | - | 311 | 23,779 | 24,090 | 2,782 | 26,872 | 24,137 |
| Legal & accounting | 2,239 | 1,360 | 6,169 | 9,904 | 19,672 | 5,170 | 24,842 | 19,173 |
| Licenses/permits/taxes/fees | - | - | - | 2,227 | 2,227 | 740 | 2,967 | 3,076 |
| Loan costs | - | - | - | 3,466 | 3,466 | - | 3,466 | 2,608 |
| Office supplies | 455 | 60 | 1,440 | 878 | 2,833 | 1,074 | 3,907 | 3,877 |
| Postage & freight | 156 | 9 | 452 | 175 | 792 | 78 | 870 | 866 |
| Promotion & publicity | 24 | 7 | 57 | 47 | 135 | 2,997 | 3,132 | 2,548 |
| Rent | 2,468 | 436 | 7,547 | 4,802 | 15,253 | 290 | 15,543 | 18,573 |
| Repairs & maintenance | 569 | 99 | 1,361 | 884 | 2,913 | 1,450 | 4,363 | 16,142 |
| Travel & meetings | 371 | 11 | 1,855 | 1,330 | 3,567 | 6,442 | 10,009 | 8,800 |
| Software maintenance | 459 | 110 | 1,273 | 3,337 | 5,179 | 79 | 5,258 | 5,340 |
| Telephone | 345 | 61 | 1,113 | 673 | 2,192 | 926 | 3,118 | 2,810 |
| Utilities | 363 | 60 | 1,154 | 661 | 2,238 | 35 | 2,273 | 3,303 |
| Vehicle maintenance | - | - | 109 | 145 | 254 | 192 | 446 | 455 |
| Bad debt | - | - | - | - | - | - | - | 13,025 |
| Other | 429 | 20,035 | 1,006 | 9,782 | 31,252 | 280 | 31,532 | 22,680 |
| Total expenses | $ 152,040 | $ 190,293 | $ 290,613 | $ 188,161 | $ 821,107 | $ 52,108 | $ 873,215 | $ 801,584 |

The accompanying notes are an integral part of these financial statements.

3CORE, Inc.

STATEMENTS OF CASH FLOWS

For the Year Ended June 30, 2013

(With Comparative Totals for the Year Ended June 30, 2012)

| | 2013 | 2012 |
|---|---|---|
| Cash flows from operating activities: | | |
| Change in net assets | $ (27,764) | $ 19,438 |
| Prior period adjustment | (64,663) | (2,145,821) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 1,336 | 1,637 |
| Loss on impairment of assets held for sale | - | 22,000 |
| Loss on disposition of assets held for sale | 9,000 | 12,397 |
| Changes in certain operating assets and liabilities: | | |
| Accounts receivable | (36,814) | 38,168 |
| Prepaid expenses | 105 | 5,501 |
| Accounts payable | 28,944 | 7,173 |
| Accrued expenses | 4,516 | - |
| Deposits held in custody for others | (27,991) | (309,939) |
| Loan loss reserve deposits | 84,280 | 13,400 |
| Pass-through funds | (3,961) | 934 |
| Over advances | (18,314) | 47,399 |
| Net cash provided (used) by operating activities | (51,326) | (2,287,713) |
| Cash flows from investing activities: | | |
| Acquisition of fixed assets | (1,661) | (6,585) |
| Disposition of assets held for sale | 11,000 | - |
| Issuance of notes receivable | (661,000) | (727,471) |
| Proceeds from notes receivable | 627,284 | 1,333,424 |
| Net cash provided (used) by investing activities | (24,377) | 599,368 |
| Cash flows from financing activities: | | |
| Line of credit | 50,000 | - |
| Refundable advances for loan funds | 34,685 | 2,066,473 |
| Proceeds of notes payable | 224,666 | (24,821) |
| Net cash provided (used) by financing activities | 309,351 | 2,041,652 |
| Net increase (decrease) in cash during the period | 233,648 | 353,307 |
| Cash balance, beginning of period | 1,750,680 | 1,401,119 |
| Cash balance, end of period | $ 1,984,328 | $ 1,754,426 |
| Cash balance at June 30 includes the following: | | |
| Cash and cash equivalents | $ 133,950 | $ 179,511 |
| Restricted cash | $ 1,850,827 | $ 1,571,169 |
| Total cash and cash equivalents | $ 1,984,777 | $ 1,750,680 |
| Supplemental disclosures of cash flow information: | | |
| Interest paid | $ 26,872 | $ 24,137 |

The accompanying notes are an integral part of these financial statements.

## NOTE 1 - ORGANIZATIONAL INFORMATION

3CORE, Inc. (the Organization) was organized and established in 1985 as a private nonprofit organization serving the three county regions of Butte, Glenn and Tehama. The specific purpose of this Organization is to be an intermediary for public and private investments that foster a stable and diversified local economy, to improve social, economic, and employment conditions through collaborative partnerships and to implement a sound, long-term strategy that can address identified community needs through the private, public, and non-profit organizations principally located within Butte, Glenn and Tehama counties.

Services related to economic development are primarily funded through various federal grants. The Organization was designated as an economic development district by the Economic Development Administration under the provisions of the Public Works and Economic Development Act of 1965. Funds provided are to be used to foster economic planning and coordination services.

The Organization also has established a revolving loan program in which funds are made available to local businesses. The funds for the program are derived from a U.S. Department of Commerce Economic Development Administration Grant, U.S. Department of Housing and Urban Development Community Development Block Grants, various local grant funds, local matching funds, refundable loans and reinvestment of interest and loan packaging fees. The funds available for these programs are reflected in restricted cash balance and the funds in current use are reflected in refundable advances for loan funds payable and notes receivable.

The Organization also provides contract services, primarily to local government units, related to obtaining and administering grant projects.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. Basis of Presentation

The financial statements have been prepared on the accrual basis. The Organization reports information regarding their financial position and activities as unrestricted net assets. Unrestricted net assets are defined as those assets that are not subject to donor- imposed stipulations.

### B. Cash and Equivalents

Cash and equivalents consist of cash on hand and highly liquid investments with original or remaining maturities of three months or less at the time of purchase.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Income Tax

The Organization has been classified as an other-than private foundation and is tax-exempt under Section 501(c)(3) of the Internal Revenue Code. The Organization is subject to a tax on income from any unrelated business.

The Organization adopted the recognition requirements for uncertain income tax positions as required by generally accepted accounting principles, with no cumulative effect adjustment required. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities. The Organization has analyzed tax positions taken for filing with the Internal Revenue Service and all state jurisdictions where it operates. The Organization believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the Organization's financial condition, results of operations or cash flows. Accordingly, the Organization has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at June 30, 2013.

The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Organization believes it is no longer subject to income tax examinations for years prior to 2010.

The Organization's policy is to classify income tax related interest and penalties in interest expense and other expenses, respectively.

D. Expense Allocation

The Organization has adopted a cost allocation policy which has been approved by the U.S. Department of Commerce Economic Development Administration. The policy provides for direct expenses to be charged to programs for which they relate. Indirect expenses are identified and allocated to each program and general administration based upon contemporaneous time studies.

E. Accounts Receivable

The Organization utilized the allowance method with respect to its accounts receivable. The allowance represents an estimated amount of accounts receivable deemed to be uncollectible. As accounts receivable at June 30, 2013 are from local governmental agencies, no allowance was deemed necessary.

F. Notes Receivable

Loans are stated at principal balances outstanding. Interest is accrued daily based upon outstanding loan balances. However, when, in the opinion of management, loans are considered to be impaired and the future collectability of interest and principal is in serious doubt, loans are placed on nonaccrual status and the accrual of interest income is suspended. Any interest accrued but unpaid is charged against income. Payments received are applied to reduce principal to the extent necessary to ensure collection. Subsequent payments on these loans, or payments received on nonaccrual loans for which the ultimate collectability of principal is not in doubt, are applied first to earned but unpaid interest and then to principal.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

F. Notes Receivable (concluded)

A loan is considered impaired when, based on current information and events, it is probable that the Organization will be unable to collect all amounts due (including both principal and interest) in accordance with the contractual terms of the loan agreement. An impaired loan is measured based on the present value of expected future cash flows discounted at the loan's effective rate or, as a practical matter, at the loan's observable market price or the fair value of collateral if the loan is collateral dependent.

G. Allowance for Loan Losses

Regarding loans originating from governmental funding sources, the Organization reviews the loan portfolio at year end and writes off loan balances deemed uncollectible. Such write-offs are taken as a charge against expenses on the statement of activities. Loans originating from non-governmental sources are reviewed at year end to assess whether an allowance for loan losses should be established. The determination of the allowance is based on estimates made by management, to include consideration of the character of the loan portfolio, specifically identified problem loans, potential losses inherent in the portfolio taken as a whole, and economic conditions in the Organization's service area.

Loans determined to be impaired or classified, are individually evaluated by management for specific risk of loss. In addition, reserve factors are assigned to currently performing loans based on management's assessment of the following for each identified loan type: (1) inherent credit risk, (2) historical losses and (3) where the Organization has not experienced losses, the loss experience of similar peer organizations.

These estimates are particularly susceptible to changes in the economic environment and market conditions. Additionally, the Organization has established restricted cash and investment accounts designated as loan loss reserves and loan confidence accounts in order to fund actual loan losses incurred.

Three loans were written off in the fiscal year 2012-2013 for a total of $251,418. Once the loans were deemed uncollectible, a balance sheet adjustment was made to reduce loan receivable and reduce advance for loan funds. Since this transaction is not an operating expenditure it was not necessary to make an entry on the Statement of revenue and expenses. These loan losses are an anomaly that does not affect future viability of the organization.
Based on management's review of the loan portfolio at June 30, 2013, an allowance for loan losses was not deemed necessary.

H. Fixed Assets

Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using primarily the straight-line method over the estimated useful life of the asset, generally over periods of 3 to 5 years.

The Organization has established a dollar threshold of $1,000 for capitalization of fixed assets. The cost of maintenance and repairs is charged to expense as incurred.

I. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

## NOTE 3 - CASH AND CASH EQUIVALENTS

At June 30, 2013, the Organization maintained cash accounts at several banks which are below FDIC Insurance coverage of $250,000. Additionally, various grant agreements require that the grant funds be maintained in separate bank accounts. The Organization has complied with all such requirements.

Cash and cash equivalent balances at June 30, are as follows:

| | 2013 | 2012 |
|---|---|---|
| Unrestricted Cash: | | |
| Rabobank | $ 133,850 | $ 179,461 |
| Petty Cash | 100 | 50 |
| Total – unrestricted cash | 133,950 | 179,511 |
| Restricted Cash: | | |
| Rabobank | 1,439,390 | 1,094,748 |
| Wells Fargo | 91,152 | 126,566 |
| Deutsche Bank National Trust – Loan Loss Reserves | 136,214 | 126,270 |
| NVCF Foundation Trust | 63,561 | 22,003 |
| NVCF Loan Confidence Fund | 113,648 | 95,979 |
| Cornerstone Bank | - | 95,565 |
| Butte Federal Credit Union | 6,862 | 10,038 |
| Total – restricted cash | 1,850,827 | 1,571,169 |
| Total cash and cash equivalents | $ 1,984,777 | $ 1,750,680 |

Deutsche Bank National Trust - Loan Loss Reserves

The Organization began participation in a program to establish a cash reserve to be used to cover loan losses for enrolled loans. Deposits to the reserve are received from the Organization and the State of California. The portion of deposits received from the State of California is refundable to CalCAP if the program is terminated and excess deposits remain in the reserve account. At June 30, 2013 and 2012, the balance in the loan loss reserve account was $136,214 and $126,270, respectively.

North Valley Community Foundation – Foundation Trust

North Valley Community Foundation (the Foundation) represents monies transferred by the Organization or received from third party donors to the Foundation. The purpose of the fund is to provide ongoing and growing source of funds for support of the programs and operations of the Organization. Distributions from the Foundation to the Organization are made at the discretion of the Foundation in accordance with the distribution policy adopted by the Foundation board. The agreement may be terminated by the Organization's board of directors with reversion of all remaining fund assets.
The organization also made investments in the form of certificate of deposits with the foundation. At June 30, 2013 and 2012, the balance in the foundation account was $63,561 and $22,003, respectively.

North Valley Community Foundation – Loan Confidence Fund

To hedge against loan losses and its effect on cash flows, the Organization began participating in the loan loss reserve program, as discussed below. In an effort to supplement the loan loss reserve program, the Organization created its own loan confidence fund with the North Valley Community Foundation. The organization also made investments in the form of certificate of deposits with the foundation. At June 30, 2013 and 2012, the loan confidence account had a balance of $113,648 and $95,979, respectively.

NOTE 3 - CASH AND CASH EQUIVALENTS (continued)

Remaining Restricted Cash

After considering the restricted cash related to the loan loss reserves, loan confidence funds, and the foundation trust, there is $1,537,405 remaining. Of this amount, $10,213 relates to the Willows Facade Passthrough, $1,529 relates to the Biggs-BCAV Passthrough, and the remaining $1,525,663 is restricted for revolving loan purposes.

NOTE 4 - FIXED ASSETS

Fixed assets as of June 30 consisted of the following:

| | 2013 | 2012 |
|---|---|---|
| Office furniture and equipment | $ 46,853 | $ 45,192 |
| Less: accumulated depreciation | (40,179) | (38,844) |
| Fixed assets, net | $ 6,674 | $ 6,348 |

Depreciation expense was $1,336 and $1,637 for the years ended June 30, 2013 and 2012, respectively.

NOTE 5 - NOTES RECEIVABLE

Notes receivable consists of loans to individuals and businesses that meet the requirements of each respective loan program administered by the Organization. These loans mature at various dates throughout the next several years and accrued interest between 4 and 12 percent.

At June 30, the balances of the revolving loans receivable were as follows:

| | 2013 | 2012 |
|---|---|---|
| Economic Development Administration - RLF | $ 531,145 | $ 780,038 |
| Old Growth Diversification - RLF | 504,438 | 637,447 |
| Intermediary Re-lending Program | 240,464 | 269,985 |
| City of Red Bluff | 5,160 | 7,270 |
| Wells Fargo | 760,670 | 689,837 |
| US Bank | 125,000 | - |
| Total | 2,166,877 | 2,384,577 |
| Current portion | 499,812 | 549,096 |
| Non–current portion | 1,667,065 | 1,835,481 |
| Total | $ 2,166,877 | $ 2,384,577 |

NOTE 6 - DEPOSITS IN CUSTODY FOR OTHERS

The Organization has received funds from various government agencies to be used in the revolving loan programs. The Organization earns a management fee related to administration of the funds, however, the fund advances, plus certain excess earnings, are refundable to the government agencies. At June 30, 2013 and 2012, total deposits in custody for others amounted to $273,841 and $301,832, respectively.

NOTE 7 - LOAN LOSS RESERVE DEPOSITS

As described in Note 3 of the financial statements, the Organization began participation in a program to establish a cash reserve to be used to cover loan losses for enrolled loans. Deposits to the reserve are received from the Organization and the State of California. The portion of deposits received from the State of California is refundable to CalCAP if the program is terminated and excess deposits remain in the reserve account. At June 30, 2013 and 2012, the portion of the balance that was refundable to Cal CAP (State of CA) was $143,360 and $59,080, respectively.

NOTE 8 - PASS-THROUGH FUNDS

This liability relates to cash balance maintained for the benefit of other organizations and the money does not belong to the Organization. As of June 30, 2013, $11,741 of restricted cash relates to the Passthrough Funds ($10,213 for Willows Fascade and $1,529 for Biggs-BCAV), and that cash balance was fully offset by the liability.

NOTE 9 - REFUNDABLE ADVANCES FOR LOAN FUNDS

The Organization operates several Revolving Loan Funds (RLF), that have been funded by the federal government and other agencies. Under the terms of the grant agreements, program income (which consists of interest on RLF cash on hand, interest repaid on loans, and loan fees charged for making loans) earned during a fiscal year can be used by the Organization to pay administrative costs of the RLF. However, any program income remaining at the end of the year becomes part of the RLF capital and is available for re-lending. In prior periods, the Organization had shown the revolving loan funds as temporarily and permanently restricted net assets. As these are funds restricted to revolving loan purposes and due to the fact that these funds have a reversionary right in perpetuity to the federal government if the terms and conditions of the grant are not fulfilled in some way, these amounts are better reflected as a long-term liability. Refer to Note 15 for further discussion on the reclassification of these net assets to refundable advances for loan funds payable. At June 30, 2013 and 2012, the balance in refundable advances for loan funds was $1,849,781 and $2,066,514, respectively.

NOTE 10 - NOTES PAYABLE

IRP Promissory Note

On December 20, 1996, the Organization entered into a lending agreement with the United States Department of Agriculture to provide up to $500,000 in loan funds. Loan proceeds are restricted and may be used only for the purpose of making loans to businesses meeting certain eligibility requirements. Payments of $21,225, including 1% interest, are due on December 20 of each year.

NOTE 10 - NOTES PAYABLE (continued)

The projected repayment of principal and interest as of June 30, 2013, is as follows:

| Years Ending June 30 | Principal | Interest |
|---|---|---|
| 2014 | 18,595 | 2,630 |
| 2015 | 18,781 | 2,444 |
| 2016 | 18,969 | 2,256 |
| 2017 | 19,158 | 2,065 |
| 2018 | 19,350 | 1,875 |
| Remaining | 178,212 | 7,975 |
| Total | $ 273,065 | $ 19,245 |

IRP Promissory Note

On June 26, 2006 the Organization entered into an additional lending agreement with the United States Department of Agriculture to provide up to $150,000 in loan funds. Loan proceeds are restricted and may be used only for the purpose of making loans to businesses meeting certain eligibility requirements. Payments of $7,959, including 1% interest, are due on June 26 of each year until principal and interest are fully paid.

The projected repayment of principal as of June 30, 2013, is as follows:

| Years Ending June 30 | Principal | Interest |
|---|---|---|
| 2014 | $ 6,919 | $ 1,040 |
| 2015 | 6,988 | 971 |
| 2016 | 7,058 | 901 |
| 2017 | 7,129 | 830 |
| 2018 | 7,200 | 759 |
| Remaining | 67,915 | 3,262 |
| Total | $ 103,209 | $ 7,763 |

Wells Fargo Community Development Corporation Note

The Organization entered into a lending agreement on December 1, 2002, with Wells Fargo Community Development Corporation to provide loan funding of $500,000. Loan proceeds are restricted and may be used only for the purpose of making loans to businesses meeting certain eligibility requirements. Interest-only payments at 2% are due quarterly. At the end of the initial ten year period (December 1, 2012), all interest and principal are due. Per the lending agreement, if the Organization meets certain conditions (which it has) Wells Fargo is obligated to extend the loan period one year. Additionally, the lending agreement gives the Organization the opportunity to request that Wells Fargo extend the loan period in one-year increments with an adjustment to the interest rate to the treasury rate minus 3.5%. It is the Organization's belief that Wells Fargo will continue to defer the repayment of this loan indefinitely.

The projected repayment of principal and interest as of June 30, 2013, is as follows:

| Years Ending June 30 | Principal | Interest |
|---|---|---|
| 2014 | 500,000 | 4,167 |
| Total | $ 500,000 | $ 14,167 |

NOTE 10 - NOTES PAYABLE (continued)

Wells Fargo Community Development Corporation Note
The Organization entered into an additional lending agreement on August 22, 2006, with Wells Fargo Community Development Corporation to provide additional loan funding of $500,000. Loan proceeds are restricted and may be used only for the purpose of making loans to businesses meeting certain eligibility requirements. Interest only payments at 2% are due quarterly. At the end of the initial ten year period (August 22, 2016), all interest and principal are due, unless Wells Fargo elects to extend the loan with an adjustment to the interest rate to the treasury rate minus 3.5%.

The projected repayment of principal and interest as of June 30, 2013, is as follows:

| Years Ending June 30 | Principal | Interest |
|---|---|---|
| 2014 | $ - | $ 10,000 |
| 2015 | - | 10,000 |
| 2016 | 500,000 | 1,667 |
| Total | $ 500,000 | $ 21,667 |

US Bank Term Promissory Note
The Organization entered into an additional lending agreement on November 1, 2012, with US Bank National Association to provide additional loan funding of $250,000. Loan proceeds are required to be used for the purpose of increasing capital access by providing financing to small and emerging businesses and for technical assistance in the three county regions of Butte, Glen and Tehama, California. Interest only payments at 3% are due quarterly. At the end of the initial five year period (November 1, 2017), all interest and principal are due.

The projected repayment of principal and interest as of June 30, 2013, is as follows:

| Years Ending June 30 | Principal | Interest |
|---|---|---|
| 2014 | $ - | $ 7,500 |
| 2015 | - | 7,500 |
| 2016 | - | 7,500 |
| 2017 | - | 7,500 |
| 2018 | 250,000 | 7,500 |
| Total | $ 250,000 | $ 37,500 |

Current maturities for all long-term debt for the next five years and thereafter are as follows:

| Years Ending June 30 | Principal | Interest |
|---|---|---|
| 2014 | $ 525,514 | $ 35,337 |
| 2015 | 25,769 | 20,915 |
| 2016 | 526,027 | 12,324 |
| 2017 | 26,287 | 10,395 |
| 2018 | 276,550 | 10,134 |
| Remaining | 246,127 | 18,737 |
| Total | $ 1,626,274 | $ 107,842 |

NOTE 10 - NOTES PAYABLE (concluded)

Total interest expense related to notes payable for the year ended, June 30, 2013 and 2012 was $26,872 and $24,137, respectively.

NOTE 11 - CREDIT LINE

At June 30, 2013, the Organization had one credit line account with Rabobank totaling the amount of $50,000, with a maturity date of August 10, 2014. Variable interest rates with a floor rate of 5.5% apply to the outstanding balance and interest is due monthly. At June 30, 2013 and 2012, there was balance of $50,000 and $0 respectively.

NOTE 12 - OPERATING LEASES

The Organization has several noncancelable operating leases, primarily for various forms of equipment that expire at various dates through June 13, 2018. The Organization is required to pay all executory costs such as taxes, maintenance, and insurance. Rental expenses for those leases consisted of $21,948 and $28,224 for the year ended June 30, 2013 and 2012, respectively.

Future minimum lease payments under the operating leases that have remaining terms in excess of one year as of June 30, 2013, are:

| Years Ending June 30 | | |
|---|---|---|
| 2014 | $ | 22,426 |
| 2015 | | 8,911 |
| 2016 | | 3,549 |
| 2017 | | 3,549 |
| 2018 | | 1,775 |
| Total | $ | 40,210 |

NOTE 13 - ACCRUED VACATION PAYABLE

Accumulated unpaid employee vacation benefits are recognized as liabilities of the Organization. At the year ended June 30, 2013 and 2012, the accumulated vacation payable was $20,382 and $17,027, respectively.

## NOTE 14 - FAIR VALUE MEASUREMENT

FASB ASC 820-10 and subsections, *Fair Value Measurements and Disclosures* clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosure about the use of fair value measurements in an effort to make the measurement of fair value more consistent and comparable. The Organization has adopted FASB ASC 820-10 for its financial assets and liabilities measured on a recurring and nonrecurring basis.

FASB ASC 820-10 defines fair value as the amount that would be received from the sale of an asset or paid for the transfer of a liability in an orderly transaction between market participants, i.e. an exit price. To estimate an exit price, a three-tier hierarchy is used to prioritize the inputs:

Level 1: Quoted prices in active markets for identical securities.

Level 2: Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment spreads, credit risk, etc.)

Level 3: Significant unobservable inputs (including the Organization's own assumptions in determining the fair value of investments).

The inputs and methodology used for valuing the Organization's financial assets and liabilities are not indicators of the risks associated with those investments.

The following table provides fair value measurement information for financial assets and liabilities measured at fair value on a recurring basis as of June 30:

| | 2013 |
|---|---|
| Level 1: Quoted prices | $ 1,984,777 |
| Level 2: Other significant observable inputs | 2,166,877 |
| Level 3: Significant unobservable inputs | - |
| Total | $ 4,151,654 |

FASB ASC 820-10 provides further clarification in determining an inactive market and non-distressed transactions. The above information is further classified in accordance with FASB ASC 820-10 as follows:

| | Total Investment | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Cash | $ 1,984,777 | $ 1,984,777 | $ - | $ - |
| Notes receivable | 2,166,877 | - | 2,166,877 | - |
| Total | $ 4,151,654 | $ 1,984,777 | $ 2,166,877 | $ - |

## NOTE 15 - PRIOR PERIOD ADJUSTMENT

Total prior period adjustments of $64,663 were made by the Organization for the year ended June 30, 2013 to correct amounts that were incorrectly recorded to various funds.

For June 30, 2012, total prior period adjustments of $2,145,821 were made by the Organization. In an effort to reconcile several of the fund balances, various adjusting entries, totaling $52,544, were made by the Organization to correct reconciling errors that were carried on the books over several periods. Additionally, a prior period adjustment in the amount of $2,093,277 was made to correct amounts incorrectly recorded as temporarily and permanently restricted net assets that should have been recorded as advances on loan funds payable. While it may appear that the Organization has become highly leveraged due to this adjustment, it is simply a reclassification of net assets to liabilities that are offset by the restricted cash and notes receivable. Due to the fact that the revolving loan funds must be paid back to the granting organization, they do not fall under the definition of temporarily restricted or permanently restricted as stated in FASB ASC 958-605. The following table reflects the prior period adjustments by fund:

| Program | Adjustment | Purpose |
|---|---|---|
| General | $ (52,544) | Corrections of prior period errors |
| EDA – RLF | (115,819) | Reclassify net assets as refundable advances payable |
| OGD – RLF | 7,228 | Reclassify net assets as refundable advances payable |
| IRP – RLF | (23,392) | Reclassify net assets as refundable advances payable |
| Butte Reuse | (32,093) | Reclassify net assets as refundable advances payable |
| Other | 1,133 | Reclassify net assets as refundable advances payable |
| General – Private | 28,387 | Reclassify net assets as refundable advances payable |
| EDA – RLF (Corpus) | (1,231,677) | Reclassify net assets as refundable advances payable |
| OGD – RLF (Corpus) | (727,044) | Reclassify net assets as refundable advances payable |
| Total | $ (2,145,821) | |

## NOTE 16 - SUBSEQUENT EVENTS

Subsequent events were evaluated through March 3, 2014, the date the financial statements were available to be issued.

# 3CORE, Inc.
## SCHEDULE OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS
For the Year Ended June 30, 2013

| | General Fund | General 6 Early Stage | Revolving Loan Fund EDA | Revolving Loan Fund OGD | Revolving Loan Fund IRP | Revolving Loan Fund Butte Reuse | SBA ILP | Revolving Loan Fund General | Total |
|---|---|---|---|---|---|---|---|---|---|
| Revenue: | | | | | | | | | |
| Grant/subrecipient revenue | $ 476,550 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 476,550 |
| Cash match | 115,368 | - | - | - | - | - | - | - | 115,368 |
| Contributions | 40,748 | - | - | - | - | - | 50,000 | - | 90,748 |
| RLF interest revenue | - | - | 46,798 | 26,347 | 13,954 | 860 | - | 46,685 | 134,644 |
| RLF loan packaging revenue | - | 12,000 | 3,300 | 4,640 | 1,640 | - | - | 6,600 | 28,180 |
| RLF loan servicing revenue | 75 | - | 1,032 | 354 | 1,188 | 12 | - | 942 | 3,603 |
| RLF late fees revenue | - | - | 420 | 120 | 90 | - | - | 81 | 711 |
| RLF LOC standby fees | - | - | 1,959 | 169 | 208 | - | - | 38 | 2,374 |
| Bank interest | 2,061 | 103 | 815 | 182 | 97 | - | 233 | 552 | 4,043 |
| Other revenue | 17,418 | - | 250 | (4,939) | - | - | - | 250 | 12,979 |
| Equipment user fees | 1,617 | - | - | - | - | - | - | - | 1,617 |
| Revenue: | 653,837 | 12,103 | 54,574 | 26,873 | 17,177 | 872 | 50,233 | 55,148 | 870,817 |
| Adjustment to refundable advances | - | (449) | 15,205 | 3,948 | 523 | (797) | (50,233) | 6,437 | (25,366) |
| Total revenue: | 653,837 | 11,654 | 69,779 | 30,821 | 17,700 | 75 | - | 61,585 | 845,451 |
| Expenses: | | | | | | | | | |
| Salaries and wages | 212,416 | 3,250 | 33,677 | 19,155 | 8,631 | - | - | 26,019 | 303,148 |
| Vacation and other benefits | 55,859 | 657 | 9,329 | 5,878 | 2,746 | - | - | 7,491 | 81,960 |
| Travel and meetings | 8,688 | - | 492 | 302 | 122 | - | - | 405 | 10,009 |
| Contract labor and other outside services | 316,046 | - | 650 | 43 | 16 | - | - | 47 | 316,802 |
| Administrative assessment | 18,715 | - | 1,982 | 1,185 | 472 | - | - | 1,403 | 23,757 |
| Office expenses | 14,520 | - | 1,388 | 910 | 570 | - | - | 1,552 | 18,940 |
| Contributions | 29 | - | - | - | - | - | - | - | 29 |
| Depreciation expense | 1,336 | - | - | - | - | - | - | - | 1,336 |
| Equipment lease | 5,114 | - | 488 | 289 | 114 | - | - | 401 | 6,406 |
| Equipment use fees - (inter TCEDC) | 1,036 | - | 217 | 115 | 59 | - | - | 190 | 1,617 |
| Insurance - general liability and auto | 6,786 | - | 1,577 | 885 | 355 | - | - | 1,242 | 10,845 |
| Interest expense | 312 | 2,781 | | | 3,779 | - | - | 20,000 | 26,872 |
| Legal and accounting | 13,475 | 1,644 | 7,699 | 735 | 309 | - | - | 981 | 24,843 |
| Licenses/permits/taxes/fees | 755 | - | 1,077 | 312 | 176 | - | - | 647 | 2,967 |
| Repairs and maintenance | 6,554 | - | 2,102 | 965 | 362 | - | - | 1,284 | 11,267 |
| Grant disbursement/loan guarantee fees | 19,950 | 3,450 | - | - | - | - | - | - | 23,400 |
| Loss on disposition of asset | - | - | 9,000 | - | - | - | - | - | 9,000 |
| Other | 10 | (128) | 101 | 47 | (11) | 75 | - | (77) | 17 |
| Total expenses | 681,601 | 11,654 | 69,779 | 30,821 | 17,700 | 75 | - | 61,585 | 873,215 |
| Change in net assets | (27,764) | - | - | - | - | - | - | - | (27,764) |
| Net assets, beginning of period | 211,514 | - | - | - | - | - | - | - | 211,514 |
| Prior period adjustment | (64,663) | - | - | - | - | - | - | - | (64,663) |
| Net assets, beginning of period, restated | 146,851 | - | - | - | - | - | - | - | 146,851 |
| Net assets, end of period | $ 119,087 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 119,087 |

The accompanying notes are an integral part of these financial statements.

INDEPENDENT AUDITORS' 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 Directors
3CORE, Inc.
Chico, CA

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 3CORE, Inc., which comprise the consolidated statement of financial position as of June 30, 2013, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise 3CORE, Inc.'s basic financial statements, and have issued our report thereon dated March 3, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered 3CORE, Inc.'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 3CORE, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of 3CORE, Inc.'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 3CORE, Inc.'s 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 the 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 3CORE, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grants and 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*.



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<u>Purpose of this report</u>

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 entity'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

R.J. Ricciardi, Inc.

R. J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
March 3, 2014

INDEPENDENT AUDITORS' REPORT ON
COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Board of Directors
3CORE, Inc.
Chico, California

Report on Compliance for Each Major Federal Program
We have audited 3CORE, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of 3CORE, Inc.'s major federal programs for the year ended June 30, 2013. 3CORE, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and responses.

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

Auditor's Responsibility
Our responsibility is to express an opinion on compliance for each of 3CORE, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 3CORE, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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 3CORE, Inc.'s compliance.

Opinion on Each Major Federal Program
In our opinion, 3CORE, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013

Report on Internal Control Over Compliance
Management of 3CORE, Inc. 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 3CORE, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 3CORE, Inc.'s internal control over compliance.

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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.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*R.J. Ricciardi, Inc.*

R.J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
March 3, 2014

3CORE, Inc.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2013

| Federal Financial Assistance | Federal CFDA Number | Grant/Contract Number | Program Award Amount | Expenditures | Loans | Total |
|---|---|---|---|---|---|---|
| U. S. Department of Commerce: | | | | | | |
| Economic Development - Support for Planning Organizations: | | | | | | |
| Direct programs: | | | | | | |
| Planning Assistance | 11.302 | 07-83-06427-02 | $ 81,000 | $ 81,000 | $ - | $ 81,000 |
| Economic Assistance - BIP | 11.307 | 07-69-06491 | 140,000 | 74,242 | - | 74,242 |
| Economic Assistance | 11.307 | Various | 1,040,000 | 69,779 | 970,221 | 1,040,000 |
| Subtotal - U.S. Department of Commerce | | | 1,261,000 | 225,021 | 970,221 | 1,195,242 |
| U.S. Department of Agriculture: | | | | | | |
| Rural Business Enterprise Grant: | | | | | | |
| Direct Programs: | | | | | | |
| Rural Business Enterprise Grant | N/A | N/A | 99,000 | 76,509 | - | 76,509 |
| National Forest | 10.670 | N/A | 739,143 | 30,821 | 739,970 | 770,791 |
| Intermediate Re-lending | 10.767 | N/A | 650,000 | 17,700 | 632,300 | 650,000 |
| Subtotal - U.S. Department of Agriculture | | | 1,488,143 | 125,030 | 1,372,270 | 1,497,300 |
| U.S. Department of Housing and Urban Development: | | | | | | |
| Community Development Block Grant: | | | | | | |
| Pass-through entities | | | | | | |
| County of Butte | 14.228 | 09-EDEF-6537 | 441,000 | 215,829 | - | 215,829 |
| County of Gridley | 14.228 | N/A | 30,000 | 813 | - | 813 |
| County of Tehama | 14.228 | N/A | 96,891 | 2,253 | - | 2,253 |
| Subtotal - U.S. Department of Housing and Urban Development | | | 567,891 | 218,895 | - | 218,895 |
| Total Federal Awards | | | $ 3,317,034 | $ 568,946 | $ 2,342,491 | 2,911,437 |

The accompanying notes are an integral part of the schedule of expenditures of federal awards

## NOTE 1 - BASIS OF PRESENTATION

The Schedule of Expenditures of Federal Awards includes the federal grant activity of 3CORE, Inc. and is presented on the accrual basis. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree, in all material respects, to amounts reported within 3 CORE Inc.'s financial statements.

## NOTE 2 - CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) NUMBERS

The CFDA numbers included in the accompanying Schedule of Expenditures of Federal Awards were determined based on the program name, review of the award contract, and the Office of Management and Budget's Catalog of Federal Domestic Assistance.

## NOTE 3 - VALUE OF FEDERAL AWARDS EXPENDED

Under loan programs, the federal award expenditures include the following amounts:

a. Value of new loans made or received during the fiscal year, plus,

b. Balance of loans from previous years for which the Federal Government imposes continuing compliance requirements, plus,

c. Any interest subsidy, cash, or administrative cost allowance received.

The outstanding loans receivables included in the federal awards expended calculation at June 30, 2013 are as follows:

| Program Title | CFDA Number | Amount |
|---|---|---|
| Economic Adjustment Assistance Revolving Loan Fund | 11.307 | $ 531,145 |
| Old Growth Diversification Loan Fund | 10.670 | 504,438 |
| Intermediary Re-lending Program | 10.767 | 240,464 |
| Total | | $ 1,276,047 |

3CORE, Inc.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2013

## SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements:

1. Type of auditors' report issued: unmodified.

2. Internal control over financial reporting:

   A. Material weakness(es) identified? no
   B. Significant deficiencies identified that were not considered to be material weakness(es)? none reported
   C. Noncompliance material to financial statements noted? no

3. Internal control over major programs:

   A. Material weakness(es) identified? no
   B. Significant deficiencies identified that were not considered to be a material weakness(es)? none reported.
   C. Type of auditors' report issued on compliance for major programs: unmodified.
   D. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? no

4. Identification of Major Programs:

| CFDA Number | Program Name | Expenses | Loans |
|---|---|---|---|
| 11.307 | Economic Adjustment Assistance | $144,021 | $1,273,042 |

5. Dollar threshold used to distinguish between type A and type B programs: $300,000.

6. Auditee qualified as a low-risk auditee? yes

## SECTION II – FINANCIAL STATEMENT FINDINGS

There were no financial statement findings.

## SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no federal award findings and questioned costs.

# 3CORE, Inc.
## STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
June 30, 2013

There were no prior year findings and recommendations.