REGION FIVE DEVELOPMENT COMMISSION

FINANCIAL STATEMENTS

JUNE 30, 2016

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

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REGION FIVE DEVELOPMENT COMMISSION

BOARD OF COMMISSIONERS
JUNE 30, 2016

Officer	Position	Term Expires
Chuck Parins	Chair	Indefinite
David Anderson	Vice Chair	February 23, 2018
Duane Johnson	Treasurer	January 24, 2019
Sharon Ballou	Secretary	February 28, 2017
Barb Becker	Director	June 1, 2017
John Benson	Director	January 27, 2017
Rosemary Franzen	Director	January 31, 2018
Board Members		
Alan Perish		April 30, 2019
Alex Weego	Alternate	January 1, 2018
Andrea Lauer		August 27, 2018
Bill Kern		November 1, 2016
Bob Kangas	Alternate	January 1, 2018
Craig Nathan		June 25, 2018
Dave Pritschet		January 24, 2019
Diane Jacobson		August 2, 2016
Erich Heppner		December 17. 2018
John Poston		August 22, 2016
Katy Botz		September 23, 2016
Mark Platta		April 21, 2019
Mike Worden		March 1, 2019
Paul Nieman, Jr.	Alternate	April 15, 2017
Sally Fineday	Alternate	April 23, 2018
Sheldon Monson	Alternate	January 24, 2018
Tom Lillehei	Alternate	January 1, 2018

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Region Five Development Commission
Staples, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, the major fund, and the aggregate remaining fund information of the Region Five Development Commission, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Commission'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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, the major fund and the aggregate remaining fund information of the Region Five Development Commission, as of June 30, 2016, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Partial Comparative Information

We have previously audited the Commission's June 30, 2015 financial statements and, our report dated October 22, 2015, expressed unmodified opinions on those audited financial statements. 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 was derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Schedules of Employer Contributions and Proportionate Share of the Net Pension Liability as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission’s basic financial statements. 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* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is not a required part of the basic financial statements.

The supplementary information 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Board of Commissioners section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on the information presented.

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 Commission'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 Region Five Development Commission's internal control over financial reporting and compliance.

Conway, Deuth & Schmiesing, PLLP

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

October 27, 2016

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REQUIRED SUPPLEMENTARY INFORMATION

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REGION FIVE DEVELOPMENT COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

As management of the Region Five Development Commission (the Commission) we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Commission for the fiscal year ended June 30, 2016. This section of the Commission's annual financial report represents management's discussion and analysis of the Commission's financial performance during the fiscal year that ended June 30, 2016. Please read it in conjunction with the Commission's audited financial statements.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the Commission exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by $1,439,739 (net position), of which 99.7 percent is restricted in use.

- The net position of the Commission's governmental activities increased by $7,149.

- The Commission's capital assets (net of accumulated depreciation) were $867.

- The Commission received $285,101 in tax levy revenue.

- The General Fund reported an ending fund balance of $842,606, an increase of $75,885 in comparison with the prior year. Of this balance is $254,987 is nonspendable, $45,817 is assigned, and $541,802 is available for spending at the Commission's discretion (unassigned fund balance).

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Commission's basic financial statements. The financial statements consist of three parts: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements.

Government-wide Financial Statements
The government-wide financial statements are designed to provide readers with a broad overview of the Commission's finances as a whole, in a manner similar to private-sector business.

The Statement of Net Position presents information on all of the Commission's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating.

The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year.

The North Central Economic Development Association (NCEDA) is a discretely presented component unit of Region Five Development Commission. Interested readers will be sent separately issued financial statements of NCEDA upon written request to the Executive Director at 200 1st Street NE, Suite 2, Staples, MN 56479 or by calling 218-894-3233.

Fund Financial Statements
A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commission, like other similar governmental entities, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

The general fund is used to account for the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS (Cont'd)

The Commission adopts an annual budget for its general fund. Budgetary comparison statements of the general fund have been provided to demonstrate compliance with the budget. The budgetary comparison statement can be found on page 19 of this report.

Notes to the Financial Statements
The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21-41 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Commission, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $1,439,739, as compared with assets and deferred outflows of resources exceeding liabilities and deferred inflows of resources of $1,472,017 at June 30, 2015. Less than 1 percent of the Commission's net position reflects its net investment in capital assets (computers, furniture and fixtures). The Commission uses these capital assets to operate and to provide services; consequently these assets are not available for future spending.

The following tables reflect the condensed Statements of Net Position.

REGION FIVE DEVELOPMENT COMMISSION
STATEMENT OF NET POSITION

	Governmental Activities 2016	Component Unit 2016	Total 2016
Current and Other Assets	$ 1,110,675	$ 1,821,729	$ 2,932,404
Capital Assets (Net of Accumulated Depreciation)	867		867
Total Assets	1,111,542	1,821,729	2,933,271
Deferred Outflows of Resources	46,409		46,409
Total Assets and Deferred Outflows of Resources	$ 1,157,951	$ 1,821,729	$ 2,979,680
Current and Other Liabilities	$ 187,430	$ 50,128	$ 237,558
Long-Term Liabilities	698,846	362,021	1,060,867
Total Liabilities	886,276	412,149	1,298,425
Deferred Inflows of Resources	241,516		241,516
Net Position			
Net Investment in Capital Assets	867		867
Restricted			
Revolving Loan		1,339,146	1,339,146
Household Water Well System		96,206	96,206
Microlending			
Unrestricted	29,292	(25,772)	3,520
Total Net Position	30,159	1,409,580	1,439,739
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 1,157,951	$ 1,821,729	$ 2,979,680

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Cont'd)

The $20,202 of unrestricted net position may be used to meet the Commission's ongoing obligations.

REGION FIVE DEVELOPMENT COMMISSION
STATEMENT OF NET POSITION

	Governmental Activities 2015	Component Unit 2015	Total 2015
Current and Other Assets	$ 1,104,158	$ 1,885,741	$ 2,989,899
Capital Assets (Net of Accumulated Depreciation)	4,334		4,334
Total Assets	1,108,492	1,885,741	2,994,233
Deferred Outflows of Resources	59,221		59,221
Total Assets and Deferred Outflows of Resources	$ 1,167,713	$ 1,885,741	$ 3,053,454
Current and Other Liabilities	$ 166,974	$ 53,505	$ 220,479
Long-Term Liabilities	734,602	383,229	1,117,831
Total Liabilities	901,576	436,734	1,338,310
Deferred Inflows of Resources	243,127		243,127
Net Position			
Net Investment in Capital Assets	2,808		2,808
Restricted			
Revolving Loan		1,335,617	1,335,617
Household Water Well System		75,498	75,498
Microlending		37,892	37,892
Unrestricted	20,202		20,202
Total Net Position	23,010	1,449,007	1,472,017
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 1,167,713	$ 1,885,741	$ 3,053,454

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Cont'd)

Net position of the Commission's governmental activities increased by $7,149. The following table indicates the changes in net position for the Commission's governmental activities:

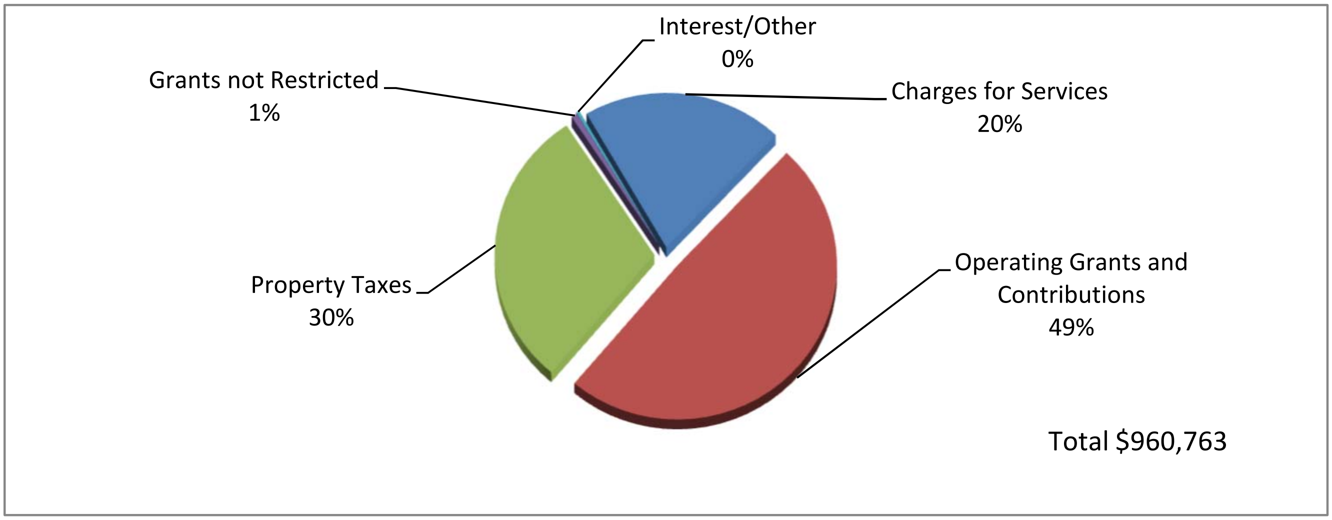
The following tables reflect the condensed Statements of Activities.

REGION FIVE DEVELOPMENT COMMISSION
STATEMENTS OF ACTIVITIES

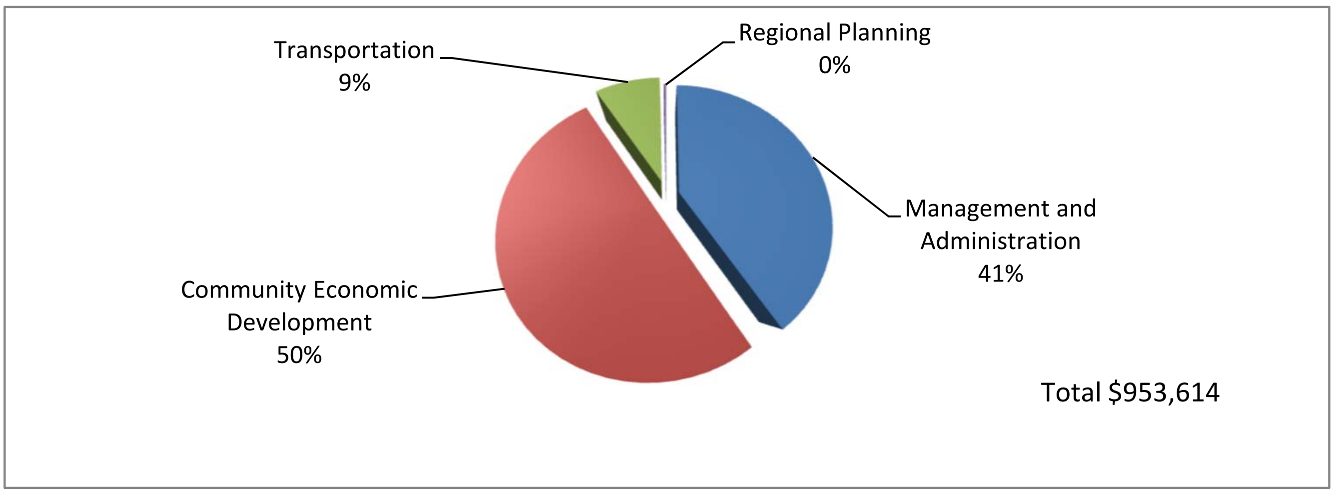
	Governmental Activities 2016	Component Unit 2016	Total 2016
REVENUES			
Program Revenues			
Charges for Services	$ 195,446	$ 78,827	$ 274,273
Operating Grants and Contributions	472,188	134,691	606,879
General Revenues			
Property Taxes	284,115		284,115
Grants and Contributions not Restricted	5,775		5,775
Interest Earnings	680	502	1,182
Other	2,559		2,559
Total Revenues	960,763	214,020	1,174,783
EXPENSES			
Management and Administration	389,177		389,177
Community/Economic Development	477,752	253,447	731,199
Transportation	83,260		83,260
Regional Planning	3,230		3,230
Interest	195		195
Total Expenses	953,614	253,447	1,207,061
Change in Net Position	7,149	(39,427)	(32,278)
Net Position, Beginning of Year	23,010	1,449,007	1,472,017
Net Position, End of Year	$ 30,159	$ 1,409,580	$ 1,439,739

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Cont'd)

Revenues - The following chart visually illustrates the Commission's revenue by source for its governmental activities:



Expenditures - The following graph visually illustrates the Commission's expenditures for its governmental activities:



GOVERNMENT-WIDE FINANCIAL ANALYSIS (Cont'd)

REGION FIVE DEVELOPMENT COMMISSION
STATEMENTS OF ACTIVITIES

	Governmental Activities 2015	Component Unit 2015	Total 2015
REVENUES			
Program Revenues			
Charges for Services	$ 246,589	$ 96,702	$ 343,291
Operating Grants and Contributions	363,802	77,658	441,460
General Revenues			
Property Taxes	288,790		288,790
Grants and Contributions not Restricted	4,387		4,387
Interest Earnings	824	483	1,307
Other	2,984		2,984
Total Revenues	907,376	174,843	1,082,219
EXPENSES			
Management and Administration	397,431		397,431
Community/Economic Development	355,305	145,316	500,621
Transportation	55,673		55,673
Regional Planning	4,051		4,051
Interest	115		115
Total Expenses	812,575	145,316	957,891
Change in Net Position	94,801	29,527	124,328
Net Position, Beginning of Year as, Originally Stated	252,146	1,419,480	1,671,626
Prior Period Adjustment	(323,937)		(323,937)
Net Position, Beginning of Year, as Restated	(71,791)	1,419,480	1,347,689
Net Position, End of Year	$ 23,010	$ 1,449,007	$ 1,472,017

FUND LEVEL FINANCIAL ANALYSIS

Our analysis of the Commission's major funds begins with the fund financial statements. These statements provide detailed information about the most significant funds—not the Commission as a whole. The Commission establishes funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using grants and other money. The Commission has one type of fund - governmental.

FUND LEVEL FINANCIAL ANALYSIS (Cont'd)

Governmental Funds - All of the Commission’s basic services are reported in governmental funds. Governmental funds focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Commission's general government operations and the basic services it provides. Governmental fund information helps the reader of the statements determine whether there are more or fewer financial resources that can be spent in the near future to finance the Commission's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and Statement of Activities) and governmental funds in a reconciliation after the fund financial statements.

The governmental fund financial statements can be found on pages 15-19 of this report.

Fiduciary Fund - The Commission reports as a fiduciary fund the Crow Wing County (BWSR) - Agency Fund. This fund is used to account for the revenues and expenses related to the Subsurface Sewage Treatment Systems loans issued by Crow Wing County. The fiduciary fund statement can be found on page 20 of this report.

General Fund - As of the end of the current fiscal year, the Commission's general fund reported an ending fund balance of $842,606, an increase of $75,885, in comparison with $766,721 at June 30, 2015. Of this balance $254,987 is nonspendable, $45,817 is assigned, and $541,802 constitutes the unassigned fund balance, which is available for spending at the Commission's discretion. See Note 8 of the Notes to the Financial Statements for more information.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Commission adopted an amended budget with a recovery of $2,009 to replace it's originally adopted budget. The following is a review of significant differences between budget and actual.

- The actual expenditures for general government were over budget by $309,706.
- The actual revenue received was $383,582 over budget.
- The actual revenue over expenditures was $73,876 over the amended budget.

CAPITAL ASSETS

The Commission had $94,666 invested in capital assets. Refer to Note 5 of the Notes to the Financial Statements for a schedule showing the Commission's capital asset activity.

LONG-TERM DEBT

The Commission had $787,706 in notes payable, a lease payable, net pension liability and compensated absences. Refer to Note 6 of the Notes to the Financial Statements for a schedule showing the Commission's long-term debt activity.

NEXT YEAR'S BUDGET CONSIDERATIONS

In consideration of the differences between the Fiscal Year 2016 budget numbers versus actual, the Fiscal Year 2017 budget has considered additional expenditures to meet organizational activity.

The issue that Region Five Development Commission continues to be challenged with is the unknown grant agreements that change the amount of staff needed and the fluctuation of funding that occurs. Region Five Development Commission continues to revise the budget bi-annually to accommodate these ever changing conditions.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Commission's finances for those with an interest in local government finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Region Five Development Commission, 200 1st Street NE, Suite 2, Staples, MN 56379 or by telephone at 218-894-3233.

BASIC FINANCIAL STATEMENTS

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

	Primary Government	Component Unit		
	Governmental Activities	North Central Economic Development Association	Total Reporting Entity 2016	Total Reporting Entity 2015
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
Cash	$ 555,276	$ 396,632	$ 951,908	$ 866,091
Property Taxes Receivable	153,113		153,113	151,045
Accounts Receivable	18,321	1,497	19,818	5,518
Due From Related Organization	49,324	12,106	61,430	40,430
Due From Other Governments	79,654	29,449	109,103	73,218
Prepaid Expenses	11,594	2,708	14,302	14,197
Loans Receivable, Net of Allowance	243,393	1,379,337	1,622,730	1,837,800
Capital Assets, Net of Depreciation	867		867	4,334
Total Assets	1,111,542	1,821,729	2,933,271	2,992,633
Deferred Outflows of Resources				
Related to Pensions	46,409		46,409	59,221
Total Assets and Deferred Outflows of Resources	$ 1,157,951	$ 1,821,729	$ 2,979,680	$ 3,051,854
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION				
Liabilities				
Accounts Payable	$ 12,687	$ 804	$ 13,491	$ 33,145
Due to Related Organization	12,106	49,324	61,430	40,430
Salaries Payable	6,643		6,643	10,564
Unearned Revenue	10,500		10,500	78,163
ISTS County Reserve Payable	56,634		56,634	56,577
Noncurrent Liabilities				
Due Within One Year	88,860	21,073	109,933	80,385
Due in More than One Year	698,846	340,948	1,039,794	1,037,446
Total Liabilities	886,276	412,149	1,298,425	1,336,710
Deferred Inflows of Resources				
Property Taxes Levied for Subsequent Year	161,915		161,915	161,894
Related to Pensions	79,601		79,601	81,233
Total Deferred Inflows of Resources	241,516	0	241,516	243,127
Net Position				
Net Investment in Capital Assets	867		867	2,808
Restricted				
Revolving Loan		1,339,146	1,339,146	1,335,617
Household Water Well		96,206	96,206	75,498
Microlending				37,892
Unrestricted	29,292	(25,772)	3,520	20,202
Total Net Position	30,159	1,409,580	1,439,739	1,472,017
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 1,157,951	$ 1,821,729	$ 2,979,680	$ 3,051,854

See Accompanying Notes to the Financial Statements

REGION FIVE DEVELOPMENT COMMISSION

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

		Program Revenues		Net (Expense) Revenue and Changes in Net Position			
				Primary Government	Component Unit	Total Reporting Entity	
	Expenses	Fees, Charges Fines and, Other	Operating Grants and Contributions	Governmental Activities	North Central Economic Development Association	2016	2015
GOVERNMENTAL ACTIVITIES							
Management and Administration	$ 389,177	$ 13,138	$ 5,094	$ (370,945)	$	$ (370,945)	$ (280,931)
Community and Economic Development	477,752	182,308	355,375	59,931		59,931	(3,017)
Transportation	83,260		111,719	28,459		28,459	85,930
Regional Planning	3,230			(3,230)		(3,230)	(4,051)
Interest	195			(195)		(195)	(115)
Total Governmental Activities	$ 953,614	$ 195,446	$ 472,188	(285,980)		(285,980)	(202,184)
COMPONENT UNIT							
North Central Economic Development Association	$ 253,447	$ 78,827	$ 134,691		(39,929)	(39,929)	29,044
GENERAL REVENUES							
Taxes							
Property Taxes, Levied for General Purpose				284,115		284,115	288,790
Grants and Contributions not Restricted for a Particular Purpose				5,775		5,775	4,387
Interest Earnings				680	502	1,182	1,307
Other				2,559		2,559	2,984
Total General Revenues				293,129	502	293,631	297,468
Change in Net Position				7,149	(39,427)	(32,278)	124,328
NET POSITION, BEGINNING OF YEAR, AS ORIGINALLY STATED				23,010	1,449,007	1,472,017	1,671,626
PRIOR PERIOD ADJUSTMENT							(323,937)
NET POSITION, BEGINNING OF YEAR, AS RESTATED				23,010	1,449,007	1,472,017	1,347,689
NET POSITION, END OF YEAR				$ 30,159	$ 1,409,580	$ 1,439,739	$ 1,472,017

See Accompanying Notes to the Financial Statements

REGION FIVE DEVELOPMENT COMMISSION

BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2016
WITH PARTIAL COMPARATIVE AMOUNTS AS OF JUNE 30, 2015

	General Fund	Totals 2016	Totals 2015
ASSETS			
Cash	$ 555,276	$ 555,276	$ 636,802
Taxes Receivable			
Current	145,529	145,529	142,476
Delinquent	7,584	7,584	8,569
Accounts Receivable	18,321	18,321	5,518
Due from Related Organization	49,324	49,324	27,628
Due From Other Governments	79,654	79,654	53,682
Prepaid Items	11,594	11,594	12,211
Loans Receivable	243,393	243,393	217,272
Total Assets	$ 1,110,675	$ 1,110,675	$ 1,104,158
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE			
Liabilities			
Accounts Payable	$ 12,687	$ 12,687	$ 5,383
Due to Related Organization	12,106	12,106	16,287
Salaries Payable	6,643	6,643	10,564
Unearned Revenue	10,500	10,500	78,163
ISTS County Reserve Payable	56,634	56,634	56,577
Total Liabilities	98,570	98,570	166,974
Deferred Inflows of Resources			
Property Taxes Levied for Subsequent Year	161,915	161,915	161,894
Unavailable Revenue - Delinquent Property Taxes	7,584	7,584	8,569
Total Deferred Inflows of Resources	169,499	169,499	170,463
Fund Balance			
Nonspendable	254,987	254,987	229,483
Assigned	45,817	45,817	45,817
Unassigned	541,802	541,802	491,421
Total Fund Balance	842,606	842,606	766,721
Total Liabilities, Deferred Inflows of Resources and Fund Balance	$ 1,110,675	$ 1,110,675	$ 1,104,158

See Accompanying Notes to the Financial Statements

REGION FIVE DEVELOPMENT COMMISSION

RECONCILIATION OF THE GOVERNMENTAL FUND
BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2016
WITH PARTIAL COMPARATIVE AMOUNTS AS OF JUNE 30, 2015

	Governmental Activities	Totals 2016	Totals 2015
Total Fund Balance - Governmental Fund	$ 842,606	$ 842,606	$ 766,721
Amounts reported for governmental activities in the Statement of Net Position are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.			
Governmental Capital Assets	94,666	94,666	94,666
Less: Accumulated Depreciation	(93,799)	(93,799)	(90,332)
Long-term debt is not due and payable in the current period and therefore are not reported as liabilities in the governmental funds.			
Loans Payable	(479,517)	(479,517)	(405,429)
Compensated Absences	(28,353)	(28,353)	(27,027)
Net Pension Liability	(279,836)	(279,836)	(300,620)
Capital Lease Payable			(1,526)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are no reported in the funds.			
Deferred Outflows of Resources Related to Pensions	46,409	46,409	59,221
Deferred Inflows of Resources Related to Pensions	(79,601)	(79,601)	(81,233)
Some of the Commission's receivables, such as delinquent taxes receivable are reported as deferred inflows of resources in the fund financial statements but are recognized as revenue when earned in the government wide statements.	7,584	7,584	8,569
Total Net Position - Governmental Activities	$ 30,159	$ 30,159	$ 23,010

See Accompanying Notes to the Financial Statements

REGION FIVE DEVELOPMENT COMMISSION

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUND
YEAR ENDED JUNE 30, 2016
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015

	General	Totals	
	Fund	2016	2015
REVENUES			
Local Property Taxes	$ 285,101	$ 285,101	$ 289,067
Contract Income	94,778	94,778	159,753
Federal Sources	166,847	166,847	136,403
State Sources	80,775	80,775	129,730
Local Sources	230,341	230,341	102,056
Charges for Services	100,668	100,668	86,836
Interest Earnings	680	680	824
Other	136,147	136,147	82,745
Total Revenues	1,095,337	1,095,337	987,414
EXPENDITURES			
Current			
Management and Administration	395,065	395,065	403,899
Community/Economic Development	476,886	476,886	353,282
Transportation	84,576	84,576	54,495
Regional Planning	3,230	3,230	4,051
Total Current	959,757	959,757	815,727
Debt Service			
Principal	59,500	59,500	54,163
Interest	195	195	115
Total Debt Service	59,695	59,695	54,278
Net Change in Fund Balances	75,885	75,885	117,409
FUND BALANCE, BEGINNING OF YEAR, AS ORIGINALLY STATED	766,721	766,721	424,969
PRIOR PERIOD ADJUSTMENT			224,343
FUND BALANCE, BEGINNING OF YEAR, AS RESTATED	766,721	766,721	649,312
FUND BALANCE, END OF YEAR	$ 842,606	$ 842,606	$ 766,721

See Accompanying Notes to the Financial Statements

REGION FIVE DEVELOPMENT COMMISSION

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015

	Governmental Activities	Totals 2016	Totals 2015
Total Net Change in Fund Balances - Governmental Funds	$ 75,885	$ 75,885	$ 117,409
Amounts reported for governmental activities in the Statement of Activities are different because:			
Capital outlay is reported in governmental funds as expenditures. However in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.			
Depreciation Expense	(3,467)	(3,467)	(3,669)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	(985)	(985)	(276)
Changes in debt-related accruals are recorded as expenditures in the governmental fund, but increase or decrease liabilities in the Statement of Net Position.			
Principal Retirement of Capital Lease Payable	1,526	1,526	4,491
Change in Compensated Absences	(1,326)	(1,326)	1,139
Change in Net Pension Liability	9,604	9,604	1,305
Principal Retirement of Long-Term Notes Payable	59,500	59,500	54,163
Proceeds from Long-Term Notes Payable	(133,588)	(133,588)	(79,761)
Change in Net Position in Governmental Activities	$ 7,149	$ 7,149	$ 94,801

See Accompanying Notes to the Financial Statements

REGION FIVE DEVELOPMENT COMMISSION

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2016

	Budgeted Amounts			Over (Under)
	Original	Final	Actual	Final Budget
REVENUES				
Taxes	$ 301,626	$ 301,626	$ 285,101	$ (16,525)
Contract Income	153,860	5,860	94,778	88,918
Federal Sources	139,116	139,116	166,847	27,731
State Sources	80,716	80,716	80,775	59
Local Sources	66,042	68,442	230,341	161,899
Charges for Services	110,495	115,495	100,668	(14,827)
Interest Earnings	500	500	680	180
Other			136,147	136,147
Total Revenues	852,355	711,755	1,095,337	383,582
EXPENDITURES				
Current				
Management and Administration			395,065	395,065
Community/Economic Development			476,886	476,886
Transportation			84,576	84,576
Regional Planning			3,230	3,230
Total Current	819,375	708,426	959,757	251,331
Debt Service				
Principal			59,500	59,500
Interest and Fiscal Charges	1,342	1,320	195	(1,125)
Total Debt Service	1,342	1,320	59,695	58,375
Total Expenditures	820,717	709,746	1,019,452	309,706
Net Change in Fund Balances	$ 31,638	$ 2,009	75,885	$ 73,876
FUND BALANCE, BEGINNING OF YEAR, AS ORIGINALLY STATED			549,449	
PRIOR PERIOD ADJUSTMENT			217,272	
FUND BALANCE, BEGINNING OF YEAR, AS RESTATED			766,721	
FUND BALANCE, END OF YEAR			$ 842,606	

See Accompanying Notes to the Financial Statements

REGION FIVE DEVELOPMENT COMMISSION

STATEMENT OF FIDUCIARY NET POSITION
CROW WING COUNTY (BWSR) - AGENCY FUND
JUNE 30, 2016
WITH PARTIAL COMPARATIVE AMOUNTS AS OF JUNE 30, 2015

	2016	2015
ASSETS		
Funds Held in Trust	$ 30,460	$ 38,443
LIABILITIES		
Due to Other Organizations	$ 30,460	$ 38,443

See Accompanying Notes to the Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Region Five Development Commission (the Commission) are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant of the government's accounting policies are described below.

A. REPORTING ENTITY

The Commission was established in 1973, pursuant to Minn. Stat. §462.381. The purpose of the Commission is to facilitate intergovernmental cooperation and ensure orderly and harmonious coordination of state, federal and local comprehensive planning and development programs for the solution of economic, social, physical, and intergovernmental issues of the state and its citizens.

Region Five Development Commission encompasses the counties of Cass, Crow Wing, Morrison, Todd, and Wadena.

The Commission receives funds from local, state, and federal sources. It is governed by a 24-member board which consists of five county board representatives (one from each member county's board of commissioners); one Camp Ripley representative; one City of Brainerd representative (one from each municipality with a population over 10,000); five county municipality representatives (one representative of municipalities with population under 10,000 per member county); five county township representatives (one representative of townships from each member county); two school board representatives; one tribal representative (one representative of each tribe in the region); one council of government representative (one representative of any county council of government); and one special interest representative (one representative of the Soil and Water District in the region). The board is organized with a chair, vice chair, secretary, and treasurer at its annual meeting each January. The executive director, appointed by the board, serves as its clerk. The general administrative offices are located in Staples, Minnesota.

The financial statements present the Commission and its component units. The Commission includes all funds, organizations, institutions, agencies, departments and offices that are not legally separate from such. Component units are legally separate entities for which the Commission is financially accountable, or for which the exclusion of the component unit would render the financial statements of the Commission misleading.

The criteria used to determine if the Commission is financially accountable for a component unit includes whether or not 1) the Commission appoints the voting majority of the potential component unit's governing body and is able to impose its will on the potential component unit or is in a relationship of financial benefit or burden with the potential component unit, or 2) the potential component unit is fiscally dependent on and there is a potential for the potential component unit to provide specific financial benefits to, or impose specific financial burdens on, the Commission.

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

A. REPORTING ENTITY (Cont'd)

Based on these criteria, the following organization is considered to be a component unit of the Commission and is discretely presented in the accompanying financial statements.

North Central Economic Development Association, Inc. (NCEDA) is a nonprofit corporation organized under the laws of the State of Minnesota for purposes of providing capital to businesses in the five county area served by the Commission in order to create or increase employment and business opportunities by supplementing public and private capital. NCEDA 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 financial statements included are as of and for the year ended June 30, 2016. The complete financial statements of North Central Economic Development Association, Inc. can be obtained by writing to: NCEDA, 200 1st Street NE, Suite 2, Staples, MN 56479.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the Commission except for fiduciary funds. Fiduciary funds are only reported at the fund financial statement level.

In the government-wide Statement of Net Position, governmental activities are: (a) presented on a consolidated basis by column; and (b) reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Elimination of all charges would distort the direct costs and program revenue reported for the various functions concerned.

Separate financial statements are provided for governmental and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Fiduciary funds are presented in the fiduciary fund financial statements by type. Since by definition, fiduciary fund assets are being held for the benefit of a third party and cannot be used for activities or obligations of the Commission, these funds are excluded from the government-wide financial statements.

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

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are proprietary and fiduciary fund financial statements. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing or related cash flows. Property taxes are generally recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenue when all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting, in which revenues are recognized when they become measurable and available. Revenues are considered to be measurable when the amount of the transaction can be determined and available if they are collected within 60 days after the end of the current period. The emphasis of governmental fund financial statements is on major individual governmental funds, with each fund displayed as a separate column in the fund financial statements.

Property taxes, principal repayments, contract income, intergovernmental revenue, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Commission.

Description of Funds

The Commission reports the following major governmental fund:

The General Fund is the Commission's primary operating fund. It accounts for all financial resources and is charged with all costs of operating the Commission.

The Commission has no funds which are classified as non-major.

Additionally, the Commission reports as a fiduciary fund the Crow Wing County (BWSR) - Agency Fund. This fund is used to account for the revenues and expenses related to the Subsurface Sewage Treatment Systems loans issued by Crow Wing County.

Property tax revenue is generally considered as available if collected within 60 days after year-end. State revenue is recognized in the year to which it applies according to Minnesota Statutes and accounting principles generally accepted in the United States of America. Federal revenue is recorded in the year in which the related expenditure is made. Interest earnings are recorded when earned because they are measurable and available.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to claims and judgments are recorded only when payment is made. The Commission does not use encumbrances for either budgeting or financial reporting purposes.

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.

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

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Cont'd)

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and certain other payments received before eligibility requirements are met are also recorded as unearned revenue.

D. BUDGETS AND BUDGETARY ACCOUNTING

The Commission Board adopts an annual budget for the General Fund. This budget is prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Based on a process established by the Commission Board, the Executive Director and Finance Director craft a fiscal year budget. The Executive Director then submits income expectations relevant to respective departments with staff each year. The Executive Director and Finance Director submit the proposed budget to the Board of Directors who also serve as the Budget Committee. The Board's revised proposed budget is presented to the full Commission for consideration.

The overall budget is prepared by fund and natural category. The legal level of budgetary control — the level at which expenditures may not legally exceed appropriations — is the natural category level. Budgets may be amended during the year with proper approval. Budget amounts in the financial statements include both the original and final amended budget. Budgets are prepared by natural category and not by program. Therefore, only the total General Fund expenditure budget is compared to actual.

Based on Commission By-laws, the Chairperson of the Commission shall each year, appoint a budget committee to recommend to the full Commission a proposed budget. Such proposed budget and work program shall be submitted by mail to each member of the Commission not later than 30 days prior to the scheduled public hearing. The Commission may delegate the draft budget to come from the Executive Director and Staff.

E. CASH

Cash consists of demand deposit accounts and non-negotiable certificates of deposit.

Custodial Credit Risk. Custodial credit risk is the risk that in the event of bank failure, the Commission's deposits may not be returned to it.

Minnesota Statutes require that all deposits be protected by insurance, security bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds. Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a financial institution other than that furnishing the collateral. The Commission does not have a policy for custodial credit risk. The Commission's bank balances were not exposed to custodial risk as of June 30, 2016.

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

F. CURRENT TAXES RECEIVABLE

Current taxes receivable represent current real and personal property tax levies, which the Commission has not yet received. These taxes were certified the previous December and are collectible in the current calendar year.

G. DELINQUENT TAXES RECEIVABLE

Delinquent taxes receivable represent taxes collectible in prior years that remain uncollected at June 30, 2016. They are equally offset by a deferred inflows of resources amount in the fund financial statements.

H. DUE FROM OTHER GOVERNMENTS

Amounts due from other governments consist of amounts primarily due from the federal government, State of Minnesota, and various small cities and townships served by the Commission.

I. LOANS RECEIVABLE

Loans receivable represent loans made to qualifying businesses or individuals in the five county region of the Commission. Collateral on the loans consists of equipment, real estate, and personal guarantees.

The Commission provides an allowance for doubtful receivables on a specific identification basis, which is offset against the gross amount. The allowance for doubtful receivables is an estimate of collection losses that may be incurred in the collection of all receivables. The allowance is based upon historical experience coupled with management's review of the current status of the existing receivables. The amount of the allowance was $0 as of June 30, 2016, due to management's expectations that all loans would be collected.

The Commission has a $15,000 certificate of deposit pledged each by Beltrami County and Morrison County in the event of a ISTS loan default.

J. CAPITAL ASSETS

Tangible and intangible capital assets are defined by the Commission as assets with an initial, individual cost of more than $1,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost, when actual historical cost is not available. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Tangible and intangible capital assets are reported in the government-wide financial statements, but are not reported in the fund financial statements. Tangible and intangible capital assets are depreciated using the straight-line method over their estimated useful lives. Useful lives vary from 3 to 5 years for equipment and furniture. The Commission does not possess any material amounts of infrastructure capital assets.

The Commission does not possess any material amounts of intangible assets.

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

K. DEFERRED OUTFLOWS OF RESOURCES

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represents a consumption of net position that applies to a future reporting period. During that future period, it will be recognized as an outflow of resources (expense/expenditure). The Commission has one item that qualifies for reporting in this category on the government-wide Statement of Net Position which is related to pensions.

L. COMPENSATED ABSENCES

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated vacation and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability for compensated absences is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Compensated absences are accrued when incurred in the government-wide financial statements. The government-wide Statement of Net Position reports both current and noncurrent portions of compensated absences using full accrual accounting. The noncurrent portion consists of the remaining amount of vacation and total vested sick leave.

Paid Time Off
Employees earn paid time off based on the number of years employed on a pro-rated basis. Employees can earn six to ten hours of paid time off per pay period. The Executive Director can accumulate 200 hours of paid time off per year. The Finance Director can accumulate 200 hours of paid time off per year. All other employees may accumulate up to a maximum of 100 hours. All outstanding unpaid paid time off is payable upon termination of employment. Unpaid annual leave totaling $23,504 is recorded.

Compensatory Time
For exempt employees, compensatory time off is earned at a one hour for one hour basis for hours worked in excess of 40 hours per week. Compensatory time can be accumulated to a maximum of 40 hours. If an employee exceeds the 40 hour maximum the employee will use the excess hours during the next pay period. Compensatory time is payable upon termination of employment. Unpaid compensatory time totaling $4,849 is recorded.

M. PENSIONS

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

N. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Employees of the Commission pay health care premiums based on their age and level of coverage. Since the insurance rate is based on age, the Commission does not have an implicit rate subsidy factor in postemployment health care expenses. Additionally, Minnesota Statutes require the Commission to allow retired employees to stay on the health care plan with the retiree responsible to pay the entire premium for continuation coverage (except as otherwise provided in a collective bargaining agreement or personnel policy). The Commission's personnel policy does not provide for any contributions upon employee retirement.

O. PROPERTY TAXES LEVIED FOR SUBSEQUENT YEARS

Current levies of local taxes, less the amount recognized as revenue in the current period, including portions assumed by the state which will be recognized as revenue in the next fiscal year, are included in this account to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

P. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Q. DEFERRED INFLOWS OF RESOURCES

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. Deferred inflows of resources represents an acquisition of net position that applies to a future reporting period. During that future period, it will be recognized as an inflow of resources (revenue). The Commission has items that qualify for reporting in this category on both the government-wide Statement of Net Position and the governmental fund financial statements related to property taxes and pensions.

R. FUND BALANCE

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the Commission is bound to observe constraints imposed upon the use of resources reported in governmental funds. These classifications are as follows:

Nonspendable - represents amounts that cannot be spent because it is not in spendable form, such as prepaid items and long-term loan receivables.

Restricted - represents amounts that relate to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions. Restrictions may be changed or lifted only with the consent of the resource provider.

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

R. FUND BALANCE (Cont'd)

Committed - represents amounts that are constrained for specific purposes that are internally imposed by formal action (resolution) of the Commission's Board. These constraints are imposed, changed, or removed by resolution of the Commission's Board. A majority vote of the Commission is required to commit a fund balance to a specific purpose.

Assigned - consists of amounts intended to be used by the Commission for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority. Pursuant to the Commission's Resolution, the Commission's Executive Director and/or Finance Director are authorized to establish assignments of fund balance.

Unassigned - is the residual classification for the General Fund and also reflects negative residual amounts in other funds.

Region Five Development Commission uses restricted amounts first when both restricted and unrestricted fund balance is available. Additionally, the Commission would use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

S. NET POSITION

Net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources in the government-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the government-wide financial statements when there are limitations on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Unrestricted net position consists of all other net position that does not meet the definition of restricted or net investment in capital assets.

T. REVENUES

The Commission annually adopts a property tax levy and certifies the levy to the five counties in September for collection in the following year. The counties are responsible for billing and collecting all property taxes for the Commission. These taxes become an enforceable lien on taxable property within the Commission on January 1 and are recorded as receivables by the Commission at that date. Real property taxes are payable (by the property owners) in two installments in May 15 and October 15. The Commission has no ability to enforce payment of property taxes by property owners.

The Commission recognizes property tax revenue in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar year tax levy is recorded as deferred revenue. In practice, current and delinquent taxes and state credits received by the Commission in June, July, December, and January are recognized as revenue for the current year.

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

T. REVENUES (Cont'd)

Taxes that remain unpaid at year-end are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is deferred because it is not known to be available to finance the operations of the Commission in the current year. No allowance for uncollectible taxes has been provided as such amounts are not expected to be material. Taxes on residential property (as defined by state statute) are partially reduced by a market value credit. The credit is paid to the Commission by the state in lieu of taxes levied against property. The state remits these credits in installments during each year.

U. EXPENDITURES

Expenditure recognition for governmental fund types is limited to amounts represented by current liabilities. Noncurrent liabilities are not recognized as governmental fund expenditures or fund liabilities.

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

W. PRIOR YEAR INFORMATION

The basic financial statements include certain prior-year partial comparative information in total but not at the 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 government's financial statements for the year ended June 30, 2015, from which the partial information was derived.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. EXCESS OF EXPENDITURES OVER BUDGET

The following fund had expenditures that exceeded the budget:

	Expenditures	Budget
General Fund	$ 1,019,452	$ 709,746

NOTE 3. DEPOSITS

The book balance of cash was as follows:

	Primary Government
Governmental Activities	
Cash in Bank Accounts	$ 498,642
Non-Negotiable Certificates of Deposit	56,634
Total	$ 555,276

The Commission' deposits were covered by collateral. The Commission does not have a policy that further limits its collateral choices.

NOTE 4. RECEIVABLES

Receivables for the Commission's governmental activities are as follows:

	Primary Government	
	Total Receivables	Amounts not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Due from Related Organization	$ 49,324	$
Property Taxes	153,113	
Accounts Receivable	18,321	
Due from Other Governments	79,654	
Loans Receivable	243,393	170,975
Total Governmental Activities	$ 543,805	$ 170,975

NOTE 5. CAPITAL ASSETS

Capital asset activity was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Governmental Activities				
Capital Assets, Being Depreciated				
Furniture and Equipment	$ 94,666	$	$	$ 94,666
Less Accumulated Depreciation for				
Furniture and Equipment	(90,332)	(3,467)		(93,799)
Governmental Activities Net Capital Assets	$ 4,334	$ (3,467)	$ 0	$ 867

NOTE 5. CAPITAL ASSETS (Cont'd)

Depreciation expense was $3,467. This amount was allocated to management and administration.

Assets recorded under capital lease totaled $17,333 with accumulated depreciation of $17,333.

NOTE 6. LONG-TERM DEBT

A. COMPONENTS OF LONG-TERM DEBT

	Original Amount Issued	Issue Date	Final Maturity Date	Interest Rates	Balance Outstanding
Governmental Activities					
N/P - MN Dept. of Agriculture	$ 410,933	6/8/2001	10/1/2025	0.00%	$ 479,517
Net Pension Liability					279,836
Compensated Absences					28,353
Total Governmental Activities					$ 787,706

B. MINIMUM DEBT PAYMENTS

Minimum annual principal and interest payments required to retire long-term debt, not including compensated absences payable are as follows:

Year Ending June 30	MN Dept. of Agriculture Principal	MN Dept. of Agriculture Interest
2017	$ 88,860	$
2018	119,884	
2019	81,385	
2020	65,588	
2021	50,106	
2022-2025	73,694	
	$ 479,517	$ 0

C. DESCRIPTION OF LONG-TERM DEBT

MN Department of Agriculture Note Payable:
The purpose of the note payable to the Minnesota Department of Agriculture was to provide loans for upgrading or constructing individual sewer/septic systems in the allowable lending area. Repayment of the note payable began in 2012, ten years after the loan funds were originally disbursed by the Commission. The repayment will continue on a semi-annual basis thereafter.

Compensated Absences Payable:
Compensated absences payable consists of unused vacation and other accumulated time for certain employees based on the employment contract. Compensated absences are paid by the General Fund.

Net Pension Liability:
Net pension liability consist of pension benefit payments available to employees as specified in the employee's employment contract upon retirement. Pension benefits are paid by the General and Special Revenue Funds.

NOTE 6. LONG-TERM DEBT (Cont'd)

D. CHANGES IN LONG-TERM DEBT

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
N/P - MN Dept of Agriculture (ISTS Loans Payable)	$ 405,429	$ 133,588	$ 59,500	$ 479,517	$ 88,860
Capital Lease Payable	1,526		1,526		
Net Pension Liability	300,620	210,868	231,652	279,836	
Compensated Absences	27,027	61,908	60,582	28,353	
Total Governmental Activities	$ 734,602	$ 406,364	$ 353,260	$ 787,706	$ 88,860

NOTE 7. UNEARNED REVENUE

Unearned revenues consisted of grant revenues, loans receivable and property taxes which will subsequently be earned.

NOTE 8. FUND BALANCE

A summary of the Commission's fund balance classification are as follows:

	General Fund
Nonspendable	
Prepaid Items	$ 11,594
Loans Receivable	243,393
Total Nonspendable	254,987
Assigned	
Unemployment	45,817
Unassigned	541,802
Total Fund Balance	$ 842,606

NOTE 9. OPERATING LEASE AGREEMENTS

Effective October 1, 2011, the Commission entered into a lease agreement for office space with Todd County. Quarterly payments of $5,000 were paid through December 2014, when the lease expired. A new lease agreement was entered into on January 2015. The new lease extends the lease through December 2017 and continues the quarterly payments of $5,000.

Lease expense totaled $20,000.

Future minimum payments under the above operating leases are as follows:

Year Ended June 30,		
2017	$	20,000
2018		10,000
Total	$	30,000

NOTE 10. RELATED PARTY TRANSACTIONS

The Commission entered into an agreement with North Central Economic Development Association, Inc. (NCEDA) to manage the Commission's revolving loan fund program. Under this agreement, NCEDA contracts with the Commission for administrative duties such as clerical support, loan packaging, and accounting. The Commission has received $74,635 of administrative revenues from NCEDA.

The Commission also agreed to loan NCEDA cash advances in relation to the Household Well Water Systems Grant. NCEDA repays the Commission when it is reimbursed from the USDA.

The Commission had accounts receivable of $49,324 from NCEDA. The Commission also had accounts payable to NCEDA of $12,106.

The Commission had $5,715 in loans receivable due from NCEDA for a loan issued on the Commission's behalf.

NOTE 11. DEFINED BENEFIT PENSION PLAN - STATEWIDE

A. PLAN DESCRIPTION

The Commission participates in the following cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees Retirement Association (PERA). PERA’s defined benefit pension plan is established and administered in accordance with Minnesota Statutes. PERA's defined benefit pension plans is tax qualified plans under Section 401(a) of the Internal Revenue Code.

General Employees Retirement Fund (GERF):
All full-time and certain part-time employees of the Commission, other than teachers, are covered by GERF. GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

NOTE 11. DEFINED BENEFIT PENSION PLAN - STATEWIDE (Cont'd)

B. BENEFITS PROVIDED

PERA provide retirement, disability and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

PERA:
Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

GERF Benefits:
Benefits are based on a member's highest average salary for any five successive years of allowable service, age and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members, and are based upon years of service and average high-five salary.

C. CONTRIBUTIONS

Minnesota Statutes sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

GERF Contributions:
Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5% of pay, respectively, in fiscal year 2016. In fiscal year 2016, the Commission was required to contribute 11.78% of pay for Basic Plan members and 7.5% for Coordinated Plan members. The Commission's contributions to the GERF for the plan's fiscal year ended June 30, 2016, were $26,308. The Commission's contributions were equal to the required contributions for each year as set by state statute.

NOTE 11. DEFINED BENEFIT PENSION PLAN - STATEWIDE (Cont'd)

D. PENSION COSTS

GERF Pension Costs:
The Commission reported a liability of $279,836 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Commission's proportion of the net pension liability was based on the Commission's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014 through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the Commission's proportion was 0.0054%, which was lower than 0.0064% from its proportion measured as of June 30, 2014.

GERF benefit provision changes during the measurement period included (1) the merger of the former Minneapolis Employees Retirement Fund division into GERF, effective January 1, 2015, and (2) revisions to *Minnesota Statutes* to make changes to contribution rates less prescriptive and more flexible.

The discount rate used to calculate liabilities for the June 30, 2015 measurement date was 7.9%. The Legislature has since set the discount rate in statute at 8%. Beginning with the June 30, 2016 measurement date, the discount rate used when calculating liabilities based on GASB 68 accounting requirements will be increased to 8% to be consistent with the rate set in statute used for funding purposes.

The Commission recognized pension expense of $25,560 for its proportionate share of GERF's pension expense.

The Commission reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	$ 2,595	$ 14,110
Changes in Actuarial Assumptions	17,428	
Differences Between Projected and Actual Investment Earnings		24,912
Changes in Proportion		40,579
Contributions Paid to PERA Subsequent to Measurement Date	26,308	
Totals	$ 46,332	$ 79,601

$26,308 reported as deferred outflows of resources related to pensions resulting from Commission contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

Year ended June 30,	Pension Expense Amount
2017	$ (18,729)
2018	(18,729)
2019	(22,118)
2020	
2021	

NOTE 11. DEFINED BENEFIT PENSION PLAN - STATEWIDE (Cont'd)

E. ACTUARIAL ASSUMPTIONS

The total pension liability in the June 30, 2015 actuarial valuation was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

Assumption	GERF
Inflation	2.75% per year
Active Member Payroll Growth	3.50% per year
Investment Rate of Return	7.90%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments.

Actuarial assumptions used in the June 30, 2015 valuations were based on the results of actuarial experience studies. The experience study was for the period July 1, 2004, through June 30, 2008, and a limited scope experience study dated August 29, 2014. The limited scope experience study addressed only inflation and long-term rate of return for the GASB 67 valuation.

The long-term expected rate of return on pension plan investments is 7.9% for GERF. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rates of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic	45%	5.50%
International	15%	6.00%
Bonds	18%	1.45%
Alternative	20%	6.40%
Cash	2%	0.50%

G. DISCOUNT RATE

The discount rate used to measure the total pension liability was 7.9% for GERF. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on those assumptions, each of the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE 11. DEFINED BENEFIT PENSION PLAN - STATEWIDE (Cont'd)

H. PENSION LIABILITY SENSITIVITY

The following presents the Commission's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the Commission's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
GERF	6.90%	7.90%	8.90%
Commission's Proportionate Share of the GERF Net Pension Liability	$ 440,033	$ 279,856	$ 147,574

I. PENSION PLAN FIDUCIARY NET POSITION

Detailed information about GERF's fiduciary net position is available in a separately-issued PERA financial report. That report may be obtained on the Internet at www.mnpera.org; by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

NOTE 12. CONTINGENT LIABILITIES

The Commission participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Commission has not complied with the rules and regulations governing the grant, refunds of money received may be required and the collectability of any related receivable at June 30, 2016, may be impaired. In the opinion of the Commission, there are no significant contingent liabilities relating to the compliance with the rules and regulations governing the respective grants; therefore, no provisions have been recorded in the accompanying combined financial statements for such contingencies.

NOTE 13. DISCRETELY PRESENTED COMPONENT UNIT INFORMATION

A. CASH

The book balance of cash and cash equivalents were as follows:

Cash	
Cash in Bank Accounts	$ 396,632

The component unit had no uninsured and uncollateralized deposits.

B. LOANS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL LOANS

Loans receivable consist of loans to various business enterprises 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.

The component unit 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 reported allowance for doubtful loans was $113,245.

C. CAPITAL ASSETS

Capital asset activity was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital Assets, Being Depreciated				
Equipment	$ 11,100	$	$	$ 11,100
Less Accumulated Depreciation for				
Equipment	(11,100)			(11,100)
Net Capital Assets	$ 0	$ 0	$ 0	$ 0

Depreciation expense was $0.

NOTE 13. DISCRETELY PRESENTED COMPONENT UNIT INFORMATION (Cont'd)

D. LONG-TERM DEBT

1. COMPONENTS OF LONG-TERM DEBT

	Original Amount Issued	Issue Date	Final Maturity Date	Interest Rates	Balance Outstanding
N/P - US Dept of Agriculture	$ 100,000	12/1/2011	12/1/2031	2%	$ 356,306
N/P - Related Organization	10,534	8/1/2012	8/1/2022	1%	5,715
Total Component Unit					$ 362,021

2. MINIMUM DEBT PAYMENTS

Minimum annual principal and interest payments required to retire long-term debt, not including compensated absences payable are as follows:

Year Ending	USDA Note Payable		Related Organization	
June 30,	Principal	Interest	Principal	Interest
2017	$ 19,933	$ 6,944	$ 1,140	$ 60
2018	20,335	6,542	1,152	48
2019	20,745	6,131	1,163	37
2020	21,164	5,713	1,175	25
2021	21,591	5,285	1,085	15
2022-2026	114,672	19,712		
2027-2031	126,722	7,661		
2032	11,144	55		
	$ 356,306	$ 58,043	$ 5,715	$ 185

3. DESCRIPTION OF LONG-TERM DEBT

U.S. Department of Agriculture Note Payable
The purpose of the note payable to the U.S. Department of Agriculture was to provide loans for businesses to finance rural economic development projects in the allowable lending area. Repayment of the note payable is to be repaid over 20 years in monthly installments with the final maturity on December 1, 2031. The first two years are interest only.

Related Organization Note Payable
The purpose of the note payable to the Related Organization was for repayment of funds advanced by the Related Organization for issuing a loan receivable. Repayment of the note payable is to be repaid over 10 years in quarterly installments with the final maturity on August 1, 2022.

NOTE 13. DISCRETELY PRESENTED COMPONENT UNIT INFORMATION (Cont'd)

D. LONG-TERM DEBT (Cont'd)

4. CHANGES IN LONG-TERM DEBT

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
N/P - US Dept of Agriculture	$ 345,436	$ 38,455	$ (27,585)	$ 356,306	$ 19,933
N/P - Related Organization	7,244		(1,529)	5,715	1,140
Total	$ 352,680	$ 38,455	$ (29,114)	$ 362,021	$ 21,073

E. CONTINGENCIES

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. In the event that the microlending 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.

F. 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.

G. SUBSEQUENT EVENTS

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

NOTE 14. PRIOR PERIOD ADJUSTMENT

The beginning fund balance of the General Fund had been adjusted to reflect a correction of error. Previously recorded deferred inflows of resources for unavailable revenue related to loans receivable have been reclassed as nonspendable fund balance. Beginning General Fund fund balance has been restated from $549,449 to $766,721 (an increase of $217,272).

NOTE 15. RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission carries various commercial insurance policies covering property, commercial liability, and automobile liability. There were no significant reductions in insurance coverage from the previous year. The amounts of settlements has not exceeded insurance coverage in the past three years.

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REQUIRED SUPPLEMENTARY INFORMATION

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REGION FIVE DEVELOPMENT COMMISSION

SCHEDULE OF EMPLOYER CONTRIBUTIONS
JUNE 30, 2016

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered-Employee Payroll (d)	Contributions as a Percentage of Covered-Employee Payroll (b/d)
PERA					
6/30/2016	$ 26,308	$ 26,308	$	$ 350,734	7.50%
6/30/2015	23,623	23,623		320,652	7.37%

The Commission implemented GASB Statement No. 68 for fiscal year ended June 30, 2015. Information for prior years is not available.

REGION FIVE DEVELOPMENT COMMISSION

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
JUNE 30, 2016

Fiscal Year Ending	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Employer's Covered-Employee Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
PERA					
6/30/2015	0.0054%	$ 279,856	$ 320,652	87.3%	78.2%
6/30/2014	0.0064%	300,620	341,610	88.0%	78.7%

The Commission implemented GASB Statement No. 68 for fiscal year ended June 30, 2015. Information for prior years is not available.

SUPPLEMENTARY INFORMATION

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REGION FIVE DEVELOPMENT COMMISSION

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:			
Economic Development Administration			
Economic Development Support for Planning Organizations	11.302	N/A	$ 51,616
Economic Adjustment Assistance - Revolving Loan Fund	11.307	N/A	1,155,728
Total U.S. Department of Commerce			1,207,344
U.S. Department of Transportation:			
Minnesota Department of Transportation			
Highway Planning and Construction - SRTS - Cass Lake/Bena	20.205	N/A	23,364
Highway Planning and Construction - SRTS - Crosby	20.205	N/A	780
Total U.S. Department of Transportation			24,144
U.S. Department of Agriculture:			
Direct Programs			
Rural Business Development Grant	10.351	N/A	67,053
Rural Community Development Initiative	10.446	N/A	78,512
Household Water Well System Grant Program	10.862	N/A	19,869
Local Food Promotion Program	10.168	N/A	71,854
Rural Microentrepreneur Assistance Program	10.870	N/A	41,466
Total U.S. Department of Agriculture			278,754
Total Expenditures of Federal Awards			$ 1,510,242

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	33,167
Unpaid Principal of Loans Written Off	37,990
	1,540,971
Federal Percentage of Loan Funds	75.0 %
Federal Expenditures	$ 1,155,728

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

NOTE 1. BASIS OF PRESENTATION

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, which is described in Note 1 to the Commission'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 Commission's basic financial statements as "federal sources". Revenue recognized on the basic financial statements for federal programs totaled $166,847.

NOTE 4. SUBRECIPIENTS

Region Five Development Commission provided federal awards under CFDA #11.307 Economic Adjustment Assistance - Revolving Loan Fund of $1,155,728 to North Central Economic Development Association, Inc., a component unit.

NOTE 5. LOANS OUTSTANDING

The component unit, 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.

Cluster/Program Title	Federal CFDA Number	Amount Outstanding
Economic Adjustment Assistance - Revolving Loan Fund	11.307	$ 1,132,449
Household Water Well System Grant Program	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.

COMPLIANCE

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INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Commissioners
Region Five Development Commission
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 the governmental activities, the discretely presented component unit, the major fund, and aggregate remaining fund information of Region Five Development Commission as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated October 27, 2016.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions,* promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories except we did not test for compliance in tax increment financing because the Commission does not have any tax increment financing districts.

In connection with our audit, nothing came to our attention that caused us to believe that the Commission failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Commission's noncompliance with the above referenced provisions.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on 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

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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 Commissioners
Region Five Development Commission
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 the governmental activities, the discretely presented component unit, the major fund and the aggregate remaining fund information of the Region Five Development Commission, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Commission's basic 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 Commission'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission'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 2006-001 and 2007-001 to be material weaknesses.

Our consideration of 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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of 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.*

Region Five Development Commission's Response to Findings

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

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 Commission'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 Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purposes.

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 Commissioners
Region Five Development Commission
Staples, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Region Five Development Commission's (the Commission) 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 Commission's major federal programs for the year ended June 30, 2016. The Commission'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 Commission'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 Commission'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 Commission's compliance.

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Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

Management of the Commission is responsible for establishing and maintaining effective internal control over compliance with the requirements referred to above. In planning and performing our audit of compliance, we considered the Commission's internal control over compliance with the types of requirements that could have a direct and material effect on a 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 Commission'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 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 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

REGION FIVE DEVELOPMENT COMMISSION

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 weaknesses 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 weaknesses 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

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.

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 Commission has assigned duties to staff based on a cost-benefit relationship to the Commission and the practicality of the level of staffing the Commission maintains.

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

Recommendation: The Commission should continue to monitor and evaluate the job responsibilities assigned to staff to determine whether there is an unacceptable risk.

CORRECTIVE ACTION PLAN (CAP)
Explanation of Disagreement with Audit Findings:
None

Actions Planned in Response to Finding:
The Commission is aware of the limited segregation of duties and will continue to review internal controls and make changes when they can be made.

Officials Responsible for Ensuring CAP:
Cheryal Lee Hills, Executive Director

Planned Completion Date of CAP:
June 30, 2017

Plan to Monitor Completion of CAP:
Cheryal Lee Hills, Executive Director

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 AUDITOR PREPARED FINANCIAL STATEMENTS

Condition: The Commission 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 Commission 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 Commission.

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 Commission's current internal control.

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

CORRECTIVE ACTION PLAN (CAP)
Explanation of Disagreement with Audit Findings:
None

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

Officials Responsible for Ensuring CAP:
Cheryal Lee Hills, Executive Director

Planned Completion Date of CAP:
June 30, 2017

Plan to Monitor Completion of CAP:
Cheryal Lee Hills, Executive Director

III. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS

None