

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

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2020

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

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

INDEPENDENT AUDITOR’S REPORT	1
FINANCIAL STATEMENTS:	
Statement of Financial Position	4
Statement of Activities and Functional Expenses.....	5
Statement of Cash Flows	6
Notes to the Financial Statements.....	7
OTHER REQUIRED REPORTS AND SCHEDULES:	
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>	19
Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	21
Schedule of Expenditures of Federal Awards.....	23
Notes to the Schedule of Expenditures of Federal Awards	24
Schedule of Findings and Questioned Costs.....	25
Corrective Action Plans.....	27
Summary Schedule of Prior Audit Findings.....	28

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, 2020, 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, 2020, 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, 2019 the Association adopted new accounting guidance Financial Accounting Standards Board ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 956)*. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2020 on our consideration of North Central Economic Development Association, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering North Central Economic Development Association, Inc.'s internal control over financial reporting and compliance.



SCHLENNER WENNER & CO.

St. Cloud, Minnesota

December 8, 2020

FINANCIAL STATEMENTS

NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.
STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2020
WITH COMPARATIVE TOTALS AS OF JUNE 30, 2019

	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	2020	2019
								Totals (Memorandum Only)	
ASSETS									
CURRENT ASSETS									
Restricted Cash and Cash Equivalents	\$ 235,000	\$ 66,560	\$ 179,667	\$ 56,264	\$ 4,885	\$ 104,967	\$ 861	\$ 648,204	\$ 555,153
Accounts Receivable	-	1,179	-	-	-	-	-	1,179	2,460
Due from Related Organization	-	34	-	-	-	-	-	34	25
Due from Other Funds	-	504	-	3,810	-	60	-	4,374	-
Due from Other Governments	-	-	7,050	-	-	-	-	7,050	9,975
Prepaid Expenses	-	-	1,314	-	-	-	-	1,314	1,313
Current Maturities of Loans Receivable	127,247	17,117	30,701	23,639	13,027	93,006	-	304,737	212,993
Total Current Assets	362,247	85,394	218,732	83,713	17,912	198,033	861	966,892	781,919
NONCURRENT ASSETS									
Loans Receivable, Less Current Maturities and Loan Loss Reserve	1,033,494	47,074	79,426	83,414	159,231	1,131,800	-	2,534,439	1,211,790
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	1,033,494	47,074	79,426	83,414	159,231	1,131,800	-	2,534,439	1,211,790
TOTAL ASSETS	\$ 1,395,741	\$ 132,468	\$ 298,158	\$ 167,127	\$ 177,143	\$ 1,329,833	\$ 861	\$ 3,501,331	\$ 1,993,709
LIABILITIES AND NET ASSETS									
CURRENT LIABILITIES									
Due to Related Organization	\$ 2,879	\$ -	\$ 7,110	\$ 20	\$ -	\$ -	\$ 375	\$ 10,384	\$ 12,215
Due to Other Funds	564	-	3,695	-	-	115	-	4,374	-
Fiscal Agent Liabilities	-	-	-	-	-	-	486	486	-
Deferred Revenue	-	-	-	-	-	104,142	-	104,142	-
Current Maturities of Long-Term Debt	-	1,100	21,729	74,623	-	93,006	-	190,458	53,361
Total Current Liabilities	3,443	1,100	32,534	74,643	-	197,263	861	309,844	65,576
NONCURRENT LIABILITIES									
Long-Term Debt, Less Current Maturities	-	79	245,750	80,019	-	1,156,694	-	1,482,542	360,223
TOTAL LIABILITIES	3,443	1,179	278,284	154,662	-	1,353,957	861	1,792,386	425,799
NET ASSETS									
Without Donor Restrictions	1,392,298	131,289	19,874	12,465	177,143	(24,124)	-	1,708,945	1,567,910
TOTAL LIABILITIES AND NET ASSETS	\$ 1,395,741	\$ 132,468	\$ 298,158	\$ 167,127	\$ 177,143	\$ 1,329,833	\$ 861	\$ 3,501,331	\$ 1,993,709

See accompanying notes.

NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.
STATEMENT OF ACTIVITIES AND FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2019

	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	2020	2019
								Totals (Memorandum Only)	
REVENUES									
Loan Interest Income	\$ 54,976	\$ 1,575	\$ 10,857	\$ 8,386	\$ 1,637	\$ -	\$ -	\$ 77,431	\$ 92,208
Grant Revenue	-	-	37,682	-	177,902	-	-	215,584	28,557
Investment Income	1,172	156	12	1	-	-	-	1,341	910
Origination Fees	4,777	136	-	-	-	-	-	4,913	2,907
Miscellaneous	1,378	520	322	285	-	770	-	3,275	3,648
Administrative	-	-	-	-	6,120	20,828	-	26,948	-
Loan Loss Reserve Adjustments	(35,608)	-	4,692	658	(3,515)	(24,894)	-	(58,667)	8,642
TOTAL REVENUES	26,695	2,387	53,565	9,330	182,144	(3,296)	-	270,825	136,872
EXPENSES									
Program Expenses									
Administrative Fees	32,684	-	37,682	-	5,001	20,828	-	96,195	66,188
Bank Fees	510	-	1,208	35	-	-	-	1,753	1,750
Credit Bureau Fees	221	-	76	36	-	-	-	333	612
Loan Interest	-	-	5,619	-	-	-	-	5,619	6,560
Recording Fees	424	350	94	16	-	-	-	884	1,092
Loan Losses, Net of Recoveries	-	-	-	-	-	-	-	-	23,716
Total Program Expenses	33,839	350	44,679	87	5,001	20,828	-	104,784	99,918
Management and General Expenses									
Accounting and Audit	9,790	-	-	-	-	-	-	9,790	9,100
Insurance	1,186	-	-	-	-	-	-	1,186	1,186
Marketing	721	-	365	369	-	-	-	1,455	1,014
Legal Fees	477	-	129	-	-	-	-	606	748
Mileage	638	-	-	-	-	-	-	638	1,870
Per Diem	1,460	-	-	-	-	-	-	1,460	2,195
Software	-	-	2,626	-	-	-	-	2,626	2,675
Consulting	3,362	417	555	-	-	-	-	4,334	8,275
Miscellaneous	350	745	70	1,746	-	-	-	2,911	4,976
Total Management and General Expenses	17,984	1,162	3,745	2,115	-	-	-	25,006	32,039
TOTAL EXPENSES	51,823	1,512	48,424	2,202	5,001	20,828	-	129,790	131,957
CHANGE IN NET ASSETS	(25,128)	875	5,141	7,128	177,143	(24,124)	-	141,035	4,915
NET ASSETS - BEGINNING OF YEAR	1,417,426	130,414	14,733	5,337	-	-	-	1,567,910	1,562,995
NET ASSETS - END OF YEAR	\$ 1,392,298	\$ 131,289	\$ 19,874	\$ 12,465	\$ 177,143	\$ (24,124)	\$ -	\$ 1,708,945	\$ 1,567,910

NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2019

	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	2020	2019
								Totals (Memorandum Only)	
CASH FLOWS - OPERATING ACTIVITIES									
Cash Received from Customers/Grantors	\$ 62,303	\$ 3,659	\$ 51,798	\$ 8,672	\$ 185,659	\$ 125,740	\$ 861	\$ 438,692	\$ 136,646
Cash Paid to Suppliers	(51,084)	(1,512)	(45,671)	(2,282)	(5,001)	(20,828)	-	(126,378)	(122,971)
NET CASH FLOWS - OPERATING ACTIVITIES	11,219	2,147	6,127	6,390	180,658	104,912	861	312,314	13,675
CASH FLOWS - INVESTING ACTIVITIES									
Issuance of Loan Receivables	(319,350)	(8,124)	(10,000)	(58,000)	(177,902)	(1,249,700)	-	(1,823,076)	(282,756)
Payments on Loan Receivables	152,332	34,165	95,728	65,662	2,129	-	-	350,016	561,178
NET CASH FLOWS - INVESTING ACTIVITIES	(167,018)	26,041	85,728	7,662	(175,773)	(1,249,700)	-	(1,473,060)	278,422
CASH FLOWS - FINANCING ACTIVITIES									
Proceeds on Long Term Debt	-	-	-	58,000	-	1,249,700	-	1,307,700	45,000
Interest Paid on Long Term Debt	-	-	(5,619)	-	-	-	-	(5,619)	(6,560)
Principal Payments on Long-Term Debt	-	(1,281)	(21,131)	(25,872)	-	-	-	(48,284)	(47,834)
Net Interfund Receipts (Payments)	564	(504)	3,695	(3,810)	-	55	-	-	-
NET CASH FLOWS - FINANCING ACTIVITIES	564	(1,785)	(23,055)	28,318	-	1,249,755	-	1,253,797	(9,394)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(155,235)	26,403	68,800	42,370	4,885	104,967	861	93,051	282,703
CASH AND CASH EQUIVALENTS - BEGINNING	390,235	40,157	110,867	13,894	-	-	-	555,153	272,450
CASH AND CASH EQUIVALENTS - ENDING	\$ 235,000	\$ 66,560	\$ 179,667	\$ 56,264	\$ 4,885	\$ 104,967	\$ 861	\$ 648,204	\$ 555,153

NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2019

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, 2020
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2019

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.E. 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, 2019, 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, 2020, the Association's uninsured cash balances total \$305,898. At June 30, 2019, the Association's cash balances are not in excess of federally insured limits. 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, 2020
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Loans Receivable

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

Allowance for Loan Losses

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

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

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

At June 30, 2020 and 2019, the allowance for loan losses totals \$108,914 and \$50,245, 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, 2020
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2019

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
----------	---------

At both years ended June 30, 2020 and 2019, 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 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.

Revenue recognition for all contributions and grants as of July 1, 2019 were transitioned to ASU 958 using the modified retrospective transition method. Adoption of ASU 958 did not have a material effect on the Association's financial statements.

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. Donor-imposed contributions are reported as net assets with donor restrictions, even if it is anticipated such restrictions will be met in the current reporting period.

NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.F. REVENUES AND EXPENSES (Continued)

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

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*, which clarifies what a contribution is and how it should be accounted for. The updated standard replaced the previous standard regarding how to account for a transfer of assets as an exchange transaction or a contribution. ASU 2018-08 became effective for the Association on July 1, 2019.

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, 2020 and 2019:

	2020	2019
Restricted Cash and Cash Equivalents	\$ 648,204	\$ 555,153
Accounts Receivable	1,179	2,460
Due from Related Organization	34	25
Due from Other Funds	4,374	-
Due from Other Governments	7,050	9,975
Current Maturities of Loans Receivable	304,737	212,993
	965,578	780,606
Less: Restricted Cash and Cash Equivalents	648,204	555,153
Less: Current Maturities of Loans Receivable	304,737	212,993
	\$ 12,637	\$ 12,460

NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2019

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

Deposits

Cash and cash equivalents consist of the following at June 30, 2020 and 2019:

	2020	2019
Checking and Savings Accounts	\$ 617,772	\$ 449,942
Money Market Funds	30,432	105,211
Total	\$ 648,204	\$ 555,153

Investment income for the years ended June 30, 2020 and 2019 total \$1,341 and \$910, respectively.

3.B. LOANS RECEIVABLE

The Association has a total of 118 and 80 loans outstanding at June 30, 2020 and 2019, respectively, with interest rates ranging from 1.0% to 8.5% for both years. Several loans have modified payment terms and/or interest rates.

Loans receivable and the allowance for loan losses at June 30, 2020 and 2019 consist of the following:

	2020	2019
Loans Receivable	\$ 2,948,090	\$ 1,475,028
Less: Allowance for Loan Loss	108,914	50,245
	2,839,176	1,424,783
Less: Current Maturities	304,737	212,993
Loans Receivable, Less Current Maturities and Allowance	\$ 2,534,439	\$ 1,211,790

3.C. PROPERTY AND EQUIPMENT

At June 30, 2020 and 2019, property and equipment consist of the following:

	2020	2019
Equipment	\$ 11,100	\$ 11,100
Less: Accumulated Depreciation	(11,100)	(11,100)
Net Property and Equipment	\$ -	\$ -

NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2019

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

3.D. NONCURRENT LIABILITIES

As of June 30, 2020 and 2019, the long-term debt of the Association consists of the following:

	2020	2019
Note Payable - USDA; Original Principal \$400,000; Dated December 2011; Maturity date July 2031; Interest rate 2.00%, Monthly payments of \$2,240.	\$ 267,479	\$ 288,610
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.	5,043	6,995
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	17,885
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	2,460
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.	29,680	32,335
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.	7,446	9,698
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.	8,855	12,707
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.	3,582	4,493
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	38,401

NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2019

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

3.D. NONCURRENT LIABILITIES (Continued)

	2020	2019
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.	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.	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.	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.	1,249,700	-
Total Long-Term Debt	1,673,000	413,584
Less: Current Portion	190,458	53,361
Long-Term Portion of Long-Term Debt	\$ 1,482,542	\$ 360,223

At June 30, 2020, estimated future payment obligations are as follows:

Years Ending June 30,	Principal	Interest	Total
2021	\$ 190,458	\$ 5,155	\$ 195,613
2022	188,101	4,709	192,810
2023	178,327	4,262	182,589
2024	176,246	3,805	180,051
2025	772,723	3,340	776,063
Thereafter	167,145	9,725	176,870
Totals	\$ 1,673,000	\$ 30,996	\$ 1,703,996

NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2019

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

3.E. 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, 2020 and 2019 are as follows:

	2020	2019
Cash, Beginning of Year	\$ -	\$ -
Receipts	11,068	-
Disbursements	(10,207)	-
Cash, End of Year	\$ 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.F. INTERNAL BALANCES

Internal balances are to be repaid as cash flows become available. The internal balances at 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

There were no internal balances as of June 30, 2019.

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, 2020
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2019

NOTE 4 OTHER NOTES (Continued)

4.A. CONTINGENCIES (Continued)

A total of \$400,000 had been advanced on the USDA Microlending grant and \$116,028 and \$201,755 was outstanding as microlending loans receivable from various businesses as of June 30, 2020 and 2019, respectively. As of June 30, 2020 and 2019, an allowance of \$5,901 and \$10,592 has been established 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 \$95,491 and \$176,534 as of June 30, 2020 and 2019, respectively. The Association did not experience any such losses during the years ended June 30, 2020 and 2019.

4.B. COMMITMENTS

At June 30, 2020 and 2019, the Association has funds of \$0 and \$10,070 committed for new ISTS 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, 2020 and 2019 are as follows:

	2020	2019
Due to Region Five Development Commission	\$ 10,384	\$ 12,215
Notes Payable Due to Region Five Development Commission	1,179	2,460
Total Related Party Payables	\$ 11,563	\$ 14,675
Due from Region Five Development Commission	\$ 34	\$ 25

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, 2020 and 2019, administrative expenses charged by the related party are as follows:

	2020	2019
Administrative Fees	\$ 96,195	\$ 66,188

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 company, 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, 2020
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2019

NOTE 4 OTHER NOTES (Continued)

4.E. RECENT ACCOUNTING PRONOUNCEMENTS

Revenue Recognition

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. In May 2020, the FASB voted to defer the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2019. The Association has not yet selected a transition method and is currently evaluating the effect that the standard will have on the financial statements.

4.F. SUBSEQUENT EVENTS

In accordance with FASB ASC Topic 855, *Subsequent Events*, the Association has evaluated subsequent events through December 8, 2020, which is the date these financial statements were available to be issued, and have determined there are subsequent events that require recognition or disclosure as follows:

The Association issued new loans receivable subsequent to year-end in various funds totaling \$176,241.

**OTHER REQUIRED REPORTS
AND SCHEDULES**

**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, 2020, 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 December 8, 2020.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying *Schedule of Findings and Questioned Costs*, we identified certain deficiencies in internal control that we consider to be 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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying *Schedule of Findings and Questioned Costs* to be a material weakness: 2006-001.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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

North Central Economic Development Association, Inc.'s response to the findings identified in our audit is described in the accompanying *Schedule of Findings and Questioned Costs* and *Corrective Action Plans*. 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 result of that testing, and not to provide an opinion on the effectiveness of the Association's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

SCHLENNER WENNER & CO.

St. Cloud, Minnesota

December 8, 2020

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

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

Report on Compliance for Each Major Federal Program

We have audited North Central Economic Development Association, Inc.'s (the Association) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Association's major federal programs for the year ended June 30, 2020. The Association's major federal programs are identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*.

Management's Responsibility

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

Auditor's Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Association's compliance.

Opinion on Each Major Federal Program

In our opinion, North Central Economic Development Association, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2020.

Report on Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



SCHLENNER WENNER & CO.

St. Cloud, Minnesota

December 8, 2020

**NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2020**

Federal Grantor/Pass Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Commerce:		
Direct Programs		
Economic Adjustment Assistance - Revolving Loan Fund	11.307	\$ 1,139,987
U.S. Department of Agriculture:		
Direct Programs		
Rural Microentrepreneur Assistance Program	10.870	<u>326,292</u>
Total Expenditures of Federal Awards		<u>\$ 1,466,279</u>

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

Balance of Loans Outstanding	\$ 1,233,160
Cash and Investment Balance	235,000
Administrative Expenses Paid Out of Income	51,823
Unpaid Principal of Loans Written Off	<u>-</u>
	1,519,983
Federal Percentage of Loan Funds	<u>75.00%</u>
Federal Expenditures	<u>\$ 1,139,987</u>

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

Balance of USDA Loan	\$ 288,610
Current Year Expenditures	<u>37,682</u>
Federal Expenditures	<u>\$ 326,292</u>

**NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTE 1 BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of North Central Economic Development Association, Inc. under programs of the federal government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of North Central Economic Development Association, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of North Central Economic Development Association, Inc.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 3 FEDERAL LOAN PROGRAM

The federal loan program listed subsequently is administered directly by North Central Economic Development Association, Inc. Balances and transactions relating to this program are included in North Central Economic Development Association, Inc.'s basic financial statements. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. The balance of loans outstanding at June 30, 2020 consist of:

Program	Federal CFDA Number	Balance Outstanding
Rural Microentrepreneur Assistance Program	10.870	\$ 267,479

NOTE 4 SUBRECIPIENTS

The Association did not pass through any federal funds to subrecipients during the year ended June 30, 2020.

NOTE 5 PASS-THROUGH IDENTIFIER

The Association's pass-through identifier is unknown.

**NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2020**

SECTION I: SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Federal Awards

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
11.307	Economic Adjustment Assistance - Revolving Loan Fund

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

**NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2020**

SECTION II: FINANCIAL STATEMENT FINDINGS

Finding 2006-001 Limited Segregation of Duties

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

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

Cause: There are a limited number of staff members.

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

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

*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.

SECTION III: FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None.

**NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.
CORRECTIVE ACTION PLANS
FOR THE YEAR ENDED JUNE 30, 2020**

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.

**NORTH CENTRAL ECONOMIC DEVELOPMENT ASSOCIATION, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2020**

Findings 2006-001 and 2007-002, also presented in the prior year, have been excluded from this schedule since they have been presented as findings again in the current year in the *Schedule of Findings and Questioned Costs*.