

October 23, 2017

North Central Economic Development Association, Inc.
Staples, Minnesota

Management of North Central Economic Development Association, Inc.:

In accordance with your request, we are attaching the accompanying PDF file, which contains an electronic final version of the financial statements of North Central Economic Development Association, Inc. as of June 30, 2017. We understand that your request for the electronic copy has been made as a matter of convenience. You understand that electronic transmissions are not entirely secure and that it is possible for confidential financial information to be intercepted by others.

These financial statements and our report(s) on them are not to be modified in any manner. This final version supersedes all prior drafts. Any preliminary draft version of the financial statements previously provided to you in an electronic format should be deleted from your computer, and all printed copies of any superseded preliminary draft versions should likewise be destroyed.

Professional standards and our firm policies require that we perform certain additional procedures whenever our reports are included, or we are named as accountants, auditors, or "experts," in a document used in a public or private offering of equity or debt securities. Accordingly, as provided for and agreed to in the terms of our arrangement letter, North Central Economic Development Association, Inc. will not include our reports, or otherwise make reference to us, in any public or private securities offering without first obtaining our consent. Any request to consent is also a matter for which separate arrangements will be necessary. After obtaining our consent, North Central Economic Development Association, Inc. also agrees to provide us with printer's proofs final reproduced material for our approval before it is distributed. In the event our auditor/client relationship has been terminated when North Central Economic Development Association, Inc. seeks such consent, we will be under no obligation to grant such consent or approval.

Thank you for the opportunity to serve you.

Sincerely,

Schlenner Wenner & Co.

SCHLENNER WENNER & CO.

**NORTH CENTRAL ECONOMIC
DEVELOPMENT ASSOCIATION, INC.**

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2017

**SCHLENNER WENNER & CO.
Certified Public Accountants
& Business Consultants**

**NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.
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**FINANCIAL
SECTION**

INDEPENDENT AUDITORS' REPORT

October 23, 2017

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 corporation, which comprise the statement of financial position as of and for the year ended June 30, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Association'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 Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Central Economic Development Association, Inc. as of June 30, 2017, and the changes in net assets, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic 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 23, 2017 on our consideration of North Central Economic Development Association, Inc.'s internal control over financial reporting and 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 North Central Economic Development Association, Inc.'s internal control over financial reporting and compliance.

Schlenner Wenner & Co.

SCHLENNER WENNER & CO.
St. Cloud, Minnesota

BASIC FINANCIAL STATEMENTS

NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017

	Revolving Loan Fund	Household Water Well System Fund	Microlending Fund	Local Foods Fund	Entrepreneur Lending Program Fund	Total
ASSETS						
Current Assets:						
Cash and Cash Equivalents	\$ 267,899	\$ 41,329	\$ 92,774	\$ -	\$ 18,056	\$ 420,058
Accounts Receivable	-	4,131	-	-	-	4,131
Due from Other Governments	-	-	26,955	-	-	26,955
Due from Other Funds	-	363	24,613	-	267	25,243
Prepaid Expenses	1,186	-	988	-	-	2,174
Current Maturities of Loans Receivable	174,260	12,548	32,408	-	4,513	223,729
Total Current Assets	443,345	58,371	177,738	-	22,836	702,290
Noncurrent Assets:						
Loans Receivable, Less Current Maturities and Loan Loss Reserve	915,590	73,639	215,498	-	33,487	1,238,214
Property and Equipment:						
Equipment	-	-	11,100	-	-	11,100
Less: Accumulated Depreciation	-	-	(11,100)	-	-	(11,100)
Net Property and Equipment	-	-	-	-	-	-
Total Noncurrent Assets	915,590	73,639	215,498	-	33,487	1,238,214
TOTAL ASSETS	\$ 1,358,935	\$ 132,010	\$ 393,236	\$ -	\$ 56,323	\$ 1,940,504
LIABILITIES AND NET ASSETS						
Current Liabilities:						
Accounts Payable	\$ 5,240	\$ -	\$ -	\$ -	\$ -	\$ 5,240
Due to Related Organization	7,734	589	56,824	-	100	65,247
Due to Other Funds	5,335	-	1,908	-	18,000	25,243
Current Maturities of Long-Term Debt	-	1,068	20,335	-	6,174	27,577
Total Current Liabilities	18,309	1,657	79,067	-	24,274	123,307
Noncurrent Liabilities:						
Long-Term Debt, Less Current Maturities	-	3,397	315,735	-	31,826	350,958
TOTAL LIABILITIES	18,309	5,054	394,802	-	56,100	474,265
NET ASSETS						
Temporarily Restricted	1,340,626	126,956	(1,566)	-	223	1,466,239
TOTAL LIABILITIES AND NET ASSETS	\$ 1,358,935	\$ 132,010	\$ 393,236	\$ -	\$ 56,323	\$ 1,940,504

NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

	Temporarily Restricted					Total
	Revolving Loan Fund	Household Water Well System Fund	Microlending Fund	Local Foods	Entrepreneur Lending Program Fund	
REVENUES						
Loan Interest Income	\$ 56,566	\$ 997	\$ 14,663	\$ -	\$ -	\$ 72,226
Grant Revenue	-	29,215	95,584	11,524	-	136,323
Investment Income	769	35	31	-	-	835
Origination Fees	5,443	127	-	-	-	5,570
Miscellaneous	358	560	321	-	267	1,506
TOTAL REVENUES	63,136	30,934	110,599	11,524	267	216,460
EXPENSES						
Program Expenses						
Administrative Fees	34,203	-	95,584	-	-	129,787
Bank Fees	155	1	1,134	-	44	1,334
Credit Bureau Fees	203	76	-	-	-	279
Loan Interest	-	-	6,768	-	-	6,768
Program Expenses	-	-	-	11,524	-	11,524
Recording Fees	753	107	315	-	-	1,175
Total Program Expenses	35,314	184	103,801	11,524	44	150,867
Management and General Expenses						
Accounting and Audit	10,600	-	-	-	-	10,600
Insurance	1,186	-	-	-	-	1,186
Legal Fees	1,496	-	2,263	-	-	3,759
Mileage	1,470	-	-	-	-	1,470
Per Diem	2,953	-	-	-	-	2,953
Software	-	-	2,508	-	-	2,508
Miscellaneous	787	-	-	-	-	787
Total Management and General Expenses	18,492	-	4,771	-	-	23,263
Loan Loss (Recovery)	7,850	-	(22,179)	-	-	(14,329)
TOTAL EXPENSES	61,656	184	86,393	11,524	44	159,801
CHANGE IN NET ASSETS	1,480	30,750	24,206	-	223	56,659
NET ASSETS - BEGINNING	1,339,146	96,206	(25,772)	-	-	1,409,580
NET ASSETS - ENDING	\$ 1,340,626	\$ 126,956	\$ (1,566)	\$ -	\$ 223	\$ 1,466,239

See accompanying notes.

NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017

	Revolving Loan Fund	Household Water Well System Fund	Microlending Fund	Local Foods	Entrepreneur Lending Program Fund	Total
CASH FLOWS - OPERATING ACTIVITIES						
Cash Received from Customers	\$ 64,475	\$ 43,909	\$ 94,227	\$ 25,548	\$ 267	\$ 228,426
Cash Paid to Suppliers	<u>(43,980)</u>	<u>405</u>	<u>(69,341)</u>	<u>(33,609)</u>	<u>56</u>	<u>(146,469)</u>
NET CASH FLOWS - OPERATING ACTIVITIES	20,495	44,314	24,886	(8,061)	323	81,957
CASH FLOWS - INVESTING ACTIVITIES						
Issuance of Loan Receivables	(430,200)	(33,615)	(45,000)	-	(38,000)	(546,815)
Payments on Loan Receivables	<u>351,704</u>	<u>19,015</u>	<u>107,819</u>	<u>-</u>	<u>-</u>	<u>478,538</u>
NET CASH FLOWS - INVESTING ACTIVITIES	(78,496)	(14,600)	62,819	-	(38,000)	(68,277)
CASH FLOWS - FINANCING ACTIVITIES						
Proceeds on Long Term Debt	-	-	-	-	38,000	38,000
Interest Paid on Long Term Debt	-	-	(6,768)	-	-	(6,768)
Principal Payments on Long-Term Debt	-	(1,250)	(20,236)	-	-	(21,486)
Net Interfund Receipts (Payments)	<u>(11,465)</u>	<u>(363)</u>	<u>(13,966)</u>	<u>8,061</u>	<u>17,733</u>	<u>-</u>
NET CASH FLOWS - FINANCING ACTIVITIES	(11,465)	(1,613)	(40,970)	8,061	55,733	9,746
NET CHANGE IN CASH AND CASH EQUIVALENTS	(69,466)	28,101	46,735	-	18,056	23,426
CASH AND CASH EQUIVALENTS - BEGINNING	<u>337,365</u>	<u>13,228</u>	<u>46,039</u>	<u>-</u>	<u>-</u>	<u>396,632</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 267,899</u>	<u>\$ 41,329</u>	<u>\$ 92,774</u>	<u>\$ -</u>	<u>\$ 18,056</u>	<u>\$ 420,058</u>

NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.
STATEMENT OF CASH FLOWS (Continued)
FOR THE YEAR ENDED JUNE 30, 2017

	Revolving Loan Fund	Household Water Well System Fund	Microlending Fund	Local Foods	Entrepreneur Lending Program Fund	Total
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES						
Change in Net Assets	\$ 1,480	\$ 30,750	\$ 24,206	\$ -	\$ 223	\$ 56,659
Adjustments to Reconcile Change in Net Assets to Net Cash Flows - Operating Activities						
Loan Interest Paid	-	-	6,768	-	-	6,768
Loan Loss (Recovery)	7,850	-	(22,179)	-	-	(14,329)
Change in Assets and Liabilities:						
Accounts Receivable	1,339	(4,131)	158	-	-	(2,634)
Due from Related Organization	-	12,106	-	-	-	12,106
Due from Other Governments	-	5,000	(16,530)	14,024	-	2,494
Prepaid Expenses	2	-	532	-	-	534
Accounts Payable	4,436	-	-	-	-	4,436
Due to Related Organization	5,388	589	31,931	(22,085)	100	15,923
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 20,495</u>	<u>\$ 44,314</u>	<u>\$ 24,886</u>	<u>\$ (8,061)</u>	<u>\$ 323</u>	<u>\$ 81,957</u>

NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of the nature of operation and significant accounting policies of North Central Economic Development Association, Inc. is presented to assist in understanding the Association's financial statements.

1.A. FINANCIAL 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.

1.B. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The financial statements of North Central Economic Development Association, Inc. are prepared on the accrual basis of accounting. Accordingly, the financial statements reflect all significant receivables, payables, and other liabilities. Revenues are recorded when earned, and expenses are recorded when incurred.

1.C. BASIS OF PRESENTATION

Fund Accounting

The financial statements of the reporting entity are organized into funds. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, net assets, revenues, and expenditures/expenses. 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 Association reports the following funds:

The *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 temporarily restricted net asset.

The *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 temporarily restricted net asset.

The *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 temporarily restricted net asset.

The *Local Food Promotion Program* 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 temporarily restricted net asset.

The *Entrepreneur Lending Program 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 temporarily restricted net asset.

NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.C. BASIS OF PRESENTATION (Continued)

The Association follows Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) *Not-for-Profit Entities* topic 958. The topic establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into three net asset categories according to externally (donor) imposed restrictions. The topic also requires that unconditional promises to give (pledges) be recorded as receivables and revenues and requires the Association to distinguish between contributions received for each net asset category in accordance with donor imposed restrictions. A description of the three net asset categories follows:

Unrestricted – Those resources which are neither permanently restricted nor temporarily restricted by donor-imposed restrictions. These are resources over which the Board of Directors has discretionary control. Designated amounts represent those revenues which the Board has set aside for a particular purpose. As of June 30, 2017, the Association has no unrestricted net assets.

Temporarily Restricted – Those resources subject to donor-imposed restrictions which will be satisfied by actions of the Association or by passage of time. The entire balance of each fund is considered to be temporarily restricted.

Permanently Restricted – Those resources subject to donor-imposed restriction that the resources be maintained permanently by the Association. As of June 30, 2017, the Association has no permanently restricted net assets.

At June 30, 2017, the Association had temporarily restricted net assets of \$1,466,239.

1.D. 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

1.E. ASSETS, LIABILITIES, AND NET ASSETS

Cash and Cash Equivalents

The Association considers cash in financial institutions and all highly liquid instruments purchased with an original maturity of three months or less to be cash and cash equivalents.

The Association maintains its cash and cash equivalents at several separate financial institutions, which, at times, may exceed federally insured limits (FDIC). The Association has not experienced any losses in such accounts. Management believes it is not exposed to any significant custodial risk on cash. At June 30, 2017, the Association's bank balances are not in excess of federally insured limits.

See Note 2.A. for additional information related to Cash and Cash Equivalents.

Investments

The Association considers all financial instruments purchased with a maturity greater than three months to be investments. The Association does not hold any investments at June 30, 2017.

NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.E. ASSETS, LIABILITIES, AND NET ASSETS (Continued)

Interfund Receivables and Payables

During the course of operations, transactions occur between individual funds that may result in amounts owed between funds. Those related to good and services type transactions are classified as “due to and from other funds.” Short-term interfund loans are also reported as “due to/from other fund.” Long-term interfund loans are reported as “advances from and to other funds.” See Note 2.E. for details of interfund balances, including receivables and payables at year-end.

Loans Receivable

The Association issues notes to area businesses and individuals for the purpose of business development and well water assistance. The loans are used to assist economic development by providing funds for working capital, inventory acquisition and improvements and additions to capital assets. Terms of the notes typically require a shared second position in collateral, including one or more of the following: accounts receivable, inventory, equipment, real estate, and personal guarantees. Loans receivable are stated at unpaid principal balances, less an allowance for loan loss. Interest income is accrued on the unpaid principal balance. Related fees are recorded as earned.

Allowance for 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.

At June 30, 2017, the allowance for loan losses totals \$148,664.

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.

NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.E. ASSETS, LIABILITIES, AND NET ASSETS (Continued)

Property and Equipment

Property and equipment are carried at historical cost. Donated items are recorded at an estimated fair market value measured as of the date of contribution. Such donations are reported as unrestricted support unless the donor has restricted the asset to a specific purpose. Replacements, maintenance, and repairs that do not improve or extend the life of the respective assets are expensed in the current period.

Depreciation is computed using the straight line method over the estimated useful lives of the assets as follows:

Equipment	5-7 years
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Depreciation expense amounts to \$0 for the fiscal year ended June 30, 2017.

1.F. REVENUES, EXPENDITURES, AND EXPENSES

Revenues

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

Recognition of Contributions and Grants

The Association reports gifts of cash and other assets as restricted support if they are received with donor stipulation that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restriction. Grants received are recorded as deferred revenue and recognized as revenue to the extent that qualified expenditures under the grant program have been incurred.

Expenditures/Expenses

The Association allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program and support service are allocated directly to that program according to their natural expenditure classification. Other expenses that are common to several functions are allocated by various statistical bases as determined by management.

NOTE 2 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, net assets, revenues, and expenditures/expenses.

NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

2.A. CASH AND CASH EQUIVALENTS

Deposits

Cash and cash equivalents consists of the following at June 30, 2017:

	2017
Checking and Savings Accounts	\$ 295,133
Money Market Funds	124,925
Total	\$ 420,058

Investment income for the year ended June 30, 2017 totals \$835.

2.B. LOANS RECEIVABLE

The Association has a total of 76 loans outstanding with interest rates ranging from 1.0% to 8.5%. Several loans have modified payment terms and/or interest rates.

Loans receivable and the allowance for loan losses accounts at June 30, 2017 consist of the following:

	2017
Loans Receivable	\$ 1,610,607
Less: Allowance for Loan Loss	148,664
	1,461,943
Less: Current Maturities	223,729
Loans Receivable, Less Current Maturities and Allowance	\$ 1,238,214

2.C. PROPERTY AND EQUIPMENT

Property and equipment activity for the year ended June 30, 2017 is as follows:

	2017
Equipment	\$ 11,100
Less: Accumulated Depreciation	(11,100)
Net Property and Equipment	\$ -

NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

2.D. NONCURRENT LIABILITIES

As of June 30, 2017, the long-term debt of the Association consists of the following:

Note Payable - USDA; Original Principal \$400,000; Dated December 2011; Maturity date December 2031; Interest rate 2.00%, Monthly payments of \$2,240.	\$	336,070
Note Payable - MN DEED; Original Principal \$10,000; Dated June 2017; Maturity date July 2022; Interest rate 6.00%, Monthly payments of \$193.		10,000
Note Payable - MN DEED; Original Principal \$23,000; Dated June 2017; Maturity date July 2022; Interest rate 6.00%, Monthly payments of \$444.		23,000
Note Payable - MN DEED; Original Principal \$5,000; Dated April 2017; Maturity date June 2022; Interest rate 6.00%, Monthly payments of \$97.		5,000
Note Payable - Related Organization; Original Principal \$10,534; Dated July 2012; Maturity date July 2022; Interest rate 1.00%, Monthly payments of \$92.		4,465
Total Long-Term Debt		378,535
Less: Current Portion		27,577
Long-Term Portion of Long-Term Debt	\$	350,958

Annual Debt Service Requirements

At June 30, 2017, estimated future payment obligations are as follows:

Years Ending June 30,	Principal	Interest	Total
2018	\$ 27,577	\$ 8,590	\$ 36,167
2019	28,926	7,879	36,805
2020	29,794	7,009	36,803
2021	30,697	6,105	36,802
2022	30,671	5,170	35,841
Thereafter	230,870	22,585	253,455
Totals	\$ 378,535	\$ 57,338	\$ 435,873

NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

2.E. INTERFUND BALANCES

Interfund balances are to be repaid as cash flows become available. The interfund balances at June 30, 2017 are as follows:

Short-Term Balances		
Due to Fund	Due from Fund	Amount
Household Water Well System Fund	Microlending Fund	\$ 88
	EDA RLF	275
	Entrepreneur Lending Program Fund	18,000
Microlending Fund	Microlending Fund	1,553
	EDA RLF	5,060
Entrepreneur Lending Program Fund	Microlending Fund	267
Total Interfund Balances		\$ 25,243

NOTE 3 OTHER NOTES

3.A. CONTINGENCIES

The Association participates in numerous State and Federal grant programs, which are subject to program compliance audits pursuant of the Single Audit Act as amended. Accordingly, the Association’s compliance with applicable grant requirements will be established at a future date. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Association anticipates such amounts, if any, will be immaterial.

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 \$275,476 was outstanding as microlending loans receivable from various businesses. An allowance of \$27,570 has been established in accordance with Note 1.E. above. In the current year, \$22,179 of loans previously written off were recovered. In the event that the microlending loan receivables of \$275,476 result in default, the loan loss reserve including interest of \$24,248 would partially cover these losses. The Association is exposed to a potential loss of \$251,228.

3.B. CONCENTRATION

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.

3.C. COMMITMENTS

The Association had loan funds of \$5,300 committed for the Household Water Well System Fund. There were no loan commitments for the Microlending Fund and Revolving Loan Fund.

NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3 OTHER NOTES (Continued)

3.D. RELATED PARTY TRANSACTIONS

The Association has entered into several agreements with Region Five Development Commission to manage the Commission's revolving loan fund programs. Related to these agreements and due to funds advanced for issuing a loan receivable, related party payables at June 30, 2017 are as follows:

	June 30, 2017
Due to Region Five Development Commission	\$ 69,704
Notes Payable Due to Region Five Development Commission	4,465
Related Party Payables	\$ 74,169

Under these agreements, the Association contracts with Region Five Development Commission for administrative duties such as clerical support, loan packaging and accounting. For the year ended June 30, 2017, administrative expenses charged to Region Five Development Commission are as follows:

Administrative Fees	\$ 129,787
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3.E. INCOME TAXES

The Association follows FASB ASC Topic 740, Uncertainty in Income Taxes. The Association is recognized by the Internal Revenue Service as a not-for-profit organization under IRS Code Section 501(c)(3). Due to the not-for-profit nature and provision of the Association, all income and expenses attributable to the mission of the Association are tax exempt and accordingly no provision or liability for income taxes have been made in the financial statements and contributions to the Association are tax deductible to donors as allowed by IRS regulations. However, the Association is required to pay state and federal income taxes on unrelated business income. If the Association were to engage in any activities that resulted in unrelated business income, a tax would be assessed on that activity. The Association is open and subject to examination generally for three years after the filing date.

3.F. RECENT ACCOUNTING PRONOUNCEMENTS

Revenue Recognition

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The Association has not yet selected a transition method and is currently evaluating the effect that the standard will have on the financial statements.

Financial Statement Presentation

In August 2016, the FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities, requiring an entity to change the way it presents its financial statements. The updated standard will replace most existing financial statement presentation guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. The effective date of ASU 2016-14 is for annual reporting periods beginning after December 15, 2017. The Association has not yet selected a transition method and is currently evaluating the effect that the standard will have on the financial statements.

NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3 OTHER NOTES (Continued)

3.G. SUBSEQUENT EVENTS

In accordance with FASB ASC Topic 885, *Subsequent Events*, the Association has evaluated subsequent events through October 23, 2017, which is the date these financial statements were available to be issued, and have determined there are no subsequent events that require recognition or disclosure.

**OTHER REQUIRED REPORTS
AND SCHEDULES**

**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***

October 23, 2017

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

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 North Central Economic Development Association, Inc. (the Association), which comprise the statement of financial position as of June 30, 2017, and the related statement 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 23, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered North Central Economic Development Association, 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 the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs to be a material weakness: 2006-001

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 deficiency described in the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency: 2007-002.

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*.

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 result of that testing, and not to provide an opinion on the effectiveness of the Association'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 Association's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Schlenner Wenner & Co.".

SCHLENNER WENNER & CO.
St. Cloud, Minnesota

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

October 23, 2017

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, 2017. 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 for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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, 2017.

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.



SCHLENNER WENNER & CO.
St. Cloud, Minnesota

NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2017

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	\$ 1,149,487
U.S. Department of Agriculture:			
Direct Programs			
Household Water Well System Grant Program	10.862	N/A	29,215
Rural Microentrepreneur Assistance Program	10.870	N/A	451,890
Local Food Promotion Program	10.168	N/A	<u>11,524</u>
Total U.S. Department of Agriculture			<u>492,629</u>
Total Expenditures of Federal Awards			<u>\$ 1,642,116</u>

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

Balance of Loans Outstanding	\$ 1,210,944
Cash and Investment Balance	267,899
Administrative Expenses Paid Out of Income	53,806
Unpaid Principal of Loans Written Off	<u>-</u>
	1,532,649
Federal Percentage of Loan Funds	<u>75.00 %</u>
Federal Expenditures	<u>\$ 1,149,487</u>

The federal expenditures for the Rural Microentrepreneur Assistance Program were calculated as follows:

Balance of USDA Loan	356,306
Current Year Expenditures	<u>95,584</u>
Federal Expenditures	<u>\$ 451,890</u>

**NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 1 BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of North Central Economic Development Association, Inc. under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of 2 CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of North Central Economic Development Association, Inc., 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, Inc.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. North Central Economic Development Association, Inc. has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 3 FEDERAL LOAN PROGRAM

The federal loan program listed subsequently is administered directly by North Central Economic Development Association, Inc. Balances and transactions relating to this program are included in North Central Economic Development Association, Inc.'s basic financial statements. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. The balance of loans outstanding at June 30, 2017 consist of:

Program	Federal CFDA Number	Balance Outstanding
Rural Microenterprise Assistance Program	10.870	\$ 336,070

NOTE 4 SUBRECIPIENTS

The Association did not pass through any federal funds to subrecipients during the year ended June 30, 2017.

NOTE 5 PASS-THROUGH IDENTIFIER

The Association's pass-through identifier is unknown.

**NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

SECTION I: SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified		
* Material weakness(es) identified?	<u> X </u>	Yes	<u> </u> No
* Significant deficiencies identified that are not considered to be material weaknesses?	<u> X </u>	Yes	<u> </u> No
Noncompliance material to financial statements noted?	<u> </u>	Yes	<u> X </u> No

Federal Awards

Internal control over major programs:	Unmodified		
* Material weakness(es) identified?	<u> </u>	Yes	<u> X </u> No
* Significant deficiencies identified that are not considered to be material weakness(es)?	<u> </u>	Yes	<u> X </u> No
Type of auditor's report issued on compliance for major programs:	Unmodified		
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance?	<u> </u>	Yes	<u> X </u> No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.870	Rural Microentrepreneur Assistance Program
11.307	Economic Adjustment Assistance - Revolving Loan Fund

Dollar threshold used to distinguish between type A and type B programs:	<u> \$ 750,000 </u>		
Auditee qualified as low-risk auditee?	<u> </u>	Yes	<u> X </u> No

NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

SECTION II: FINANCIAL STATEMENT FINDINGS

Finding 2006-001 Limited Segregation of Duties

Condition: Due to the limited number of accounting personnel within the Association, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible.

Criteria: Internal control that supports the Association's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements requires adequate segregation of accounting duties. In other words, no one person has control over two or more responsibilities.

Cause: There are a limited number of staff members.

Effect: The existence of limited 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: Although the number of staff members may not be large enough to eliminate this deficiency, we recommend that the Association evaluate current procedures and segregate where possible and implement compensating controls.

Management's Response: Management agrees with our recommendation.

Finding 2007-002 Financial Reporting

Condition: Schlenner Wenner & Co. drafted the audited financial statements and related footnote disclosures for the Association. These financial statements, including disclosures, were reviewed by management and management has taken responsibility for them.

Criteria: Internal controls over financial reporting should be in place to provide for the preparation of financial statements on an annual basis.

Cause: The Association's staff has the ability to prepare the basic financial statements but would require assistance with the preparation of detailed disclosures and schedules.

Effect: The inability to internally prepare the financial statements in its entirety can result in undetected errors in financial reporting.

Recommendation: While the Association may not have adequate controls in place to eliminate this finding, the Association should adopt a formal written internal control policy to document its annual review of the financial statements.

Management's Response: Management agrees with our recommendation.

SECTION III: FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None.

SECTION IV: SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No federal awards findings were reported in the prior year.