

North Central Economic Development Association, Inc.

Audited Financial Statements

June 30, 2021

**NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.
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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of North Central Economic Development Association, Inc. (the Association) which comprise the statement of financial position as of June 30, 2021, the related statements of activities and functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Central Economic Development Association, Inc. as of June 30, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, effective July 1, 2020 the Association adopted new accounting guidance Financial Accounting Standards Board ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited North Central Economic Development Association, Inc.'s June 30, 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 8, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2021 on our consideration of North Central Economic Development Association, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of the Association's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering North Central Economic Development Association, Inc.'s internal control over financial reporting and compliance.



SCHLENNER WENNER & CO.

St. Cloud, Minnesota

October 18, 2021

FINANCIAL STATEMENTS

NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.
STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2021
WITH COMPARATIVE TOTALS AS OF JUNE 30, 2020

	Revolving Loan Fund	Household Water Well System Fund	Microlending Fund	Entrepreneur Lending Program Fund	Community Development Block Grant Fund	Small Business Emergency Loans Fund	100 Rural Women Fund	2021 Totals (Memorandum Only)	2020
ASSETS									
CURRENT ASSETS									
Restricted Cash and Cash Equivalents	\$ 220,368	\$ 85,889	\$ 99,135	\$ 20,011	\$ 24,720	\$ 114,766	\$ 52,058	\$ 616,947	\$ 648,204
Accounts Receivable	-	-	-	-	-	-	-	-	1,179
Due from Related Organization	-	-	-	-	-	-	-	-	34
Due from Other Funds	-	-	-	4,166	-	-	-	4,166	4,374
Due from Other Governments	-	-	4,500	-	-	-	-	4,500	7,050
Prepaid Expenses	1,313	-	-	-	-	-	-	1,313	1,314
Current Maturities of Loans Receivable	213,424	20,140	29,550	20,238	13,698	151,459	-	448,509	304,737
Total Current Assets	435,105	106,029	133,185	44,415	38,418	266,225	52,058	1,075,435	966,892
NONCURRENT ASSETS									
Loans Receivable, Less Current Maturities and Loan Loss Reserve	989,736	26,466	46,231	54,255	144,637	983,211	-	2,244,536	2,534,439
Property and Equipment:									
Equipment	-	-	11,100	-	-	-	-	11,100	11,100
Less: Accumulated Depreciation	-	-	(11,100)	-	-	-	-	(11,100)	(11,100)
Net Property and Equipment	-	-	-	-	-	-	-	-	-
Total Noncurrent Assets	989,736	26,466	46,231	54,255	144,637	983,211	-	2,244,536	2,534,439
TOTAL ASSETS	\$ 1,424,841	\$ 132,495	\$ 179,416	\$ 98,670	\$ 183,055	\$ 1,249,436	\$ 52,058	\$ 3,319,971	\$ 3,501,331
LIABILITIES AND NET ASSETS									
CURRENT LIABILITIES									
Due to Related Organization	\$ 3,267	\$ 46	\$ 4,500	\$ -	\$ 8,384	\$ -	\$ -	\$ 16,197	\$ 10,384
Due to Other Funds	-	-	4,166	-	-	-	-	4,166	4,374
Fiscal Agent Liabilities	-	-	-	-	-	-	52,058	52,058	486
Deferred Revenue	-	-	-	-	-	79,148	-	79,148	104,142
Current Maturities of Long-Term Debt	-	-	24,003	28,823	-	186,182	-	239,008	190,458
Total Current Liabilities	3,267	46	32,669	28,823	8,384	265,330	52,058	390,577	309,844
NONCURRENT LIABILITIES									
Long-Term Debt, Less Current Maturities	-	-	124,300	54,141	-	1,006,367	-	1,184,808	1,482,542
TOTAL LIABILITIES	3,267	46	156,969	82,964	8,384	1,271,697	52,058	1,575,385	1,792,386
NET ASSETS									
Without Donor Restrictions	1,421,574	132,449	22,447	15,706	174,671	(22,261)	-	1,744,586	1,708,945
TOTAL LIABILITIES AND NET ASSETS	\$ 1,424,841	\$ 132,495	\$ 179,416	\$ 98,670	\$ 183,055	\$ 1,249,436	\$ 52,058	\$ 3,319,971	\$ 3,501,331

See accompanying notes.

NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.
STATEMENT OF ACTIVITIES AND FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2021
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2020

	Revolving Loan Fund	Household Water Well System Fund	Microlending Fund	Entrepreneur	Community	Small Business	100 Rural Women Fund	2021	2020
				Lending Program Fund	Development Block Grant Fund	Emergency Loans Fund		Totals (Memorandum Only)	
REVENUES									
Loan Interest Income	\$ 66,204	\$ 1,251	\$ 6,399	\$ 6,316	\$ 8,384	\$ -	\$ -	\$ 88,554	\$ 77,431
Grant Revenue	-	-	25,277	-	-	-	-	25,277	215,584
Investment Income	267	115	26	6	-	25	-	439	1,341
Origination Fees	2,696	196	-	-	-	-	-	2,892	4,913
Miscellaneous	930	569	8	38	-	90	-	1,635	3,275
Administrative	-	-	-	-	-	25,014	-	25,014	26,948
Loan Loss Reserve Adjustments	13,810	-	2,812	710	284	1,737	-	19,353	(58,667)
TOTAL REVENUES	83,907	2,131	34,522	7,070	8,668	26,866	-	163,164	270,825
EXPENSES									
Program Expenses									
Administrative Fees	35,932	-	25,277	-	11,140	24,994	-	97,343	96,195
Bank Fees	540	-	700	-	-	9	-	1,249	1,753
Credit Bureau Fees	100	-	-	33	-	-	-	133	333
Loan Interest	-	-	4,658	-	-	-	-	4,658	5,619
Recording Fees	162	534	-	57	-	-	-	753	884
Total Program Expenses	36,734	534	30,635	90	11,140	25,003	-	104,136	104,784
Management and General Expenses									
Accounting and Audit	10,320	-	-	-	-	-	-	10,320	9,790
Insurance	1,186	-	-	-	-	-	-	1,186	1,186
Marketing	1,565	-	-	-	-	-	-	1,565	1,455
Legal Fees	-	-	-	-	-	-	-	-	606
Mileage	-	-	-	-	-	-	-	-	638
Per Diem	1,775	-	-	-	-	-	-	1,775	1,460
Software	1,402	-	1,314	-	-	-	-	2,716	2,626
Consulting	-	-	-	-	-	-	-	-	4,334
Miscellaneous	1,649	437	-	3,739	-	-	-	5,825	2,911
Total Management and General Expenses	17,897	437	1,314	3,739	-	-	-	23,387	25,006
TOTAL EXPENSES	54,631	971	31,949	3,829	11,140	25,003	-	127,523	129,790
CHANGE IN NET ASSETS	29,276	1,160	2,573	3,241	(2,472)	1,863	-	35,641	141,035
NET ASSETS - BEGINNING OF YEAR	1,392,298	131,289	19,874	12,465	177,143	(24,124)	-	1,708,945	1,567,910
NET ASSETS - END OF YEAR	\$ 1,421,574	\$ 132,449	\$ 22,447	\$ 15,706	\$ 174,671	\$ (22,261)	\$ -	\$ 1,744,586	\$ 1,708,945

NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
INCREASE (DECREASE) IN RESTRICTED CASH AND CASH EQUIVALENTS
FOR THE YEAR ENDED JUNE 30, 2021
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2020

	Revolving Loan Fund	Household Water Well System Fund	Microlending Fund	Entrepreneur Lending Program Fund	Community Development Block Grant Fund	Small Business Emergency Loans Fund	100 Rural Women Fund	2021 Totals (Memorandum Only)	2020
CASH FLOWS - OPERATING ACTIVITIES									
Cash Received from Customers/Grantors	\$ 70,097	\$ 3,344	\$ 34,260	\$ 6,360	\$ 8,384	\$ 135	\$ 51,197	\$ 173,777	\$ 438,692
Cash Paid to Suppliers	(55,556)	(925)	(28,587)	(3,849)	(2,756)	(25,003)	-	(116,676)	(126,378)
NET CASH FLOWS - OPERATING ACTIVITIES	14,541	2,419	5,673	2,511	5,628	(24,868)	51,197	57,101	312,314
CASH FLOWS - INVESTING ACTIVITIES									
Issuance of Loan Receivables	(199,850)	(12,209)	-	-	-	-	-	(212,059)	(1,823,076)
Payments on Loan Receivables	171,241	29,794	37,158	33,270	14,207	91,873	-	377,543	350,016
NET CASH FLOWS - INVESTING ACTIVITIES	(28,609)	17,585	37,158	33,270	14,207	91,873	-	165,484	(1,473,060)
CASH FLOWS - FINANCING ACTIVITIES									
Proceeds on Long-Term Debt	-	-	-	-	-	-	-	-	1,307,700
Interest Paid on Long-Term Debt	-	-	(4,658)	-	-	-	-	(4,658)	(5,619)
Principal Payments on Long-Term Debt	-	(1,179)	(119,176)	(71,678)	-	(57,151)	-	(249,184)	(48,284)
Net Interfund Receipts (Payments)	(564)	504	471	(356)	-	(55)	-	-	-
NET CASH FLOWS - FINANCING ACTIVITIES	(564)	(675)	(123,363)	(72,034)	-	(57,206)	-	(253,842)	1,253,797
NET CHANGE IN RESTRICTED CASH AND CASH EQUIVALENTS	(14,632)	19,329	(80,532)	(36,253)	19,835	9,799	51,197	(31,257)	93,051
RESTRICTED CASH AND CASH EQUIVALENTS - BEGINNING	235,000	66,560	179,667	56,264	4,885	104,967	861	648,204	555,153
RESTRICTED CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 220,368</u>	<u>\$ 85,889</u>	<u>\$ 99,135</u>	<u>\$ 20,011</u>	<u>\$ 24,720</u>	<u>\$ 114,766</u>	<u>\$ 52,058</u>	<u>\$ 616,947</u>	<u>\$ 648,204</u>

NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2020

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1.A. FINANCIAL REPORTING ENTITY

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

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

1.B. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

1.C. BASIS OF PRESENTATION

Fund Accounting

The financial statements of the reporting entity are organized into funds. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, net assets, revenues, and expenses. Resources are allocated to and accounted for in individual funds based upon the purposes and the means by which they are to be spent and the means by which spending activities are controlled.

The Association reports the following funds:

The *Revolving Loan Fund* represents funds reserved for the issuance of loans to the public to encourage economic development. The fund is maintained in compliance with the grant agreement. The balance of this fund at year end is classified as without donor restrictions. However, the cash held in this fund is restricted for use within this program.

The *Household Water Well System Fund* represents funds reserved for the issuance of well water loans. The fund is maintained in compliance with the grant agreement. The balance of this fund at year end is classified as without donor restrictions. However, the cash held in this fund is restricted for use within this program.

The *Microlending Fund* represents funds reserved for issuance of loans to businesses to finance approved rural economic development projects. The fund is maintained in compliance with the grant agreement. The balance of this fund at year end is classified as without donor restrictions. However, the cash held in this fund is restricted for use within this program.

The *Entrepreneur Lending Program Fund* represents funds reserved for the issuance of loans to the public to encourage economic development. The fund is maintained in compliance with the grant agreement. The balance of this fund at year end is classified as without donor restrictions. However, the cash held in this fund is restricted for use within this program.

NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2020

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.C. BASIS OF PRESENTATION (Continued)

The *Community Development Block Grant Fund* represents funds reserved for the issuance of loans to the public to encourage economic development. The fund is currently maintained in compliance with the grant agreement with both the Minnesota Department of Employment & Economic Development and the City of Motley, MN. NCEDA is classified as a Local Development Organization (LDO) for this program. Once the pool is fully lent and repaid, the LDO is released from all Federal and State CDBG requirements and shall comply with the LDO agreement between NCEDA and Motley. The balance of this fund at year end is classified as without donor restrictions. However, the cash held in this fund is restricted for use within this program.

The *Small Business Emergency Loans Fund* represents funds reserved for the issuance of loans to the public dealing with impacts of COVID-19 closures and recovery. The fund is currently maintained in compliance with the grant agreement with the Minnesota Department of Employment & Economic Development (DEED). The balance of this fund at year end is classified as without donor restrictions. However, the cash held in this fund is restricted for use within this program.

The *100 Rural Women Fund* represents funds that are a result of being the fiscal agent for 100 Rural Women which is a local organization created to support rural women in leadership roles. See Note 3.D. for additional information on the fiscal agent liability reported in the financial statements for this fund.

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended June 30, 2020, from which the summarized information was derived.

1.D. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

1.E. ASSETS, LIABILITIES, AND NET ASSETS

Cash and Cash Equivalents

The Association considers cash in financial institutions and all highly liquid instruments purchased with an original maturity of three months or less to be cash and cash equivalents. The cash balance of all the funds are restricted to be used only for each fund's respective activities and are shown as restricted cash and cash equivalents on the Statement of Financial Position.

The Association maintains its cash and cash equivalents at several separate financial institutions, which, at times, may exceed federally insured limits (FDIC). The Association has not experienced any losses in such accounts. Management believes it is not exposed to any significant custodial risk on cash. At June 30, 2021, the Association's cash balances are not in excess of federally insured limits. At June 30, 2020, the Association's uninsured cash balances total \$305,898. The Association has not experienced any losses in such accounts. Management believes it is not exposed to any significant custodial risk on cash.

See Note 3.A. for additional information related to Cash and Cash Equivalents.

NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2020

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Loans Receivable

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

Allowance for Loan Losses

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

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

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

At June 30, 2021 and 2020, the allowance for loan losses totals \$59,523 and \$108,914, respectively.

Impaired Loans

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

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

Property and Equipment

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

NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2020

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Software	3 years
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For both years ended June 30, 2021 and 2020, all property and equipment of the Association are fully depreciated and depreciation expense amounts to \$0.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor, or certain grantor, restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor, or certain grantor, imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

The Association reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

1.F. REVENUES AND EXPENSES

Overall Revenue Recognition

The Association recognizes revenue in accordance with ASC Topic 606, *Revenue from Contracts with Customers*, which provides a five-step model for recognizing revenue as follows:

- Identify the contract with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when or as performance obligations are satisfied

The Association also recognizes revenue in accordance with ASU Topic 958, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides guidance in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions.

The Association has two major revenue streams which are administrative revenues and contributions and grants. These revenue streams are discussed in more detail on the next page. All revenues are recognized at a point in time.

NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2020

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.F. REVENUES AND EXPENSES (Continued)

Recognition of Administrative Revenues

Administrative revenues are recognized when the corresponding expenses are incurred for the administrative services, which occurs at various points throughout the year. Payment for the administrative revenues was paid when the loans were originated. These revenues are deferred until the date the expenses are incurred.

Recognition of Contributions and Grants

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. Conditional promises to give are not recognized until they become unconditional. The Association reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor-imposed contributions whose restrictions are met in the same reporting period are reported as net assets without donor restrictions.

Functional Expenses

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

Advertising

The Association expenses advertising costs as they are incurred.

1.G. INCOME TAXES

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

1.H. CHANGE IN ACCOUNTING PRINCIPLE

The FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which requires revenue to be based upon the consideration expected from customers for promised goods and services. The new standard did not have a material impact on the Association's results of operations or financial condition. ASU 2018-08 became effective for the Association on July 1, 2020.

1.I. SUBSEQUENT EVENTS

In accordance with FASB ASC Topic 855, *Subsequent Events*, the Association has evaluated subsequent events through October 18, 2021, which is the date these financial statements were available to be issued, and have determined there are no subsequent events that require recognition or disclosure.

NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2020

NOTE 2 LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following at June 30, 2021 and 2020:

	2021	2020
Restricted Cash and Cash Equivalents	\$ 616,947	\$ 648,204
Accounts Receivable	-	1,179
Due from Related Organization	-	34
Due from Other Funds	4,166	4,374
Due from Other Governments	4,500	7,050
Current Maturities of Loans Receivable	448,509	304,737
	1,074,122	965,578
Less: Restricted Cash and Cash Equivalents	616,947	648,204
Less: Current Maturities of Loans Receivable	448,509	304,737
	\$ 8,666	\$ 12,637

As part of the Association's liquidity management plan, management invests cash in excess of federally insured balances in money market funds.

NOTE 3 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

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

3.A. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following at June 30, 2021 and 2020:

	2021	2020
Checking and Savings Accounts	\$ 611,239	\$ 617,772
Money Market Funds	5,708	30,432
Total	\$ 616,947	\$ 648,204

Investment income for the years ended June 30, 2021 and 2020 totals \$439 and \$1,341, respectively.

3.B. LOANS RECEIVABLE

The Association has a total of 109 and 118 loans outstanding at June 30, 2021 and 2020, respectively, with interest rates ranging from 0.0% to 6.0% and 1.0% to 8.5%, respectively. Several loans have modified payment terms and/or interest rates.

Loans receivable and the allowance for loan losses at June 30, 2021 and 2020 consist of the following:

	2021	2020
Loans Receivable	\$ 2,752,568	\$ 2,948,090
Less: Allowance for Loan Loss	59,523	108,914
	2,693,045	2,839,176
Less: Current Maturities	448,509	304,737
Loans Receivable, Less Current Maturities and Allowance	\$ 2,244,536	\$ 2,534,439

NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2020

NOTE 3 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.C. NONCURRENT LIABILITIES

As of June 30, 2021 and 2020, the long-term debt of the Association consists of the following:

	2021	2020
Note Payable - USDA; Original Principal \$400,000; Dated December 2011; Maturity date May 2027; Interest rate 2.00%, Monthly payments of \$2,229.	\$ 148,303	\$ 267,479
Note Payable - MN DEED; Original Principal \$10,000; Dated June 2017; Maturity date July 2022; Interest rate 0.00%, Monthly principal payments from loan clients passed through to DEED as received until fully repaid, Unsecured.	3,168	5,043
Note Payable - MN DEED; Original Principal \$23,000; Dated June 2017; Maturity date July 2022; Interest rate 0.00%, Monthly principal payments from loan clients passed through to DEED as received until fully repaid, Unsecured.	-	13,501
Note Payable - Related Organization; Original Principal \$10,534; Dated July 2012; Maturity date July 2022; Interest rate 1.00%, Monthly payments of \$92.	-	1,179
Note Payable - MN DEED; Original Principal \$34,000; Dated April 2018; Maturity date June 2028; Interest rate 0.00%, Monthly principal payments from loan clients passed through to DEED as received until fully repaid, Unsecured.	26,857	29,680
Note Payable - MN DEED; Original Principal \$12,000; Dated January 2018; Maturity date February 2023; Interest rate 0.00%, Monthly principal payments from loan clients passed through to DEED as received until fully repaid, Unsecured.	5,293	7,446
Note Payable - MN DEED; Original Principal \$16,000; Dated March 2018; Maturity date May 2023; Interest rate 0.00%, Monthly principal payments from loan clients passed through to DEED as received until fully repaid, Unsecured.	5,813	8,855
Note Payable - MN DEED; Original Principal \$5,000; Dated July 2018; Maturity date July 2023; Interest rate 0.00%, Monthly principal payments from loan clients passed through to DEED as received until fully repaid, Unsecured.	2,958	3,582
Note Payable - MN DEED; Original Principal \$40,000; Dated November 2018; Maturity date December 2023; Interest rate 0.00%, Monthly principal payments from loan clients passed through to DEED as received until fully repaid, Unsecured.	-	31,368

NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2020

NOTE 3 **DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS** (Continued)

3.C. NONCURRENT LIABILITIES (Continued)

	2021	2020
Note Payable - MN DEED; Original Principal \$10,000; Dated August 2019; Maturity date September 2024; Interest rate 0.00%, Monthly principal payments from loan clients passed through to DEED as received until fully repaid, Unsecured.	\$ 8,118	\$ 9,219
Note Payable - MN DEED; Original Principal \$10,000; Dated October 2019; Maturity date November 2024; Interest rate 0.00%, Monthly principal payments from loan clients passed through to DEED as received until fully repaid, Unsecured.	-	9,502
Note Payable - MN DEED; Original Principal \$30,000; Dated October 2019; Maturity date November 2024; Interest rate 0.00%, Monthly principal payments from loan clients passed through to DEED as received until fully repaid, Unsecured.	23,756	28,446
Note Payable - MN DEED; Original Principal \$8,000; Dated May 2020; Maturity date June 2025; Interest rate 0.00%, Monthly principal payments from loan clients passed through to DEED as received until fully repaid, Unsecured.	7,001	8,000
Note Payable - MN DEED - Various MN Small Business Emergency Loans; Original Principal \$2,900 - 35,000; Dated April 2020 - June 2020; Maturity date March 2025 - May 2025; Interest rate 0.00%, Monthly principal payments from loan clients passed through to DEED as received until fully repaid, Unsecured.	1,192,549	1,249,700
Total Long-Term Debt	1,423,816	1,673,000
Less: Current Portion	239,008	190,458
Long-Term Portion of Long-Term Debt	\$ 1,184,808	\$ 1,482,542

At June 30, 2021, estimated future payment obligations are as follows:

Years Ending June 30,	Principal	Interest	Total
2022	\$ 239,008	\$ 2,747	\$ 241,755
2023	180,504	2,262	182,766
2024	178,506	1,768	180,274
2025	763,930	1,264	765,194
2026	29,866	750	30,616
Thereafter	32,002	226	32,228
Totals	\$ 1,423,816	\$ 9,017	\$ 1,432,833

NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2020

NOTE 3 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.D. FISCAL AGENT LIABILITIES

The Association acts as the fiscal agent for 100 Rural Women, a local organization created to support local rural women in leadership roles. The related activity for this program during the years ended June 30, 2021 and 2020 are as follows:

	2021	2020
Cash, Beginning of Year	\$ 861	\$ -
Receipts	117,725	11,068
Disbursements	(66,528)	(10,207)
Cash, End of Year	\$ 52,058	\$ 861

The above activities are not included in the Association’s Statement of Activities and as such are recorded through cash and an offsetting liability.

3.E. INTERNAL BALANCES

Internal balances are to be repaid as cash flows become available. The internal balances as of June 30, 2021 are as follows:

Short-Term Balances		
Due To	Due From	Amount
Entrepreneur Loan Fund	Microlending Fund	\$ 4,166

The internal balances as of June 30, 2020 are as follows:

Short-Term Balances		
Due To	Due From	Amount
Household Water Well System Fund	Revolving Loan Fund	\$ 504
Small Business Emergency Loan Fund	Revolving Loan Fund	60
Entrepreneur Loan Fund	Microlending Fund	3,695
Entrepreneur Loan Fund	Small Business Emergency Loan Fund	115
		\$ 4,374

NOTE 4 OTHER NOTES

4.A. CONTINGENCIES

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

The microlending program is a \$400,000 grant that was received from the U.S. Department of Agriculture for the purpose of issuing loans to businesses to finance approved rural economic development projects. This grant is to be repaid over 20 years with final maturity on July 31, 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.

NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2020

NOTE 4 OTHER NOTES (Continued)

4.A. CONTINGENCIES (Continued)

A total of \$400,000 had been advanced on the USDA Microlending grant and \$78,870 and \$116,028 is outstanding as microlending loans receivable from various businesses at June 30, 2021 and 2020, respectively. At June 30, 2021 and 2020, an allowance of \$3,089 and \$5,901 exists in accordance with the procedures described at Note 1.E, respectively. In the event that the microlending loan receivables result in default, the loan loss reserve as well as loan loss cash set aside would partially cover these losses. The Association is exposed to a potential loss of \$75,781 and \$95,491 at June 30, 2021 and 2020, respectively. The Association did not experience any such losses during the years ended June 30, 2021 and 2020.

During the year ended June 30, 2021, the Economic Development Administration granted the Association a release of the federal interest of their Revolving Loan Fund and as such, it is no longer subject to the requirements of the Single Audit Act.

4.B. COMMITMENTS

At June 30, 2021 and 2020, the Association has funds of \$15,939 and \$0 committed for new Household Water Well Systems loans, respectively.

4.C. RELATED PARTY TRANSACTIONS

The Association has entered into several agreements with Region Five Development Commission (the Commission) to manage the Commission's revolving loan fund programs. Related to these agreements and due to funds advanced for issuing a loan receivable, related party payables and receivables at June 30, 2021 and 2020 are as follows:

	2021	2020
Due to Region Five Development Commission	\$ 16,197	\$ 10,384
Notes Payable Due to Region Five Development Commission	-	1,179
Total Related Party Payables	\$ 16,197	\$ 11,563
Due from Region Five Development Commission	\$ -	\$ 34

Under these agreements, the Association contracts with Region Five Development Commission for administrative duties such as clerical support, loan packaging and accounting. For the years ended June 30, 2021 and 2020, administrative expenses charged by the related party are as follows:

	2021	2020
Administrative Fees	\$ 97,343	\$ 96,195

4.D. RISKS AND UNCERTAINTIES

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a “Public Health Emergency of International Concern” and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies of financial markets of many countries, including the geographical area in which the Association operates. While it is unknown how long these conditions will last and what the complete financials effect will be to the Association, to date, the Association is expecting to experience an increase in loans receivable request and additional requests for deferral of loan payments.

NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2020

NOTE 4 OTHER NOTES (Continued)

4.E. RECENT ACCOUNTING PRONOUNCEMENTS

Contributed Nonfinancial Assets

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-For-Profit Entities for Contributed Nonfinancial Assets (Topic 958)*, which clarifies how a not-for-profit presents contributed nonfinancial assets on the financial statements, as well as the information presented in the footnotes to the financial statements about its policies and valuations of contributed nonfinancial assets. The effective date of ASU 2020-07 is for annual reporting periods beginning after June 15, 2021. The Association is currently evaluating the effect that the standard will have on the financial statements.

**OTHER REQUIRED REPORT
AND SCHEDULE**

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of North Central Economic Development Association, Inc. (the Association), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities and functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 18, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered North Central Economic Development Association, Inc.'s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of North Central Economic Development Association, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the North Central Economic Development Association, Inc.'s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying *Schedule of Findings and Responses*, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

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 Association's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying *Schedule of Findings and Responses* to be a material weakness: 2006-001.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying *Schedule of Findings and Responses* to be a significant deficiency: 2007-002.

Compliance and Other Matters

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

North Central Economic Development Association, Inc.'s Response to Findings

North Central Economic Development Association, Inc.'s response to the findings identified in our audit is described in the accompanying *Schedule of Findings and Responses*. North Central Economic Development Association, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Association's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



SCHLENNER WENNER & CO.

St. Cloud, Minnesota

October 18, 2021

NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2021

FINANCIAL STATEMENT FINDINGS

Finding 2006-001 Limited Segregation of Duties

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

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

Cause: There are a limited number of staff members.

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

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

*Views of Responsible
Officials and Planned
Corrective Actions:*

Management agrees with our recommendation. See corresponding Corrective Action Plan.

Finding 2007-002 Financial Reporting

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

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

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

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

Recommendation: While the Association may not have adequate controls in place to eliminate this finding, the Association should document its annual review of the financial statements.

*Views of Responsible
Officials and Planned
Corrective Actions:*

Management agrees with our recommendation. See corresponding Corrective Action Plan.

**NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.
CORRECTIVE ACTION PLANS
FOR THE YEAR ENDED JUNE 30, 2021**

FINANCIAL STATEMENT FINDINGS

Finding 2006-001 Limited Segregation of Duties

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
The Association is aware of the limited segregation of duties and will continue to review internal controls and make changes when they can be made.
3. Official Responsible
Cheryal Hills, Executive Director, is the official responsible for ensuring corrective action.
4. Planned Completion Date
The Corrective Action Plan will be reviewed on an ongoing basis with no anticipated completion date.
5. Plan to Monitor Completion
The Board of Directors will be monitoring the Corrective Action Plan.

Finding 2007-002 Financial Reporting

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
Although the Association may not have the ability to prepare the financial statements in its entirety, it will continue to complete thorough reviews of the financial statements.
3. Official Responsible
Cheryal Hills, Executive Director, is the official responsible for ensuring corrective action.
4. Planned Completion Date
The Corrective Action Plan will be reviewed on an ongoing basis with no anticipated completion date.
5. Plan to Monitor Completion
The Board of Directors will be monitoring the Corrective Action Plan.