

REGION FIVE DEVELOPMENT COMMISSION

FINANCIAL REPORT

JUNE 30, 2009

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

TABLE OF CONTENTS

	<u>Page</u>
BOARD OF COMMISSIONERS	1
INDEPENDENT AUDITOR'S REPORT	2-3
REQUIRED SUPPLEMENTARY INFORMATION	
Management's Discussion and Analysis	4-8
BASIC FINANCIAL STATEMENTS	
Statement of Net Assets	9
Statement of Activities	10
Balance Sheet - Governmental Funds	11
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	12
Statement of Revenues, Expenditures and Changes in Fund Balance - General Fund	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	14
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund	15
Notes to the Financial Statements	16-27
COMPLIANCE	
Independent Auditor's Report on Minnesota Legal Compliance	28
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>	29-30
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	31-32
FEDERAL FINANCIAL ASSISTANCE PROGRAMS	
Schedule of Expenditures of Federal Awards	33
Notes to Schedule of Expenditures of Federal Awards	34
Schedule of Findings and Questioned Costs	35-38

REGION FIVE DEVELOPMENT COMMISSION

BOARD OF COMMISSIONERS

JUNE 30, 2009

<u>Officer</u>	<u>Position</u>	<u>Term Expires</u>
Mark Blessing	Chairperson	January 1, 2011
Bill Bliss	Vice-Chairperson	January 31, 2010
Brian Lehman	Secretary	January 31, 2010
Alan Perish	Treasurer	April 30, 2010
Tom Wenzel	Director	January 25, 2010
Bill Kern	Director	November 1, 2010
Bob Becker	Director	April 14, 2011
 <u>Board Members</u>		
Lucy Nesheim		January 25, 2010
Joel Quance		March 27, 2011
Craig Nathan		June 25, 2012
Paul Nieman Jr.		April 15, 2011
Mark Platta		April 21, 2011
Dave Schermerhorn		January 31, 2010
Robert Kangas		January 1, 2010
Delina White		January 31, 2010
Rosemary Franzen		January 31, 2010
Maxine Norman		February 26, 2012
Jody Bjornson		February 28, 2011
Sharon Ballou		February 28, 2011
Dave Becker		January 1, 2012

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 major fund, and the discretely presented component unit of Region Five Development Commission as of and for the year ended June 30, 2009, 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.

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 major fund, and the discretely presented component unit of Region Five Development Commission as of June 30, 2009, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2009, 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 the 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 important for assessing the results of our audit.

The management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Region Five Development Commission's basic financial statements. 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 not a required part of the basic financial statements of Region Five Development Commission. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

October 22, 2009

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, 2009. 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, 2009. 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 \$43,120 (net assets), of which none is restricted in use.
- The General Fund net assets increased by \$42,045.
- the Commission's capital assets (net of accumulated depreciation) were \$1,521 as of June 30, 2009.
- The Commission received \$217,858 in tax levy revenue for the fiscal year ended June 30, 2009.
- As of the close of the current fiscal year, the General Fund reported an ending fund balance of \$372,202, an increase of \$42,045 in comparison with the prior year. This entire balance is available for spending at the Commission's discretion (undesignated 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 and 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 403 Prairie Ave NE, Suite 100, 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 15 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 16-27 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 \$43,120 at June 30, 2009, as compared with assets exceeding liabilities of \$5,198 at June 30, 2008. Approximately 3.5 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 table reflects the condensed Statements of Net Assets.

REGION FIVE DEVELOPMENT COMMISSION Statements of Net Assets			
	2009	2008	Variance
Current and other assets	\$ 674,929	\$ 660,213	\$ 14,716
Capital assets (net of accumulated depreciation of \$123,873 and \$120,849, respectively)	1,521	4,545	(3,024)
Total Assets	\$ 676,450	\$ 664,758	\$ 11,692
Current and other liabilities	\$ 233,617	\$ 228,422	\$ 5,195
Long-term liabilities	399,713	431,138	(31,425)
Total Liabilities	633,330	659,560	(26,230)
Net Assets			
Invested in capital assets, net of related debt	1,521	4,545	(3,024)
Undesignated	41,599	653	40,946
Total Net Assets	43,120	5,198	37,922
Total Liabilities and Net Assets	\$ 676,450	\$ 664,758	\$ 11,692

The \$41,599 of undesignated net assets may be used to meet the Commission's ongoing obligations.

REGION FIVE DEVELOPMENT COMMISSION

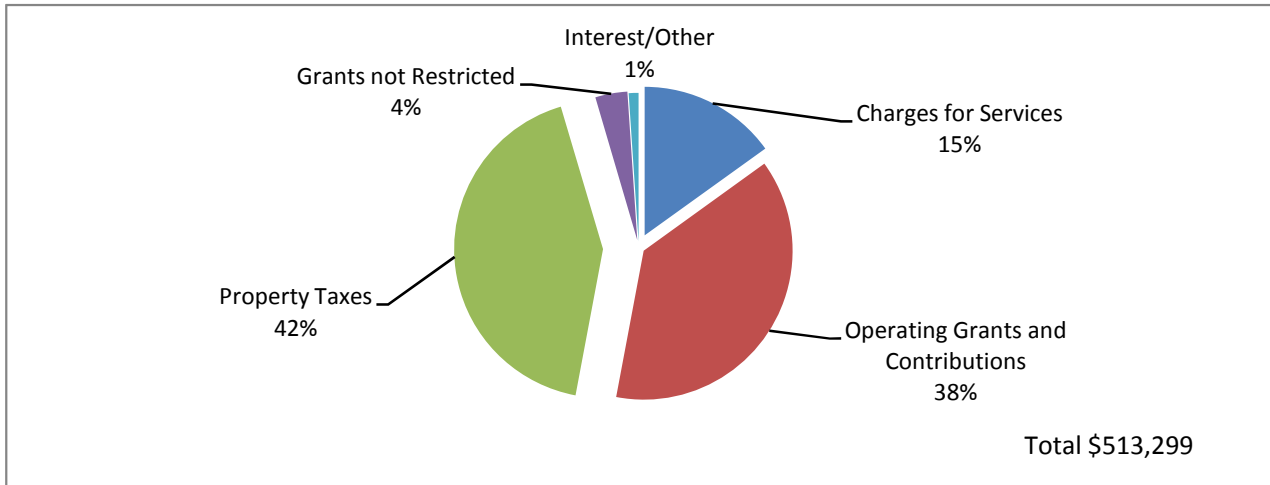
MANAGEMENT'S DISCUSSION AND ANALYSIS

Net assets of the Commission's governmental activities increased by \$37,922. The following table indicates the changes in net assets for the Commission's governmental activities:

The following table reflects the condensed Statements of Activities.

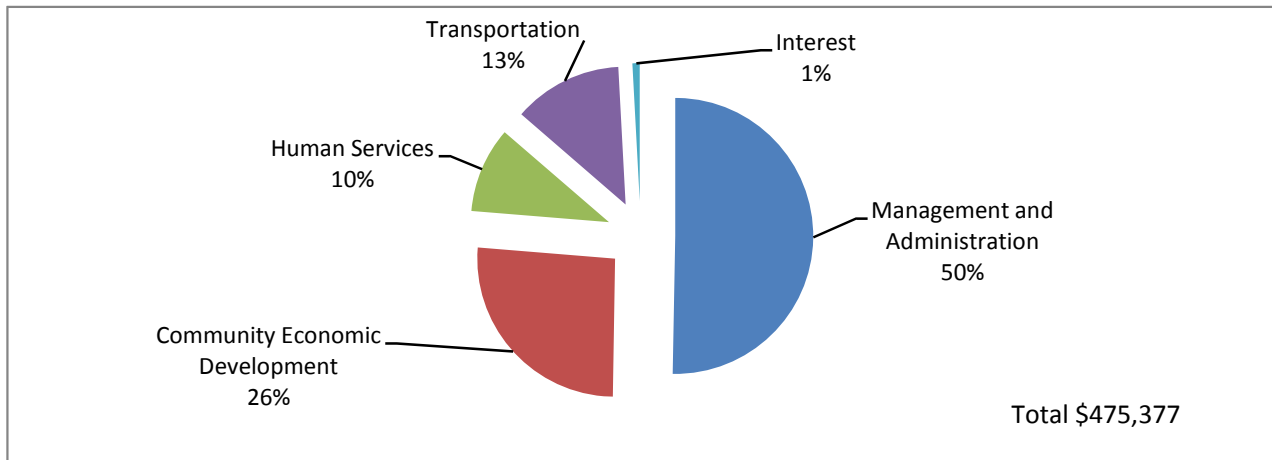
REGION FIVE DEVELOPMENT COMMISSION Statements of Activities			
	2009	2008	Variance
Revenues			
Program revenues:			
Charges for services	\$ 77,293	\$ 159,139	\$ (81,846)
Operating grants and contributions	194,649	180,712	13,937
General revenues:			
Property taxes	217,858	219,181	(1,323)
Grants and contributions not restricted	18,029	19,040	(1,011)
Interest Earnings	4,578	4,688	(110)
Other	892	3,567	(2,675)
Total Revenues	<u>513,299</u>	<u>586,327</u>	<u>(73,028)</u>
Expenses			
Management and Administration	239,058	227,921	11,137
Community/Economic Development	123,671	112,717	10,954
Human Services	47,694	47,118	576
Transportation	60,896	54,547	6,349
Interest	4,058	10,003	(5,945)
Total Expenses	<u>475,377</u>	<u>452,306</u>	<u>23,071</u>
Change in Net Assets	37,922	134,021	(96,099)
Net Assets, Beginning of Year	<u>5,198</u>	<u>(128,823)</u>	<u>134,021</u>
Net Assets, End of Year	<u>\$ 43,120</u>	<u>\$ 5,198</u>	<u>\$ 37,922</u>

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



REGION FIVE DEVELOPMENT COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

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



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.

The governmental fund financial statements can be found on pages 11-14 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 \$372,202, an increase of \$42,045 in comparison with \$330,157 at June 30, 2008. This entire balance constitutes the undesignated fund balance, which is available for spending at the Commission's discretion.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Commission did not revise the budget. The General Fund budget was approved with a slight recovery of \$327. The following is a review of significant differences between budget and actual.

- The actual expenditures for general government were over budget by \$64,471.
- The actual revenue received was \$136,803 over budget.
- The actual revenue over expenditures was \$41,718 over budget.

REGION FIVE DEVELOPMENT COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSETS

At June 30, 2009, the Commission had \$125,394 invested in capital assets. Refer to Note 4 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 \$409,951 in notes payable outstanding. Refer to Note 8 of the Notes to the Financial Statements for a schedule showing the Commission's long-term debt activity.

NEXT YEAR'S BUDGET CONSIDERATIONS

Due to the final numbers of the fiscal year ended June 30, 2009, the fiscal year 2010 budget includes consideration of contract income, computer support and a new computer system.

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, 403 Prairie Ave NE, Suite 100, Staples, MN 56379 or by telephone at 218-894-3233.

BASIC FINANCIAL STATEMENTS

REGION FIVE DEVELOPMENT COMMISSION

STATEMENT OF NET ASSETS

JUNE 30, 2009

	<u>Primary Government</u>	<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>North Central Economic Development Association</u>
ASSETS		
Cash and Cash Equivalents	\$ 383,466	\$ 279,514
Property Taxes Receivable	31,513	
Accounts Receivable	5,932	
Accrued Interest Receivable	168	
Housing Loans Receivable	125,000	
Due From Other Governments	41,633	
Prepaid Expenses	2,938	
Loans Receivable, Net of Allowance	84,279	1,113,836
Capital Assets, Net of Accumulated Depreciation	1,521	
Total Assets	\$ 676,450	\$ 1,393,350
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts Payable	\$ 10,408	\$ 5,309
Salaries Payable	3,076	
Accrued Interest Payable	1,113	
Deferred Revenue - Unearned	8,845	
ISTS County Reserve Payable	55,317	
Short-Term Debt	125,000	
Compensated Absences Payable, Due Within One Year	2,375	
Loans Payable, Due Within One Year	27,483	
Compensated Absences Payable, Due in More Than One Year	17,244	
Loans Payable, Due in More Than One Year	382,469	
Total Liabilities	633,330	5,309
Net Assets		
Invested in Capital Assets	1,521	
Restricted for:		
Revolving Loan Fund		1,372,040
Unrestricted	41,599	16,001
Total Net Assets	43,120	1,388,041
Total Liabilities and Net Assets	\$ 676,450	\$ 1,393,350

See accompanying Notes to the Financial Statements

REGION FIVE DEVELOPMENT COMMISSION

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2009

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
		Fees, Charges Fines and, Other	Operating Grants and Contributions	Primary	Component
				Governmental Activities	Unit North Central Economic Development Association
Governmental Activities:					
Management and Administration	\$ 239,058	\$ 2,250	\$ 3,000	\$ (233,808)	\$ -0-
Community and Economic Development	123,671	69,937	86,925	33,191	
Human Services	47,694	5,106	54,724	12,136	
Transportation	60,896		50,000	(10,896)	
Interest	4,058			(4,058)	
Total Governmental Activities	<u>\$ 475,377</u>	<u>\$ 77,293</u>	<u>\$ 194,649</u>	(203,435)	-0-
Component Unit					
North Central Economic Development Association	<u>\$ 264,047</u>	<u>\$ 95,271</u>	<u>\$ -0-</u>	-0-	\$ (168,776)
General Revenues:					
Taxes					
Property Taxes, Levied for General Purpose				217,858	
Grants and Contributions not Restricted for a Particular Purpose				18,029	
Interest Earnings				4,578	
Other				892	
Total General Revenues				<u>241,357</u>	<u>-0-</u>
Change in Net Assets				37,922	(168,776)
NET ASSETS, BEGINNING OF YEAR				<u>5,198</u>	<u>1,556,817</u>
NET ASSETS, END OF YEAR				<u>\$ 43,120</u>	<u>1,388,041</u>

See accompanying Notes to the Financial Statements

REGION FIVE DEVELOPMENT COMMISSION

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009

ASSETS

Cash and Cash Equivalents	\$	383,466
Taxes Receivable		
Current		23,890
Delinquent		7,624
Accounts Receivable		5,932
Accrued Interest Receivable		168
Housing Loans Receivable		125,000
Due From Other Governments		41,633
Prepaid Expenses		2,938
ISTS Loans Receivable		<u>84,279</u>
 Total Assets	 \$	 <u><u>674,930</u></u>

LIABILITIES AND FUND BALANCE

Liabilities		
Accounts Payable	\$	10,408
Salaries Payable		3,076
Deferred Revenues		8,845
Deferred Revenue - Unavailable		100,081
ISTS County Reserve Payable		55,318
Short-Term Debt		<u>125,000</u>
 Total Liabilities		 302,728
 Fund Balance		
Undesignated		<u>372,202</u>
 Total Liabilities and Fund Balance	 \$	 <u><u>674,930</u></u>

See accompanying Notes to the Financial Statements

REGION FIVE DEVELOPMENT COMMISSION
 RECONCILIATION OF THE GOVERNMENTAL FUNDS
 BALANCE SHEET TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2009

Total Fund Balances - Governmental Funds	\$	372,202
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.		
Governmental capital assets		125,394
Less: accumulated depreciation		(123,873)
Long-term debt is not due and payable in the current period and therefore are not reported as liabilities in the governmental funds.		
Long-Term Debt Payable		(409,951)
Compensated Absences		(19,619)
Accrued Interest Payable		(1,113)
Some of the Commission's receivables, such as ISTS loans receivable (84,279), market value credit receivable reported as a portion of due from other governments (8,178) and delinquent taxes receivable (7,623) are reported as deferred revenue in the fund financial statements but are recognized as revenue when earned in the government wide statements.		100,080
Total Net Assets - Governmental Activities	\$	43,120

REGION FIVE DEVELOPMENT COMMISSION

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2009

REVENUES	
Local Property Taxes	\$ 217,418
Principal Repayments	70,200
Contract Income	7,250
Intergovernmental	199,634
Charges for Services	70,042
Interest Earnings	4,578
Other	<u>13,892</u>
Total Revenues	583,014
EXPENDITURES	
Current	
Management and Administration	118,582
Community/Economic Development	123,667
Human Services	200,710
Transportation	<u>60,896</u>
Total Current	503,855
Debt Service	
Principal	30,227
Interest	<u>6,887</u>
Total Debt Service	<u>37,114</u>
Total Expenditures	<u>540,969</u>
Net Change in Fund Balances	42,045
FUND BALANCES, BEGINNING OF YEAR	<u>330,157</u>
FUND BALANCES, END OF YEAR	<u><u>\$ 372,202</u></u>

See accompanying Notes to the Financial Statements

REGION FIVE DEVELOPMENT COMMISSION

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2009

Total Net Change in Fund Balances - Governmental Funds	\$ 42,045
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	(3,024)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(27,501)
Change in Compensated Absences	(6,655)
Change in Accrued Interest Payable	1,716
Net Change in Long-Term Notes Payable	<u>31,341</u>
Change in Net Assets in Governmental Activities	<u>\$ 37,922</u>

REGION FIVE DEVELOPMENT COMMISSION

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 GENERAL FUND
 YEAR ENDED JUNE 30, 2009

	Budgeted Amounts		Actual	Variance Over (Under) Budget
	Original	Final		
REVENUES				
Taxes	\$ 217,507	\$ 217,507	\$ 217,418	\$ (89)
Principal Repayments			70,200	70,200
Contract Income	60,000	60,000	7,250	(52,750)
Intergovernmental	101,615	101,615	199,634	98,019
Charges for Services	50,176	50,176	70,042	19,866
Interest	9,000	9,000	4,578	(4,422)
Other	7,916	7,916	13,892	5,976
Total Revenues	446,214	446,214	583,014	136,800
EXPENDITURES				
Current				
Management and Administration			118,582	118,582
Community/Economic Development			123,667	123,667
Human Services			200,710	200,710
Transportation			60,896	60,896
Total Current	439,387	439,387	503,855	64,468
Debt Service				
Principal			30,227	30,227
Interest and Fiscal Charges	6,500	6,500	6,887	387
Total Debt Service	6,500	6,500	37,114	30,614
Total Expenditures	445,887	445,887	540,969	95,082
Net Change in Fund Balances	\$ 327	\$ 327	42,045	\$ 41,718
FUND BALANCES, BEGINNING OF YEAR			330,157	
FUND BALANCES, END OF YEAR			\$ 372,202	

See accompanying Notes to the Financial Statements

REGION FIVE DEVELOPMENT COMMISSION

NOTES TO THE FINANCIAL STATEMENTS

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 Region Five in order to create or increase employment and business opportunities by supplementing public and private capital. The financial statements included are as of and for the year ended June 30, 2009. The complete financial statements of North Central Economic Development Association, Inc. can be obtained by writing to: NCEDA, 403 Prairie Avenue NE, Staples, Minnesota 56479.

REGION FIVE DEVELOPMENT COMMISSION

NOTES TO THE FINANCIAL STATEMENTS

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.

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, except for amounts advance recognized in accordance with a statutory "tax shift". 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.

REGION FIVE DEVELOPMENT COMMISSION

NOTES TO THE FINANCIAL STATEMENTS

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

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING - (Cont'd)

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. Minnesota Statutes include state aid funding formulas for specific fiscal years. 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.

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.

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.

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.

REGION FIVE DEVELOPMENT COMMISSION

NOTES TO THE FINANCIAL STATEMENTS

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

D. BUDGETS AND BUDGETARY ACCOUNTING - (Cont'd)

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 budget. No changes to the budget were made during the year.

E. ASSETS, LIABILITIES AND FUND BALANCE

Cash and Cash Equivalents:

Cash and cash equivalents consist 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.

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.

Delinquent Taxes Receivable:

Delinquent taxes receivable represent taxes collectible in prior years that remain uncollected at June 30, 2009. They are equally offset by a deferred revenue amount in the liabilities of the fund financial statements.

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 of served by the Commission.

Loans Receivable:

Loans receivable represent loans made to qualifying businesses or individuals in the five county region of the Commission at interest rates from 3.0 percent to 8.0 percent. 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 as of June 30, 2009 is \$-0- due to all loans expecting to be collected.

REGION FIVE DEVELOPMENT COMMISSION

NOTES TO THE FINANCIAL STATEMENTS

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

E. ASSETS, LIABILITIES AND FUND BALANCE - (Cont'd)

Capital Assets:

Capital assets, which include equipment and furniture, are reported in the government-wide financial statements. Capital assets are defined by the Commission as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost, where 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.

Capital assets are reported in the Government-wide financial statements, but are not reported in the fund financial statements. 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.

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, 2009, unpaid annual leave totaling \$16,460 was recorded.

Sick Leave

In 2007, the Commission entered into an agreement with one employee regarding accumulated sick leave. The employee has until December 30, 2009 to use the remaining accumulated sick leave. If the leave is not used the employee will receive 50% of any remaining accumulated sick leave. At June 30, 2009, unpaid sick leave totaling \$784 was recorded.

Compensatory Time

For exempt employees, compensatory time off is earned at a one and one-half ratio 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, 2009, unpaid compensatory time totaling \$2,375 was recorded.

Deferred Revenue:

Deferred revenues are those in which resources are received by the Commission before it has a legal claim to them.

REGION FIVE DEVELOPMENT COMMISSION

NOTES TO THE FINANCIAL STATEMENTS

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

E. ASSETS, LIABILITIES AND FUND BALANCE - (Cont'd)

Fund Balance and Net Assets:

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

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.

(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.

F. REVENUES AND EXPENDITURES

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.

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.

REGION FIVE DEVELOPMENT COMMISSION

NOTES TO THE FINANCIAL STATEMENTS

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

G. 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.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. DEFICIT FUND BALANCES

The Commission had no deficit fund balances as of June 30, 2009.

B. EXCESS OF EXPENDITURES OVER BUDGET

Expenditures exceeded budgeted amounts in the following functions:

	Budget	Actual	Variance
Current			
Management and Administration	\$ -0-	\$ 118,582	\$ 118,582
Community/Economic Development	-0-	123,667	123,667
Human Services	-0-	200,710	200,710
Transportation	-0-	60,896	60,896
Total Current	\$ 439,387	\$ 503,855	\$ 64,468
Debt Service			
Principal	\$ -0-	\$ 30,227	\$ 30,227
Interest and Fiscal Charges	6,500	6,887	387
Total Debt Service	\$ 6,500	\$ 37,114	\$ 30,614

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

NOTE 3. CASH AND INVESTMENTS

Cash and cash equivalents as of June 30, 2009, were as follows:

	Book Balance
Cash and cash equivalents	
Cash in bank accounts	\$ 328,148
Non-negotiable certificates of deposit	55,317
Total cash and cash equivalents	\$ 383,466

REGION FIVE DEVELOPMENT COMMISSION

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3. CASH AND INVESTMENTS - (Cont'd)

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 (140 percent in the case of mortgage notes pledged). The Commission does not have a deposit policy for custodial credit risk and follows Minnesota Statutes for deposits.

Authorized collateral includes the legal investments described below, 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. The Commission does not have a policy that would further limit its collateral choices.

As of June 30 2009, Commission deposits are fully insured or collateralized.

B. INVESTMENTS

Credit Risk. Minnesota Statutes §§118A.04 and 118A.05 generally authorize the Commission to invest in obligations of the U.S. Treasury, agencies, and instrumentalities, share of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, futures contracts, repurchase and reverse repurchase agreements, and commercial paper of the highest quality with a maturity of no longer than 270 days.

NOTE 4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2009, was as follows:

	July 1, 2008 <u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	June 30, 2009 <u>Balance</u>
Furniture and Equipment	\$ 125,394	\$	\$	\$ 125,394
Accumulated Depreciation	<u>(120,849)</u>	<u>(3,024)</u>	<u></u>	<u>(123,873)</u>
Net	<u>\$ 4,545</u>	<u>\$ (3,024)</u>	<u>\$ -0-</u>	<u>\$ 1,521</u>

Depreciation expense for the year ended June 30, 2009 was \$3,024. This amount was allocated to management and administration.

NOTE 5. DEFERRED REVENUE

Deferred Revenue consisted of grant revenue in the amount of \$8,845 at June 30, 2009.

NOTE 6. SHORT TERM DEBT

Region Five Development Commission has issued short-term debt related to the construction of homes within its boundaries. The notes payable of \$125,000, considered to be short-term debt, were issued by the Minnesota Department of Corrections at zero percent interest, and are due upon the sale of the related homes that were constructed with the loaned money. Repayment of the loan was made in August, 2009.

REGION FIVE DEVELOPMENT COMMISSION

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7. 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%	150,673
Compensated Absences	N/A	N/A	N/A	N/A	19,619
Total					<u>\$ 429,571</u>

The purpose from 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.

NOTE 8. 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	\$
N/P - First International Bank	182,013		31,341	150,672	27,483
Compensated Absences	12,964	32,301	25,646	19,619	784
	<u>\$ 454,256</u>	<u>\$ 32,301</u>	<u>\$ 56,987</u>	<u>\$ 429,570</u>	<u>28,267</u>

NOTE 9. DEBT SERVICE REQUIREMENTS

Debt service requirements at June 30, 2009, were as follows.

Governmental Activities

Year Ending June 30	ISTS Loans Payable		Bank Loan	
	Principal	Interest	Principal	Interest
2010	\$	\$	\$ 27,483	\$ 2,517
2011			27,966	2,034
2012	1,281		28,457	1,543
2013	5,171		66,766	1,042
2014	12,064			
2015-2019	124,122			
2020-2024	111,107			
2025-2026	5,534			
	<u>\$ 259,279</u>	<u>\$ -0-</u>	<u>\$ 150,672</u>	<u>\$ 7,136</u>

REGION FIVE DEVELOPMENT COMMISSION

NOTES TO THE FINANCIAL STATEMENTS

NOTE 10. OPERATING LEASE AGREEMENTS

Office Lease

Effective January 1, 2009, the Commission entered into a lease agreement for office space with Lakewood Health System. Monthly lease payments are \$1,652. The lease agreement expires on December 31, 2009.

Copy Machine Lease

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.

Software Lease

The Commission extended their revolving loan software lease agreement with GMS in April, 2009. The lease agreement expires June 30, 2010. Monthly lease payments are \$70.

Lease expense totaled \$22,091 for the year ended June 30, 2009.

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

Year Ended June 30,	
2010	\$ 11,679
2011	1,347
2012	112
	<u>\$ 13,138</u>

NOTE 11. 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 Public Employees Retirement Fund (PERF), which is a cost sharing, multiple-employer retirement plan. This plan is established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

PERF 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.

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 PERF 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.

REGION FIVE DEVELOPMENT COMMISSION

NOTES TO THE FINANCIAL STATEMENTS

NOTE 11. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

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 PERF. 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. PERF Basic Plan members and Coordinated Plan members are required to contribute 9.1% and 6.0%, respectively, of their annual covered salary in 2008. The Commission is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, and 6.5% for Coordinated Plan PERF members. Employer contribution rates for the Coordinated Plan increased to 6.75% effective January 1, 2009.

The Commission's contributions to the Public Employees Retirement Fund for the years ending June 30, 2009, 2008, and 2007 were \$15,547, \$12,883, and \$11,247, respectively. The Commission's contributions were equal to the contractually required contributions for each year as set by state statute.

NOTE 12. 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.

REGION FIVE DEVELOPMENT COMMISSION

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13. UNEARNED GRANT AWARDS

At June 30, 2009, the Commission had the following unearned grant awards:

Energy audit in Crow Wing and Cass counties	\$ 5,000
National Development Council Training	<u>1,000</u>
	<u>\$ 6,000</u>

NOTE 14. 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, 2009 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 15. 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.

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 major fund, and the discretely presented component unit of Region Five Development Commission as of and for the year ended June 30, 2009, and have issued our report thereon dated October 22, 2009.

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 Local Government*, 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 Local Government* 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 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 22, 2009

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 major fund, and the discretely presented component unit of Region Five Development Commission (the Commission) as of and for the year ended June 30, 2009, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated October 22, 2009. 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 internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Commission's financial statements that is more than inconsequential will not be prevented or detected by the Commission's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 06-1 and 07-1 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Commission's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiencies described in the accompanying schedule of findings and questioned costs as items 06-1 and 07-1 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 22, 2009.

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 22, 2009

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO 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 U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. 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 requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 09-1.

Internal Control Over Compliance

The 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, 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 control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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 significant deficiencies or material weaknesses. We do not consider the instance of noncompliance described as item 09-1 in the accompanying schedule of findings and questioned costs to be a material weakness, 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 22, 2009

REGION FIVE DEVELOPMENT COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. Department of Commerce			
Direct Award			
Economic Development - Support for Planning Organizations	11.302	06-83-05366	\$ 51,615
Passed through from Economic Development Administration			
Economic Adjustment Assistance - Revolving Loan Fund	11.307	None	<u>1,314,611</u>
Total expenditures of federal awards			<u>\$ 1,366,226</u>

Supplementary Information - See accompanying Notes to Schedule of Expenditures of Federal Awards and Auditor's Report

REGION FIVE DEVELOPMENT COMMISSION

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009

NOTE 1. GENERAL

The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Region Five Development Commission and its discretely presented component unit, North Central Economic Development Association, Inc. The Commission's reporting entity is defined in Note 1 to the financial statements.

NOTE 2. BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the Commission's basic financial statements.

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 \$51,615. Variances were not material in amount.

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

During the year ended June 30, 2009, the Commission did not pass any federal money to subrecipients.

NOTE 6. PASS-THROUGH GRANT NUMBERS

Pass-through grant numbers were not assigned by the pass-through agencies.

REGION FIVE DEVELOPMENT COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009

I. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the basic financial statements of Region Five Development Commission (the Commission).
2. Significant deficiencies in internal control were disclosed by the audit of the basic financial statements of Region Five Development Commission and 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*." Significant deficiencies 06-1 and 07-1 are considered to be material weaknesses.
3. No instances of noncompliance material to the financial statements of the Commission were disclosed during the audit.
4. A significant deficiency in internal control over compliance relating to the audit of the major federal award program is reported in the "Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133." The significant deficiency 09-1, is not considered a material weakness.
5. The auditor's report on compliance for the major federal award program for the Commission expresses an unqualified opinion.
6. One audit finding relative to the major federal award program for the Commission was disclosed during the audit that is required to be reported in accordance with Section 510(a) of OMB Circular A-133. This instance consisted of an Income and Expense Statement not being filed for the most recent 12 month period when Revolving Loan Fund administrative expenses exceeded 50% of program income.
7. The program tested as a major program was:

<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 was determined to not be a low-risk auditee.

REGION FIVE DEVELOPMENT COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Cont'd)
YEAR ENDED JUNE 30, 2009

II. FINDINGS - FINANCIAL STATEMENTS AUDIT

FINDING: 06-1 LIMITED SEGREGATION OF DUTIES - MATERIAL WEAKNESS

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. Currently, the same staff person is responsible for processing payroll in the accounting software and then generating and disbursing payment, except signing of the payroll checks.

Also, the same individual is responsible for recording accounts receivable receipts on the general ledger and reconciling the bank statement. This individual is also responsible for all stages of the disbursement process, except signing of the disbursements.

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: 07-1 FINANCIAL REPORTING PROCESS - MATERIAL WEAKNESS

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.

REGION FIVE DEVELOPMENT COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Cont'd)
YEAR ENDED JUNE 30, 2009

II. FINDINGS - FINANCIAL STATEMENTS AUDIT - (Cont'd)

FINDING: 07-1 FINANCIAL REPORTING PROCESS - MATERIAL WEAKNESS - (Cont'd)

- 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.
- 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 polices, 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.

PREVIOUSLY REPORTED ITEMS RESOLVED

FINDINGS - FINANCIAL STATEMENTS AUDIT

FINDING: 07-2 AUDIT ADJUSTMENTS - MATERIAL WEAKNESS

- Condition: As part of the audit, material audit adjustments were made to the financial records.
- Resolution: Commission management and financial personnel have increased their awareness and knowledge of recording transactions, accruals, and reclassifications to ensure proper recording of these items.

FINDING: 07-3 JOURNAL ENTRY PROCEDURES - MATERIAL WEAKNESS

- Condition: Journal entries were not maintained with adequate supporting documentation.
- Resolution: Journal entries are prepared on a standard journal entry form with attached supporting documentation. These entries are prepared by the Finance Director and approved by the Executive Director.

REGION FIVE DEVELOPMENT COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Cont'd)
YEAR ENDED JUNE 30, 2009

III. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

FINDING: 09-1 ECONOMIC ADJUSTMENT ASSISTANCE - CFDA #11.307 REPORTING - COMPLIANCE

Criteria The Revolving Loan Fund semi-annual reports require an Income and Expense Statement to be completed when administrative costs exceed 50% of program income during the most recent 12 month period ending June 30.

Condition: The Revolving Loan Fund has been using more than 50% of its program income for administrative expenses and has not filed an Income and Expense Statement.

Cause: The Finance Director was unclear on the 12-month reporting cycle.

Effect: Inaccurate reporting could affect future funding of the program.

Corrective Action Plan: The Finance Director will prepare the Income and Expense Statement and include it as an attachment with the September 30 semi-annual report each year.

Contact Person Responsible: Nicky Larson, Finance Director

Estimated Completion Date: October 31, 2009

IV. OTHER ITEM FOR CONSIDERATION - MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM RESOLVED

FINDING: 08-1 COLLATERAL PERFECTION

Condition: The Commission did not have a written collateral assignment that specified that the depository shall release the collateral pledged to the entity on demand, in the event of default.

Resolution: The Commission has obtained a written collateral assignment from their depository as of March 3, 2009