

REGION FIVE DEVELOPMENT COMMISSION

FINANCIAL STATEMENTS

JUNE 30, 2011

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

REGION FIVE DEVELOPMENT COMMISSION

TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2011

	<u>PAGE</u>
BOARD OF COMMISSIONERS	1
INDEPENDENT AUDITOR'S REPORT	2-3
REQUIRED SUPPLEMENTARY INFORMATION	
Management's Discussion and Analysis	4-10
BASIC FINANCIAL STATEMENTS	
Statement of Net Assets	11
Statement of Activities	12
Balance Sheet - Governmental Fund	13
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets	14
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Fund	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund	17
Statement of Fiduciary Net Assets	18
Notes to the Financial Statements	19-33
SUPPLEMENTARY INFORMATION	
Schedule of Expenditures of Federal Awards	34
Notes to Schedule of Expenditures of Federal Awards	35
COMPLIANCE	
Independent Auditor's Report on Minnesota Legal Compliance	36
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	37-38

REGION FIVE DEVELOPMENT COMMISSION

TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2011

	<u>PAGE</u>
Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	39-40
Schedule of Findings and Questioned Costs	41-43

REGION FIVE DEVELOPMENT COMMISSION

BOARD OF COMMISSIONERS
JUNE 30, 2011

<u>Officer</u>	<u>Position</u>	<u>Term Expires</u>
Mark Blessing	Chairperson	January 1, 2014
Robert Kangas	Vice-Chairperson	January 1, 2012
Brian Lehman	Secretary	January 31, 2013
Alan Perish	Treasurer	April 30, 2013
Tom Wenzel	Director	January 25, 2013
Bill Kern	Director	November 1, 2013
Sharon Ballou	Director	February 28, 2014
 <u>Board Members</u>		
Lucy Nesheim		January 25, 2013
Rosemary Franzen		January 31, 2012
Gary Greenheck		April 28, 2014
Maxine Norman		February 26, 2012
Craig Nathan		June 25, 2012
Andrea Lauer		August 27, 2012
Chuck Parins		June 24, 2013
Katy Botz		September 23, 2013
Rebecca Best		January 1, 2014
John Benson		January 27, 2014
Lane Waldahl		January 31, 2014
Joel Quance		March 27, 2014
Chris Bedeau		March 24, 2014
Paul Nieman Jr.		April 15, 2014
Mark Platta		April 21, 2014
Robert Becker		April 14, 2014

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Region Five Development Commission
Staples, Minnesota

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, the major fund, and aggregate remaining fund information of Region Five Development Commission as of and for the year ended June 30, 2011, which collectively comprise the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Region Five Development Commission's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the Commission's 2010 financial statements and, in our report dated October 28, 2010, we expressed unqualified opinions on the respective financial statements of the governmental activities, the discretely presented component unit, and the major fund.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, the major fund, and aggregate remaining fund information of Region Five Development Commission as of June 30, 2011, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in the notes to the financial statements, the Commission adopted the provisions of Governmental Accounting Standards Board Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions* for the year ended June 30, 2011. Adoption of the provisions of Statement 54 results in significant changes to the classifications of the components of fund balance.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2011, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 10 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Region Five Development Commission's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

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

October 27, 2011

REQUIRED SUPPLEMENTARY INFORMATION

REGION FIVE DEVELOPMENT COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Region Five Development Commission (the Commission) we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Commission for the fiscal year ended June 30, 2011. This section of the Commission's annual financial report represents management's discussion and analysis of the Commission's financial performance during the fiscal year that ended June 30, 2011. Please read it in conjunction with the Commission's audited financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the Commission exceeded its liabilities at the close of the fiscal year by \$1,487,499 (net assets), of which 98 percent is restricted in use.
- The net assets of the Commission's governmental activities increased by \$10,835.
- The Commission's capital assets (net of accumulated depreciation) were \$0 as of June 30, 2011.
- The Commission received \$260,069 in tax levy revenue for the fiscal year ended June 30, 2011.
- As of the close of the current fiscal year, the General Fund reported an ending fund balance of \$278,523, a decrease of \$16,483 in comparison with the prior year. Of this balance is \$131,597 is nonspendable, \$8,085 is committed, and \$138,841 is available for spending at the Commission's discretion (unassigned fund balance).

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

REGION FIVE DEVELOPMENT COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW OF THE FINANCIAL STATEMENTS (Cont'd)

The Commission adopts an annual budget for its general fund. Budgetary comparison statements of the general fund have been provided to demonstrate compliance with the budget. The budgetary comparison statement can be found on page 17 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19-33 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Commission, assets exceeded liabilities by \$1,487,499 at June 30, 2011, as compared with assets exceeding liabilities of \$1,365,495 at June 30, 2010. Approximately zero percent of the Commission's net assets reflect its investment in capital assets (computers, furniture and fixtures). The Commission uses these capital assets to operate and to provide services; consequently these assets are not available for future spending.

The following tables reflect the condensed Statements of Net Assets.

REGION FIVE DEVELOPMENT COMMISSION Statements of Net Assets			
	Governmental Activities <u>2011</u>	Component Unit <u>2011</u>	Total <u>2011</u>
Current and Other Assets	\$ 743,105	\$ 1,472,260	\$ 2,215,365
Current and Other Liabilities	\$ 357,131	\$ 21,379	\$ 378,510
Long-Term Liabilities	349,357		349,357
Total Liabilities	<u>706,487</u>	<u>21,379</u>	<u>727,866</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt			
Restricted			
Revolving Loan Fund		1,429,943	1,429,943
Household Water Well System Fund		20,938	20,938
Undesignated	36,618		36,618
Total Net Assets	<u>36,618</u>	<u>1,450,881</u>	<u>1,487,499</u>
Total Liabilities and Net Assets	<u>\$ 743,105</u>	<u>\$ 1,472,260</u>	<u>\$ 2,215,365</u>

The \$36,618 of undesignated net assets may be used to meet the Commission's ongoing obligations.

REGION FIVE DEVELOPMENT COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Cont'd)

REGION FIVE DEVELOPMENT COMMISSION Statements of Net Assets			
	Governmental Activities	Component Unit	Total
	<u>2010</u>	<u>2010</u>	<u>2010</u>
Current and Other Assets	\$ 508,454	\$ 1,343,791	\$ 1,852,245
Capital Assets (Net of Accumulated Depreciation of \$100,374)	169		169
Total Assets	<u>\$ 508,623</u>	<u>\$ 1,343,791</u>	<u>\$ 1,852,414</u>
Current and Other Liabilities	\$ 99,845	\$ 4,079	\$ 103,924
Long-Term Liabilities	382,995		382,995
Total Liabilities	<u>482,840</u>	<u>4,079</u>	<u>486,919</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	169		169
Restricted for Revolving Loan Fund		1,339,712	1,339,712
Undesignated	25,614		25,614
Total Net Assets	<u>25,783</u>	<u>1,339,712</u>	<u>1,365,495</u>
Total Liabilities and Net Assets	<u>\$ 508,623</u>	<u>\$ 1,343,791</u>	<u>\$ 1,852,414</u>

REGION FIVE DEVELOPMENT COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Cont'd)

Net assets of the Commission's governmental activities increased by \$10,835. The following table indicates the changes in net assets for the Commission's governmental activities:

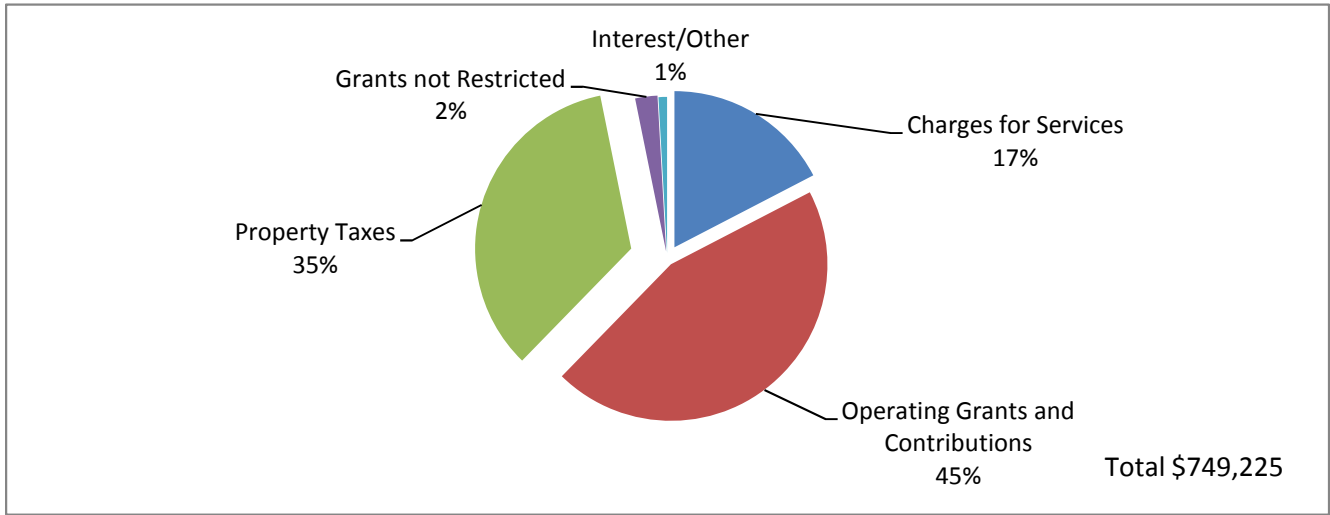
The following tables reflect the condensed Statements of Activities.

REGION FIVE DEVELOPMENT COMMISSION Statements of Activities			
	Governmental Activities	Component Unit	Total
	2011	2011	2011
REVENUES			
Program Revenues			
Charges for Services	\$ 130,775	\$ 165,862	\$ 296,637
Operating Grants and Contributions	338,766		338,766
General revenues			
Property Taxes	260,069		260,069
Grants and Contributions not Restricted	17,284		17,284
Interest Earnings	740	2,454	3,194
Other	6,080		6,080
Total Revenues	<u>753,713</u>	<u>168,316</u>	<u>922,029</u>
EXPENSES			
Management and Administration	292,116		292,116
Community/Economic Development	159,159	57,147	216,306
Human Services	16,509		16,509
Transportation	50,554		50,554
Regional Planning	224,540		224,540
Interest	-		-
Total Expenses	<u>742,878</u>	<u>57,147</u>	<u>800,025</u>
Change in Net Assets	10,835	111,169	122,004
Net Assets, Beginning of Year	<u>25,783</u>	<u>1,339,712</u>	<u>1,365,495</u>
Net Assets, End of Year	<u>\$ 36,618</u>	<u>\$ 1,450,881</u>	<u>\$ 1,487,499</u>

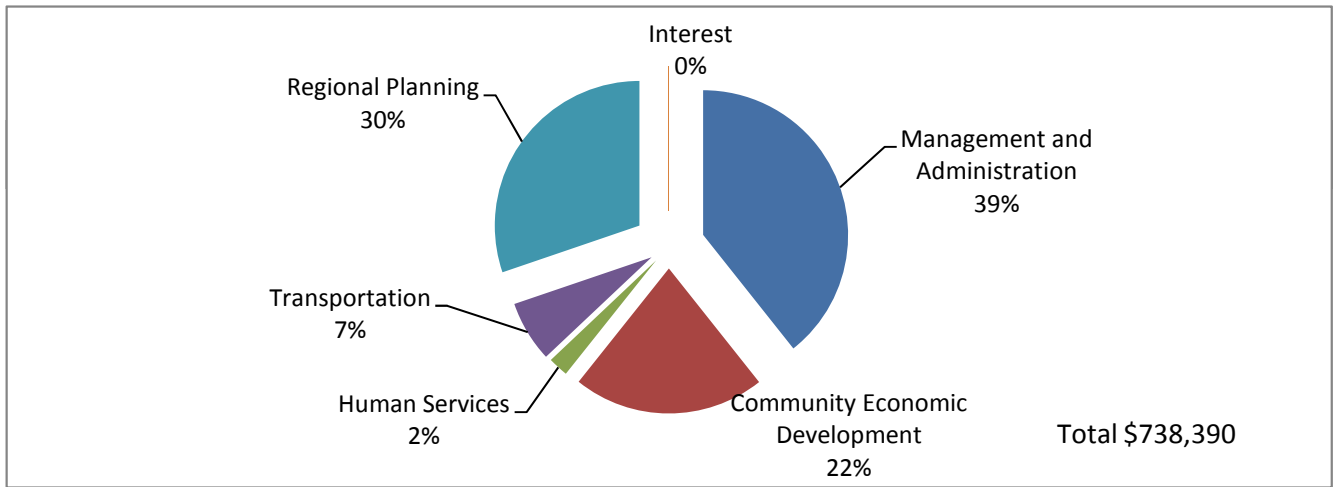
REGION FIVE DEVELOPMENT COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Cont'd)

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



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



REGION FIVE DEVELOPMENT COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Cont'd)

REGION FIVE DEVELOPMENT COMMISSION Statements of Activities			
	Governmental Activities	Component Unit	Total
	2010	2010	2010
REVENUES			
Program Revenues			
Charges for Services	\$ 116,066	\$ 75,415	\$ 191,481
Operating Grants and Contributions	158,707		158,707
General revenues			
Property Taxes	215,247		215,247
Grants and Contributions not Restricted	16,807		16,807
Interest Earnings	2,602	4,134	6,736
Other	150		150
Total Revenues	509,580	79,549	589,129
EXPENSES			
Management and Administration	270,501		270,501
Community/Economic Development	159,691	127,878	287,569
Human Services	15,846		15,846
Transportation	71,995		71,995
Interest	8,884		8,884
Total Expenses	526,917	127,878	654,795
Change in Net Assets	(17,337)	(48,329)	(65,666)
Net Assets, Beginning of Year	43,120	1,388,041	1,431,161
Net Assets, End of Year	\$ 25,783	\$ 1,339,712	\$ 1,365,495

FUND LEVEL FINANCIAL ANALYSIS

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

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

REGION FIVE DEVELOPMENT COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

FUND LEVEL FINANCIAL ANALYSIS (Cont'd)

The governmental fund financial statements can be found on pages 13-17 of this report.

General Fund - As of the end of the current fiscal year, the Commission's general fund reported an ending fund balance of \$278,523, a decrease of \$16,483, in comparison with \$295,006 at June 30, 2010. Of this balance \$131,597 is nonspendable, \$8,085 is committed, and \$138,841 constitutes the unassigned fund balance, which is available for spending at the Commission's discretion. See Note 10 the Notes to Financial Statements for more information.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Commission adopted an amended budget with a recovery of \$1,230 to replace it's originally adopted budget. The following is a review of significant differences between budget and actual.

- The actual expenditures for general government were over budget by \$46,887.
- The actual revenue received was \$29,174 over budget.
- The actual revenue over expenditures was \$17,713 under the amended budget.

CAPITAL ASSETS

At June 30, 2011, the Commission had \$95,923 invested in capital assets. Refer to Note 5 of the Notes to the Financial Statements for a schedule showing the Commission's capital asset activity.

LONG-TERM DEBT

At year-end, the Commission had \$382,970 in notes payable outstanding. Refer to Note 7 of the Notes to the Financial Statements for a schedule showing the Commission's long-term debt activity.

NEXT YEAR'S BUDGET CONSIDERATIONS

In consideration of the differences between the Fiscal Year 2012 budget numbers versus actual, the Fiscal Year 2012 budget has considered additional employees and additional time needed for contractual arrangements should key personnel take a leave of absence.

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. Delivery of numerous programs that are in "program development" such as PACE, Brownfield redevelopment and administration of grants dealing with municipal wastewater treatment facility upgrades, arts related projects and broadband related development could dramatically change the budget and financial statements and would require amendments to the budget.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

REGION FIVE DEVELOPMENT COMMISSION

STATEMENT OF NET ASSETS
 JUNE 30, 2011
 WITH PARTIAL COMPARATIVE AMOUNTS AS OF JUNE 30, 2010

	Primary Government	Component Unit North Central Economic Development Association	Total Reporting Entity	
	Governmental Activities		2011	2010
ASSETS				
Cash	\$ 361,708	\$ 405,625	\$ 767,333	\$ 627,372
Property Taxes Receivable	136,613		136,613	155,747
Accounts Receivable	9,292	496	9,788	14,281
Grant Revenue Receivable		5,709	5,709	
Due From Related Organization	19,614		19,614	4,790
Accrued Interest Receivable	39		39	85
Due From Other Governments	84,243		84,243	13,638
Prepaid Expenses	7,180		7,180	8,619
Loans Receivable, Net of Allowance	124,416	1,060,430	1,184,846	1,153,698
Capital Assets, Net of Depreciation				168
Total Assets	\$ 743,105	\$ 1,472,260	\$ 2,215,365	\$ 1,978,398
LIABILITIES AND NET ASSETS				
Liabilities				
Accounts Payable	\$ 72,883	\$ 1,765	\$ 74,648	\$ 10,275
Due to Related Organization		19,614	19,614	4,790
Salaries Payable	5,656		5,656	3,682
Accrued Interest Payable	709		709	7,428
Unearned Revenue	187,918		187,918	126,304
ISTS County Reserve Payable	56,352		56,352	56,002
Compensated Absences Payable, Due Within One Year	3,875		3,875	2,101
Loans Payable, Due Within One Year	29,738		29,738	19,326
Compensated Absences Payable, Due in More Than One Year	24,535		24,535	19,800
Loans Payable, Due in More Than One Year	324,822		324,822	363,195
Total Liabilities	706,487	21,379	727,866	612,903
Net Assets				
Invested in Capital Assets				168
Restricted				
Revolving Loan		1,429,943	1,429,943	1,339,712
Household Water Well		20,938	20,938	
Unrestricted	36,618		36,618	25,614
Total Net Assets	36,618	1,450,881	1,487,499	1,365,494
Total Liabilities and Net Assets	\$ 743,105	\$ 1,472,260	\$ 2,215,365	\$ 1,978,398

See Accompanying Notes to the Financial Statements

REGION FIVE DEVELOPMENT COMMISSION

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2011

WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2010

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Fees, Charges Fines and, Other	Operating Grants and Contributions	Primary Government	Component Unit	Total Reporting Entity	
				Governmental Activities	North Central Economic Development Association	2011	2010
GOVERNMENTAL ACTIVITIES							
Management and Administration	\$ 292,116	\$ 2,000	\$ 2,924	\$ (287,192)	\$	\$ (287,192)	\$ (267,096)
Community and Economic							
Development	159,159	122,251	71,601	34,692		34,692	38,217
Human Services	16,509	6,524		(9,985)		(9,985)	(3,951)
Transportation	50,554		79,640	29,086		29,086	(10,430)
Regional Planning	224,540		184,600	(39,940)		(39,940)	
Interest							(8,884)
Total Governmental Activities	<u>\$ 742,877</u>	<u>\$ 130,775</u>	<u>\$ 338,766</u>	(273,338)	0	(273,338)	(252,143)
Component Unit							
North Central Economic Development Association	<u>\$ 57,147</u>	<u>\$ 165,862</u>	<u>\$ 0</u>		108,715	108,715	(48,329)
GENERAL REVENUES							
Taxes							
Property Taxes, Levied for General Purpose				260,069		260,069	215,247
Grants and Contributions not Restricted for a Particular Purpose				17,284		17,284	16,807
Interest Earnings				740	2,454	3,194	2,602
Other				6,080		6,080	150
Total General Revenues				<u>284,173</u>	<u>2,454</u>	<u>286,627</u>	<u>234,806</u>
Change in Net Assets				10,835	111,169	122,004	(65,666)
NET ASSETS, BEGINNING OF YEAR				<u>25,783</u>	<u>1,339,712</u>	<u>1,365,495</u>	<u>1,431,161</u>
NET ASSETS, END OF YEAR				<u>\$ 36,618</u>	<u>\$ 1,450,881</u>	<u>\$ 1,487,499</u>	<u>\$ 1,365,495</u>

See Accompanying Notes to the Financial Statements

REGION FIVE DEVELOPMENT COMMISSION

BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2011

WITH PARTIAL COMPARATIVE AMOUNTS AS OF JUNE 30, 2010

	General Fund	Totals	
		2011	2010
ASSETS			
Cash	\$ 361,708	\$ 361,708	\$ 313,758
Taxes Receivable			
Current	127,009	127,009	145,481
Delinquent	9,605	9,605	10,266
Accounts Receivable	9,291	9,291	14,281
Due from Related Organization	19,614	19,614	3,899
Accrued Interest Receivable	39	39	85
Due From Other Governments	84,243	84,243	13,638
Prepaid Expenses	7,181	7,181	8,619
Loans Receivable	124,416	124,416	124,412
Total Assets	<u>\$ 743,106</u>	<u>\$ 743,106</u>	<u>\$ 634,439</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts Payable	\$ 72,882	\$ 72,882	\$ 10,095
Due to Related Organization			891
Salaries Payable	5,656	5,656	3,682
Deferred Revenue	187,918	187,918	126,304
Deferred Revenue - Unavailable	141,774	141,774	142,458
ISTS County Reserve Payable	56,352	56,352	56,002
Total Liabilities	<u>464,582</u>	<u>464,582</u>	<u>339,432</u>
Fund Balance			
Nonspendable	7,181	7,181	133,031
Committed	8,085	8,085	3,085
Unassigned	263,258	263,258	158,891
Total Fund Balance	<u>278,524</u>	<u>278,524</u>	<u>295,007</u>
Total Liabilities and Fund Balance	<u>\$ 743,106</u>	<u>\$ 743,106</u>	<u>\$ 634,439</u>

See Accompanying Notes to the Financial Statements

REGION FIVE DEVELOPMENT COMMISSION

RECONCILIATION OF THE GOVERNMENTAL FUND
BALANCE SHEET TO THE STATEMENT OF NET ASSETS

JUNE 30, 2011

WITH PARTIAL COMPARATIVE AMOUNTS AS OF JUNE 30, 2010

	Governmental Activities	Totals	
		2011	2010
Total Fund Balance - Governmental Fund	\$ 278,524	\$ 278,524	\$ 295,007
<p>Amounts reported for governmental activities in the Statement of Net Assets are different because:</p>			
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.</p>			
Governmental Capital Assets	95,923	95,923	100,374
Less: Accumulated Depreciation	(95,923)	(95,923)	(100,205)
<p>Long-term debt is not due and payable in the current period and therefore are not reported as liabilities in the governmental funds.</p>			
Loans Payable	(354,560)	(354,560)	(382,522)
Compensated Absences	(28,411)	(28,411)	(21,901)
Accrued Interest Payable	(709)	(709)	(7,428)
<p>Some of the Commission's receivables, such as ISTS loans receivable (\$124,416), market value credit receivable reported as a portion of due from other governments (\$7,754) and delinquent taxes receivable (\$9,604) are reported as deferred revenue in the fund financial statements but are recognized as revenue when earned in the government wide statements.</p>			
	<u>141,774</u>	<u>141,774</u>	<u>142,458</u>
Total Net Assets - Governmental Activities	<u>\$ 36,618</u>	<u>\$ 36,618</u>	<u>\$ 25,783</u>

REGION FIVE DEVELOPMENT COMMISSION

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUND
 YEAR ENDED JUNE 30, 2011
 WITH PARIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2010

	General Fund	Totals	
		2011	2010
REVENUES			
Local Property Taxes	\$ 260,729	\$ 260,729	\$ 212,605
Principal Repayments	44,547	44,547	43,898
Contract Income	27,312	27,312	40,927
Intergovernmental	384,052	384,052	167,817
Charges for Services	69,743	69,743	75,139
Interest Earnings	740	740	2,602
Other	7,336	7,336	8,247
Total Revenues	794,459	794,459	551,235
EXPENDITURES			
Current			
Management and Administration	285,440	285,440	266,867
Community/Economic Development	159,160	159,160	159,693
Human Services	61,060	61,060	99,876
Transportation	50,549	50,549	71,995
Regional Planning	224,541	224,541	
Total Current	780,750	780,750	598,430
Debt Service			
Principal	27,961	27,961	27,430
Interest	2,231	2,231	2,570
Total Debt Service	30,192	30,192	30,000
Total Expenditures	810,942	810,942	628,430
Net Change in Fund Balance	(16,483)	(16,483)	(77,195)
FUND BALANCE, BEGINNING OF YEAR	295,007	295,007	372,202
FUND BALANCE, END OF YEAR	\$ 278,524	\$ 278,524	\$ 295,007

REGION FIVE DEVELOPMENT COMMISSION

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2010

	Governmental Activities	Totals	
		2011	2010
Total Net Change in Fund Balance - Governmental Funds	\$ (16,483)	\$ (16,483)	\$ (77,195)
Amounts reported for governmental activities in the Statement of Activities are different because:			
Capital outlay is reported in governmental funds as expenditures. However in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.			
Depreciation Expense	(169)	(169)	(1,352)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.			
	(684)	(684)	42,378
Changes in debt-related accruals are recorded as expenditures in the governmental fund, but increase or decrease liabilities in the Statement of Net Assets.			
Change in Compensated Absences	(6,509)	(6,509)	(2,282)
Change in Accrued Interest Payable	6,719	6,719	(6,315)
Net Change in Long-Term Notes Payable	27,961	27,961	27,431
Change in Net Assets in Governmental Activities	<u>\$ 10,835</u>	<u>\$ 10,835</u>	<u>\$ (17,336)</u>

REGION FIVE DEVELOPMENT COMMISSION

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 GENERAL FUND
 YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual	Over (Under) Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 245,756	\$ 245,756	\$ 260,729	\$ 14,973
Principal Repayments			44,547	44,547
Contract Income	57,325	36,800	27,312	(9,488)
Intergovernmental	185,710	418,979	384,052	(34,927)
Charges for Services	67,250	59,250	69,743	10,493
Interest Earnings	3,120	1,500	740	(760)
Other	2,500	3,000	7,336	4,336
Total Revenues	561,661	765,285	794,459	29,174
EXPENDITURES				
Current				
Management and Administration			285,440	
Community/Economic Development			159,160	
Human Services			61,060	
Transportation			50,549	
Regional Planning			224,541	
Total Current	559,051	754,055	780,750	26,695
Debt Service				
Principal			27,961	27,961
Interest and Fiscal Charges	2,600	10,000	2,231	(7,769)
Total Debt Service	2,600	10,000	30,192	20,192
Total Expenditures	561,651	764,055	810,942	46,887
Net Change in Fund Balance	\$ 10	\$ 1,230	(16,483)	\$ (17,713)
FUND BALANCE, BEGINNING OF YEAR			295,007	
FUND BALANCE, END OF YEAR			\$ 278,524	

See Accompanying Notes to the Financial Statements

REGION FIVE DEVELOPMENT COMMISSION

STATEMENT OF FIDUCIARY NET ASSETS
CAMP RIPLEY VETERAN'S STATE TRAIL - AGENCY FUND
JUNE 30, 2011

ASSETS

Cash

\$ 37,034

LIABILITIES

Due to Other Organizations

\$ 37,034

REGION FIVE DEVELOPMENT COMMISSION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

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

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

The Commission receives funds from local, state, and federal sources. It is governed by a 21 member board, which consists of five county board representatives (one from each member county's board of commissioners); 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.

In conformity with generally accepted accounting principles, the Commission's financial statements include all funds, departments, agencies, boards, commissions, and other component units for which the Commission is financially accountable, or for which the exclusion would render the financial statements of the Commission misleading. The criteria used to determine financial accountability includes such duties as appointment of a majority of the governing body members, budget review, and a relationship of financial benefit or burden.

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

North Central Economic Development Association, Inc. (NCEDA) is a nonprofit corporation organized under the laws of the state of Minnesota for purposes of providing capital to businesses in the five county area served by the Commission in order to create or increase employment and business opportunities by supplementing public and private capital. NCEDA was formed for the purpose of managing Region Five Development Commission's revolving loan fund program. Region Five Development Commission has one board member that sits on the Association's board as a non-voting member. The financial statements included are as of and for the year ended June 30, 2011. The complete financial statements of North Central Economic Development Association, Inc. can be obtained by writing to: NCEDA, 200 1st Street NE, Suite 2, Staples, MN 56479.

REGION FIVE DEVELOPMENT COMMISSION

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

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

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

Description of Funds

The Commission reports the following major governmental fund:

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

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

Additionally, the Commission reports as a fiduciary fund the Camp Ripley Veteran's State Trail - Agency Fund. This fund is used to account for the revenues and expenses related to the Camp Ripley Veteran's State Trail project.

REGION FIVE DEVELOPMENT COMMISSION

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

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

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

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

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

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

When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first, then unrestricted resources as they are needed.

The Commission reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the Commission before it has a legal claim to them, as when grant monies are received prior to incurring the qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the Commission has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

D. BUDGETS AND BUDGETARY ACCOUNTING

The Commission Board adopts an annual budget for the general fund. This budget is prepared on the modified accrual basis of accounting in accordance with generally accepted accounting principles.

Based on a process established by the Commission Board, all departments of the Commission submit requests for appropriations to the Executive Director each year. After review, analysis and discussions with the departments, the Executive Director's proposed budget is presented to the Commission Board for review.

REGION FIVE DEVELOPMENT COMMISSION

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

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

D. BUDGETS AND BUDGETARY ACCOUNTING (Cont'd)

The overall budget is prepared by fund, function, and department. The legal level of budgetary control — the level at which expenditures may not legally exceed appropriations — is the functional level. Budgets may be amended during the year with proper approval.

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.

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.

E. CASH

Cash consists of demand deposit accounts and non-negotiable certificates of deposit. The cash balances of substantially all funds are invested for the purpose of increasing earnings through investment activities. Certificates of deposit are recorded at fair value.

F. CURRENT TAXES RECEIVABLE

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

G. DELINQUENT TAXES RECEIVABLE

Delinquent taxes receivable represent taxes collectible in prior years that remain uncollected at June 30, 2011. They are equally offset by a deferred revenue amount in the liabilities of the fund financial statements.

H. DUE FROM OTHER GOVERNMENTS

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

I. LOANS RECEIVABLE

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

The Commission provides an allowance for doubtful receivables on a specific identification basis, which is offset against the gross amount. The allowance for doubtful receivables is an estimate of collection losses that may be incurred in the collection of all receivables. The allowance is based upon historical experience coupled with management's review of the current status of the existing receivables. The amount of the allowance was \$0 as of June 30, 2011, due to management's expectations that all loans would be collected.

REGION FIVE DEVELOPMENT COMMISSION

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

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

J. CAPITAL ASSETS

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

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

In June 2007, the Governmental Accounting Standards Board (GASB) issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement requires that essentially all intangible assets be recorded as capital assets. Further, the Statement provides guidance regarding internally generated intangible assets, such as software development and other intangible assets, such as easements, water rights, timber rights, and other land management assets. Retroactive reporting is required for intangible assets, except for those considered to have indefinite useful lives as of the effective date of this Statement, and those that would be considered internally generated. The Commission implemented GASB Statement No. 51 on July 1, 2009. The Commission does not possess any material amounts of intangible capital assets.

K. COMPENSATED ABSENCES

The liability for compensated absences reported in the financial statements consists of paid time off, sick leave and compensatory time balances. Compensated absences are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured.

Paid Time Off

Employees earn paid time off based on the number of years employed on a pro-rated basis. Employees can earn six to ten hours of paid time off per pay period. Paid time off may be accumulated to a maximum of 200 hours. All outstanding unpaid paid time off is payable upon termination of employment. At June 30, 2011, unpaid annual leave totaling \$24,535 is recorded.

Sick Leave

In 2007, the Commission entered into an agreement with one employee regarding accumulated sick leave. The employee had until December 30, 2009 to use the remaining accumulated sick leave. If the leave was unused the employee would receive 50% of any remaining accumulated sick leave. At June 30, 2011, unpaid sick leave totaling \$0 is recorded.

Compensatory Time

For exempt employees, compensatory time off is earned at a one hour for one hour basis for hours worked in excess of 40 hours per week. Compensatory time can be accumulated to a maximum of 40 hours. If an employee exceeds the 40 hour maximum the employee will use the excess hours during the next pay period. Compensatory time is payable upon termination of employment. At June 30, 2011, unpaid compensatory time totaling \$3,875 is recorded.

REGION FIVE DEVELOPMENT COMMISSION

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

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

L. FUND BALANCE

The Commission adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* for the year ended June 30, 2011. This standard changed fund balance classifications within the fund level statements.

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

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

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

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

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

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

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

M. NET ASSETS

Net assets represent the difference between assets and liabilities in the government-wide financial statements and are divided into three sections (1) invested in capital assets, net of related debt; (2) restricted net assets; and (3) unrestricted net assets.

REGION FIVE DEVELOPMENT COMMISSION

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

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

M. NET ASSETS (Cont'd)

- (a) Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets.
- (b) Net assets are reported as restricted in the government-wide financial statements when there are limitations imposed on their use through external restrictions by creditors, grantors, or laws or regulations of other governments.
- (c) Unrestricted net assets represents the equity portion which is available for budgeting and spending in future periods.

N. REVENUES

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

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

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.

O. EXPENDITURES

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

P. USE OF ESTIMATES

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

REGION FIVE DEVELOPMENT COMMISSION

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

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

Q. PRIOR YEAR INFORMATION

The basic financial statements include certain prior-year partial comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended June 30, 2010, from which the partial information was derived.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. DEFICIT FUND BALANCES

The Commission had no deficit fund balances as of June 30, 2011.

B. EXCESS OF EXPENDITURES OVER BUDGET

Expenditures exceeded budgeted amounts in the following funds:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund	\$ 754,055	\$ 780,750	\$ 26,695

The variance is a result of expenditures budgeted in total, but not by function.

NOTE 3. CASH AND INVESTMENTS

The book balance of cash as of June 30, 2011, were as follows:

Cash	<u>Primary Government</u>
Cash in Bank Accounts	\$ 305,356
Non-Negotiable Certificates of Deposit	56,352
Total Cash	<u>\$ 361,708</u>

A. DEPOSITS

Custodial Credit Risk. Custodial credit risk is the risk that in the event of bank failure, the Commission's deposits may not be returned to it. Minnesota Statutes require 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. The Commission does not have a deposit policy for custodial credit risk and follows Minnesota Statutes for deposits.

REGION FIVE DEVELOPMENT COMMISSION

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3. CASH AND INVESTMENTS (Cont'd)

A. DEPOSITS (Cont'd)

Authorized collateral includes the obligations of the U.S. Treasury, agencies, and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, banker's acceptances, futures contracts, repurchase or reverse repurchase agreements, and commercial paper of the highest quality with a maturity of no longer than 270 days, as well as certain first mortgage notes, and certain other state or local government obligations. Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the Commission's treasurer or in a financial institution other than that furnishing the collateral.

As of June 30, 2011, the Commission' deposits were sufficiently covered by insurance or collateral. The Commission does not have a policy that further limits its collateral choices.

NOTE 4. RECEIVABLES

Receivables as of June 30, 2011, for the Commission's governmental activities are as follows:

	Total Receivables	Primary Government Amounts not Scheduled for Collection During the Subsequent Year
<u>Governmental Activities</u>		
Accounts	\$ 9,292	\$
Due from Related Organization	19,614	
Accrued interest	39	
Total Governmental Activities	\$ 28,945	\$ 0

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital Assets, Being Depreciated:				
Furniture and Equipment	\$ 100,374	\$	\$ 4,451	\$ 95,923
Less Accumulated Depreciation for:				
Furniture and Equipment	(100,205)	(169)	4,451	(95,923)
Governmental Activities Net Capital Assets	\$ 169	\$ (169)	\$ 0	\$ 0

Depreciation expense for the year ended June 30, 2011 was \$169. This amount was allocated to management and administration.

REGION FIVE DEVELOPMENT COMMISSION

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 6. LONG-TERM LIABILITIES

	Original Amount Issued	Issue Date	Final Maturity Date	Interest Rates	Balance Outstanding
<u>Governmental Activities</u>					
N/P - MN Dept of Agriculture	\$ 259,279	6/8/2001	10/1/2025	0%	\$ 259,279
N/P - First International Bank	195,000	7/13/2007	2/1/2013	1.75%	95,281
Compensated Absences	N/A	N/A	N/A	N/A	<u>28,410</u>
Total					<u>\$ 382,970</u>

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

HUD Operating Line of Credit

On April 18, 2011, the Commission entered into a one year agreement with a bank for an operating line of credit. The advances against the line of credit can only be issued if the request is accompanied by invoices for consultant work in relation to the HUD Grant. The line of credit has a \$50,000 limit. As of June 30, 2011, the balance of the line of credit was \$0.

NOTE 7. CHANGES IN LONG-TERM LIABILITIES

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities</u>					
N/P - MN Dept of Agriculture (ISTS Loans Payable)	\$ 259,279	\$	\$	\$ 259,279	\$ 1,281
N/P - First International Bank	123,242		27,961	95,281	28,457
Compensated Absences	21,901	34,411	27,902	28,410	3,875
	<u>\$ 404,422</u>	<u>\$ 34,411</u>	<u>\$ 55,863</u>	<u>\$ 382,970</u>	<u>\$ 33,613</u>

REGION FIVE DEVELOPMENT COMMISSION

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 8. DEBT SERVICE REQUIREMENTS

Debt service requirements at June 30, 2011, were as follows.

Year Ending June 30	ISTS Loans Payable		Bank Loan	
	Principal	Interest	Principal	Interest
2012	\$ 1,281	\$	\$ 28,457	\$ 1,544
2013	5,171		66,824	1,044
2014	12,064			
2015	20,746			
2016-2020	129,320			
2021-2025	90,297			
2026	400			
	<u>\$ 259,279</u>	<u>\$ 0</u>	<u>\$ 95,281</u>	<u>\$ 2,588</u>

NOTE 9. DEFERRED REVENUE

Deferred revenues consisted of grant revenues and property taxes which will subsequently be earned.

NOTE 10. FUND BALANCE

At June 30, 2011, a summary of the Commission's fund balance classification are as follows:

	General Fund
Nonspendable:	
Prepaid Expenses	\$ 7,181
Committed to:	
Unemployment	8,085
Unassigned	263,258
Total Fund Balance	<u>\$ 278,524</u>

NOTE 11. OPERATING LEASE AGREEMENTS

Effective January 1, 2011, the Commission entered into a lease agreement for office space with Lakewood Health System. Monthly lease payments are \$1,741. The lease agreement expires in July 2011. The lease agreement then goes to a month-by-month basis.

In August, 2007 the Commission entered into a lease agreement for a Konica copier with Key Equipment Finance, Inc. Monthly lease payments are \$112. The lease agreement will expire in August, 2011.

The Commission extended their revolving loan software lease agreement with GMS in January, 2010. The Commission pays an annual fee of \$389. The annual contract will continue to automatically renew, unless terminated.

The Commission has entered into a contract with Falcon Leasing for computers and a printer. The monthly payments are \$305 for 48 months. The lease agreement expires on June 30, 2013.

REGION FIVE DEVELOPMENT COMMISSION

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 11. OPERATING LEASE AGREEMENTS (Cont'd)

The Commission entered into a contract with O'Brien's East-Side Mini Storage on June 7, 2010 for a storage unit. The monthly payments are \$30. The lease agreement was renewed in June 2011 and will expire on June 7, 2012.

The Commission entered into a contract with Syvantis Technologies on July 1, 2009 for certain computer equipment. The monthly payments are \$510. The Commission also paid a one time setup fee of \$3,995. The contract term is for 36 months with automatic renewal at the end of the term.

Lease expense totaled \$32,524 for the year ended June 30, 2011.

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

Year Ended June 30,	
2012	12,243
2013	3,660
	<u>\$ 15,903</u>

NOTE 12. RELATED PARTY TRANSACTIONS

The Commission entered into an agreement with North Central Economic Development Association, Inc. (NCEDA) to manage the Commission's revolving loan fund program. Under this agreement, NCEDA contracts with the Commission for administrative duties such as clerical support, loan packaging, and accounting. For the years ended June 30, 2011 and 2010, the Commission has received \$69,393 and \$41,265 of administrative revenues from NCEDA.

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

At June 30, 2011 and 2010, the Commission had accounts receivable of \$19,614 and \$3,899, respectively from NCEDA. The Commission also had accounts payable to NCEDA of \$0 and \$891 at June 30, 2011 and 2010.

NOTE 13. DEFINED BENEFIT PENSION PLANS - STATEWIDE

Plan Description

All full-time and certain part-time employees of the Commission are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF), which is a cost sharing, multiple-employer retirement plan. This plan is established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute, and vest after three years of credited service. The defined retirement 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.

REGION FIVE DEVELOPMENT COMMISSION

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 13. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

Plan Description (Cont'd)

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For all GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90.

Normal retirement age is 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree--no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives.

Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF. That report may be obtained on the Internet at www.mnpera.org, by writing to PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or (800) 652-9026.

Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The Commission makes annual contributions to the pension plans equal to the amount required by state statutes. GERF Basic Plan members and Coordinated Plan members are required to contribute 9.1% and 6.0%, respectively, of their annual covered salary in 2010. In 2010, the Commission was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members, and 7% for Coordinated Plan members.

The Commission's contributions to the Public Employees Retirement Fund for the years ending June 30, 2011, 2010, and 2009 were \$21,177, \$17,217, and \$15,547, respectively. The Commission's contributions were equal to the contractually required contributions for each year as set by state statute.

REGION FIVE DEVELOPMENT COMMISSION

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 14. INDIRECT COST ALLOCATION AGREEMENT

Indirect costs are charged to programs based on an indirect cost allocation plan. An indirect cost allocation plan is a method of distributing joint or common expenditures in a rational manner to various programs or funds. Expenditures such as administrative personnel, related travel, certain printing, rent, publications, and supplies are allocated based on direct program personnel hours. The cost allocation methodology was prepared in accordance with OMB Circular A-87.

NOTE 15. CONTINGENT LIABILITIES

The Commission participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Commission has not complied with the rules and regulations governing the grant, refunds of money received may be required and the collectability of any related receivable at June 30, 2011, may be impaired. In the opinion of the Commission, there are no significant contingent liabilities relating to the compliance with the rules and regulations governing the respective grants; therefore, no provisions have been recorded in the accompanying combined financial statements for such contingencies.

NOTE 16. DISCRETELY PRESENTED COMPONENT UNIT INFORMATION

A. CASH

The book balance of cash and cash equivalents as of June 30, 2011, were as follows:

	<u>Component Unit</u>
Cash and cash equivalents	
Cash in bank accounts	<u>\$ 405,625</u>
Total cash and cash equivalents	<u><u>\$ 405,625</u></u>

As of June 30, 2011, the component unit had approximately \$77,307 in uninsured and uncollateralized deposits.

B. RECEIVABLES

Receivables as of June 30, 2011, for the component unit's governmental activities are as follows:

	<u>Component Unit</u>	
	Total	Amounts not Scheduled for Collection During the Subsequent Year
<u>Governmental Activities</u>	<u>Receivables</u>	<u>Year</u>
Accounts	\$ 496	\$
Grant Revenue Receivable	<u>5,709</u>	<u> </u>
Total Governmental Activities	<u><u>\$ 6,205</u></u>	<u><u>\$ 0</u></u>

REGION FIVE DEVELOPMENT COMMISSION

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 16. DISCRETELY PRESENTED COMPONENT UNIT INFORMATION (Cont'd)

C. LOANS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL LOANS

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

The component unit provides an allowance for doubtful loans which is offset against the gross amount of the loan. The allowance is an estimate of collection losses that may occur in the collection of all outstanding loans and is based upon historical experience along with management's review of the status of existing receivables. As of June 30, 2011 and 2010, the reported allowance for doubtful loans was \$205,973 and \$271,203, respectively.

NOTE 17. RISK MANAGEMENT

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

NOTE 18. SUBSEQUENT EVENTS

The Commission has evaluated subsequent events through October 27, 2011, which is the date the financial statements were available to be issued.

NOTE 19. RECLASSIFICATIONS

Certain accounts from the prior year have been reclassified to conform to the current year presentation. These reclassifications had no effect on fund balance or net assets.

NOTE 20. PRIOR PERIOD ADJUSTMENT

Taxes receivable and deferred revenues at the beginning of the period were understated due to including only the first half of the gross levy in the receivables. Taxes receivable and deferred revenue balances as of June 30, 2010 were increased by \$125,985. This adjustment had no effect on beginning net assets.

REGION FIVE DEVELOPMENT COMMISSION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. Department of Commerce:			
Economic Development Administration -			
Economic Development Support for Planning Organizations	11.302	N/A	\$ 56,615
Economic Adjustment Assistance - Revolving Loan Fund	11.307	N/A	<u>1,323,144</u>
Total U.S. Department of Commerce			1,379,759
U.S. Department of Transportation:			
Direct Programs			
Safe Routes to School - Pierz	20.205	N/A	7,986
Safe Routes to School - Pillager	20.205	N/A	<u>3,105</u>
Total U.S. Department of Transportation			11,091
U.S. Department of Housing and Urban Development Direct Programs:			
Direct Programs			
Sustainable Communities Regional Planning Grant Program	14.703	N/A	166,447
U. S. Department of Agriculture Direct Programs:			
Direct Programs			
Household Water Well System Grant Program	10.862	N/A	<u>14,288</u>
Total Expenditures of Federal Awards			<u><u>\$ 1,571,585</u></u>

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

Balance of Loans Outstanding	\$ 1,352,602
Cash and Investment Balance	387,842
Administrative Expenses Paid Out of Income	39,737
Unpaid Principal of Loans Written Off	<u>1,780,181</u>
Federal Percentage of Loan Funds	74.33 %
Federal Expenditures	<u><u>\$ 1,323,144</u></u>

Supplementary Information - See Accompanying Notes to Schedule of Expenditures of Federal Awards

REGION FIVE DEVELOPMENT COMMISSION

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

NOTE 1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of Region Five Development Commission and its discretely presented component unit, North Central Economic Development Association, Inc. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a portion of the operations of Region Five Development Commission it is not intended to and does not present the financial position, changes in net assets, 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, which is described in Note 1 to the Commission's basic financial statements. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through entity identifying number are presented when applicable.

NOTE 3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Federal financial assistance revenues are reported in the Commission's basic financial statements as "intergovernmental". Revenue recognized on the basic financial statements for federal programs totaled \$248,441.

NOTE 4. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the accompanying schedule agree with the amounts reported in the related federal financial reports.

NOTE 5. SUBRECIPIENTS

Of the federal expenditures presented in the schedule, Region Five Development Commission provided federal awards under CFDA #11.307 Economic Adjustment Assistance - Revolving Loan Fund of \$1,323,144 to North Central Economic Development Association, Inc., a component unit.

NOTE 6. LOANS OUTSTANDING

The component unit, North Central Economic Development Association, Inc., had the following loan balances outstanding at June 30, 2011. The federal portion of the loans outstanding are included in the federal expenditures presented in the schedule.

<u>Cluster/Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Outstanding</u>
Economic Adjustment Assistance - Revolving Loan Fund	11.307	\$ 1,252,602
Household Water Well System Grant Program	10.862	13,801

COMPLIANCE

INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Commissioners
Region Five Development Commission
Staples, Minnesota

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, the major fund, and aggregate remaining fund information of Region Five Development Commission as of and for the year ended June 30, 2011, and have issued our report thereon dated October 27, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. §6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* covers seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and Tax Increment Financing. Our study included all of the listed categories except we did not test for compliance in Tax Increment Financing because the Commission does not have any Tax Increment Financing districts.

The results of our tests indicate that for the items tested, the Region Five Development Commission complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the Board of Commissioners and state agencies and is not intended to be, and should not be, used by anyone other than those specified parties.

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

October 27, 2011

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

Board of Commissioners
Region Five Development Commission
Staples, Minnesota

We have audited the financial statements of the governmental activities, the discretely presented component unit, the major fund, and the aggregate remaining fund information of Region Five Development Commission (the Commission) as of and for the year ended June 30, 2011, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated October 27, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2006-1 and 2007-1 to be material weaknesses.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Commission in a separate letter dated October 27, 2011.

The Commission's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Commission's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Commissioners, management, state and federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

October 27, 2011

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Commissioners
Region Five Development Commission
Staples, Minnesota

Compliance

We have audited the compliance of Region Five Development Commission (the Commission) with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The Commission's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Commission's management. Our responsibility is to express an opinion on the Commission's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Commission's compliance with those requirements.

In our opinion, the Commission complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the Commission is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Commission's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The Commission's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Commission's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Commissioners, management, state and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

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

October 27, 2011

REGION FIVE DEVELOPMENT COMMISSION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011

I. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses unqualified opinions on the basic financial statements of Region Five Development Commission (the Commission).
2. Two material weaknesses disclosed during the audit of the financial statements are reported in the "Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*."
3. No instances of noncompliance material to the financial statements of the Commission were disclosed during the audit.
4. No significant deficiencies in internal control over compliance were disclosed by the audit of the major federal award programs were reported in the "Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133."
5. The auditor's report on compliance for the major federal award program for the Commission expresses an unqualified opinion.
6. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as a major program were:

<u>Program Name</u>	<u>CFDA No.</u>
Economic Adjustment Assistance - Revolving Loan Fund	11.307

8. The threshold for distinguishing between Types A and B programs was \$300,000.
9. The Commission did not qualify a low-risk auditee.

REGION FIVE DEVELOPMENT COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Cont'd)
YEAR ENDED JUNE 30, 2011

II. FINDINGS - RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

FINDING: 2006-1 LIMITED SEGREGATION OF DUTIES

- Criteria: One individual should not be involved with two or more of the following functions: custody, authority, recording or reconciling. Proper segregation of duties would help ensure that errors or irregularities are prevented or detected on a timely basis by employees in the normal course of business.
- Condition: The Commission's assignment of job responsibilities to personnel does not allow for appropriate segregation of duties.
- Questioned Costs: None.
- Cause: The Commission has a limited number of personnel within the accounting department.
- Effect: The design of the internal controls over financial reporting could affect the ability of the Commission to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. In addition, this lack of segregation of duties may result in the Commission's inability to prevent/detect misappropriation of Commission assets.
- Recommendation: We recommend Commission management be aware of the lack of segregation of duties within the accounting functions and assess whether additional segregation of duties is cost beneficial. If additional segregation is not possible, we recommend the Commission's management implement oversight procedures to ensure existing internal control policies and procedures are being implemented by the Commission's fiscal agent.
- Response: The Commission has informed us that internal control policies and procedures are being followed and duties have been segregated to the best of their ability based on a cost-benefit analysis.

FINDING: 2007-1 FINANCIAL REPORTING PROCESS

- Criteria: The Commission is responsible for the fair presentation of the financial statements and the related notes in accordance with applicable accounting and reporting standards.
- Condition: As part of the audit, management requested us to prepare a draft of the financial statements, including the related notes to the financial statements.
- Questioned Costs: None.
- Cause: Based on the limited number of personnel and the level of detail and complexity needed to prepare the financial statements, the audit firm will prepare a draft of the financial statements and related notes.

REGION FIVE DEVELOPMENT COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Cont'd)
YEAR ENDED JUNE 30, 2011

II. FINDINGS - RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS (Cont'd)

FINDING: 2007-1 FINANCIAL REPORTING PROCESS (Cont'd)

Effect: The financial statements and related notes prepared by the independent auditor could result in the occurrence of a material error and not be detected by management due to the design of the internal controls over the financial reporting process.

Recommendation: We recommend that the Commission management be aware of the responsibilities regarding financial reporting. If management chooses to undertake these financial reporting responsibilities, a number of policies, procedures, and reviews will need to be developed and implemented.

Response: The Commission relies, and will continue to rely, on the audit firm to prepare the annual financial statements and related footnote disclosures. We believe the cost of preparing the financial statements internally would exceed the benefits from doing so.

III. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS

None