

NORTH CENTRAL ECONOMIC
DEVELOPMENT ASSOCIATION, INC.

FINANCIAL REPORT

JUNE 30, 2016

Conway, Deuth & Schmiesing, PLLP
Certified Public Accountants
Willmar, Minnesota

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NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.

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NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.

BOARD OF DIRECTORS
JUNE 30, 2016

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Full Corporation</u>		
Bruce Heilman*	Chairman	March 1, 2018
Mo Durham*	Vice-Chair	March 1, 2018
Steve Gertken*	Secretary	March 1, 2018
Dean Uselman*	Treasurer	March 1, 2017
Bill Palmer	Member	March 1, 2017
Dan Frank	Member	June 1, 2019
Greg Zylka	Member	June 1, 2019
Jason Sellnow	Member	June 1, 2019
Lisa Graba-Meech	Member	June 1, 2019
Scott Watland*	Director	March 1, 2019
Steven Hansen*	Director	March 1, 2017
Virginia Knudson	Member	March 1, 2019
Brenda Thomes**	Alternate	March 1, 2018
Ron Bieganeck**	Alternate	March 1, 2019
Alex Weego*	Region Five Liaison	March 1, 2017

* Also serves on the Loan Committee

** Alternate Loan Board Member

Microlending Loan Committee

Tiffany Hirschey	Chairman	March 1, 2018
Dan Bullert	Vice Chair	March 1, 2017
Rick Utech	Secretary - Treasurer	March 1, 2018
Frank Lamb	Member	March 1, 2017
Robert Musgrove	Member	March 1, 2018

Administration

Cheryal Lee Hills	Executive Director
Bob Voss	Staff Representative

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
North Central Economic Development Association, Inc.
Staples, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of North Central Economic Development Association, Inc. (the Association), a nonprofit organization, which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management Responsibility

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 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles 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 financial position of North Central Economic Development Association, Inc. as of June 30, 2016, 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 the Partial Comparative Information

We have previously audited the Association's June 30, 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 22, 2015. In our opinion, the partial comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulation* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), 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 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 October 27, 2016, on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.

Conway, Deuth & Schmiesing, PLLP

CONWAY, DEUTH & SCHMIESING, PLLP
Certified Public Accountants
Willmar, Minnesota

October 27, 2016

BASIC FINANCIAL STATEMENTS

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NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.

STATEMENT OF FINANCIAL POSITION
 JUNE 30, 2016
 WITH PARTIAL COMPARATIVE AMOUNTS AS OF JUNE 30, 2015

	Revolving Loan Fund	Household Water Well System Fund	Microlending Fund	Local Foods	Total	
					2016	2015
ASSETS						
Current Assets						
Cash and Cash Equivalents	\$ 337,365	\$ 13,228	\$ 46,039	\$	\$ 396,632	\$ 229,289
Accounts Receivable	1,339		158		1,497	
Due from Related Organization		12,106			12,106	12,802
Due from Other Governments		5,000	10,425	14,024	29,449	19,536
Due from Other Funds	1,600		10,339	8,061	20,000	1,600
Prepaid Expenses	1,188		1,520		2,708	1,986
Total Current Assets	341,492	30,334	68,481	22,085	462,392	265,213
Non Current Assets						
Loans Receivable, Net	1,019,204	71,587	288,546		1,379,337	1,620,528
Capital Assets						
Equipment			11,100		11,100	11,100
Less Accumulated Depreciation			(11,100)		(11,100)	(11,100)
Total Non Current Assets	1,019,204	71,587	288,546	0	1,379,337	1,620,528
Total Assets	\$ 1,360,696	\$ 101,921	\$ 357,027	\$ 22,085	\$ 1,841,729	\$ 1,885,741
LIABILITIES AND NET ASSETS						
Current Liabilities						
Accounts Payable	\$ 804	\$	\$	\$	\$ 804	\$ 27,762
Due to Related Organization	2,346		24,893	22,085	49,324	24,143
Due to Other Funds	18,400		1,600		20,000	1,600
Current Portion of Long-Term Debt		1,140	19,933		21,073	19,359
Total Current Liabilities	21,550	1,140	46,426	22,085	91,201	72,864
Long-Term Liabilities						
Notes Payable, Net of Current Portion		4,575	336,373		340,948	363,870
Total Liabilities	21,550	5,715	382,799	22,085	432,149	436,734
Net Assets						
Permanently Restricted	1,339,146	96,206	(25,772)		1,409,580	1,449,007
Total Liabilities and Net Assets	\$ 1,360,696	\$ 101,921	\$ 357,027	\$ 22,085	\$ 1,841,729	\$ 1,885,741

See Accompanying Notes to the Financial Statements

NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015

	Revolving Loan Fund	Household Water Well System Fund	Microlending Fund	Local Foods	Total	
					2016	2015
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS						
REVENUES						
Loan Interest Income	\$ 59,343	\$ 535	\$ 16,442	\$	\$ 76,320	\$ 88,331
Grant Revenue		19,869	42,968	71,854	134,691	77,658
Investment Income	451	26	25		502	483
Origination Fees	375	595			970	3,634
Other Revenue	573	263	701		1,537	4,737
Total Revenues	<u>60,742</u>	<u>21,288</u>	<u>60,136</u>	<u>71,854</u>	<u>214,020</u>	<u>174,843</u>
EXPENSES						
Program Expenses						
Administrative Fees	33,167		41,468		74,635	83,633
Bank Fees	174		1,414		1,588	1,254
Credit Bureau Fees	287				287	451
Depreciation						617
Loan Interest			7,351		7,351	8,307
Program Expenses				71,854	71,854	
Recording Fees	135	580	138		853	285
Total Program Expenses	<u>33,763</u>	<u>580</u>	<u>50,371</u>	<u>71,854</u>	<u>156,568</u>	<u>94,547</u>
Management and General						
Accounting and Audit	8,775				8,775	8,140
Insurance	1,186				1,186	1,186
Legal Fees	295		135		430	450
Mileage	1,160				1,160	1,024
Per Diem	2,620				2,620	2,965
Software			3,755		3,755	1,600
Total Management and General	<u>14,036</u>	<u>0</u>	<u>3,890</u>	<u>0</u>	<u>17,926</u>	<u>15,365</u>
Loan Loss (Recovery)	9,414		69,539		78,953	35,404
Total Expenses	<u>57,213</u>	<u>580</u>	<u>123,800</u>	<u>71,854</u>	<u>253,447</u>	<u>145,316</u>
Change in Permanently Restricted Net Assets	3,529	20,708	(63,664)	0	(39,427)	29,527
NET ASSETS -						
BEGINNING OF YEAR	<u>1,335,617</u>	<u>75,498</u>	<u>37,892</u>	<u></u>	<u>1,449,007</u>	<u>1,419,480</u>
NET ASSETS - END OF YEAR	<u>\$ 1,339,146</u>	<u>\$ 96,206</u>	<u>\$ (25,772)</u>	<u>\$ 0</u>	<u>\$ 1,409,580</u>	<u>\$ 1,449,007</u>

See Accompanying Notes to the Financial Statements

NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2016
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015

	Revolving Loan Fund	Household Water Well System Fund	Microlending Fund	Local Foods	Total	
					2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash Received from Customers	\$ 59,403	\$ 22,817	\$ 59,978	\$ 57,830	\$ 200,028	\$ 200,010
Cash Paid to Suppliers	(58,620)	(4,884)	(50,852)	(57,830)	(172,186)	(114,693)
Net Cash Provided (Used) by Operating Activities	783	17,933	9,126	0	27,842	85,317
CASH FLOWS FROM INVESTING ACTIVITIES						
Loans Disbursed		(33,515)	(61,400)		(94,915)	(403,013)
Principal Collection on Loans and Recoveries	202,949	7,087	45,588		255,624	211,839
Net Cash Provided (Used) by Investing Activities	202,949	(26,428)	(15,812)	0	160,709	(191,174)
CASH FLOWS FROM FINANCING ACTIVITIES						
Increase (Decrease) in Short-Term Debt		11	1,703		1,714	1,860
Increase (Decrease) in Long-Term Debt		(1,540)	(21,382)		(22,922)	27,705
Net Cash Provided (Used) by Financing Activities	0	(1,529)	(19,679)	0	(21,208)	29,565
Net Increase (Decrease) in Cash and Cash Equivalents	203,732	(10,024)	(26,365)	0	167,343	(76,292)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	133,633	23,252	72,404		229,289	305,581
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 337,365	\$ 13,228	\$ 46,039	\$ 0	\$ 396,632	\$ 229,289
RECONCILIATION OF CHANGES IN NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES						
Change in Permanently Restricted Net Assets	\$ 3,529	\$ 20,708	\$ (63,664)	\$	\$ (39,427)	\$ 29,527
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities						
Depreciation						617
Provision for Loan Loss (Recovery)	9,414		69,539		78,953	35,404
Changes in Assets and Liabilities						
(Increase) Decrease in Receivables	(1,339)		(158)		(1,497)	984
(Increase) Decrease in Due from Related Organization		5,710			5,710	(9,400)
(Increase) Decrease in Due from Other Funds			(10,339)	(8,061)	(18,400)	(1,600)
(Increase) Decrease in Due from Other Governments		(5,000)	1,050	(5,963)	(9,913)	
(Increase) Decrease in Prepaid Expenses	(2)		(720)		(722)	(19,536)
Increase (Decrease) in Accounts Payable	(26,958)				(26,958)	
Increase (Decrease) in Loan Interest Payable						27,556
Increase (Decrease) in Due to Related Organization	(2,261)	(3,485)	13,418	14,024	21,696	20,165
Increase (Decrease) in Due to Other Funds	18,400				18,400	1,600
Net Cash Provided (Used) by Operating Activities	\$ 783	\$ 17,933	\$ 9,126	\$ 0	\$ 27,842	\$ 85,317

See Accompanying Notes to the Financial Statements

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NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

North Central Economic Development Association, Inc. (the Association) is a nonprofit corporation organized for the purpose of promoting economic development through the operation of a revolving loan fund in a five county area comprised of Cass, Crow Wing, Morrison, Todd, and Wadena counties. Funds received from the U.S. Department of Commerce-Economic Development Administration and various local contributors are loaned to businesses within the five county area in order to create or increase employment and business opportunities by supplementing public and private capital.

The Association was formed for the purpose of managing Region Five Development Commission's revolving loan fund program. Region Five Development Commission has one board member that sits on the Association's board as a non-voting member. The Association is reported as a discrete component unit of the Region Five Development Commission.

B. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The financial statements of the Association have been prepared on the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recognized when incurred.

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

C. INCOME TAX

The Association is a nonprofit organization and exempt from federal and state corporate income tax under Internal Revenue Code Section 501(c)(3) and related state statutes. The Association is not a private foundation.

D. FUND ACCOUNTING

The Association maintains its accounts in accordance with the principles of fund accounting in order to ensure observance of limitations and restrictions placed on the use of resources available. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues and expenditures. Resources are allocated to and accounted for in individual funds based upon the purposes and the means by which they are to be spent and the means by which spending activities are controlled.

The assets, liabilities, and net assets of the Association are reported in four fund groups, as follows:

Revolving Loan Fund - Represents funds reserved for the issuance of loans to the public to encourage economic development. The fund is maintained in compliance with the grant agreement. The balance of this fund at year end is considered a permanently restricted net asset. The Revolving Loan Fund is required to have a separate bank account.

Household Water Well System Fund - Represents funds reserved for the issuance of well water loans. The fund is maintained in compliance with the grant agreement. The balance of this fund at year end is considered a permanently restricted net asset. The Household Water Well System Fund is required to have a separate bank account.

NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

D. FUND ACCOUNTING (Cont'd)

Microlending Fund - Represents funds reserved for issuance of loans to businesses to finance approved rural economic development projects. The fund is maintained in compliance with the grant agreement. The balance of this fund at year end is considered a permanently restricted net asset. The Microlending Fund is required to have a separate bank account.

Local Food Promotion Program (LFPP) - Represents funds reserved for promotion of local foods. The fund is maintained in compliance with the grant agreement. The balance of this fund at year end is considered a permanently restricted net asset. The LFPP Fund is required to have a separate bank account.

E. CASH AND CASH EQUIVALENTS

The Association's cash balances are classified as cash and cash equivalents. The Association considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

F. LOANS RECEIVABLE

Loans receivable consist of various loans in the allowable five county area. Loans receivable are secured by one or more of the following: accounts receivable, inventory, equipment, real estate, and personal guarantees. Interest income is accrued on the unpaid principal balance. Related fees are recorded as earned.

G. ALLOWANCE FOR DOUBTFUL ACCOUNTS AND LOAN LOSSES

The Association provides an allowance for doubtful loans which is offset against the gross amount of the loan. The allowance is an estimate of collection losses that may occur in the collection of all outstanding loans and is based upon historical experience along with management's review of the status of existing receivables.

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

G. ALLOWANCE FOR DOUBTFUL ACCOUNTS AND LOAN LOSSES (Cont'd)

The reported allowance for doubtful loans are as follows:

	Revolving Loan Fund	Microlending Fund
	<u> </u>	<u> </u>
Balance - Beginning of Year	\$ 141,821	\$
Provision	<u>(28,576)</u>	<u>69,539</u>
Balance - End of Year	<u><u>\$ 113,245</u></u>	<u><u>\$ 69,539</u></u>

H. IMPAIRED LOANS

The Association defines a loan as impaired when it is probable the Association will be unable to collect all principal and interest payments due in accordance with the terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Interest continues to accrue on loans past due until the loan is recorded as a loan loss. Interest income on these loans is recorded as received.

Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

I. CAPITAL ASSETS AND DEPRECIATION

Capital assets are recorded at acquisition cost.

Depreciation is based on the straight-line method over the estimated useful lives of the assets, as follows:

Equipment	5-7 Years
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Expenditures for maintenance and repairs are charged to expense as incurred, whereas expenditures for renewals and betterments are capitalized. When an asset is sold or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts and any gain or loss is recognized in earnings.

Depreciation expense totaled \$0.

NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

J. NET ASSETS

Net assets of the Association, and changes therein, are classified and reported as follows:

Unrestricted — Net assets that the Board of Directors has discretionary control over and are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

Temporarily Restricted — Net assets whose use by the Association are subject to donor-imposed restrictions that can be fulfilled by actions of the Association pursuant to those restrictions or that expire by the passage of time.

Permanently Restricted — Net assets subject to donor-imposed restrictions that they be maintained permanently by the Association. The entire balance attributed to the Revolving Loan Fund, the Household Water Well System Fund, and Microlending Fund is required to be permanently restricted.

The Association had permanently restricted net assets of \$1,409,580.

K. REVENUES

Operating revenues consist primarily of interest revenues from loans, investment income and origination fees. All revenue from these sources is permanently restricted.

L. EXPENSES

Expenses are recognized under the accrual basis of accounting. Expenses primarily consist of program, management and general expenses, and loan loss and/or recoveries.

M. USE OF 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expense during the reporting period. Accordingly, actual results could differ from those estimates.

N. SUBSEQUENT EVENTS

The Association has evaluated subsequent events through October 27, 2016, which is the date the financial statements were available to be issued.

O. PRIOR YEAR INFORMATION

The financial statements include certain prior-year partial comparative information in total but not at a level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended June 30, 2015, from which the partial information was derived.

NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2. LONG-TERM DEBT

Long-term debt consisted of the following:

Note payable to USDA, with the first two years of the loan being interest only. Beginning on December 1, 2013 monthly installments are due with the remaining balance due twenty years from date of the loan including interest at 2 percent. This note is secured by related loans receivable.	\$ 356,306
Note payable to related organization with monthly installments due quarterly to June 2022 including interest at 1 percent.	5,715
Subtotal	362,021
Less Current Portion	(21,073)
Net Long-Term Debt	\$ 340,948

Future maturities of long-term debt are as follows:

<u>Year Ending June 30,</u>	<u>USDA</u>	<u>Related Organization</u>
2017	\$ 19,933	\$ 1,140
2018	20,335	1,152
2019	20,745	1,163
2020	21,164	1,175
2021	21,591	1,085
Thereafter	252,538	
	\$ 356,306	\$ 5,715

NOTE 3. RELATED PARTY TRANSACTIONS

The Association has entered into several agreements with Region Five Development Commission to manage the Commission's revolving loan fund programs. Under these agreements, the Association contracts with Region Five Development Commission for administrative duties such as clerical support, loan packaging and accounting. The Association recorded \$74,635 of administrative expenses to Region Five Development Commission.

The Association owed a net amount of \$37,218 to Region Five Development Commission related to these agreements and due to funds advanced for issuing a loan receivable.

NOTE 4. CONCENTRATIONS

The Association receives a majority of its revenues from interest income on loans receivable and origination fees on new borrowings. All of their customers are within the designated five county area of Cass, Crow Wing, Morrison, Todd, and Wadena counties.

NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 5. CONTINGENCIES

The Association participates in federal grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the grant programs are subject to audit and adjustment by the grantor agencies, therefore, to the extent that the Association has not complied with the rules and regulations governing the grants, refunds of money received may be required. In the opinion of the Association, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the grants; therefore, no provision has been recorded in the accompanying financial statements for such a contingency.

The microlending program is a \$400,000 grant that was received from the U.S. Department of Agriculture for the purpose of issuing loans to businesses to finance approved rural economic development projects. This grant is to be repaid over 20 years with final maturity on December 1, 2031. In addition, the Association has applied for and received grant funds from other funding sources to create a loan loss reserve. This loan loss reserve will be used to cover any potential losses from outstanding microlending loan receivables.

\$400,000 had been advanced on the USDA Microlending grant and \$358,085 was outstanding as microlending loans receivable from various businesses. An allowance of \$69,539 has been established in accordance with Note 1 above. In the event that the microlending net loan receivables of \$358,085 result in default, the loan loss reserve including interest of \$22,726 would partially cover these losses. The Association is exposed to a potential loss of \$335,359.

NOTE 6. COMMITMENTS

The Association had loan funds of \$8,421 committed for the Revolving Loan Fund. There were no loan commitments for the Microlending Fund and Household Water Well System Fund.

NOTE 7. UNCERTAIN TAX POSITIONS

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

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 Association has analyzed tax positions taken for filing with the Internal Revenue Service and all state jurisdictions where it operates. The Association believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse affect on the Association's financial condition, results of operations or cash flows. Accordingly, the Association has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions.

The Association is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Association believes it is no longer subject to income tax examinations for years prior to 2012.

COMPLIANCE

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

Board of Directors
North Central Economic Development Association, Inc.
Staples, Minnesota

We have audited, 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, the financial statements of North Central Economic Development Association, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 27, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Association'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 the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association'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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity'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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2006-001 and 2007-001 to be material weaknesses.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses.

Willmar Office

331 Third St SW, Ste 2
PO Box 570
Willmar, MN 56201
P (320) 235-3311
T (888) 388-1040

Benson Office

1209 Pacific Ave, Ste 3
Benson, MN 56215
P (320) 843-2302

Morris Office

401 Atlantic Ave
Morris, MN 56267
P (320) 589-2602

www.cdscpa.com

Litchfield Office

820 Sibley Ave N
Litchfield, MN 55355
P (320) 693-7975

St. Cloud-Sartell Office

Ste 110
2351 Connecticut Ave
Sartell, MN 56377
P (320) 252-7565
T (800) 862-1337

Compliance and Other Matters

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

The Association's Responses to Findings

The Association's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The Association's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Conway, Deuth & Schmiesing, PLLP

CONWAY, DEUTH & SCHMIESING, PLLP
Certified Public Accountants
Willmar, Minnesota

October 27, 2016



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

Board of Directors
North Central Economic Development Association, Inc.
Staples, Minnesota

Report on Compliance for Each Major Federal Program

We have audited North Central Economic Development Association, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Association's major federal programs for the year ended June 30, 2016. The Association's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Association's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Association'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 the Association's compliance.

Opinion on Each Major Federal Program

In our opinion, the Association complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

Report on Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Conway, Deuth & Schmiesing, PLLP

CONWAY, DEUTH & SCHMIESING, PLLP
Certified Public Accountants
Willmar, Minnesota

October 27, 2016

FEDERAL FINANCIAL ASSISTANCE PROGRAMS

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NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2016

Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
U.S. Department of Commerce:			
Region Five Development Commission			
Economic Adjustment Assistance - Revolving Loan Fund	11.307	N/A	\$ 1,155,728
U.S. Department of Agriculture:			
Direct Programs			
Household Water Well System Grant Program	10.862	N/A	19,869
Rural Microentrepreneur Assistance Program	10.870	N/A	41,466
Local Food Promotion Program	10.168	N/A	71,854
Total U.S. Department of Agriculture			<u>133,189</u>
Total Expenditures of Federal Awards			<u><u>\$ 1,288,917</u></u>

The federal expenditures for the Economic Adjustment Assistance - Revolving Loan Fund were calculated as follows:

Balance of Loans Outstanding	\$ 1,132,449
Cash and Investment Balance	337,365
Administrative Expenses Paid Out of Income	33,166
Unpaid Principal of Loans Written Off	37,990
	<u>1,540,970</u>
Federal Percentage of Loan Funds	<u>75.00</u> %
Federal Expenditures	<u><u>\$ 1,155,728</u></u>

See Accompanying Notes to Schedule of Expenditures of Federal Awards

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NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2016

NOTE 1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of North Central Economic Development Association. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* (Uniform Guidance). Because the Schedule presents only a portion of the operations of North Central Economic Development Association it is not intended to and does not present the financial position, changes in net assets, or cash flows of North Central Economic Development Association.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported in the Schedule are reported on the accrual basis of accounting, which is described in Note 1 to the Association's basic financial statements. Such expenditures are recognized following the cost principles contained in Title 2 U.S. *Code of Federal Regulations* Part 200, Subpart E - Cost Principles, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through entity identifying numbers are presented where available.

NOTE 3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Federal financial assistance revenues are reported in the Association's basic financial statements as "grant revenue". Revenue recognized on the basic financial statements for federal programs totaled \$133,189.

NOTE 4. SUBRECIPIENTS

North Central Economic Development Association, Inc. did not provide any federal awards to subrecipients.

NOTE 5. LOANS OUTSTANDING

North Central Economic Development Association, Inc. had the following loan balances outstanding at June 30, 2016. The federal portion of the loans outstanding are included in the federal expenditures presented in the schedule.

<u>Cluster/Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Outstanding</u>
Economic Adjustment Assistance - Revolving Loan Fund	11.307	\$ 1,132,449
Household Water Well System Grant	10.862	65,872
Rural Microenterprise Assistance Program	10.870	358,085

NOTE 6. DE MINIMIS COST RATE

The Commission elected not to charge the de minimis indirect cost rate of 10% to federal programs.

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NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2016

I. SUMMARY OF AUDITOR'S RESULTS

A. FINANCIAL STATEMENTS

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
- Material weakness(es) identified?	Yes, Audit Findings 2006-001 and 2007-001
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?	No
Noncompliance material to financial statements noted?	No

B. FEDERAL AWARDS

Type of auditor's report issued on compliance for major program(s):	Unmodified
Internal control over major programs:	
- Material weakness(es) identified?	No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?	No
Any audit findings disclosed that are required to be reported in accordance with Part 200 of the Uniform Guidance?	No

C. IDENTIFICATION OF MAJOR PROGRAMS

CFDA No.:	11.307
Name of Federal Program or Cluster:	Economic Adjustment Assistance - Revolving Loan Fund
Dollar threshold used to distinguish between Types A and B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2016

II. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS

PREVIOUSLY REPORTED ITEM NOT RESOLVED

FINDING: 2006-001 LIMITED SEGREGATION OF DUTIES

Condition: There is an absence of appropriate segregation of duties consistent with appropriate control objectives due to a limited number of employees of the Association's fiscal agent.

Criteria: The basic premise is that no one person should have access to both physical assets and the related accounting records or to all phases of a transaction. The lack of such controls could result in the occurrence of a material error or fraud in relation to the financial statements not being detected by management.

Cause: The Association's fiscal agent has assigned duties to staff based on a cost-benefit relationship to the Association and the practicality of the level of staffing the Association's fiscal agent maintains.

Effect: The lack of adequate segregation of duties could adversely affect the Association's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.

Recommendation: The Association's fiscal agent should continue to monitor and evaluate the job responsibilities assigned to staff to determine whether there is an unacceptable risk.

MANAGEMENT'S RESPONSE

The Association's fiscal agent is aware of the limited segregation of duties and will continue to review internal controls and make changes when they can be made.

NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2016

II. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS (Cont'd)

PREVIOUSLY REPORTED ITEM NOT RESOLVED (Cont'd)

FINDING: 2007-001 FINANCIAL REPORTING PROCESS

Condition: The Association does not have an internal control system designed to provide for the preparation of the financial statements and the related notes being audited. However, based on the degree of complexity and level of detail needed to prepare the financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), the Association has requested the auditors to prepare them.

Criteria: The preparation of the financial statements and the related notes are the responsibility of management.

Cause: There are a limited number of office employees and resources available to allow for the adequate preparation of the financial statements and the related notes by the Association.

Effect: This could result in a material misstatement to the financial statements and related notes that would not be prevented, or detected and corrected as a result of the Association's current internal control.

Recommendation: The Association should continue to request the assistance to draft the financial statements and related notes and thoroughly review these financial statements after they have been prepared so the Association can take responsibility for them.

MANAGEMENT'S RESPONSE

The Association is aware of this; however, due to significant cost and a limited number of employees, it is in the Association's best financial interest to contract for the preparation of the financial statements.

III. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS

None