

**REGION FIVE DEVELOPMENT COMMISSION**

**AUDITED FINANCIAL STATEMENTS**

**JUNE 30, 2018**

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

**REGION FIVE DEVELOPMENT COMMISSION  
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**INTRODUCTORY  
SECTION**

**REGION FIVE DEVELOPMENT COMMISSION  
BOARD OF COMMISSIONERS  
FOR THE YEAR ENDED JUNE 30, 2018**

<b>OFFICER</b>		<u>Term Expires</u>
David Anderson	Chair	February 23, 2021
Alex Weego	Vice Chair	January 1, 2021
Erich Heppner	Treasurer	December 17, 2018
Jill Abbott	Secretary/Director	September 22, 2019
John Benson	Director	January 27, 2020
Rosemary Franzen	Director	January 31, 2021
Rollie Johnson	Director	April 1, 2021
Shledon Monson	Director	January 24, 2021
 <b>BOARD MEMBERS</b>		
Barb Becker	Alternate	June 1, 2020
Greg Blaine		May 1, 2021
Kevin Egan	Alternate	April 1, 2020
Matthew Erickson		March 1, 2020
Diane Jacobson		August 2, 2019
Curt Johnson		October 27, 2019
Bob Kangas		January 1, 2021
Murlyn Kreklau	Alternate	August 1, 2020
Jan Lambert		May 1, 2020
Tom Lillehei	Alternate	January 1, 2021
Craig Nathan		June 25, 2021
Paul Nieman, Jr.		April 15, 2020
Chuck Parins	Alternate	Indefinite
Julie Polak		May 1, 2021
Duane Ruona		May 1, 2020

**FINANCIAL  
SECTION**

## INDEPENDENT AUDITORS' REPORT

October 22, 2018

Board of Commissioners  
Region Five Development Commission  
Staples, Minnesota

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component unit, and the General Fund of Region Five Development Commission (the Commission) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 Commission'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 Commission's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component unit, and the General Fund of Region Five Development Commission as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2018 on our consideration of Region Five Development Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Commission'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 Region Five Development Commission's internal control over financial reporting and compliance.

## **Report on Other Legal and Regulatory Requirements**

In accordance with Minnesota Statutes, we have also issued our report dated October 22, 2018 on our consideration of Region Five Development Commission's compliance with provisions of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statute Section 6.65. The purpose of the report is to determine if the Commission has complied with Minnesota laws and regulations. That report is an integral part of an audit performed in the State of Minnesota.

**SCHLENNER WENNER & CO.**  
St. Cloud, Minnesota

**REQUIRED SUPPLEMENTARY  
INFORMATION**

**REGION FIVE DEVELOPMENT COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2018**

Our discussion and analysis of the Region Five Development Commission's (the Commission) financial performance provides an overview of the Commission's financial activities for the year ended June 30, 2018. Please read it in conjunction with the Commission's financial statements, which begin on page thirteen.

**FINANCIAL HIGHLIGHTS**

- The assets and deferred outflows of resources of the Commission exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$1,581,925 (net position), of which \$1,562,995 (98.80 percent) is restricted in use. The governmental activities closed the fiscal year with a net position of \$18,930, which was entirely unrestricted.
- The Commission's net position decreased \$17,372 compared to the prior year as a result of this year's operations. The governmental activities, specifically, decreased \$114,128.
- Total cost of the Commission's governmental activities increased \$233,246 (or 21.14 percent), primarily due to increases in administrative and community and economic development costs.
- Region Five Development Commission's primary revenue sources consisted of the following: property taxes (\$328,522), federal grants (\$216,129) and local grants (\$463,693).
- The General Fund reported an ending fund balance of \$839,811, a decrease of \$185,348 (18.08 percent) in comparison with the prior year. Of this balance, \$250,418 is nonspendable, \$45,817 is assigned and \$543,576 is available for spending at the Commission discretion (unassigned fund balance).
- The Commission's long term debt decreased by \$53,290 (5.84 percent) in the current fiscal year.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (on pages thirteen and fourteen) provide information about the activities of the Commission as a whole and present a longer-term view of the Commission's finances. Fund financial statements start on page fifteen. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Commission's operations in more detail than the government-wide statements by providing information about the Commission's General Fund.

**Reporting the Commission as a Whole**

Our analysis of the Commission as a whole begins on page seven. One of the most important questions asked about the Commission's finances is, "Is the Commission as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the Commission as a whole and about its activities in a way that helps answer this question. These statements include all assets, liabilities and deferred outflows/inflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Commission's net position and changes in net position. You can think of the Commission's net position (the net difference between assets/deferred outflows and liabilities/deferred inflows) as one way to measure the Commission's financial health, or financial position. Over time, increases or decreases in the Commission's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Commission's property tax base, costs associated with current and future programs and the effectiveness of the Commission's programs, to assess the overall health of the Commission.

**REGION FIVE DEVELOPMENT COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2018**

**USING THIS ANNUAL REPORT** (Continued)

**Reporting the Commission as a Whole** (Continued)

In the Statement of Net Position and the Statement of Activities, we divide the Commission into two pieces:

- Governmental Activities – Most of the Commission's basic services are reported here, including management and administration, community and economic development and transportation. Property taxes, federal grants and local grants finance most of these activities.
- Component Unit Activities – North Central Economic Development Association, Inc. (NCEDA) is a discretely presented component unit of the Commission. It has similar revenues and expenses to the Commission. Interested readers will be sent separately issued financial statements of NCEDA upon written request to the Executive Director at 200 1<sup>st</sup> Street NE, Suite 2, Staples, MN 56479 or by calling 218-894-3233.

**Reporting the Commission's Most Significant Funds**

Our analysis of the Commission's General Fund begins on page ten. The fund financial statements provide detailed information about the General Fund - not the Commission as a whole. Some funds are required to be established by State law and by bond covenants. However, the Board may establish other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. The Commission's General Fund is a governmental fund and its accounting approach is described below:

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

The Commission also has one fiduciary fund. Its accounting approach is described below:

- Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the Commission's own programs.

**REGION FIVE DEVELOPMENT COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2018**

**THE COMMISSION AS A WHOLE**

The Commission's combined net position decreased \$17,372 from a year ago. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the Commission's governmental and component unit activities.

**Table 1  
Net Position**

	Governmental Activities		Component Unit		Total Reporting Entity	
	2018	2017	2018	2017	2018	2017
Current and Other Assets	\$ 1,235,143	\$ 1,581,826	\$ 1,979,413	\$ 1,915,261	\$ 3,214,556	\$ 3,497,087
Net Capital Assets	-	-	-	-	-	-
Total Assets	1,235,143	1,581,826	1,979,413	1,915,261	3,214,556	3,497,087
Deferred Outflows of Resources	153,530	195,201	-	-	153,530	195,201
Current and Other Liabilities	242,550	398,879	-	70,487	242,550	469,366
Noncurrent Liabilities	881,642	1,029,940	416,418	378,535	1,298,060	1,408,475
Total Liabilities	1,124,192	1,428,819	416,418	449,022	1,540,610	1,877,841
Deferred Inflows of Resources	245,551	215,150	-	-	245,551	215,150
Net Position:						
Net Investment In Capital						
Assets	-	-	-	-	-	-
Restricted	-	-	1,562,995	1,467,805	1,562,995	1,467,805
Unrestricted	18,930	133,058	-	(1,566)	18,930	131,492
Total Net Position	<u>\$ 18,930</u>	<u>\$ 133,058</u>	<u>\$ 1,562,995</u>	<u>\$ 1,466,239</u>	<u>\$ 1,581,925</u>	<u>\$ 1,599,297</u>

The net position of the Commission's governmental activities decreased by \$114,128 (85.77 percent). Unrestricted net position (the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements) decreased by \$114,128 compared to the prior year.

The net position of the Commission's component unit increased by \$96,756 (6.60 percent). Operations were generally comparable to the prior year.

**REGION FIVE DEVELOPMENT COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2018**

**THE COMMISSION AS A WHOLE (Continued)**

**Table 2  
Changes in Net Position**

	Governmental Activities		Component Unit		Total Reporting Entity	
	2018	2017	2018	2017	2018	2017
<b>PROGRAM REVENUES</b>						
Charges for Services	\$ 78,009	\$ 147,789	\$ 80,375	\$ 77,796	\$ 158,384	\$ 225,585
Grants and Contributions	808,389	744,037	36,300	136,323	844,689	880,360
Taxes	328,522	309,073	-	-	328,522	309,073
Interest Income	4,825	2,257	693	835	5,518	3,092
Miscellaneous	2,472	2,842	4,229	1,506	6,701	4,348
Total Revenues	<u>1,222,217</u>	<u>1,205,998</u>	<u>121,597</u>	<u>216,460</u>	<u>1,343,814</u>	<u>1,422,458</u>
<b>PROGRAM EXPENSES</b>						
Management and Administration	578,101	489,847	-	-	578,101	489,847
Community and Economic Development	677,473	563,216	114,709	159,801	792,182	723,017
Transportation	80,771	50,036	-	-	80,771	50,036
Total Expenses	<u>1,336,345</u>	<u>1,103,099</u>	<u>114,709</u>	<u>159,801</u>	<u>1,451,054</u>	<u>1,262,900</u>
Change in Net Position	(114,128)	102,899	6,888	56,659	(107,240)	159,558
Net Position - Beginning of Year	<u>133,058</u>	<u>30,159</u>	<u>1,466,239</u>	<u>1,409,580</u>	<u>1,599,297</u>	<u>1,439,739</u>
Net Position - End of Year	<u>\$ 18,930</u>	<u>\$ 133,058</u>	<u>\$ 1,473,127</u>	<u>\$ 1,466,239</u>	<u>\$ 1,492,057</u>	<u>\$ 1,599,297</u>

The Commission's total revenues decreased by \$78,644 (5.53 percent). The total cost of all programs and services increased by \$188,154 (14.90 percent). Our analysis on the next page separately considers the operations of governmental and component unit activities.

**Governmental Activities**

Revenue for the Commission's governmental activities increased by \$16,219 (1.34 percent) and total expenses increased \$233,246 (21.14 percent). Revenues were fairly consistent with the prior year, other than a decrease in charges for services, primarily due to fewer administrative revenues being received in the current year. Expenses were generally consistent year to year, with the exception of increases in management and administration and community and economic development. These costs can fluctuate from year to year depending on grants received and cost to distribute these grants via loans and grant awards.

**REGION FIVE DEVELOPMENT COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2018**

**THE COMMISSION AS A WHOLE** (Continued)

**Governmental Activities** (Continued)

Table 3 presents the cost of each of the Commission's programs - management and administration, community and economic development, and transportation - as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the taxpayers who live in the counties the Commission serves. Activities were generally comparable to the prior year as operations remained fairly consistent with the prior year with exception of:

- Management and administration net cost increased due to an increase in administrative salaries and wages expense in the current year.
- Community and economic development net revenue decreased due to a larger number of local and federal grants received in the prior year.

**Table 3  
Governmental Activities**

	Total Cost of Services		Net Revenue (Cost) of Services	
	2018	2017	2018	2017
Management and Administration	\$ 578,101	\$ 489,847	\$ (494,219)	\$ (334,453)
Community and Economic Development	677,473	563,216	50,043	98,216
Transportation	80,771	50,036	(5,771)	24,964
Totals	<u>\$ 1,336,345</u>	<u>\$ 1,103,099</u>	<u>\$ (449,947)</u>	<u>\$ (211,273)</u>

**Component Unit Activities**

Revenues of the Commission's component unit activities decreased by \$94,863 (43.82 percent) and expenses decreased by \$45,092 (28.22 percent). Revenue decreased primarily due to a reduction of grant revenue, and expenses decreased primarily due to a decrease in administrative fees in the current year.

**Table 4  
Component Unit Activities**

	Total Cost of Services		Net Revenue (Cost) of Services	
	2018	2017	2018	2017
Community and Economic Development	<u>\$ 114,709</u>	<u>\$ 159,801</u>	<u>\$ 1,966</u>	<u>\$ 54,318</u>

**REGION FIVE DEVELOPMENT COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2018**

**THE COMMISSION'S FUND**

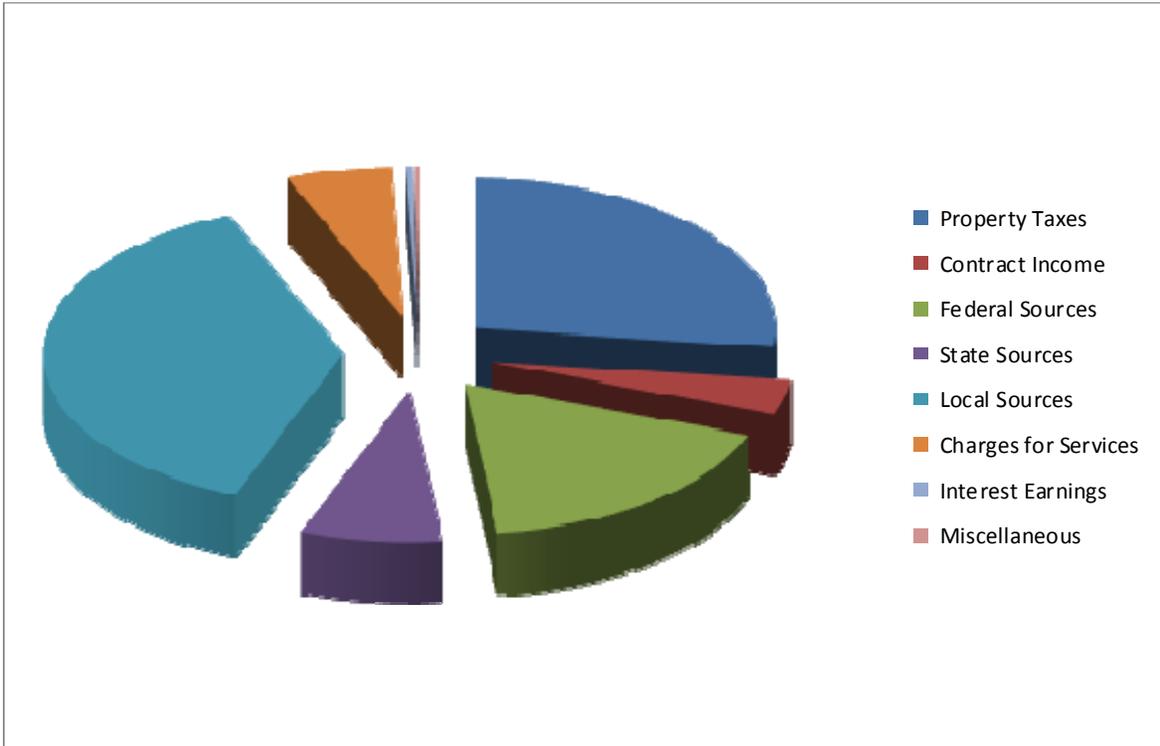
**Governmental Fund**

As the Commission completed the year, its General Fund (as presented in the balance sheet on page fifteen) reported a combined fund balance of \$839,811. This is a decrease of \$185,348 from the prior year. This decrease is primarily due to increases in community and economic development and administration expenses in the current year.

Major Funds	Fund Balance December 31,		Increase (Decrease)
	2018	2017	
<b>General</b>	\$ 839,811	1,025,159	\$ (185,348)

Details of the General Fund's revenues and expenditures are displayed next.

**General Fund Revenues**

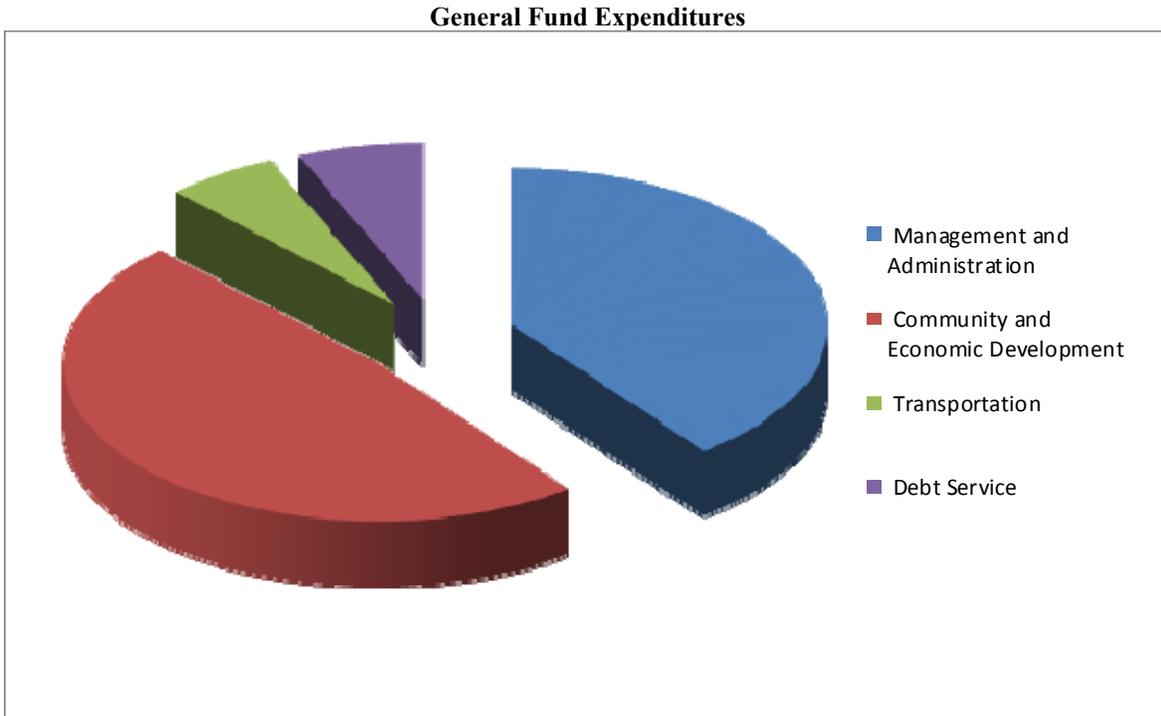


The Commission received the majority of its funding in the General Fund from grants and other governmental agencies (63.16 percent) and taxes (26.91 percent). Overall, the Commission's General Fund revenues were comparable to the prior year, with the exception of a decrease in charges for services and increases in contract income and revenue from local sources.

**REGION FIVE DEVELOPMENT COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2018**

**THE COMMISSION'S FUND** (Continued)

**Governmental Fund** (Continued)



A significant portion of the Commission's General Fund expenditures are used for community and economic development (48.12 percent). Remaining expenditures are used primarily for management and administration (39.67 percent). Expenditures have increased from the prior year, largely due to increased community and economic development costs.

**General Fund Budgetary Highlights**

The Commission's General Fund generated more revenue than budgeted of \$210,902. Expenditures were more than those budgeted by \$400,071. Increased revenues over budget in the current year are primarily due to unbudgeted revenue from local grants. Expenditures over budget are primarily due to unbudgeted management and administrative costs.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of 2018, the Commission had \$105,765 invested in capital assets, including equipment and software, all of which was fully depreciated at year end.

**REGION FIVE DEVELOPMENT COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2018**

**CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)**

**Debt**

At year-end, the Commission had \$859,584 in debt versus \$912,874 in debt last year, a decrease of 5.84 percent, as shown in Table 5.

**Table 5  
Outstanding Debt at Year-End**

	Governmental Activities		Component Unit		Totals	
	2018	2017	2018	2017	2018	2017
Notes Payable	<u>\$ 443,166</u>	<u>\$ 534,339</u>	<u>\$ 416,418</u>	<u>\$ 378,535</u>	<u>\$ 859,584</u>	<u>\$ 912,874</u>

More detailed information regarding the Commission's indebtedness can be found on page 31.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

In consideration of the differences between the fiscal year 2018 budget numbers versus actual, the fiscal year 2019 budget has considered additional expenditures to meet organizational activity.

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

**CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Commission's finances and to show the Commission's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Region Five Development Commission at 200 1<sup>st</sup> Street NE, Suite 2, Staples, MN 56379 or by telephone at 218-894-3233.

## **BASIC FINANCIAL STATEMENTS**

**REGION FIVE DEVELOPMENT COMMISSION**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2018**

	Primary Government	Component Unit	
	Governmental Activities	North Central Economic Development Association	Total Reporting Entity
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 697,817	\$ 272,450	\$ 970,267
Property Taxes Receivable	152,782	-	152,782
Grants Receivable	99,520	3,492	103,012
Due from Other Government	-	17,250	17,250
Internal Balances	34,606	(34,606)	-
Prepaid Expenses	6,996	2,548	9,544
Loans Receivable, Net of Loan Loss Reserve	243,422	1,718,279	1,961,701
Capital Assets:			
Equipment	94,665	11,100	105,765
Less: Accumulated Depreciation	(94,665)	(11,100)	(105,765)
Net Capital Assets	-	-	-
<b>TOTAL ASSETS</b>	1,235,143	1,979,413	3,214,556
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pensions	153,530	-	153,530
<b>LIABILITIES</b>			
Accounts Payable	5,000	-	5,000
Accrued Salaries	10,140	-	10,140
ISTS County Reserve Payable	56,734	-	56,734
Unearned Revenue	170,676	-	170,676
Noncurrent Liabilities:			
Compensated Absences Due After One Year	36,288	-	36,288
Net Pension Liability Due After One Year	402,188	-	402,188
Debt Due Within One Year	109,315	39,921	149,236
Debt Due After One Year	333,851	376,497	710,348
<b>TOTAL LIABILITIES</b>	1,124,192	416,418	1,540,610
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Property Taxes Levied for Subsequent Years	146,533	-	146,533
Pensions	99,018	-	99,018
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	245,551	-	245,551
<b>NET POSITION</b>			
Restricted:			
Revolving Loan	-	1,414,263	1,414,263
Household Water Well	-	129,048	129,048
Microlending	-	18,572	18,572
Entrepreneur Lending Program	-	1,112	1,112
Unrestricted	18,930	-	18,930
<b>TOTAL NET POSITION</b>	<u>\$ 18,930</u>	<u>\$ 1,562,995</u>	<u>\$ 1,581,925</u>

**REGION FIVE DEVELOPMENT COMMISSION  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2018**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Capital Grants and Contributions	Operating Grants and Contributions	Primary	Component	Total
					Government	Unit	
					North Central Economic Development Association		
<b>Governmental Activities:</b>							
Management and Administration	\$ 578,101	\$ 78,009	\$ -	\$ 5,873	\$ (494,219)	\$ -	\$ (494,219)
Community and Economic Development	677,473	-	17,489	710,027	50,043	-	50,043
Transportation	80,771	-	-	75,000	(5,771)	-	(5,771)
<b>Total Governmental Activities</b>	<b>1,336,345</b>	<b>78,009</b>	<b>17,489</b>	<b>790,900</b>	<b>(449,947)</b>	<b>-</b>	<b>(449,947)</b>
<b>Component Unit:</b>							
North Central Economic Development Association	114,709	80,375	-	36,300	-	1,966	1,966
<b>TOTALS</b>	<b>\$ 1,451,054</b>	<b>\$ 158,384</b>	<b>\$ 17,489</b>	<b>\$ 827,200</b>	<b>(449,947)</b>	<b>1,966</b>	<b>(447,981)</b>
<b>General Revenues:</b>							
Property Taxes					328,522	-	328,522
Interest Income					4,825	693	5,518
Loan Loss Reserve Adjustment					-	89,868	89,868
Miscellaneous					2,472	4,229	6,701
<b>Total General Revenues</b>					<b>335,819</b>	<b>94,790</b>	<b>430,609</b>
<b>CHANGE IN NET POSITION</b>					<b>(114,128)</b>	<b>96,756</b>	<b>(17,372)</b>
<b>NET POSITION - BEGINNING OF YEAR</b>					<b>133,058</b>	<b>1,466,239</b>	<b>1,599,297</b>
<b>NET POSITION - END OF YEAR</b>					<b>\$ 18,930</b>	<b>\$ 1,562,995</b>	<b>\$ 1,581,925</b>

**REGION FIVE DEVELOPMENT COMMISSION  
BALANCE SHEET  
GOVERNMENTAL FUND  
JUNE 30, 2018**

	<u>General Fund</u>
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 697,817
Property Taxes Receivable	152,782
Grants Receivable	99,520
Due from Related Organization	34,606
Prepays	6,996
Loans Receivable	<u>243,422</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 1,235,143</u></u>
<b>LIABILITIES</b>	
Accounts Payable	\$ 5,000
Accrued Salaries	10,140
Unearned Revenue	170,676
ISTS County Reserve Payable	<u>56,734</u>
Total Liabilities	242,550
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Unavailable Revenue:	
Delinquent Property Taxes	6,249
Property Taxes Levied for Subsequent Years	<u>146,533</u>
Total Deferred Inflows of Resources	152,782
<b>FUND BALANCE</b>	
Nonspendable	250,418
Assigned	45,817
Unassigned	<u>543,576</u>
Total Fund Balance	<u>839,811</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>	<u><u>\$ 1,235,143</u></u>

**REGION FIVE DEVELOPMENT COMMISSION  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUND  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2018**

Total Fund Balance - Governmental Fund	\$	839,811
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Property Taxes Receivable		6,249
Long-term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental funds:		
Loans Payable	\$ (443,166)	
Compensated Absences	<u>(36,288)</u>	
		(479,454)
The net pension liability and related inflows/outflows of resources represent the allocation of the pension obligations of the statewide plans to the entity. Such balances are not reported in the funds:		
Net Pension Liability	(402,188)	
Deferred Outflows of Resources	153,530	
Deferred Inflows of Resources	<u>(99,018)</u>	
		<u>(347,676)</u>
<b>TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<b>\$</b>	<b><u>18,930</u></b>

**REGION FIVE DEVELOPMENT COMMISSION  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUND  
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>General Fund</u>
<b>REVENUES</b>	
Property Taxes	\$ 329,038
Contract Income	45,078
Federal Sources	216,129
State Sources	92,338
Local Sources	463,693
Charges for Services	69,014
Interest Earnings	4,825
Miscellaneous Revenue	<u>2,472</u>
<b>TOTAL REVENUES</b>	1,222,587
<b>EXPENDITURES</b>	
Current:	
Management and Administration	558,518
Community and Economic Development	677,473
Transportation	80,771
Debt Service:	
Principal	<u>91,173</u>
<b>TOTAL EXPENDITURES</b>	<u>1,407,935</u>
<b>NET CHANGE IN FUND BALANCE</b>	(185,348)
<b>FUND BALANCE - BEGINNING</b>	<u>1,025,159</u>
<b>FUND BALANCE - ENDING</b>	<u><u>\$ 839,811</u></u>

**REGION FIVE DEVELOPMENT COMMISSION  
RECONCILIATION OF CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2018**

Net Change in Fund Balance - Governmental Fund \$ (185,348)

Amounts reported for governmental activities in the Statement of Activities are different due to the following:

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

Change in Delinquent Property Taxes Receivable (516)

Proceeds from the issuance of long-term debt is an other financing source in the governmental funds, while repayment of debt principal is an expenditure in the governmental funds. However, neither transaction has any effect on net position:

Principal Retirement of Long-Term Loans Payable 91,173

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Change in Compensated Absences (3,499)

Net pension liability does not represent the impending use of current resources. Therefore, the change in this liability and related deferrals are not reported in the governmental funds.

(15,938)

**CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (114,128)**

**REGION FIVE DEVELOPMENT COMMISSION  
STATEMENT OF FIDUCIARY NET POSITION  
CROW WING COUNTY (BWSR) - AGENCY FUND  
JUNE 30, 2018**

**ASSETS**

Funds Held in Trust

\$ 109

**LIABILITIES**

Due to Other Organizations

\$ 109

**REGION FIVE DEVELOPMENT COMMISSION  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Region Five Development Commission (the Commission) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements.

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

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

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

**1.A. FINANCIAL REPORTING ENTITY**

The Commission's financial reporting entity comprises the following:

Primary Government	Region Five Development Commission
Discrete Component Unit	North Central Economic Development Association, Inc.

In determining the financial reporting entity, the Commission complies with the provisions of GASB No. 14, *The Financial Reporting Entity*, and includes all component units of which the Commission appointed a voting majority of the units' Board; the Commission is either able to impose its will on the unit or a financial benefit or burden relationship exists.

**Blended Component Units**

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the Board of Commissioners or the component unit provides services entirely to the Commission. These component units' funds are blended into those of the Commission's by appropriate activity type to compose the primary government presentation. Currently, the Commission has no blended component units.

**Discretely Presented Component Units**

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. The Commission's discrete component unit consists of:

North Central Economic Development Association, Inc. (NCEDA) – NCEDA is a nonprofit corporation organized under the laws of the State of Minnesota for purposes of providing capital to businesses in the five county area served by the Commission in order to create or increase employment and business opportunities by supplementing public and private capital. NCEDA was formed for the purpose of managing Region Five Development Commission's revolving loan fund program. Region Five Development Commission has one Board member that sits on the Association's Board as a non-voting member. The financial statements included are as of and for the year ended June 30, 2018. The complete financial statements of NCEDA can be obtained by writing to: NCEDA, 200 1<sup>st</sup> Street NE, Suite 2, Staples, MN 56479.

**REGION FIVE DEVELOPMENT COMMISSION  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

**1.B. BASIS OF PRESENTATION**

**Government-wide Financial Statements**

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental activities and component unit activity. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange revenues. Component unit activity is general financed through intergovernmental revenues and other nonexchange revenues.

**Fund Financial Statements**

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues and expenditures/expenses. Funds are organized into two major categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental categories. A fund is considered major if it is the primary operating fund of the Commission or meets the following criteria:

- Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues or expenditures/expenses of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues or expenditures/expenses of that individual governmental fund are at least 5 percent of the corresponding total for all governmental funds combined.

The Commission reports the following major governmental fund:

The *General Fund* is the Commission’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

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

Additionally, the Commission reports the following fiduciary fund:

The *Crow Wing County (BWSR) – Agency Fund* accounts for the revenues and expenses related to the Subsurface Sewage Treatment Systems loans issued by Crow Wing County.

**1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

**Measurement Focus**

On the government-wide Statement of Net Position and the Statement of Activities, governmental activities are presented using the *economic resources* measurement focus as defined in the second bullet point on the next page.

**REGION FIVE DEVELOPMENT COMMISSION  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

**1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Continued)**

**Measurement Focus (Continued)**

In the fund financial statements, the *current financial resources* measurement focus or the *economic resources* measurement focus is used as appropriate:

- All governmental funds utilize a *current financial resources* measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- The government-wide financial statements, as well as the fiduciary fund financial statement, utilize an *economic resources* measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position and cash flows. All assets, deferred outflows, liabilities and deferred inflows (whether current or noncurrent) associated with their activities are reported. Government-wide equity and Fiduciary fund equity is classified as net position.

**Basis of Accounting**

In the government-wide Statement of Net Position and Statement of Activities, governmental activities are presented using the *accrual* basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the *modified accrual* basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest, which are reported when due.

All fiduciary funds utilize the accrual basis of accounting.

**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, deferred outflows, liabilities, and deferred inflows, and disclosure of contingencies related to these balances 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, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES AND EQUITY**

**Cash and Cash Equivalents**

For purposes of the Statement of Net Position, “cash and cash equivalents” includes all demand accounts, savings accounts, money market savings accounts and certificates of deposits for the Commission. Certificates of deposit are stated at cost, which approximates fair market value.

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

**REGION FIVE DEVELOPMENT COMMISSION  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

**1.E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES AND EQUITY (Continued)**

**Property Taxes Receivable**

Generally, property taxes are recognized as revenue by the Commission in the fiscal year that begins midway through the calendar year in which the tax levy is collectible.

Property tax levies are certified to the County Auditor in December of each year for collection from taxpayers in May and October of the following calendar year. In Minnesota, counties act as collection agents for all property taxes. The county spreads all levies over taxable property. Such taxes become an enforceable lien on property on the following January 1. The county generally remits taxes to the Commission at periodic intervals as they are collected. A portion of property taxes levied is paid by the State of Minnesota through various tax credits, which are included in revenue from state sources in the financial statements.

Taxes that remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is deferred in the fund financial statements because it is not known to be available to finance the operation of the Commission in the current year. For government-wide financial statements, no allowance for uncollectible taxes is considered necessary.

**Prepays**

Prepaid expenses consist of amounts paid during the current year that will benefit future periods.

**Loan Receivables**

Loans receivable are stated at the amount of unpaid principal, reduced by a loan loss reserve. Major loan receivable balances include loans to area businesses or individuals within the five county region. Collateral on loans consist of equipment, real estate and personal guarantees. Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, and the allowance for loan losses. The Commission has determined accounting for nonrefundable fees and costs associated with originating or acquiring loans does not have a material effect on its financial statements. As such, these fees and costs have been recognized during the period they are collected and incurred, respectively. Interest income is accrued on the unpaid principal balance.

**Loan Loss Reserve**

The allowance for loan receivables (allowance) is an estimate of loan losses inherent in the Commission on a specific identification basis. The historical loss experience is based on the actual loss history experienced by the Commission. This actual loss experience is adjusted for economic factors based on the risks present. These economic factors include consideration of the following: changes in the lending policies and underwriting practices, national and local economic conditions, changes in portfolio volume, changes in staff depth and experience, changes in past due and nonaccrual loans, changes in credit quality, changes in loan review and oversight, impact and effects of concentrations, and impact of competition. These factors are inherently subjective and are driven by the repayment risk associated with each portfolio segment. Currently, the Commission does not have a Loan Loss Reserve booked.

**REGION FIVE DEVELOPMENT COMMISSION  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

**1.E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES AND EQUITY (Continued)**

**Capital Assets**

The accounting treatment over property, plant and equipment (capital assets) depends on whether they are reported in the government-wide or fund financial statements.

Capital assets are defined by the Commission as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

The range of estimated useful lives by type of asset is as follows:

Software	3-5 years
Equipment	3-5 years

Government-wide Statements

In the government-wide financial statements, capital outlay expenditures are accounted for as capital assets. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated acquisition value at the date of donation.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation.

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

**Unearned Revenue**

Unearned revenue consists of local revenue received but not yet earned. Such amounts typically consist of grants and entitlements received before eligibility requirements are met.

**Compensated Absences**

It is the Commission's policy to permit employees to accumulate a limited amount of earned but unused vacation leave and compensatory time. All vacation pay and compensatory pay are accrued when incurred in the government-wide financial statements. Governmental activity accrued vacation and compensatory time are funded through the General Fund.

Employees earn vacation leave based on the number of years employed on a pro-rated basis. Employees can earn six to nine hours of paid time off per pay period. The Executive Director can accumulate 200 hours of vacation leave. The Deputy Director can accumulate 250 hours of vacation leave. All other employees may accumulate up to a maximum of 100 hours. All outstanding unpaid paid time off is payable upon termination of employment. For exempt employees, compensatory time is earned at a one hour for one hour basis for hours worked in excess of 40 hours per week. Compensatory time can be accumulated to a maximum of 40 hours. Compensatory time is payable upon termination of employment.

**REGION FIVE DEVELOPMENT COMMISSION  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

**1.E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES AND EQUITY (Continued)**

**Net Pension Liability**

The net pension liability represents the Commission's allocation of their pro-rata share of the statewide pension plans net pension liability.

**Deferred Outflows/Inflows of Resources**

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This element represents a consumption of net position that applies to future periods and, therefore, will not be recognized as an outflow of resources (expense) until that time. The Commission reports deferred outflows of resources in the government-wide Statement of Net Position in relation to the activity of the pension funds in which Commission employees participate.

In addition to liabilities, the Statement of Net Position and Balance Sheet report a separate section for deferred inflows of resources. This element represents an acquisition of net position or fund balance that applies to future periods and, therefore, will not be recognized as an inflow of resources (revenue) until that time. The Commission reports property taxes as deferred inflows of resources in the governmental fund financial statements, in accordance with the modified accrual basis of accounting. In addition, the Commission reports deferred inflows of resources in the government-wide Statement of Net Position in relation to the activity of pension funds in which Commission employees participate. Accordingly, such amounts are deferred and recognized as inflows of resources in the period that they become available.

See Note 4.A. for additional information pertaining to the deferred outflows and deferred inflows recorded to account for pension activities.

**Long-Term Obligations**

The accounting treatment of long-term debt depends on whether the activity is reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and component unit resources is reported as liabilities in the government-wide statements.

Long-term debt for government funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest are reported as expenditures.

**Equity Classifications**

Government-wide Statements

Equity is classified as net position and is displayed in three components:

Net Investment in Capital Assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

**REGION FIVE DEVELOPMENT COMMISSION  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

**1.E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES AND EQUITY (Continued)**

**Equity Classifications (Continued)**

Government-wide Statements (Continued)

Restricted – Consists of net position with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or 2) law through constitutional provisions or enabling legislation.

Unrestricted – Remaining balance of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

It is the Commission’s policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Fund Statements

Governmental Fund Financial Statements – In the fund financial statements, governmental funds report fund balances as either nonspendable, restricted, committed, assigned, or unassigned. When the Commission incurs an expenditure for which it may use either restricted or unrestricted fund balances, it uses restricted fund balances first unless unrestricted fund balances will have to be returned because they were not used. When the Commission incurs an expenditure for purposes for which amounts in any unrestricted fund balance classification could be used, it uses fund balances in the following order: Committed, assigned, unassigned.

Nonspendable – Includes amounts that cannot be spent because they are either not in spendable form, or they are legally or contractually required to be maintained intact. The nonspendable fund balance at June 30, 2018 consists of prepaid expenditures and loans receivable.

Restricted – That portion of fund balance which is not available for appropriation or which has been legally segregated for a specific purpose.

Committed – Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board. Committed amounts cannot be used for any other purpose unless the Board modifies or rescinds the commitment by resolution.

Assigned – Amounts that are constrained by the Commission’s intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned – This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the General Fund.

The Commission does not have a minimum fund balance policy for its General Fund.

See Note 3.E. for additional disclosures.

**REGION FIVE DEVELOPMENT COMMISSION  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

**1.F. REVENUES, EXPENDITURES AND EXPENSES**

**Property Tax**

The Commission levies its property tax for the subsequent year during the month of September. The counties (Cass, Crow Wing, Morrison, Todd, and Wadena) are responsible for collecting property taxes and remit the collections to the Commission.

December 31 is the last day the Commission can certify a tax levy to the County Auditors for collection the following year. The counties create the tax list for all taxable property in the Commission's five-county area and applies the applicable tax rate to the tax capacity of individual properties to arrive at the actual tax for each property. The counties collect all taxes, except as noted above. The counties mail copies of all real estate and personal property tax statements. Each year, property owners are required to pay one half of their real estate taxes by May 15 and the balance by October 15. Penalties and interest are assessed to property owners who do not pay their property taxes by the due dates.

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

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

**Expenditures/Expenses**

In the government-wide financial statements, expenses are classified by function for both governmental and component unit activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds-By Character	Current (further classified by Function)
	Debt Service
	Capital Outlay

In the fund financial statements, governmental funds report expenditures of financial resources.

**NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**2.A. FUND ACCOUNTING REQUIREMENTS AND DEPOSITS AND INVESTMENTS LAWS AND REGULATIONS**

By its nature, the Commission and its component unit are subject to various Federal, State and local laws and contractual regulations. The Commission complies with all State and local laws and regulations requiring the use of separate funds.

In accordance with State law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at market value. Minnesota Statutes require that all deposits with financial institutions be collateralized in an amount equal to 110% of deposits in excess of FDIC or FSLIC insurance (100% if collateral pledged is irrevocable standby letters of credit issued by the Federal Home Loan Bank). The Commission complies with such laws.

**REGION FIVE DEVELOPMENT COMMISSION  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)**

**2.B. BUDGETARY INFORMATION**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund. All annual appropriations lapse at fiscal year-end. The Commission does not use encumbrance accounting.

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

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

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

**2.C. EXPENDITURES IN EXCESS OF BUDGET**

Actual expenditures exceed total budgeted expenditures for the current year end as follows:

Fund	Budgeted Expenditures	Actual Expenditures
General Fund	\$ <u>1,007,864</u>	\$ <u>1,407,935</u>

Excess expenditures are financed via available fund balance.

**NOTE 3 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS**

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

**3.A. CASH, CASH EQUIVALENTS AND INVESTMENTS**

**Deposits**

In accordance with applicable Minnesota Statutes, the Commission maintains deposits at depository banks authorized by the Board. Minnesota Statutes require that all Commission deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds (100% if collateral pledged is irrevocable standby letters of credit issued by the Federal Home Loan Bank).

**REGION FIVE DEVELOPMENT COMMISSION  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

**3.A.    CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)**

**Deposits (Continued)**

Authorized collateral in lieu of a corporate surety bond includes:

- United States government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- A general obligation of a state or local government, with taxing powers, rated “A” or better;
- A revenue obligation of a state or local government, with taxing powers, rated “AA” or better;
- Unrated general obligation securities of a local government, with taxing powers, pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letter of credit issued by a Federal Home Loan Bank accompanied by written evidence that the Federal Home Loan Bank’s public debt is rated “AA” or better by Moody’s or Standard and Poor’s; or
- Time deposits insured by any federal agency.

Minnesota Statutes require that all collateral shall be placed in safekeeping in a restricted account at a Federal Reserve Bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

At June 30, 2018, the Commission’s deposits were not exposed to custodial credit risk. The Commission’s deposits were sufficiently covered by federal depository insurance or by collateral held by the Commission’s agent in the Commission’s name. At June 30, 2018, the governmental activities and fiduciary fund financial statement balances are categorized as follows:

	Governmental Activities	Fiduciary Fund
Cash in Bank Accounts	\$    641,082	\$           109
Non-Negotiable Certificates of Deposit	56,735	-
Total	\$    697,817	\$           109

**REGION FIVE DEVELOPMENT COMMISSION  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

**3.A.    CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)**

**Investments**

The Commission may also invest idle funds as authorized by Minnesota Statutes as follows: direct obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that received the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated "A" or better; revenue obligations rated "AA" or better; general obligations of the Minnesota Housing Finance Agency rated "A" or better; bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers. The Commission does not have any investment policies that would further limit investment choices.

The Commission does not hold any investments at June 30, 2018.

**3.B.    LOANS RECEIVABLE**

The Commission's governmental activities have a total of 75 loans outstanding with interest rates of 3.00%. Several loans have modified payment terms and/or interest rates.

Loans Receivable	\$	243,422
Less: Loan Loss Reserve		-
		243,422
Less: Current Maturities		65,023
Loans Receivable, Less Current Maturities and Reserve	\$	178,399

**3.C.    CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2018 is as follows:

	Balance at 07/01/17	Additions	Disposals	Balance at 06/30/18
<b>Governmental Activities:</b>				
Capital Assets Being Depreciated				
Furniture and Equipment	\$ 94,665	\$ -	\$ -	\$ 94,665
Less: Accumulated Depreciation				
Furniture and Equipment	(94,665)	-	-	(94,665)
Capital Assets, Net	\$ -	\$ -	\$ -	\$ -

Governmental activity depreciation expense is charged entirely to management and administration expenses.

**REGION FIVE DEVELOPMENT COMMISSION  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

**3.D.    NONCURRENT LIABILITIES**

**Notes Payable**

Notes payable are direct obligations and pledge full faith and credit of the Commission. As of June 30, 2018, notes payable of the Commission's governmental activities consists of the following:

Notes Payable					
Issue Date	Issuance Authorized	Annual Payment	Interest Rate(s)	Maturity Date	Remaining Amount
06/01	\$ 631,100	\$1,236 - 125,021	0.00%	04/26	\$ 443,166
		Debt Due Within One Year			<u>109,315</u>
		Debt Due After One Year			<u>\$ 333,851</u>

**Notes Payable Annual Debt Service Requirements**

At June 30, 2018, the notes payable estimated annual debt service requirements to maturity are as follows for the Commission's governmental activities:

Years Ending December 31,	Principal	Interest	Total
2019	\$ 109,315	\$ -	\$ 109,315
2020	99,061	-	99,061
2021	83,885	-	83,885
2022	69,910	-	69,910
2023	54,509	-	54,509
2024-2026	<u>26,486</u>	<u>-</u>	<u>26,486</u>
Totals	<u>\$ 443,166</u>	<u>\$ -</u>	<u>\$ 443,166</u>

**Changes in Noncurrent Liabilities**

The following is a summary of changes in noncurrent liabilities for the governmental activities for the year ended June 30, 2018:

Type of Debt	Balance 07/01/17	Additions	Deductions	Balance 06/30/18	Due Within One Year
Compensated Absences	\$ 32,789	\$ 83,808	\$ (80,309)	\$ 36,288	\$ -
Notes Payable	<u>534,339</u>	<u>-</u>	<u>(91,173)</u>	<u>443,166</u>	<u>109,315</u>
Totals	<u>\$ 567,128</u>	<u>\$ 83,808</u>	<u>\$ (171,482)</u>	<u>\$ 479,454</u>	<u>\$ 109,315</u>

All Governmental Activity debt is funded through the General Fund.

**REGION FIVE DEVELOPMENT COMMISSION  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 JUNE 30, 2018**

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

**3.E.    FUND EQUITY**

At June 30, 2018, governmental fund equity consists of the following:

General Fund		
Nonspendable - Prepays and Loans Receivable	\$	250,418
Assigned for Unemployment		45,817
Unassigned		<u>543,576</u>
Total General Fund Balance	\$	<u>839,811</u>

**NOTE 4    OTHER NOTES**

**4.A.    EMPLOYEE DEFINED BENEFIT PENSION PLANS - STATEWIDE**

**Plan Description**

Region Five Development Commission participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA’s defined benefit pension plans are established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356. PERA’s defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

General Employees Retirement Plan (General Employees Plan (accounted for in the General Employees Fund))

All full-time and certain part-time employees of the Commission are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

**Benefits Provided**

PERA provides retirement, disability and death benefits. Benefit provisions are established by State Statute and can only be modified by the State Legislature. Vested Terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

General Employees Plan Benefits

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

Benefit recipients will receive a future annual increase equal to 50 percent of the Social Security Cost of Living Adjustment, not less than 1.0 percent and not more than 1.5 percent, beginning January 1, 2019. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age (not applicable to Rule of 90 retirees, disability benefit recipients, or survivors). A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase.

**REGION FIVE DEVELOPMENT COMMISSION  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 4 OTHER NOTES (Continued)**

**4.A. EMPLOYEE DEFINED BENEFIT PENSION PLANS - STATEWIDE (Continued)**

**Contributions**

*Minnesota Statutes* Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the State Legislature.

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2018; the Commission was required to contribute 7.50 percent for Coordinated Plan members. The Commission's contributions to the General Employees Fund for the year ended June 30, 2018 were \$35,550. The Commission's contributions were equal to the required contributions as set by State Statute.

**Pension Costs**

General Employees Fund Pension Costs

At June 30, 2018, the Commission reported a liability of \$402,188 for its proportionate share of the General Employees Fund's net pension liability. The Commission's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2018. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the Commission totaled \$5,057. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Commission's proportion of the net pension liability was based on the Commission's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016 through June 30, 2017 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017 the Commission's proportion share was 0.0063 percent, which was an increase of 0.0006 percent from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018 the Commission recognized pension expense of \$28,676 for its proportionate share of the General Employees Plan's pension expense. In addition, the Commission recognized an additional \$146 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At June 30, 2018, the Commission reported its proportionate share of General Employees Plan's deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 13,255	\$ 23,149
Change in actuarial assumptions	60,413	40,319
Difference between projected and actual investment earnings	-	22,024
Changes in proportionate share	44,312	13,526
Contributions paid to PERA subsequent to the measurement date	35,550	-
Total Deferred Outflows/Inflows	\$ 153,530	\$ 99,018

**REGION FIVE DEVELOPMENT COMMISSION  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 4 OTHER NOTES (Continued)**

**4.A. EMPLOYEE DEFINED BENEFIT PENSION PLANS - STATEWIDE (Continued)**

The \$35,550 reported as deferred outflows of resources related to pensions resulting from Commission contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30,	Pension Expense
2019	\$ (1,067)
2020	\$ 34,297
2021	\$ 2,804
2022	\$ (17,072)

**Actuarial Assumptions**

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP 2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: one percent per year for all future years.

Actuarial assumptions used in the June 30, 2017 valuation were based on the results of actuarial experience studies. The most recent four-year experience study was completed in 2015.

The following changes in actuarial assumptions occurred in 2017:

**General Employees Fund**

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60.0 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages.

**REGION FIVE DEVELOPMENT COMMISSION  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 4 OTHER NOTES (Continued)**

**4.A. EMPLOYEE DEFINED BENEFIT PENSION PLANS - STATEWIDE (Continued)**

**Actuarial Assumptions (Continued)**

The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stocks	39%	5.10%
International Stocks	19%	5.30%
Bonds	20%	0.75%
Alternative Assets	20%	5.90%
Cash	<u>2%</u>	0.00%
Total	100%	

**Discount Rate**

The discount rate used to measure the total pension liability in 2017 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Pension Liability Sensitivity**

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

	<u>1% Decrease in Discount Rate (6.50%)</u>	<u>Discount Rate (7.50%)</u>	<u>1% Increase in Discount Rate (8.50%)</u>
The Commission's proportionate share of the General Employees Fund net pension liability:	\$623,823	\$402,188	\$220,739

**Pension Plan Fiduciary Net Position**

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org).

**REGION FIVE DEVELOPMENT COMMISSION  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 4 OTHER NOTES (Continued)**

**4.B. OPERATING LEASE AGREEMENTS**

Effective October 1, 2016, Region Five Development Commission renewed its agreement with Todd County to lease office space. Rental expense totaled \$20,000 for the year ended June 30, 2018.

At June 30, 2018, estimated future minimum lease payments under this lease are as follows:

Year Ended June 30,	Amount
2019	\$ 20,000
2020	20,000
2021	10,000

**4.C. RELATED PARTY TRANSACTIONS**

The Commission has entered into several agreements with North Central Economic Development Association, Inc. to manage the Association's revolving loan fund programs. Related to these agreements and due to funds advanced for issuing a loan receivable, related party receivables at June 30, 2018 are as follows:

	June 30, 2018
Due from North Central Economic Development Association, Inc.	\$ 34,740
Notes Receivable Due from North Central Economic Development Association, Inc.	3,501
Total Related Party Receivables	\$ 38,241

Related to these agreements, related party payables at June 30, 2018 are as follows:

Due to North Central Economic Development Association, Inc.	\$ 134
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Under these agreements, the Commission contracts with North Central Economic Development Association, Inc. in conducting its administrative duties such as clerical support, loan packaging and accounting. For the year ended June 30, 2018, administrative revenues related to these duties are as follows:

Administrative Revenues	\$ 68,900
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**4.D. COMPONENT UNIT INFORMATION**

**Cash and Cash Equivalents**

Component unit cash and cash equivalents at June 30, 2018 consists of the following:

	2018
Checking and Savings Accounts	\$ 222,758
Money Market Funds	49,692
Total	\$ 272,450

**REGION FIVE DEVELOPMENT COMMISSION  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 JUNE 30, 2018**

**NOTE 4 OTHER NOTES (Continued)**

**4.D. COMPONENT UNIT INFORMATION (Continued)**

**Cash and Cash Equivalents (Continued)**

The component unit had no uninsured deposits at June 30, 2018.

**Loans Receivable**

Loans receivable consist of loans to various business enterprises in the allowable five county area. Loans receivable are secured by one or more of the following: accounts receivable, inventory, equipment, real estate and personal guarantees. Interest income is accrued on the unpaid principal balance. Related fees are recorded as earned.

The component unit's loans receivable and related loan loss reserve at June 30, 2018 consist of the following:

	2018
Loans Receivable	\$ 1,777,166
Less: Allowance for Loan Loss	58,887
	1,718,279
Less: Current Maturities	399,526
Loans Receivable, Less Current Maturities and Allowance	\$ 1,318,753

**Capital Assets**

Component unit capital asset activity for the year ended June 30, 2018 is as follows:

	2018
Equipment	\$ 11,100
Less: Accumulated Depreciation	(11,100)
Net Property and Equipment	\$ -

Depreciation expense is \$0.

**REGION FIVE DEVELOPMENT COMMISSION  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 4 OTHER NOTES (Continued)**

**4.D. COMPONENT UNIT INFORMATION (Continued)**

**Noncurrent Liabilities**

As of June 30, 2018, the long-term debt of the component unit consists of the following:

Note Payable - USDA; Original Principal \$400,000; Dated December 2011; Maturity date December 2031; Interest rate 2.00%, Monthly payments of \$2,240.	\$ 317,432
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.	8,838
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.	20,329
Note Payable - MN DEED; Original Principal \$5,000; Dated April 2017; Maturity date June 2022; Interest rate 0.00%, Monthly principal payments from loan clients passed through to DEED as received until fully repaid, Unsecured.	4,363
Note Payable - Related Organization; Original Principal \$10,534; Dated July 2012; Maturity date July 2022; Interest rate 1.00%, Monthly payments of \$92.	3,501
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.	34,000
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.	11,955
Note Payable - MN DEED; Original Principal \$16,000; Dated March 2018; Maturity date April 2023; Interest rate 0.00%, Monthly principal payments from loan clients passed through to DEED as received until fully repaid, Unsecured.	16,000
Total Long-Term Debt	416,418
Less: Current Portion	39,921
Long-Term Portion of Long-Term Debt	\$ 376,497

**REGION FIVE DEVELOPMENT COMMISSION  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 4 OTHER NOTES (Continued)**

**4.D. COMPONENT UNIT INFORMATION (Continued)**

**Noncurrent Liabilities (Continued)**

At June 30, 2018, component unit estimated future payment obligations are as follows:

Years Ending June 30,	Principal	Interest	Total
2019	\$ 39,923	\$ 6,188	\$ 46,111
2020	38,675	5,759	44,434
2021	40,127	5,322	45,449
2022	39,931	4,880	44,811
2023	28,185	4,435	32,620
Thereafter	<u>229,577</u>	<u>18,458</u>	<u>248,035</u>
Totals	<u>\$ 416,418</u>	<u>\$ 45,042</u>	<u>\$ 461,460</u>

**Contingencies**

The component unit 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 component unit's compliance with applicable grant requirements will be established at a future date. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the component unit anticipates such amounts, if any, will be immaterial.

The microlending program is a \$400,000 grant that was received from the U.S. Department of Agriculture for the purpose of issuing loans to businesses to finance approved rural economic development projects. This grant is to be repaid over 20 years with final maturity on December 1, 2031. In addition, the component unit 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 \$287,557 was outstanding as microlending loans receivable from various businesses. An allowance of \$13,693 has been established. In the current year, \$89,868 of loans previously written off were recovered. In the event that the microlending loan receivables of \$287,557 result in default, the loan loss reserve including interest of \$24,270 would partially cover these losses. The component unit is exposed to a potential loss of \$263,287.

**Concentration**

The component unit receives a majority of its revenues from interest income on loans receivable and origination fees on new borrowings. All of their customers are within the designated five county area of Cass, Crow Wing, Morrison, Todd and Wadena counties.

**Commitments**

The component unit had loan funds of \$22,090 committed for new loans in the Household Water Well System Fund, \$5,000 in the Entrepreneur Lending Program Fund, and \$5,000 in the Microlending Fund.

**REGION FIVE DEVELOPMENT COMMISSION  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 4 OTHER NOTES (Continued)**

**4.D. COMPONENT UNIT INFORMATION (Continued)**

**Subsequent Events**

In accordance with FASB ASC Topic 885, *Subsequent Events*, the component unit has evaluated subsequent events through October 8, 2018, which is the date its financial statements were available to be issued, and have determined there are no subsequent events that require recognition or disclosure.

**4.E. CONTINGENCIES**

The Commission participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Commission has not complied with the rules and regulations governing the grant, refunds of money received may be required and the collectability of any related receivable at June 30, 2018, may be impaired. In the opinion of the Commission, there are no significant contingent liabilities relating to the compliance with the rules and regulations governing the respective grants; therefore, no provisions have been recorded in the accompanying combined financial statements for such contingencies.

**4.F. RISK MANAGEMENT**

The Commission is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To manage these risks, the Commission purchases commercial insurance. The Commission retains risk for the deductible portions of the insurance. The amounts of these deductibles are considered immaterial to the financial statements. There were no significant reductions in insurance from the previous year settlements in excess of insurance for any of the past two years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include amounts for claims that have been incurred but not reported (IBNRs). The Commission's management is not aware of any incurred but not reported claims.

**REQUIRED SUPPLEMENTARY  
INFORMATION**

**REGION FIVE DEVELOPMENT COMMISSION  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual Amounts Budgetary	Variance with Final Budget Over
	Original	Final	Basis	(Under)
<b>RESOURCES (INFLOWS):</b>				
Property Taxes	\$ 328,395	\$ 328,395	\$ 329,038	\$ 643
Contract Income	229,500	167,000	45,078	(121,922)
Federal Sources	125,000	177,004	216,129	39,125
State Sources	108,216	94,216	92,338	(1,878)
Local Sources	15,000	154,972	463,693	308,721
Charges for Services	89,050	89,598	69,014	(20,584)
Investment Income	500	500	4,825	4,325
Miscellaneous	-	-	2,472	2,472
<b>AMOUNTS AVAILABLE</b>	<u>895,661</u>	<u>1,011,685</u>	<u>1,222,587</u>	<u>210,902</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
Current:				
Management and Administration	279,845	279,756	558,518	278,762
Community and Economic Development	519,823	642,342	677,473	35,131
Transportation	86,331	85,766	80,771	(4,995)
Debt Service:				
Principal	-	-	91,173	91,173
<b>TOTAL CHARGES</b>	<u>885,999</u>	<u>1,007,864</u>	<u>1,407,935</u>	<u>400,071</u>
<b>BUDGETARY CHANGE IN FUND BALANCE</b>	<u>\$ 9,662</u>	<u>\$ 3,821</u>	<u>\$ (185,348)</u>	<u>\$ (189,169)</u>

**REGION FIVE DEVELOPMENT COMMISSION**  
**SCHEDULE OF PROPORTIONATE**  
**SHARE OF NET PENSION LIABILITY**  
**LAST TEN YEARS** (Presented Prospectively)

For the Measurement Year Ended June 30,	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with the Entity (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with the Entity (a+b)	Employer's Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
<b><i>General Employees Retirement Fund Pension Plan</i></b>							
2017	0.0063%	\$ 402,188	\$ 5,057	\$ 407,245	\$ 405,853	100.3%	75.9%
2016	0.0057%	\$ 462,812	\$ 5,967	\$ 468,779	\$ 350,734	133.7%	68.9%
2015	0.0054%	\$ 279,856	\$ -	\$ 279,856	\$ 320,652	87.3%	78.2%
2014	0.0064%	\$ 300,620	\$ -	\$ 300,620	\$ 341,610	88.0%	78.7%

Note: Schedule is provided prospectively beginning with the Commission's fiscal year ended June 30, 2015 (June 30, 2014 measurement period) and is intended to show a then year trend. Additional years will be reported as they become available.

**REGION FIVE DEVELOPMENT COMMISSION**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**  
**LAST TEN YEARS (Presented Prospectively)**

For the Year Ended June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percentage of Covered Payroll
<b><i>General Employees Retirement Fund Pension Plan</i></b>					
2018	\$ 35,550	\$ 35,550	\$ -	\$ 474,001	7.5%
2017	\$ 30,439	\$ 30,439	\$ -	\$ 405,853	7.5%
2016	\$ 26,308	\$ 26,308	\$ -	\$ 350,734	7.5%
2015	\$ 23,623	\$ 23,623	\$ -	\$ 320,652	7.4%

The schedule is provided prospectively beginning with the Commission's fiscal year ended June 30, 2015 and is intended to show a ten year trend. Additional years will be reported as they become available.

**REGION FIVE DEVELOPMENT COMMISSION**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2018**

**NOTE 1 PUBLIC EMPLOYEES RETIREMENT PLAN – GENERAL EMPLOYEES FUND**

**2017 Changes**

Changes in Actuarial Assumptions

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

**2016 Changes**

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, the inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

**2015 Changes**

Changes in Plan Provisions

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised.

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2030 and 2.5% per year thereafter to 1.0% per year through 2035 and 2.5% per year thereafter.

## **OTHER REQUIRED REPORTS**

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

October 22, 2018

Board of Commissioners  
Region Five Development Commission  
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 the governmental activities, the aggregate discretely presented component unit and the General Fund of Region Five Development Commission (the Commission) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Region Five Development Commission's basic financial statements and have issued our report thereon dated October 22, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Region Five Development Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying *Schedule of Findings and Questioned Costs*, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 Commission's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies described in the accompanying *Schedule of Findings and Questioned Costs* to be material weaknesses: 2006-001 and 2017-001.

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

## **Commission's Response to Findings**

The Commission's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs and Corrective Action Plans. The Commission's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on 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 Commission's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**SCHLENNER WENNER & CO.**  
St. Cloud, Minnesota

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

October 22, 2018

Board of Commissioners  
Region Five Development Commission  
Staples, Minnesota

**Report on Compliance for Each Major Federal Program**

We have audited Region Five Development Commission's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Region Five Development Commission's major federal programs for the year ended June 30, 2018. Region Five Development Commission's major federal programs are identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*.

**Management's Responsibility**

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

**Auditors' Responsibility**

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

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

**Opinion on Each Major Federal Program**

In our opinion, Region Five Development Commission complied, in all material effects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major programs for the year ended June 30, 2018.

## **Report on Internal Control over Compliance**

Management of Region Five Development Commission 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 Region Five Development Commission'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 Region Five Development Commission's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a certain deficiency in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as item 2018-001, that we consider to be a significant deficiency.

Region Five Development Commission's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Region Five Development Commission's response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

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

**INDEPENDENT AUDITORS' REPORT ON  
MINNESOTA LEGAL COMPLIANCE**

October 22, 2018

Board of Commissioners  
Region Five Development Commission  
Staples, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the governmental activities, the business-type activities and the General Fund of Region Five Development Commission (the Commission) as of and for the year ended June 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated October 22, 2018.

The *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statute Section 6.65, contains five categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements and miscellaneous provisions. Our audit considered all of the listed categories.

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

This report is intended for the information and use of the Commission Council and management of the Region Five Development Commission, and the State Auditor and is not intended to be, and should not be, used by anyone other than these specified parties.

**SCHLENNER WENNER & CO.**  
St. Cloud, Minnesota

**REGION FIVE DEVELOPMENT COMMISSION  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2018**

Federal Grantor/Pass Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Expenditures
U.S. DEPARTMENT OF COMMERCE		
Economic Development Administration		
Economic Development Support for Planning Organizations	11.302	\$ 51,616
Economic Adjustment Assistance - Revolving Loan Fund	11.307	<u>1,163,734</u>
Total U.S. DEPARTMENT OF COMMERCE		<u>1,215,350</u>
U.S. DEPARTMENT OF AGRICULTURE		
Direct Programs		
Rural Business Development Grant	10.351	52,004
Rural Community Cooperative Agreement	10.890	112,509
Rural Microentrepreneur Assistance Program	10.870	<u>372,370</u>
Total DEPARTMENT OF AGRICULTURE		<u>536,883</u>
TOTAL FEDERAL EXPENDITURES		<u>\$ 1,752,233</u>

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

Balance of Loans Outstanding	\$ 1,294,419
Cash and Investment Balance	168,270
Administrative Expenses Paid Out of Income	68,064
Unpaid Principal of Loans Written Off	<u>20,892</u>
	1,551,645
Federal Percentage of Loan Funds	<u>75.00 %</u>
Federal Expenditures	<u>\$ 1,163,734</u>

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

Balance of USDA Loan	\$ 336,070
Current Year Expenditures	<u>36,300</u>
Federal Expenditures	<u>\$ 372,370</u>

**REGION FIVE DEVELOPMENT COMMISSION  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2018**

**NOTE 1: SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Region Five Development Commission under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of 2 CFR Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Region Five Development Commission, it is not intended to, and does not, present the financial position, changes in net position or cash flows of Region Five Development Commission.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the modified 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. Region Five Development Commission 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., the component unit. Balances and transactions relating to this program are included in the Commission'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, 2018 consist of:

<u>Program</u>	<u>Federal CFDA Number</u>	<u>Balance Outstanding</u>
Rural Microenterprise Assistance Program	10.870	\$ 317,432

**NOTE 4: SUBRECIPIENTS**

The Commission did not pass through any federal funds to subrecipients during the year ended June 30, 2018.

**NOTE 5: PASS-THROUGH IDENTIFIER**

The Commission's pass-through identifier is unknown.



**REGION FIVE DEVELOPMENT COMMISSION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2018**

**SECTION II: FINANCIAL STATEMENT FINDINGS**

**Finding 2006-001 Limited Segregation of Duties**

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

*Criteria:* Internal control that supports the Commission'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 Commission'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 Commission evaluate current procedures and segregate where possible and implement compensating controls.

*Views of Responsible  
Officials and Planned  
Corrective Actions:*

Management agrees with our recommendation.

**Finding 2007-002 Financial Reporting**

*Condition:* Schlenner Wenner & Co. drafted the audited financial statements and related footnote disclosures for the Commission. 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 Commission'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 Commission may not have adequate controls in place to eliminate this finding, the Commission should adopt a formal written internal control policy to document its annual review of the financial statements.

*Views of Responsible  
Officials and Planned  
Corrective Actions:*

Management agrees with our recommendation.

**REGION FIVE DEVELOPMENT COMMISSION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2018**

**SECTION II: FINANCIAL STATEMENT FINDINGS (Continued)**

**Finding 2017-001    Material Audit Adjustments**

*Condition:*                    Audit adjustments were required to correct material misstatements identified in the trial balance presented for the audit.

*Criteria:*                     The Commission is required to report accurate financial information.

*Cause:*                        The Commission has not established controls to ensure all accounts are adjusted to their proper year-end balances in accordance with accounting principles generally accepted in the United States of America.

*Effect:*                        The misstatements in the trial balance presented for the audit resulted in the need to record audit adjustments to achieve fair presentation under accounting principles generally accepted in the United States of America.

*Recommendation:*        We recommend management perform a thorough review of the trial balance prior to the audit and ensure all accounts have been properly adjusted at year-end.

*Views of Responsible  
Officials and Planned  
Corrective Actions:*        Management agrees with our recommendation.

**REGION FIVE DEVELOPMENT COMMISSION  
FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2018**

**SECTION III: FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**Finding 2018-001 Internal Controls Over Compliance With Cash Management, Allowable Costs, and Procurement**

*Federal Program:* This finding pertains to all Federal Programs.

*Condition:* The Region Five Development Commission (the Commission) does not have documented written controls to ensure compliance with the U.S. Office of Management and Budget’s (OMB) *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), in regards to cash management, allowable costs, and procurement procedures.

*Criteria:* 2 CFR § 200.302(b) requires the Commission to have written cash management procedures, which includes procedures for determining the allowability of costs in accordance with 2 CFR 200 Subpart E – Cost Principles. Additionally, 2 CFR § 318(a), requires the Commission to formally document procedures used for procurements made within federal programs, to demonstrate compliance with Uniform Guidance.

*Cause:* The Commission’s policies and procedures had not been formally drafted and updated in written form.

*Effect:* The failure to have written policies and procedures resulted in the Commission’s noncompliance with the requirements of the Uniform Guidance.

*Context:* This is a general requirement that pertains to all federal grants. This was not identified via sampling procedures.

*Questioned Costs:* None identified.

*Recommendation:* We recommend the Commission review the Electronic Code of Federal Regulations, particularly the sections referenced above, to obtain a better understanding of the related requirements under Uniform Guidance. Based on this understanding, we recommend the Commission adopt written policies and procedures pertaining to cash management, determining the allowability of costs, and procurement procedures for all federal programs.

*Views of Responsible Officials and Planned Corrective Actions:* Management agrees with our recommendation. See corresponding Corrective Action Plan.

**REGION FIVE DEVELOPMENT COMMISSION  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2018**

No federal awards findings were reported in the prior year.

Findings 2006-001, 2007-002 and 2017-001, 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*.

**REGION FIVE DEVELOPMENT COMMISSION  
CORRECTIVE ACTION PLANS  
FOR THE YEAR ENDED JUNE 30, 2018**

**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 Commission is aware of the limited segregation of duties and will continue to review internal controls and make changes when they can be made.
3. Official Responsible  
Cheryal Hills, Executive Director, is the official responsible for ensuring corrective action.
4. Planned Completion Date  
The Corrective Action Plan will be reviewed on an ongoing basis with no anticipated completion date.
5. Plan to Monitor Completion  
The Board of Commissioners will be monitoring this 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 Commission may not have the ability to prepare the financial statements in its entirety, it will continue to do thorough reviews of the financial statements.
3. Official Responsible  
Cheryal Hills, Executive Director, is the official responsible for ensuring corrective action.
4. Planned Completion Date  
The Corrective Action Plan will be reviewed on an ongoing basis with no anticipated completion date.
5. Plan to Monitor Completion  
The Board of Commissioners will be monitoring this Corrective Action Plan

**REGION FIVE DEVELOPMENT COMMISSION  
CORRECTIVE ACTION PLANS  
FOR THE YEAR ENDED JUNE 30, 2018**

**FINANCIAL STATEMENT FINDINGS (Continued)**

**Finding 2017-001 Material Audit Adjustments**

1. Explanation of Disagreement with Audit Finding  
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding  
The Commission will do a more thorough review of the trial balance prior to the audit.
3. Official Responsible  
Cheryal Hills, Executive Director, is the official responsible for ensuring corrective action.
4. Planned Completion Date  
The Corrective Action Plan will be reviewed on an ongoing basis with no anticipated completion date.
5. Plan to Monitor Completion  
The Board of Commissioners will be monitoring this Corrective Action Plan

**FEDERAL AWARDS FINDINGS**

**Finding 2018-001 Internal Controls Over Compliance With Cash Management, Allowable Costs, and Procurement**

1. Explanation of Disagreement with Audit Finding  
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding  
The Commission will adopt the referenced policies in order to comply with Uniform Guidance.
3. Official Responsible  
Cheryal Hills, Executive Director, is the official responsible for ensuring corrective action.
4. Planned Completion Date  
June 30, 2019.
5. Plan to Monitor Completion  
The Board of Commissioners will monitor this Corrective Action Plan.