

# North Central Economic Development Association, Inc.

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Audited Financial Statements

June 30, 2022

**SCHLENNER  
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CPAs

**NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.  
TABLE OF CONTENTS**

<b>INDEPENDENT AUDITOR’S REPORT .....</b>	<b>1</b>
<b>FINANCIAL STATEMENTS:</b>	
Statement of Financial Position .....	4
Statement of Activities and Functional Expenses.....	5
Statement of Cash Flows .....	6
Notes to the Financial Statements.....	7
<b>OTHER REQUIRED REPORTS:</b>	
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 <i>Governmental Auditing Standards</i> .....	20
Schedule of Findings and Responses.....	22
Corrective Action Plans.....	23

## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Audit of the Financial Statements

#### *Opinion*

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, 2022, 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.

In our opinion, the financial statements present fairly, in all material respects, the financial position of North Central Economic Development Association, Inc. as of June 30, 2022, 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.

#### *Basis for Opinion*

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Association and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

#### *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

#### **Report on Summarized Comparative Information**

We have previously audited North Central Economic Development Association, Inc.'s June 30, 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 18, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, 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 24, 2022 on our consideration of North Central Economic Development Association, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 24, 2022

## **FINANCIAL STATEMENTS**

**NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**AS OF JUNE 30, 2022**  
**WITH COMPARATIVE TOTALS AS OF JUNE 30, 2021**

	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	Pillsbury Players Fund	Innovative Schools Project Fund	2022 Totals (Memorandum Only)	2021 Totals (Memorandum Only)
<b>ASSETS</b>											
<b>CURRENT ASSETS</b>											
Restricted Cash and Cash Equivalents	\$ 488,642	\$ 87,632	\$ 132,581	\$ 17,963	\$ 38,927	\$ 115,230	\$ -	\$ 624	\$ 161	\$ 881,760	\$ 616,947
Due from Related Organization	-	4,502	-	-	-	-	-	-	-	4,502	-
Due from Other Funds	-	-	-	6,804	-	-	-	-	-	6,804	4,166
Due from Other Governments	-	-	3,600	-	-	-	-	-	-	3,600	4,500
Prepaid Expenses	1,127	-	-	-	-	-	-	-	-	1,127	1,313
Current Maturities of Loans Receivable	184,994	13,944	12,578	15,660	14,393	137,895	-	-	-	379,464	448,509
<b>Total Current Assets</b>	<b>674,763</b>	<b>106,078</b>	<b>148,759</b>	<b>40,427</b>	<b>53,320</b>	<b>253,125</b>	<b>-</b>	<b>624</b>	<b>161</b>	<b>1,277,257</b>	<b>1,075,435</b>
<b>NONCURRENT ASSETS</b>											
Loans Receivable, Less Current Maturities and Loan Loss Reserve	779,589	28,119	8,595	13,178	129,312	455,796	-	-	-	1,414,589	2,244,536
Property and Equipment:											
Equipment	-	-	11,100	-	-	-	-	-	-	11,100	11,100
Less: Accumulated Depreciation	-	-	(11,100)	-	-	-	-	-	-	(11,100)	(11,100)
Net Property and Equipment	-	-	-	-	-	-	-	-	-	-	-
<b>Total Noncurrent Assets</b>	<b>779,589</b>	<b>28,119</b>	<b>8,595</b>	<b>13,178</b>	<b>129,312</b>	<b>455,796</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,414,589</b>	<b>2,244,536</b>
<b>TOTAL ASSETS</b>	<b>\$ 1,454,352</b>	<b>\$ 134,197</b>	<b>\$ 157,354</b>	<b>\$ 53,605</b>	<b>\$ 182,632</b>	<b>\$ 708,921</b>	<b>\$ -</b>	<b>\$ 624</b>	<b>\$ 161</b>	<b>\$ 2,691,846</b>	<b>\$ 3,319,971</b>
<b>LIABILITIES AND NET ASSETS</b>											
<b>CURRENT LIABILITIES</b>											
Due to Related Organization	\$ 3,006	\$ 128	\$ 3,600	\$ -	\$ 7,663	\$ 29,175	\$ -	\$ 675	\$ -	\$ 44,247	\$ 16,197
Due to Other Funds	-	-	6,804	-	-	-	-	-	-	6,804	4,166
Fiscal Agent Liabilities	-	-	-	-	-	-	-	(51)	161	110	52,058
Accounts Payable	50	-	-	-	-	-	-	-	-	50	-
Deferred Revenue	-	-	-	-	-	49,973	-	-	-	49,973	79,148
Current Maturities of Long-Term Debt	-	-	21,656	21,784	-	174,280	-	-	-	217,720	239,008
<b>Total Current Liabilities</b>	<b>3,056</b>	<b>128</b>	<b>32,060</b>	<b>21,784</b>	<b>7,663</b>	<b>253,428</b>	<b>-</b>	<b>624</b>	<b>161</b>	<b>318,904</b>	<b>390,577</b>
<b>NONCURRENT LIABILITIES</b>											
Long-Term Debt, Less Current Maturities	-	-	105,420	16,344	-	466,455	-	-	-	588,219	1,184,808
<b>TOTAL LIABILITIES</b>	<b>3,056</b>	<b>128</b>	<b>137,480</b>	<b>38,128</b>	<b>7,663</b>	<b>719,883</b>	<b>-</b>	<b>624</b>	<b>161</b>	<b>907,123</b>	<b>1,575,385</b>
<b>NET ASSETS</b>											
Without Donor Restrictions	1,451,296	134,069	19,874	15,477	174,969	(10,962)	-	-	-	1,784,723	1,744,586
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 1,454,352</b>	<b>\$ 134,197</b>	<b>\$ 157,354</b>	<b>\$ 53,605</b>	<b>\$ 182,632</b>	<b>\$ 708,921</b>	<b>\$ -</b>	<b>\$ 624</b>	<b>\$ 161</b>	<b>\$ 2,691,846</b>	<b>\$ 3,319,971</b>

See accompanying notes.

**NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.**  
**STATEMENT OF ACTIVITIES AND FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2022**  
**WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2021**

	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	Pillsbury Players Fund	Innovative Schools Project Fund	2022 Totals (Memorandum Only)	2021 Totals (Memorandum Only)
<b>REVENUES</b>											
Loan Interest Income	\$ 73,147	\$ 1,137	\$ 2,661	\$ 3,380	\$ 7,663	\$ -	\$ -	\$ -	\$ -	\$ 87,988	\$ 88,554
Grant Revenue	-	-	15,807	-	-	-	-	-	-	15,807	25,277
Investment Income	437	481	263	45	-	259	-	-	-	1,485	439
Origination Fees	-	344	-	-	-	-	-	-	-	344	2,892
Miscellaneous	1,410	468	113	34	-	-	-	-	-	2,025	1,635
Administrative	-	-	-	-	-	29,175	-	-	-	29,175	25,014
Loan Loss Reserve Adjustments	11,025	-	(2,637)	(3,622)	298	11,040	-	-	-	16,104	19,353
<b>TOTAL REVENUES</b>	<b>86,019</b>	<b>2,430</b>	<b>16,207</b>	<b>(163)</b>	<b>7,961</b>	<b>40,474</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>152,928</b>	<b>163,164</b>
<b>EXPENSES</b>											
Program Expenses											
Administrative Fees	36,792	-	15,807	-	7,663	29,175	-	-	-	89,437	97,343
Bank Fees	509	-	180	-	-	-	-	-	-	689	1,249
Credit Bureau Fees	120	-	20	20	-	-	-	-	-	160	133
Loan Interest	-	-	2,773	-	-	-	-	-	-	2,773	4,658
Recording Fees	16	678	-	46	-	-	-	-	-	740	753
Total Program Expenses	37,437	678	18,780	66	7,663	29,175	-	-	-	93,799	104,136
Management and General Expenses											
Accounting and Audit	10,850	-	-	-	-	-	-	-	-	10,850	10,320
Insurance	1,217	-	-	-	-	-	-	-	-	1,217	1,186
Marketing	-	-	-	-	-	-	-	-	-	-	1,565
Mileage	299	-	-	-	-	-	-	-	-	299	-
Per Diem	1,625	-	-	-	-	-	-	-	-	1,625	1,775
Software	3,143	-	-	-	-	-	-	-	-	3,143	2,716
Miscellaneous	1,726	132	-	-	-	-	-	-	-	1,858	5,825
Total Management and General Expenses	18,860	132	-	-	-	-	-	-	-	18,992	23,387
<b>TOTAL EXPENSES</b>	<b>56,297</b>	<b>810</b>	<b>18,780</b>	<b>66</b>	<b>7,663</b>	<b>29,175</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>112,791</b>	<b>127,523</b>
<b>CHANGE IN NET ASSETS</b>	<b>29,722</b>	<b>1,620</b>	<b>(2,573)</b>	<b>(229)</b>	<b>298</b>	<b>11,299</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>40,137</b>	<b>35,641</b>
<b>NET ASSETS - BEGINNING OF YEAR</b>	<b>1,421,574</b>	<b>132,449</b>	<b>22,447</b>	<b>15,706</b>	<b>174,671</b>	<b>(22,261)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,744,586</b>	<b>1,708,945</b>
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 1,451,296</b>	<b>\$ 134,069</b>	<b>\$ 19,874</b>	<b>\$ 15,477</b>	<b>\$ 174,969</b>	<b>\$ (10,962)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,784,723</b>	<b>\$ 1,744,586</b>

See accompanying notes.

**NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.**  
**STATEMENT OF CASH FLOWS**  
**INCREASE (DECREASE) IN RESTRICTED CASH AND CASH EQUIVALENTS**  
**FOR THE YEAR ENDED JUNE 30, 2022**  
**WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2021**

	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	Pillsbury Players Fund	Innovative Schools Project Fund	2022 Totals (Memorandum Only)	2021 Totals (Memorandum Only)
<b>CASH FLOWS - OPERATING ACTIVITIES</b>											
Cash Received from Customers/Grantors	\$ 74,994	\$ 2,430	\$ 19,744	\$ 3,459	\$ 7,663	\$ 259	\$ 50,436	\$ 3,540	\$ 165,000	\$ 327,525	\$ 173,777
Cash Paid to Suppliers and Grantees	(56,322)	(5,230)	(16,907)	(66)	(8,384)	-	(102,494)	(2,916)	(164,839)	(357,158)	(116,676)
<b>NET CASH FLOWS - OPERATING ACTIVITIES</b>	18,672	(2,800)	2,837	3,393	(721)	259	(52,058)	624	161	(29,633)	57,101
<b>CASH FLOWS - INVESTING ACTIVITIES</b>											
Issuance of Loan Receivables	-	(25,194)	-	-	-	-	-	-	-	(25,194)	(212,059)
Payments on Loan Receivables	249,602	29,737	51,971	42,033	14,928	151,819	-	-	-	540,090	377,543
<b>NET CASH FLOWS - INVESTING ACTIVITIES</b>	249,602	4,543	51,971	42,033	14,928	151,819	-	-	-	514,896	165,484
<b>CASH FLOWS - FINANCING ACTIVITIES</b>											
Interest Paid on Long-Term Debt	-	-	(2,773)	-	-	-	-	-	-	(2,773)	(4,658)
Principal Payments on Long-Term Debt	-	-	(21,227)	(44,836)	-	(151,614)	-	-	-	(217,677)	(249,184)
Net Interfund Receipts (Payments)	-	-	2,638	(2,638)	-	-	-	-	-	-	-
<b>NET CASH FLOWS - FINANCING ACTIVITIES</b>	-	-	(21,362)	(47,474)	-	(151,614)	-	-	-	(220,450)	(253,842)
<b>NET CHANGE IN RESTRICTED CASH AND CASH EQUIVALENTS</b>	268,274	1,743	33,446	(2,048)	14,207	464	(52,058)	624	161	264,813	(31,257)
<b>RESTRICTED CASH AND CASH EQUIVALENTS - BEGINNING</b>	220,368	85,889	99,135	20,011	24,720	114,766	52,058	-	-	616,947	648,204
<b>RESTRICTED CASH AND CASH EQUIVALENTS - ENDING</b>	\$ 488,642	\$ 87,632	\$ 132,581	\$ 17,963	\$ 38,927	\$ 115,230	\$ -	\$ 624	\$ 161	\$ 881,760	\$ 616,947
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>											
Forgiveness of Loan Receivables by Minnesota Department of Employment and Economic Development	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 400,200	\$ -	\$ -	\$ -	\$ 400,200	\$ -
Forgiveness of Corresponding Long-Term Debt by Minnesota Department of Employment and Economic Development	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (400,200)	\$ -	\$ -	\$ -	\$ (400,200)	\$ -

See accompanying notes.



**NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2022**  
**WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2021**

**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, 2022**  
**WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2021**

**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.

The *Pillsbury Players Fund* represents funds that are a result of being the fiscal agent for Pillsbury Players which is a local organization whose purpose is to enrich, educate, and entertain the community by providing a superior theatre experience. See Note 3.D. for additional information on the fiscal agent liability reported in the financial statements for this fund.

The *Innovative Schools Project Fund* represents funds that are a result of being the fiscal agent for the Innovative Schools Project (ISP), an education program funded by Sourcewell. The goal is to encourage and support the development of innovative schools across Central Minnesota by matching donations that fund creative, innovative ideas for broadening students' learning. 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, 2021, 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.

**NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2022**  
**WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2021**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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 of the Association's funds is restricted to be used only for each fund's respective activities and is 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, 2022, the Association's uninsured cash balances total \$162,275. At June 30, 2021, the Association's cash balances are not in excess of federally insured limits. See Note 3.A. for additional information related to Cash and Cash Equivalents.

**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, 2022 and 2021, the allowance for loan losses totals \$43,419 and \$59,523, 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.

**NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2022**  
**WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2021**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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.

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

Software	3 years
----------	---------

For both years ended June 30, 2022 and 2021, all property and equipment of the Association are fully depreciated and depreciation expense amounts to \$0.

**Long-Term Debt**

All long-term debt is reported as liabilities in the Statement of Financial Position. Long-term debt consists of notes payable to the United States Department of Agriculture (USDA) and the Minnesota Department of Employment and Economic Development (MN DEED). See additional information regarding long-term debt at Note 3.C.

**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.

**NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2022**  
**WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2021**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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.

**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 is often paid when the corresponding loans are 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.

**NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2022**  
**WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2021**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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. SUBSEQUENT EVENTS**

In accordance with FASB ASC Topic 855, *Subsequent Events*, the Association has evaluated subsequent events through October 24, 2022, 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.

**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, 2022 and 2021:

	2022	2021
Restricted Cash and Cash Equivalents	\$ 881,760	\$ 616,947
Due from Related Organization	4,502	-
Due from Other Funds	6,804	4,166
Due from Other Governments	3,600	4,500
Current Maturities of Loans Receivable	379,464	448,509
	1,276,130	1,074,122
Less: Restricted Cash and Cash Equivalents	881,760	616,947
Less: Current Maturities of Loans Receivable	379,464	448,509
	\$ 14,906	\$ 8,666

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

**NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2022**  
**WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2021**

**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, 2022 and 2021:

	2022	2021
Checking and Savings Accounts	\$     725,685	\$     611,239
Money Market Funds	156,075	5,708
Total	\$     881,760	\$     616,947

Investment income for the years ended June 30, 2022 and 2021 totals \$1,485 and \$439, respectively.

**3.B.    LOANS RECEIVABLE**

The Association has a total of 95 and 109 loans outstanding at June 30, 2022 and 2021, respectively, with interest rates ranging from 3.0% to 5.0% and 0.0% to 6.0%, respectively. Several loans have modified payment terms and/or interest rates.

Loans receivable and the allowance for loan losses at June 30, 2022 and 2021 consist of the following:

	2022	2021
Loans Receivable	\$    1,837,472	\$    2,752,568
Less: Allowance for Loan Loss	43,419	59,523
	1,794,053	2,693,045
Less: Current Maturities	379,464	448,509
Loans Receivable, Less Current Maturities and Allowance	\$    1,414,589	\$    2,244,536

During the year ended June 30, 2022, the Minnesota Department of Employment and Economic Development forgave \$400,200 in Small Business Emergency Loans (accounted for in the Small Business Emergency Loans Fund). This forgiveness is reflected in the change in Loans Receivable noted above. Because the Association also carries corresponding long-term debt for these loans receivable, the \$400,200 also reduced its long-term debt, causing a \$0 net effect on the Association's financial statements. See "Note Payable – MN DEED – Various MN Small Business Emergency Loans" line item in the Noncurrent Liabilities footnote (Note 3.C.) for the change in the corresponding long-term debt.

**NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2022**  
**WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2021**

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

**3.C.    NONCURRENT LIABILITIES**

As of June 30, 2022 and 2021, the long-term debt of the Association consists of the following:

	2022	2021
Note Payable - USDA; Original Principal \$400,000; Dated December 2011; Maturity date May 2027; Interest rate 2.00%, Monthly payments of \$2,229.	\$       127,076	\$       148,303
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.	979	3,168
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
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.	2,769	5,293
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.	1,535	5,813
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.	2,392	2,958
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.	6,823	8,118
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.	18,095	23,756



**NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2022**  
**WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2021**

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

**3.C.    NONCURRENT LIABILITIES (Continued)**

	2022	2021
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.	5,535	7,001
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.	640,735	1,192,549
Total Long-Term Debt	805,939	1,423,816
Less: Current Portion	217,720	239,008
Long-Term Portion of Long-Term Debt	\$ 588,219	\$ 1,184,808

At June 30, 2022, estimated future payment obligations are as follows:

Years Ending June 30,	Principal	Interest	Total
2023	\$ 217,720	\$ 2,344	\$ 220,064
2024	171,829	1,907	173,736
2025	355,604	1,461	357,065
2026	22,994	1,006	24,000
2027	23,458	542	24,000
Thereafter	14,334	97	14,431
Totals	\$ 805,939	\$ 7,357	\$ 813,296

**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, 2022 and 2021 are as follows:

<b>100 Rural Women</b>	2022	2021
Cash, Beginning of Year	\$ 52,058	\$ 861
Receipts	50,436	117,725
Disbursements	(102,494)	(66,528)
Cash, End of Year	\$ -	\$ 52,058

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

**NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2022**  
**WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2021**

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

**3.D.    FISCAL AGENT LIABILITIES (Continued)**

The Association acts as the fiscal agent for Pillsbury Players, an organization whose purpose is to enrich, educate, and entertain our community by providing a superior theatre experience. The related activity for this program during the years ended June 30, 2022 and 2021 are as follows:

<u><b>Pillsbury Players</b></u>	2022	2021
Cash, Beginning of Year	\$ -	\$ -
Receipts	3,540	-
Disbursements	(2,916)	-
Cash, End of Year	\$ 624	\$ -

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

The Association acts as the fiscal agent for the Innovative Schools Project (ISP), an education program funded by Sourcewell. The goal is to encourage and support the development of innovative schools across Central Minnesota by matching donations that fund creative, innovative ideas for broadening students' learning. The related activity for this program during the years ended June 30, 2022 and 2021 are as follows:

<u><b>Innovative Schools Project</b></u>	2022	2021
Cash, Beginning of Year	\$ -	\$ -
Receipts	165,000	-
Disbursements	(164,839)	-
Cash, End of Year	\$ 161	\$ -

The above activities are not included in the Association's Statement of Activities and Functional Expenses 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, 2022 are as follows:

Short-Term Balances		
Due To	Due From	Amount
Entrepreneur Lending Program Fund	Microlending Fund	\$ 6,804

The internal balances as of June 30, 2021 are as follows:

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

**NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2022**  
**WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2021**

**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.

A total of \$400,000 had been advanced on the USDA Microlending grant and \$26,899 and \$78,870 is outstanding as microlending loans receivable from various businesses at June 30, 2022 and 2021, respectively. At June 30, 2022 and 2021, an allowance of \$5,726 and \$3,089 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 \$21,173 and \$75,781 at June 30, 2022 and 2021, respectively. The Association did not experience any such losses during the years ended June 30, 2022 and 2021.

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, 2022 and 2021, the Association has funds of \$146,500 and \$15,939 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, related party payables and receivables at June 30, 2022 and 2021 are as follows:

	2022	2021
Due to Region Five Development Commission	\$ 44,247	\$ 16,197
Due from Region Five Development Commission	\$ 4,502	\$ -

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, 2022 and 2021, administrative expenses charged by the related party are as follows:

	2022	2021
Administrative Fees	\$ 89,437	\$ 97,343

**NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2022**  
**WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2021**

**NOTE 4 OTHER NOTES (Continued)**

**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 financial 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.

**4.E. RECENT ACCOUNTING PRONOUNCEMENTS**

*Leases*

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Additionally, the new guidance made targeted changes to lessor accounting. The new standard was initially effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The new standard requires a modified retrospective approach for all leases existing at the date of initial application, with an option to use certain transition relief. ASU 2016-02 provides additional transition relief. Subsequently, FASB issued ASU 2018-01, ASU 2018-10, ASU 2018-11, ASU 2018-20, ASU 2019-10, and ASU 2020-05 which provide additional further transition relief and provide a new effective date for non-public business entities (for fiscal years beginning after December 15, 2021, which is a two-year extension). The Organization is currently evaluating the impact of the pending adoption of the new standard on its financial statements.

## **OTHER REQUIRED REPORTS**

**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, 2022, 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 24, 2022.

**Report on 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* as item 2006-001 to be a material weakness.

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* as item 2007-002 to be a significant deficiency.

## **Report on 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 financial statements. 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**

*Government Auditing Standards* requires the auditor to perform limited procedures on 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* and *Corrective Action Plans*. North Central Economic Development Association, Inc.'s response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

### **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 24, 2022

**NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEAR ENDED JUNE 30, 2022**

**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, 2022**

**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  
Cheryl 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  
Cheryl 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.