

**South Central Kansas Economic
Development District, Inc.**

Independent Auditor's Report

And

**Financial Report
(Including Uniform Guidance Reports)**

June 30, 2016 and 2015

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
South Central Kansas Economic Development District, Inc.
Wichita, Kansas

Report on the Financial Statements

We have audited the accompanying financial statements of South Central Kansas Economic Development District, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Central Kansas Economic Development District, Inc. as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2016, on our consideration of South Central Kansas Economic Development District, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering South Central Kansas Economic Development District, Inc.'s internal control over financial reporting and compliance.

October 24, 2016
Wichita, Kansas

Regina Ann E. Monroe, CPA

South Central Kansas Economic Development District, Inc.
Statements of Financial Position
June 30, 2016 and 2015

	2016						2015
	Loan Funds	Trust Funds	Weather- ization	Admin- istration Contracts	Local General	Total	Total
ASSETS							
Cash and cash equivalents	\$ 1,432,450	\$ 6,309	\$ 136,589	\$ -	\$ 174,317	\$ 1,749,665	\$ 2,484,037
Accounts receivable	-	-	-	47,469	(47,469)	-	-
Grants receivable	-	-	43,986	-	110,443	154,429	81,652
Contracts receivable	-	-	-	21,650	-	21,650	82,693
Interfund receivable/payable	(13,292)	-	(42,337)	519,068	(463,439)	-	-
Prepaid expenses	-	-	-	-	1,867	1,867	3,250
Interest receivable, net of allowance for losses of \$0 and \$2,000, respectively	37,403	-	-	-	-	37,403	42,369
Supplies inventory	-	-	24,540	-	-	24,540	19,413
Notes receivable, net of allowance for loan losses of \$269,600 and \$328,000, respectively	3,271,217	-	-	-	-	3,271,217	2,538,046
Investments	-	-	-	-	373,076	373,076	367,615
Asset held for sale	-	-	-	-	-	-	52,789
Property and equipment at cost, net of accumulated depreciation of \$641,240 and \$778,229, respectively	-	-	118,803	-	36,867	155,670	63,864
Total assets	<u>\$ 4,727,778</u>	<u>\$ 6,309</u>	<u>\$ 281,581</u>	<u>\$ 588,187</u>	<u>\$ 185,662</u>	<u>\$ 5,789,517</u>	<u>\$ 5,735,728</u>
LIABILITIES AND NET ASSETS							
Liabilities							
Accrued expenses and accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 111,548	\$ 111,548	\$ 127,242
Interest payable	3,793	-	-	-	-	3,793	4,102
Notes payable	1,772,414	-	-	-	-	1,772,414	1,807,644
Deferred revenue	-	-	165,160	-	27,037	192,197	122,537
Funds held for others	-	6,309	-	-	-	6,309	6,241
Total liabilities	<u>1,776,207</u>	<u>6,309</u>	<u>165,160</u>	<u>-</u>	<u>138,585</u>	<u>2,086,261</u>	<u>2,067,766</u>
Net assets-Unrestricted	<u>2,951,571</u>	<u>-</u>	<u>116,421</u>	<u>588,187</u>	<u>47,077</u>	<u>3,703,256</u>	<u>3,667,962</u>
Total liabilities and net assets	<u>\$ 4,727,778</u>	<u>\$ 6,309</u>	<u>\$ 281,581</u>	<u>\$ 588,187</u>	<u>\$ 185,662</u>	<u>\$ 5,789,517</u>	<u>\$ 5,735,728</u>

The accompanying notes are an integral part of the financial statements.

South Central Kansas Economic Development District, Inc.
Statements of Activities
For the Years Ended June 30, 2016 and 2015

	2016					2015	
	Loan Funds	Weather- ization	Administration Contracts	Local General	Eliminations	Total	Total
REVENUES							
Grant revenue	\$ -	\$ 1,884,810	\$ -	\$ 211,202	\$ -	\$ 2,096,012	\$ 2,218,533
County fees	-	-	-	116,597	-	116,597	136,500
Contract revenue	-	493,953	187,042	9,261	-	690,256	402,141
Gain (loss) on investments	-	-	-	(7,032)	-	(7,032)	2,099
Gain (loss) on sale of assets	-	35,373	-	3,477	-	38,850	-
Interest income	205,157	-	-	7,727	-	212,884	213,440
Center for Entrepreneurship Partnership Grant	-	-	-	-	-	-	23,800
Contributed goods and services	-	-	-	29,101	-	29,101	75,866
Loan administration and servicing fees:							
Small Business Administration	-	-	-	98,173	-	98,173	77,578
RLF	-	-	-	78,358	(65,234)	13,124	8,029
IRP	-	-	-	23,466	(20,498)	2,968	2,266
RBDTC	-	-	-	11,359	(6,634)	4,725	2,720
RBEG	-	-	-	3,701	(2,854)	847	-
RMAP	-	-	-	200	-	200	1,408
Other	(2,116)	12,807	-	40,904	(36,800)	14,795	14,270
Total revenues	<u>\$ 203,041</u>	<u>\$ 2,426,943</u>	<u>\$ 187,042</u>	<u>\$ 626,494</u>	<u>\$ (132,020)</u>	<u>\$ 3,311,500</u>	<u>\$ 3,178,650</u>

The accompanying notes are an integral part of the financial statements.

South Central Kansas Economic Development District, Inc.
Statements of Activities
For the Years Ended June 30, 2016 and 2015

	2016					2015	
	Loan Funds	Weather- ization	Administration Contracts	Local General	Eliminations	Total	Total
EXPENSES							
Program expenses							
Revolving loan funds	\$ 117,380	\$ -	\$ -	\$ -	\$ (65,234)	\$ 52,146	\$ (31,279)
Intermediary loan funds	55,776	-	-	-	(29,329)	26,447	(18,062)
Microloan loan funds	27,170	-	-	-	(10,261)	16,909	65,326
Rural business development loan funds	20,855	-	-	-	(6,634)	14,221	11,845
Rural business enterprise grant funds	4,828	-	-	-	(2,854)	1,974	(1,500)
Rural microenterprise assistance loan funds	1,668	-	-	-	-	1,668	9,765
Weatherization programs	-	2,347,051	-	-	(7,968)	2,339,083	2,256,573
Administrative contracts	-	-	180,195	-	(9,740)	170,455	188,181
Economic development	-	-	-	98,056	-	98,056	92,517
Microloan grant funds	-	-	-	178,263	-	178,263	148,067
Loan servicing	-	-	-	243,917	-	243,917	219,908
Total program expenses	<u>227,677</u>	<u>2,347,051</u>	<u>180,195</u>	<u>520,236</u>	<u>(132,020)</u>	<u>3,143,139</u>	<u>2,941,341</u>
Support expenses							
General and management	-	-	-	133,067	-	133,067	251,806
Total support expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>133,067</u>	<u>-</u>	<u>133,067</u>	<u>251,806</u>
Total expenses	<u>227,677</u>	<u>2,347,051</u>	<u>180,195</u>	<u>653,303</u>	<u>(132,020)</u>	<u>3,276,206</u>	<u>3,193,147</u>
CHANGE IN NET ASSETS	<u>(24,636)</u>	<u>79,892</u>	<u>6,847</u>	<u>(26,809)</u>	<u>-</u>	<u>35,294</u>	<u>(14,497)</u>
UNRESTRICTED NET ASSETS AT BEGINNING OF YEAR	<u>2,976,207</u>	<u>36,529</u>	<u>581,340</u>	<u>73,886</u>	<u>-</u>	<u>3,667,962</u>	<u>3,682,459</u>
UNRESTRICTED NET ASSETS AT END OF YEAR	<u>\$ 2,951,571</u>	<u>\$ 116,421</u>	<u>\$ 588,187</u>	<u>\$ 47,077</u>	<u>\$ -</u>	<u>\$ 3,703,256</u>	<u>\$ 3,667,962</u>

The accompanying notes are an integral part of the financial statements.

South Central Kansas Economic Development District, Inc.
Statement of Functional Expenses
For the Year Ended June 30, 2016

	Program Expenses												Eliminations	Total
	Loan Funds						Local General					Support Expenses		
	Revolving (RLF)	Inter- mediary (IRP)	Microloan	Rural Bus. Dev. (RBDTC)	Bus. Enter. (RBEG)	Micro. Assist. (RMAP)	Weather- ization	Admin- istrative Contracts	Economic Develop- ment	Microloan	Loan Servicing	Local General		
Salaries	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 276,383	\$ 109,988	\$ 74,036	\$ 107,861	\$ 144,759	\$ 63,314	\$ -	\$ 776,341
Employee benefits	-	-	-	-	-	-	188,765	21,450	17,469	20,541	33,734	14,659	-	296,618
Professional fees	-	-	-	-	-	-	22,340	4,503	1,362	15,046	12,396	8,115	-	63,762
Bonds and insurance	-	-	-	-	-	-	65,290	2,393	-	869	1,165	3,207	-	72,924
Consumables	-	-	-	-	-	-	34,367	696	177	5,600	1,939	1,820	-	44,599
Depreciation	-	-	-	-	-	-	17,124	-	-	-	-	12,119	-	29,243
Dues and memberships	-	-	-	-	-	-	315	-	-	51	1,909	437	-	2,712
Equipment lease/rental	-	-	-	-	-	-	2,617	825	-	741	1,875	2,901	-	8,959
Interest expense	-	6,351	4,078	-	-	3,668	-	-	-	-	-	-	-	14,097
Loan service/ administrative fees	65,234	20,497	-	6,634	2,855	-	-	-	-	-	-	-	(95,220)	-
Recharge	-	-	19,092	-	-	-	-	-	-	-	-	-	(19,092)	-
Office/warehouse rent	-	-	-	-	-	-	133,887	6,832	-	10,224	9,458	10,383	-	170,784
Travel per diem	-	-	-	-	-	-	5,575	380	106	1,652	40	40	-	7,793
Postage	-	-	-	-	-	-	2,240	4,140	121	426	1,049	607	-	8,583
Printing and publishing	-	-	-	-	-	-	3,394	749	-	1,356	1,375	3,877	-	10,751
Provision for loan losses	52,136	28,928	3,988	9,001	1,973	(2,000)	-	-	-	-	-	-	-	94,026
Publications	-	-	-	-	-	-	2,272	1,272	-	548	33	384	-	4,509
Seminars/conference and education	-	-	-	-	-	-	3,610	132	762	599	5,893	185	-	11,181
Telephone	-	-	-	-	-	-	2,565	2,177	-	3,226	2,623	2,675	-	13,266
Training and technical assistance	-	-	-	5,220	-	-	12,296	400	-	-	-	-	-	17,916
Transportation	-	-	-	-	-	-	3,427	13,523	4,013	4,475	1,017	734	(9,740)	17,449
Vehicle expense	-	-	-	-	-	-	74,941	-	-	830	-	2,754	-	78,525
Weatherization	-	-	-	-	-	-	1,434,419	-	-	-	-	319	(7,968)	1,426,770
Other expense	10	-	12	-	-	-	61,224	10,735	10	4,218	24,652	4,537	-	105,398
Subtotal	117,380	55,776	27,170	20,855	4,828	1,668	2,347,051	180,195	98,056	178,263	243,917	133,067	(132,020)	3,276,206
Eliminations	(65,234)	(29,329)	(10,261)	(6,634)	(2,854)	-	(7,968)	(9,740)	-	-	-	-	132,020	-
Total expenses	\$ 52,146	\$ 26,447	\$ 16,909	\$ 14,221	\$ 1,974	\$ 1,668	\$ 2,339,083	\$ 170,455	\$ 98,056	\$ 178,263	\$ 243,917	\$ 133,067	\$ -	\$ 3,276,206

The accompanying notes are an integral part of the financial statements.

South Central Kansas Economic Development District, Inc.
Statement of Functional Expenses
For the Year Ended June 30, 2015

	Program Expenses												Eliminations	Total
	Loan Funds						Local General					Support Expenses		
	Revolving (RLF)	Inter- mediary (IRP)	Micro- loan	Rural Bus. Dev. (RBDTC)	Rural Bus. Enter. (RBEG)	Micro. Assist. (RMAP)	Weather- ization	Admin- istrative Contracts	Economic Develop- ment	Microloan	Loan Servicing	Local General		
Salaries	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 222,409	\$ 127,401	\$ 71,673	\$ 99,668	\$ 150,789	\$ 122,583	\$ -	\$ 794,523
Employee benefits	-	-	-	-	-	-	164,561	24,996	13,429	16,831	32,902	21,492	-	274,211
Professional fees	-	-	-	-	-	-	17,227	3,410	1,176	5,367	7,400	27,148	-	61,728
Bonds and insurance	-	-	-	-	-	-	16,589	918	-	-	-	2,206	-	19,713
Consumables	-	-	-	-	-	-	21,331	608	353	2,211	1,341	5,520	-	31,364
Depreciation	-	-	-	-	-	-	23,985	-	-	-	-	28,776	-	52,761
Dues and memberships	-	-	-	-	-	-	-	-	-	75	1,975	4,207	-	6,257
Equipment lease/rental	-	-	-	-	-	-	(232)	1,213	-	1,131	2,531	3,387	-	8,030
Interest expense	-	6,632	7,196	-	-	7,765	-	-	-	-	-	-	-	21,593
Loan service/ administrative fees	60,325	20,165	-	10,844	3,209	-	-	-	-	-	-	-	(94,543)	-
Microloan recharge	-	-	35,110	-	-	-	-	-	-	-	-	1,500	(36,610)	-
Office/warehouse rent	-	-	-	-	-	-	90,052	7,013	1,132	12,900	12,082	14,192	-	137,371
Travel per diem	-	-	-	-	-	-	14,797	2,137	1,444	-	22	631	-	19,031
Postage	-	-	-	-	-	-	2,113	4,762	190	648	694	570	-	8,977
Printing and publishing	-	-	-	-	-	-	2,210	995	-	1,005	1,455	670	-	6,335
Provision for loan losses	(31,279)	(24,709)	58,130	5,141	(1,500)	2,000	-	-	-	-	-	-	-	7,783
Publications	-	-	-	-	-	-	2,519	728	-	888	-	360	-	4,495
Seminars/conference and education	-	-	-	-	-	-	7,995	205	15	-	150	1,690	-	10,055
Telephone	-	-	-	-	-	-	4,014	2,218	200	3,896	4,868	3,567	-	18,763
Training and technical assistance	-	-	-	6,704	-	-	11,084	160	-	-	-	-	-	17,948
Transportation	-	-	-	-	-	-	6,306	8,859	2,905	1,836	274	2,148	(9,595)	12,733
Vehicle expense	-	-	-	-	-	-	95,801	12	-	-	-	3,449	-	99,262
Weatherization	-	-	-	-	-	-	1,546,962	-	-	-	-	-	(18,115)	1,528,847
Other expense	-	15	-	-	-	-	24,965	12,141	-	1,611	3,425	9,210	-	51,367
	29,046	2,103	100,436	22,689	1,709	9,765	2,274,688	197,776	92,517	148,067	219,908	253,306	(158,863)	3,193,147
Eliminations	(60,325)	(20,165)	(35,110)	(10,844)	(3,209)	-	(18,115)	(9,595)	-	-	-	(1,500)	158,863	-
Total expenses	\$ (31,279)	\$ (18,062)	\$ 65,326	\$ 11,845	\$ (1,500)	\$ 9,765	\$ 2,256,573	\$ 188,181	\$ 92,517	\$ 148,067	\$ 219,908	\$ 251,806	\$ -	\$ 3,193,147

The accompanying notes are an integral part of the financial statements.

South Central Kansas Economic Development District, Inc.

Statements of Cash Flows

For the Years Ended June 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 35,294	\$ (14,497)
Adjustments to reconcile change in net assets		
Depreciation	29,243	52,761
In-kind contribution (Note 5)	-	(43,300)
Provision for loan losses	(94,026)	(7,783)
Gain on disposal of assets	(38,850)	-
Unrealized/realized gain on investments	7,032	21,887
Net changes in:		
Accounts receivable	-	5,037
Grants receivable	(72,777)	32,355
Contracts receivable	61,043	5,315
Prepaid expenses	1,383	1
Interest receivable	4,966	(2,261)
Supplies inventory	(5,127)	3,113
Accrued expenses	(15,694)	44,471
Interest payable	(309)	931
Deferred revenue	69,660	(153,737)
Funds held for others	68	350
Net cash used by operating activities	(18,094)	(55,357)
CASH FLOWS FROM INVESTING ACTIVITIES		
Loan disbursements	(1,681,900)	(1,240,244)
Loan repayments	1,042,755	851,513
Improvements to asset held for sale	(13,223)	(9,489)
Purchases of property and equipment	(121,205)	(30,931)
Proceeds from sale of property and equipment	105,018	-
Purchase of investments	(222,493)	(6,246)
Proceeds from investment redemption	210,000	-
Net cash used by investing activities	(681,048)	(435,397)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable	201,000	246,000
Repayment of notes payable	(236,230)	(310,219)
Net cash used by financing activities	(35,230)	(64,219)
Net increase (decrease) in cash and cash equivalents	(734,372)	(554,973)
CASH & CASH EQUIVALENTS, BEGINNING OF YEAR	2,484,037	3,039,010
CASH & CASH EQUIVALENTS, END OF YEAR	\$ 1,749,665	\$ 2,484,037
SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ 14,406	\$ 20,662

The accompanying notes are an integral part of the financial statements.

South Central Kansas Economic Development District, Inc.

Notes to Financial Statements

June 30, 2016 and 2015

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of operations

South Central Kansas Economic Development District, Inc. (SCKEDD) is a not-for-profit organization, which provides economic development assistance to communities in a fourteen county area in south central Kansas. SCKEDD is engaged in lending activities to individual and corporate customers throughout the fourteen county area. Funding for these loans comes from grants and low interest rate loans from governmental agencies. The loans made by SCKEDD are generally secured by one or more of the following: personal property, real estate, inventory, accounts receivable or personal guarantees of the borrower. SCKEDD also has programs that assist cities and counties with community improvement, housing, and urgent need. SCKEDD also provides assistance to low income persons in making their homes more energy efficient.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

Material estimates that are particularly susceptible to significant changes in the near-term relate to the determination of the allowance for loan losses related to notes receivable. SCKEDD, through its loan programs, makes loans to borrowers who have been unable to obtain loans from conventional sources because of the borrowers' credit circumstances. Management has recorded an allowance for loan losses related to these loans of \$269,600 and \$328,000 as of June 30, 2016 and 2015, respectively, which management believes to be adequate based on information currently known. In connection with arriving at the estimate of the allowance for loan losses, management has utilized aged notes receivable listings, historical experience, valuation estimates of collateral and current information of collection trends to arrive at the estimate for the uncollectable portion of notes receivable. The amount SCKEDD ultimately realizes in collecting these loans could differ materially in the near term from the carrying amount reflected in the financial statements.

Income taxes

SCKEDD is organized as a Kansas nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as organizations described in Section 501(c)(3), qualify for the charitable contribution deduction under Section 170(b)(1)(A)(vi), and has been determined not to be a private foundation under Sections 509(a)(1). SCKEDD is required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS annually. In addition, SCKEDD is subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. SCKEDD has determined it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

SCKEDD believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. SCKEDD would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Basis of accounting

The financial statements of South Central Kansas Economic Development District, Inc. have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

South Central Kansas Economic Development District, Inc.
Notes to Financial Statements
June 30, 2016 and 2015

1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Cash and cash equivalents

Cash and cash equivalents include cash in financial institutions and cash on hand.

Supplies inventory

Supplies inventory, which consists of supplies used in the Weatherization Program, are valued at the lower of cost or market. Cost is determined by the average cost method.

Notes receivable

Notes receivable that management has the intent and ability to hold for the foreseeable future, or until maturity or pay-off, are reported at their outstanding principal balance adjusted for any charge-off and the allowance for loan losses.

The allowance for loan losses is increased by provisions charged to expense and reduced by loans charged off, net of recoveries. The allowance is maintained at a level considered adequate to provide for potential loan losses, based on management's evaluation of the loan portfolio, as well as on prevailing and anticipated economic conditions and historical losses by loan category.

General allowances have been established, based upon the aforementioned factors, and allocated to the individual loan categories. Allowances are accrued on specific loans evaluated for impairment for which the basis of each loan, including accrued interest, exceeds the discounted amount of expected future collections of interest and principal or, alternatively, the fair value of loan collateral.

A loan is considered impaired when it is probable that SCKEDD will not receive all amounts due according to the original contractual terms of the loan. This includes non-accrual loans, restructured loans with adjustments to term or rates and certain other loans identified by management. Accrual of interest is discontinued when the loan is past due more than 120 days. Interest is recognized for non-accrual loans only upon receipt, and only after all principal amounts are current according to the terms of the contract.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities shall be measured at fair value in the statement of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities.

Property and equipment

Property and equipment are carried at cost, if purchased, or the approximate fair market value at the date of donation. SCKEDD capitalizes all expenditures for property and equipment in excess of \$1,000, subject to management's discretion.

Depreciation expense totaled \$29,243 and \$52,761 for the years ended June 30, 2016 and 2015, respectively. Property and equipment is depreciated by the straight-line method over the following useful lives:

Leasehold improvements	21 - 60 months
Furniture and equipment	5 years
Vehicles	5 years

SCKEDD's policy is to depreciate property and equipment over their remaining useful life. SCKEDD periodically evaluates the remaining useful life and recoverability of such property and equipment in light of current circumstances, and believes it will recover the carrying amount in future operations.

South Central Kansas Economic Development District, Inc.
Notes to Financial Statements
June 30, 2016 and 2015

1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Deferred revenue

Deferred revenue items represent amounts received or accrued in advance. As services are performed, the related revenue is recognized.

Net asset classification

SCKEDD is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. SCKEDD receives the majority of its funding under fee-for-service and cost-reimbursement contracts where SCKEDD is the recipient of various grants and contracts with governmental organizations. Because the governmental organizations receive commensurate value, these funding arrangements are classified as exchange transactions, and are thus reported as unrestricted support. Accordingly, all of SCKEDD's net assets are classified as unrestricted. SCKEDD has no temporarily restricted or permanently restricted net assets.

Fund classification

Internally, management monitors the activity of SCKEDD's various programs by specific funds. These specific funds are categorized into the following five general funds for external financial reporting purposes.

Loan Funds

Loan funds consist of the actual loan fund and loan loss reserve funds for the Revolving Loan Fund Program, Intermediary Relending Program, Microloan Program, Rural Business Development Tax Credit Program, Rural Business Enterprise Grant, and Rural Microentrepreneur Assistance Program. See Note 4 Notes Receivable for a further description of the loan programs.

Trust Funds

Trust funds consist of cash and other assets which SCKEDD manages on behalf of other government, or government related entities. All such funds are per written agreement and are typically short term in nature. A liability is recognized payable to the other organization equal to the carrying value of assets held. Revenue and expenses are not recognized within these funds.

Weatherization

Weatherization consists of two grant programs administered by SCKEDD during the year ending June 30, 2016 and three grant programs during the year ending June 30, 2015. These programs are funded by pass-through grants from the Kansas Housing Resources Corporation. Two of the grant programs originate from the U.S. Department of Energy and U.S. Department of Health and Human Services. The primary purpose of the programs is to assist low income persons in making their homes more energy efficient.

Administrative Contracts & Grants

SCKEDD routinely enters into contracts with local units of government in our fourteen-county service area that have received grants from a State or Federal program and receives a fee for administering those grants. Typically, SCKEDD participates in a competitive bid process for the administration of the grant. Contract administration includes all dealings between parties to a contract from the time a contract is awarded until the work has been completed and accepted or the contract terminated, payment has been made, and disputes have been resolved.

South Central Kansas Economic Development District, Inc.
Notes to Financial Statements
June 30, 2016 and 2015

1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Fund classification (Continued)

Administrative Contracts & Grants (Continued)

SCKEDD currently administers grant contracts from:

- Kansas Department of Commerce's Community Development Block Grant (CDBG) and Neighborhood Stabilization Program (NSP) programs,
- USDA's Housing Preservation Grant,
- EDA's public works grants for business infrastructure needs, and
- State of Kansas CDBG Microloan programs for businesses in eight counties.

SCKEDD also enters into contracts to provide direct administrative support to:

- North Central Regional Planning Commission for its administrative contract for Homeland Security,
- Network Kansas for its many business loan programs, including Start Up Kansas, Capital Multiplier, RBEG, and numerous E-Community funds

SCKEDD is also the recipient of direct grants from the SBA for providing ongoing technical assistance in marketing, management, business counseling and training to SBA funded microborrowers and prospective microborrowers.

Local General

Local General consists of a variety of activities administered by SCKEDD. The servicing activity related to servicing SCKEDD's Revolving Loan Fund Program, Intermediary Relending Program and Microloan programs are recognized in this fund as well as the SBA 504 loan program and SBA 7A loan program. Also included are general economic development activities which are funded by a federal grant from the U.S. Economic Development Administration. This fund also includes the general administration activities of SCKEDD.

Revenue Recognition

Grant revenue from granting agencies and contract and fees for service revenue are recognized as revenue when services are provided.

Interest Income

Interest income is recognized as earned.

Expense allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

South Central Kansas Economic Development District, Inc.
Notes to Financial Statements
June 30, 2016 and 2015

2. Investments

Investments consist of the following at June 30:

	2016	2015
Investment securities		
Money market account	\$ 2,765	\$ 1,584
Mutual fund-fixed income	139,958	120,321
Equity securities	20,353	35,710
Certificate of deposit	210,000	210,000
	\$ 373,076	\$ 367,615

The certificate of deposit was renewed in July 2015 for \$210,000 with an interest rate of 0.6% and matures on October 11, 2016. The certificate of deposit is carried at cost. The certificate of deposit is used as collateral on notes payable.

Generally accepted accounting principles provide that fair value can be measured utilizing one of three methodologies; quoted prices in active markets for identical assets (level 1), observable inputs such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset (level 2), and significant unobservable inputs (level 3). The carrying value of the investment securities, which are carried at fair value, are based on fair values as determined by level 1 estimates.

3. Interest Receivable

Interest receivable consists of the following at June 30:

	2016	2015
Total interest receivable	\$ 37,403	\$ 44,369
Less allowance for loan losses	-	(2,000)
Interest receivable, net	\$ 37,403	\$ 42,369

4. Notes Receivable

The loan funds consist of amounts loaned to companies for economic development purposes. The proceeds available for loans are provided by grants from the Economic Development Administration (EDA) and from low interest loans from USDA Rural Development, formerly known as Farmer's Home Administration (FmHA), and the Small Business Administration (SBA), and from contributions received under the Kansas Economic Growth Act of 2004.

Revolving Loan Fund Program

The Revolving Loan Fund Program (RLF) was started in 1979 with a \$720,000 grant to SCKEDD from the EDA. The terms of the grant provide for loans to businesses meeting certain qualifications, in a particular geographic area, that are unable to find funding through other sources. The program was monitored by the EDA for a period of five years. After this five-year period the funds remain restricted for the original purpose of the grant. During the year ended June 30, 1991, SCKEDD received an additional \$590,000 to assist in the economic development of counties affected by a tornado on March 13, 1990. The terms of the grant provide for loans to businesses, meeting certain qualifications, in a particular geographic area. During the year ended June 30, 2008, SCKEDD received approval from the EDA to merge the 1979 and 1991 grant funds into one fund. This has been reflected in current year detail, as total RLF funds are now shown as the EDA - RLF - 1979 fund. Over the years the EDA has expanded the geographic areas served by the RLF program to include all fourteen counties of SCKEDD.

South Central Kansas Economic Development District, Inc.
Notes to Financial Statements
June 30, 2016 and 2015

4. Notes Receivable (Continued)

Intermediary Relending Program

During the years ended June 30, 1990 and 1993, SCKEDD received low interest loans from USDA Rural Development (formerly known as FmHA). The purpose of these loans was to provide loans to businesses that qualify for the Farmer's Home Intermediary Relending Program (IRP). SCKEDD was awarded an additional loan of \$172,000 on July 25, 2011. SCKEDD has drawn \$172,000 and \$111,000 of these funds during the years ended June 30, 2016 and June 30, 2015, respectively. The terms of the new loan are similar to the previous loans.

Rural Business Development Tax Credit Program

The Rural Business Development Tax Credit Program (RBDTC) was funded by cash contributions made to SCKEDD under the Kansas Economic Growth Act of 2004. The Kansas Economic Growth Act of 2004 authorized tax credits for individuals and businesses making cash contributions to selected regional foundations that provide services in the area of rural business development. State of Kansas tax credits are awarded to donors equal to 75% of their contribution to SCKEDD for each of the respective years. The program is monitored by the Kansas Department of Commerce. Contributions are segregated from other funds and maintained in a separate bank account. Further contributions will not be collected subsequent to the SFY 2013 (July 1, 2012 through December 31, 2013). Accordingly, no tax credits were awarded to any donors. SCKEDD maintains notes receivable in relation to the program.

Rural Business Enterprise Program

The Rural Business Enterprise Grant (RBEG) funds were received from USDA-Rural Development in 2004 to establish a revolving loan fund for small business start-up and growth lending in population areas of less than 50,000, meeting certain qualifications, and in a particular geographic area (SCKEDD's 14-county region). These funds have been loaned and repaid and are no longer federalized.

Microloan Program

SCKEDD received low interest rate loans from the SBA for multiple years. SCKEDD is using proceeds of these loans to make additional loans to start-up newly established or growing qualified small businesses for the provision of working capital, materials, supplies, or equipment. During the year ended June 30, 2011, the SBA increased the maximum loan allowed under the program from \$35,000 to \$50,000. On June 27, 2013, SCKEDD received approval for an additional \$500,000 microloan. SCKEDD had drawn \$500,000 of these funds during the year ended June 30, 2015. The terms of the new loan are similar to the previous loans. During the year ended June 30, 2016, SCKEDD received another approval for another \$500,000 microloan. SCKEDD had drawn \$165,000 of these funds during the year ended June 30, 2016.

As part of the SBA Microloan Programs, SCKEDD is required to fund loan loss reserves associated with SBA microloans. SCKEDD's funding of the original loan loss reserves was obtained from two grantors. The 2009 Microloan loan loss reserve funding was obtained from one grantor. Management's policy is to recharge all loan loss reserve funding through any excess of interest income over interest expense. If that interest does not cover loan loss recharge, nonfederal local money is used to fund the reserve. These recharges totaled \$19,092 and \$35,110 for the years ended June 30, 2016 and 2015, respectively, and have been eliminated for financial statement presentation purposes.

Rural Microenterprise Assistance Program

During the year ended June 30, 2011, SCKEDD received a low interest rate loan from the USDA-Rural Development. SCKEDD is using the proceeds of the loan to make loans, up to \$50,000, to businesses in the rural community outside of Wichita that have ten or fewer employees. The loans made to the rural businesses may be used for any business need except for construction.

South Central Kansas Economic Development District, Inc.
Notes to Financial Statements
June 30, 2016 and 2015

4. Notes Receivable (Continued)

Rural Microenterprise Assistance Program (Continued)

As part of the program, SCKEDD is required to fund loan loss reserves associated with the RMAP loans. SCKEDD's funding of the loss reserve was obtained from a grant in the year ending June 30, 2011. A minimum of 5% must be kept in the loan loss reserves for the RMAP loans.

Loan administration and servicing fees

Administration and servicing fees of \$65,234, \$20,497 \$6,634, and \$2,855 were charged on the RLF, IRP, RBDTC, and RBEG loan funds, respectively, for the year ended June 30, 2016 and of 60,325, \$20,165 \$10,844, and \$3,209 were charged on the RLF, IRP, RBDTC, and RBEG loan funds, respectively, for the year ended June 30, 2015. These fees are derived from the net interest income resulting from the loan funds.

These fees are recognized as revenue in the local general fund and as expenses in the loan funds. These fees have been eliminated for financial statement presentation purposes.

Other loan administration and servicing fees of \$120,037 and \$92,001 were recognized for the years ended June 30, 2016 and 2015, respectively, for other assistance with the origination and servicing of other SBA loans not held by SCKEDD.

Notes receivable at June 30 are summarized as follows:

	2016			2015		
	Loan Amount	Allowance for Loan Losses	Net	Loan Amount	Allowance for Loan Losses	Net
Loan Fund						
EDA-RLF	\$ 1,512,457	\$ 114,000	\$ 1,398,457	\$ 865,234	\$ 71,000	\$ 794,234
FmHA-1990 IRP	112,549	6,000	106,549	193,919	93,000	100,919
FmHA-1993 IRP	233,771	12,000	221,771	268,813	14,000	254,813
FmHA-2011 IRP	164,648	37,500	127,148	135,050	7,000	128,050
SBA-2001/2003/2005 Microloan	26,346	1,800	24,546	64,227	6,000	58,227
SBA-2009 Microloan	272,547	23,600	248,947	331,514	50,000	281,514
SBA-2013 Microloan	372,443	27,700	344,743	432,647	52,000	380,647
SBA-2015 Microloan	90,238	4,000	86,238	-	-	-
RBDTC	536,843	31,000	505,843	345,622	22,000	323,622
RBEG	90,357	5,000	85,357	57,697	4,000	53,697
RMAP	128,618	7,000	121,618	171,323	9,000	162,323
	<u>\$ 3,540,817</u>	<u>\$ 269,600</u>	<u>\$ 3,271,217</u>	<u>\$ 2,866,046</u>	<u>\$ 328,000</u>	<u>\$ 2,538,046</u>

South Central Kansas Economic Development District, Inc.
Notes to Financial Statements
June 30, 2016 and 2015

4. Notes Receivable (Continued)

Following is an analysis of the changes in the allowance for loan losses:

	Activity			Activity				
	Balance	FYE June 30, 2015		Balance	FYE June 30, 2016			Balance
		June 30	Charge-		Provision	June 30		
2014	Offs	for Loan	2015	Offs	for Loan	2016		
Loan Fund								
EDA-RLF	\$ 95,000	\$ (7,279)	\$ (31,279)	\$ 71,000	\$ 9,136	\$ 52,136	\$ 114,000	
FmHA-1990 IRP	57,000	-	36,000	93,000	87,427	427	6,000	
FmHA-1993 IRP	77,000	(3,209)	(66,209)	14,000	-	(2,000)	12,000	
FmHA-2011 IRP	1,500	-	5,500	7,000	-	30,500	37,500	
SBA-2001/2003/2005 Microloan	12,000	(1,212)	(7,212)	8,000	-	(6,200)	1,800	
SBA-2009 Microloan	59,000	34,342	25,342	50,000	22,371	(4,029)	23,600	
SBA-2013 Microloan	12,000	-	40,000	52,000	34,518	10,218	27,700	
SBA-2015 Microloan	-	-	-	-	-	4,000	4,000	
RBDC	45,000	28,141	5,141	22,000	-	9,000	31,000	
RBEG	5,500	-	(1,500)	4,000	974	1,974	5,000	
RMAP	7,000	-	2,000	9,000	-	(2,000)	7,000	
	<u>\$ 371,000</u>	<u>\$ 50,783</u>	<u>\$ 7,783</u>	<u>\$ 330,000</u>	<u>\$ 154,426</u>	<u>\$ 94,026</u>	<u>\$ 269,600</u>	

Following is the recorded investment in loans which are 90 days or more past due and are on nonaccrual status as of June 30:

	<u>2016</u>	<u>2015</u>
Loan Fund		
EDA-RLF	\$ 35,572	\$ 9,136
FmHA- IRP	57,310	87,427
SBA-2001/2003/2005 Microloan	7,500	-
SBA-2013 Microloan	-	24,441
RBEG	-	974
	<u>\$ 100,382</u>	<u>\$ 121,978</u>

The amount of interest not recognized on nonaccrual loans was approximately \$9,128 and \$11,284 for the years ended June 30, 2016 and 2015, respectively.

South Central Kansas Economic Development District, Inc.

Notes to Financial Statements

June 30, 2016 and 2015

4. Notes Receivable (Continued)

Following is information relating to impaired loans as of June 30. All loans which are considered impaired have specific allowances established for the estimated loss.

		2016			
		Ending Impaired Balance	Average Impaired Balance	Allowance for Loan Losses	Interest Income Cash Basis
Loan Fund					
	EDA-RLF-1979	\$ 166,909	\$ 150,310	\$ 54,000	\$ 7,364
	FmHA-1990 IRP	-	43,714	-	-
	FmHA-2011 IRP	57,311	28,656	31,500	1,396
	SBA-2001/2003/2005 Microloan	18,364	24,113	2,800	662
	SBA-2009 Microloan	36,591	32,811	5,600	3,443
	SBA-2013 Microloan	85,271	54,856	12,700	6,194
	RBDTC	73,008	42,805	11,000	4,054
	RBEG	-	487	-	-
		<u>\$ 437,454</u>	<u>\$ 377,752</u>	<u>\$ 117,600</u>	<u>\$ 23,113</u>
		2015			
		Ending Impaired Balance	Average Impaired Balance	Allowance for Loan Losses	Interest Income Cash Basis
Loan Fund					
	EDA-RLF-1979	\$ 133,710	\$ 233,673	\$ 44,000	\$ 4,950
	FmHA-1990 IRP	87,427	96,125	87,000	-
	SBA-2001/2003/2005 Microloan	29,861	27,908	4,000	1,645
	SBA-2009 Microloan	29,031	36,689	27,000	2,300
	SBA-2013 Microloan	24,441	12,221	24,000	1,759
	RBDTC	12,601	37,868	5,000	1,133
	RBEG	974	487	1,000	-
		<u>\$ 318,045</u>	<u>\$ 444,970</u>	<u>\$ 192,000</u>	<u>\$ 11,787</u>

5. Asset Held for Sale

During the year ended June 30, 2015, a residential building was contributed to SCKEDD. The fair market value on the date of donation was \$43,300. SCKEDD made improvements to the residential building of \$13,223 and \$9,489 during the years ended June 30, 2016 and 2015, respectively. As of June 30, 2016 and 2015, the residential building is an asset held for sale on the statement of financial position at \$0 and \$52,789, respectively. The house was sold for \$51,500 on January 15, 2016. SCKEDD took a loss of \$14,512 on the building.

6. Property and Equipment

Property and equipment consist of the following for June 30, 2016 and 2015:

	2016	2015
Furniture and equipment	\$ 204,977	\$ 231,552
Autos and trucks	572,933	590,890
Leasehold improvements	19,000	19,651
	<u>796,910</u>	<u>842,093</u>
Less accumulated depreciation	641,240	778,229
Total property and equipment	<u>\$ 155,670</u>	<u>\$ 63,864</u>

South Central Kansas Economic Development District, Inc.
Notes to Financial Statements
June 30, 2016 and 2015

7. Notes Payable

Notes payable at June 30 are summarized as follows:

	<u>2016</u>	<u>2015</u>
Note payable to FmHA-1990 The note is payable in annual installments of \$29,925 through October 27, 2019, which includes interest at 1% per annum and is collateralized by a Certificate of Deposit in the possession of a local bank (Note 2). Also, the contract rights of the loans made by SCKEDD in the IRP are pledged as additional collateral.	\$ 111,350	\$ 139,933
Note payable to FmHA-1993 The note is payable in annual installments of \$51,412 through March 11, 2023, which includes interest at 1% per annum and is collateralized by the contract rights of the loans made by SCKEDD in the IRP.	341,261	388,670
Note payable to FmHA-2011 - The note is payable in annual installments through October 1, 2041, which includes interest at 1% per annum and is collateralized by the contract rights of the loans and the depository accounts of the intermediary relending program and loan loss reserve accounts made by SCKEDD in the IRP program. Interest only payments are due for the first 3 years of the loan and principal and interest will be paid in 27 yearly installments.	165,773	136,000
Note payable to SBA-2005- The note is payable in monthly installments, including interest of 2.625% to maturity on August 4, 2015. No principal or interest is required during the first 12 months. Interest accrued during the first 12 months will be paid in 108 equal installments over the remaining life of the note and added to the monthly installment. The contract rights of the loans made by SCKEDD in the Microloan Program and related loan loss reserve funding are pledged as collateral.	-	17,126
Note payable to SBA-2009- The note is payable in monthly installments, including interest of 2.625% to maturity on September 11, 2019. Interest accrued during the first 12 months will be paid in 108 equal installments over the remaining term of the note and added to the monthly installments. The contract rights of the loans made by SCKEDD in the Microloan Program and related loan loss reserve funding are pledged as collateral.	250,348	323,231
Note payable to SBA-2013- The note is payable in monthly installments to maturity on June 7, 2023. Based upon the terms of the note, SCKEDD was able to buy down the interest rate to 0%. The contract rights of the loans made by SCKEDD in the Microloan Program and related loan loss reserve funding are pledged as collateral.	418,889	459,445
Note payable to SBA-2015- The note is payable in monthly installments, including interest of 1.625% to maturity on November 3, 2025. The contract rights of the loans made by SCKEDD in the Microloan Program and related loan loss reserve funding are pledged as collateral.	165,000	-
Note payable to USDA- RMAP- The note is payable in monthly installments, including interest of 2.0% to maturity on December 29, 2030. The contract rights of the loans made by SCKEDD in the RMAP Program and related loan loss reserve funding are pledged as collateral. The maximum amount available is \$375,000.	319,793	343,239
	<u>\$ 1,772,414</u>	<u>\$ 1,807,644</u>

South Central Kansas Economic Development District, Inc.
Notes to Financial Statements
June 30, 2016 and 2015

7. Notes Payable (Continued)

Aggregate annual maturities of notes payable on June 30, 2016 are summarized as follows:

Year ended June 30	1990 FmHA	1993 FmHA	2011 FmHA	2009 SBA	2013 SBA	2015 SBA	RMAP	Total
2017	\$ 28,804	\$ 47,981	\$ 5,999	\$ 72,032	\$ 59,841	\$ 9,979	\$ 19,357	\$ 243,993
2018	29,093	48,463	5,646	73,212	59,841	17,329	19,747	253,331
2019	29,385	48,950	5,703	74,410	59,841	17,612	20,146	256,047
2020	24,068	49,442	5,760	30,694	59,841	17,901	20,552	208,258
2021	-	49,938	5,817	-	59,841	18,194	20,967	154,757
Thereafter	-	96,487	136,848	-	119,684	83,985	219,024	656,028
	<u>\$ 111,350</u>	<u>\$ 341,261</u>	<u>\$ 165,773</u>	<u>\$ 250,348</u>	<u>\$ 418,889</u>	<u>\$ 165,000</u>	<u>\$ 319,793</u>	<u>\$ 1,772,414</u>

8. Operating Leases

Office and Warehouse Leases

During the year ended June 30, 2015, SCKEDD was leasing the office facilities and the warehouse lease on a month to month basis. SCKEDD moved the office facilities and warehouse into one building and signed a new lease. The operating lease requires monthly payments of \$8,000 and expires February 28, 2026. Future minimum lease payments at June 30, 2016, are as follows:

Year Ended June 30	Total
2017	\$ 96,000
2018	96,000
2019	96,000
2020	96,000
2021	96,000
Thereafter	448,000
	<u>\$ 928,000</u>

Rent expense for the years ended June 30, 2016 and 2015 was \$141,666 and \$114,927, respectively.

Equipment Leases

SCKEDD leases printers under operating leases. These leases require monthly payments with additional charges for copies and service calls. Future minimum lease payments at June 30, 2016, are as follows:

Year Ended June 30	Total
2017	\$ 8,544
2018	7,774
2019	3,142
2020	829
	<u>\$ 20,289</u>

Expenses recognized related to the copier lease were \$7,085 and \$7,934 for the year ended June 30, 2016 and 2015, respectively.

South Central Kansas Economic Development District, Inc.
Notes to Financial Statements
June 30, 2016 and 2015

9. Retirement Plan

SCKEDD participates in a tax-deferred annuity plan qualified under section 403(b) of the Internal Revenue Code that covers substantially all of its employees. Retirement plan expense totaled \$82,141 and \$83,643 for the years ended June 30, 2016 and 2015, respectively.

10. Contingencies

SCKEDD is a party to various legal actions and administrative proceedings and subject to various claims arising in the ordinary course of business related to its programs, contracts, and personnel issues. SCKEDD and its legal counsel believe the disposition of these matters will not have a material adverse effect on the financial position of SCKEDD.

11. Commitments

SCKEDD was committed to fund new loans totaling \$0 and \$39,500 at June 30, 2016 and 2015, respectively. These outstanding loan commitments were authorized under various loan programs as described in Note 4.

12. Contributions in-kind

SCKEDD receives contributed services as in-kind contributions from the governmental units within SCKEDD's fourteen county area that provide economic planning assistance to their respective counties. The value of these services that are included in the financial statements for the years ended June 30, 2016 and 2015 are \$29,101 and \$32,566, respectively.

During the year ended June 30, 2015, a residential building was contributed to SCKEDD. The fair market value on the date of donation was \$43,300. No buildings were donated during the year ended June 30, 2016.

13. Concentrations

SCKEDD receives a large portion of its funding from governmental grants. Grant revenues approximate 63% and 70% of total revenue for the years ended June 30, 2016 and 2015, respectively.

14. Subsequent Events

Management of SCKEDD has evaluated events subsequent to the statement of financial position date (June 30, 2016) through October 24, 2016, the date the financial statements were available to be issued.

Supplemental Information

South Central Kansas Economic Development District, Inc.
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/Program Title/Grant Period	Federal CFDA Number	Grant Number/ Loan Number	Expenditures of Federal Awards
U.S. Department of Agriculture			
Rural Business-Cooperative Service			
Intermediary Relending Program			
Direct Loan	10.767	IRP-1990	\$ 139,933
Direct Loan	10.767	IRP-1993	388,670
Direct Loan	10.767	IRP-2011	172,000
Total Direct Loans			<u>700,603</u>
Rural Microentrepreneur Assistance Program			
Direct Loan	10.870	IRP-RMAP	343,239
Formula Grant	10.870	RDBCP-10-RMAP	5,683
Formula Grant	10.870	RDBCP-10-RMAP	3,362
Total Direct Loan and Formula Grant			<u>352,284</u>
Total U.S. Department of Agriculture			<u>1,052,887</u>
U.S. Department of Commerce			
Economic Development Administration			
Economic Development			
Economic Adjustment Assistance	11.307	05-89-01822	1,858,847
Support for Planning Organizations	11.302	F058304903	64,500
Total U.S. Department of Commerce			<u>1,923,347</u>
U.S. Small Business Administration			
Microloan Program			
Direct Loan	59.046	4396434108	17,126
Direct Loan	59.046	3630995004	323,231
Direct Loan	59.046	6108215005	459,445
Direct Loan	59.046	7818425008	165,000
Total Direct Loans			<u>964,802</u>
Formula Grant	59.046	SBAHQ-15-Y-0005	135,964
Total Formula Grant			<u>135,964</u>
Total U.S. Small Business Administration			<u>1,100,766</u>
U.S. Department of Energy			
Weatherization Assistance for Low-Income Persons			
Pass-Through from Kansas Housing Resources Corporation			
Weatherization Assistance Program	81.042	DOE-15-13	517,034
Total U.S. Department of Energy			<u>517,034</u>
U.S. Department of Health and Human Services			
Administration for Children and Families			
Low-Income Home Energy Assistance			
Pass-Through from Kansas Housing Resources Corporation			
Low-Income Home Energy Assistance	93.568	LP-15-13	1,222,614
Low-Income Home Energy Assistance	93.568	LP-16-13	128,900
Low-Income Home Energy Assistance	93.568	KS-15	120,618
Low-Income Home Energy Assistance	93.568	LP-JOCO	137,029
Total U.S. Department of Health and Human Services			<u>1,609,161</u>
Total Expenditures of Federal Awards			<u>\$ 6,203,195</u>

South Central Kansas Economic Development District, Inc.
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of South Central Kansas Economic Development District, Inc. under programs of the federal government for the year ended June 30, 2016.

The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of South Central Kansas Economic Development District, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of South Central Kansas Economic Development District, Inc.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Cost Rate

South Central Kansas Economic Development District, Inc. has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

4. Direct Loans

The following schedule summarizes outstanding balance of direct loans as of June 30, 2016.

Federal Grantor/Pass-Through Grantor/Program Title/ Grant Period	Federal CFDA Number	Other Grant Number/ Loan Number	Balance of Direct Loans
U.S. Department of Agriculture			
Rural Development-Cooperative Service			
Intermediary Relending Program			
Direct Loan	10.767	IRP-1990	\$ 111,350
Direct Loan	10.767	IRP-1993	341,261
Direct Loan	10.767	IRP-2011	165,773
Direct Loan	10.870	IRP-RMAP	319,793
Total U.S. Department of Agriculture			<u>938,177</u>
U.S. Small Business Administration			
Microloan Program			
Direct Loan	59.046	3630995004	250,348
Direct Loan	59.046	6108215005	418,889
Direct Loan	59.046	7818425008	165,000
Total U.S. Small Business Administration			<u>834,237</u>
Total Direct Loans			<u>\$ 1,772,414</u>

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

Board of Directors
South Central Kansas Economic Development District, Inc.
Wichita, Kansas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of South Central Kansas Economic Development District, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 24, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered South Central Kansas Economic Development District, Inc.’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of South Central Kansas Economic Development District, Inc.’s internal control. Accordingly, we do not express an opinion on the effectiveness of South Central Kansas Economic Development District, Inc.’s internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Regin Cum E Monroe, CPA

October 24, 2016
Wichita, Kansas

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

Board of Directors
South Central Kansas Economic Development District, Inc.
Wichita, Kansas

Report on Compliance for Each Major Federal Program

We have audited South Central Kansas Economic Development District, Inc.’s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of South Central Kansas Economic Development District, Inc.’s major federal programs for the year ended June 30, 2016. South Central Kansas Economic Development District, Inc.’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

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

Auditor’s Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of South Central Kansas Economic Development District, Inc.’s compliance.

Opinion on Each Major Federal Program

In our opinion, South Central Kansas Economic Development District, Inc. complied, in all material respects, with the types of 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, 2016.

Report on Internal Control Over Compliance

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

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

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

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

Regin Ann E Monroe, CPA

October 24, 2016
Wichita, Kansas

South Central Kansas Economic Development District, Inc.
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016

SECTION I-Summary of Auditor's Results

Financials Statements

Type of auditor's report issued: unmodified
Internal control over financial reporting:
- Material weakness identified? _____ yes X no
- Significant deficiencies identified
that are not considered to be
material weaknesses? _____ yes X none reported
Noncompliance material to financials
statements noted? _____ yes X no

Federal Awards

Internal control over major programs:
- Material weakness identified? _____ yes X no
- Significant deficiencies identified
that are not considered to be
material weaknesses? _____ yes X none reported
Type of auditor's report issued on compliance
for major programs: unmodified
Any audit findings disclosed that are
required to be reported in accordance
with 2 CFR 200.516(a)? _____ yes X no

Identification of major programs:

CFDA Number	Name of Federal Program
10.767	U.S. Department of Agriculture - Rural Business - Cooperative Service - Intermediary Relending Program
11.307	U.S. Department of Commerce - Economic Development Administration - Economic Adjustment Assistance

Dollar threshold used to distinguish
between type A and type B programs: \$750,000
Auditee qualified as low-risk auditee? _____ yes X no

SECTION II-Financial Statement Findings

No reportable matters

SECTION III - MAJOR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No reportable matters

South Central Kansas Economic Development District, Inc.
Summary Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2015

SECTION II-Financial Statement Findings

2015-001 Cost Reimbursement Reporting-

Condition: Revenue was accrued in excess of what was earned due to reported cost reimbursement expenses being greater than expenses incurred.

Criteria: Additional expenses were reported than what had been incurred for the period.

Cause: A check was written for a new truck in June 2015 and was held until August 2015 when the truck was received.

Effect: Expenses that were reported on the monthly financial report for June 30, 2015, did not occur until August 2015. Expenses are overstated on the financial report.

Recommendation: Only expenses incurred during the reporting period should be included in the financial report. Revenue is recognized in relation to expenses incurred.

Current year status: Revenue and expense appear to be recognized in the period earned and/or incurred.

SECTION III - MAJOR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No reportable matters