

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

Independent Auditor's Report

And

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

June 30, 2017 and 2016



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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, 2017 and 2016, 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, 2017 and 2016, 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 25, 2017, 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.

Rejiv Carr & Monroe LLP

October 25, 2017
Wichita, Kansas

South Central Kansas Economic Development District, Inc.
Statements of Financial Position
June 30, 2017 and 2016

	2017						2016
	Loan Funds	Trust Funds	Weather- ization	Admin- istration Contracts	Local General	Total	Total
ASSETS							
Cash and cash equivalents	\$ 1,332,747	\$ 7,215	\$ -	\$ -	\$ 359,475	\$ 1,699,437	\$ 1,749,665
Grants receivable	-	-	46,957	-	45,004	91,961	154,429
Contracts receivable	-	-	-	41,338	-	41,338	21,650
Interfund receivable/payable	-	-	(8,327)	563,459	(555,132)	-	-
Prepaid expenses	-	-	-	-	2,252	2,252	1,867
Interest receivable	32,944	-	-	-	-	32,944	37,403
Supplies inventory	-	-	24,486	-	-	24,486	24,540
Notes receivable, net of allowance for loan losses of \$342,900 and \$269,600, respectively	3,225,277	-	-	-	-	3,225,277	3,271,217
Investments	-	-	-	-	174,577	174,577	373,076
Property and equipment at cost, net of accumulated depreciation of \$419,616 and \$641,240, respectively	-	-	184,808	-	37,467	222,275	155,670
Total assets	<u>\$ 4,590,968</u>	<u>\$ 7,215</u>	<u>\$ 247,924</u>	<u>\$ 604,797</u>	<u>\$ 63,643</u>	<u>\$ 5,514,547</u>	<u>\$ 5,789,517</u>
LIABILITIES AND NET ASSETS							
Liabilities							
Withdrawals in excess of funds	\$ -	\$ -	\$ 63,770	\$ -	\$ -	\$ 63,770	\$ -
Accrued expenses and accounts payable	-	-	-	-	139,121	139,121	111,548
Interest payable	1,453	-	-	-	-	1,453	3,793
Notes payable	1,475,799	-	-	-	-	1,475,799	1,772,414
Deferred revenue	-	-	-	-	21,064	21,064	192,197
Funds held for others	-	7,215	-	-	-	7,215	6,309
Total liabilities	<u>1,477,252</u>	<u>7,215</u>	<u>63,770</u>	<u>-</u>	<u>160,185</u>	<u>1,708,422</u>	<u>2,086,261</u>
Net assets-Unrestricted	3,113,716	-	184,154	604,797	(96,542)	3,806,125	3,703,256
Total liabilities and net assets	<u>\$ 4,590,968</u>	<u>\$ 7,215</u>	<u>\$ 247,924</u>	<u>\$ 604,797</u>	<u>\$ 63,643</u>	<u>\$ 5,514,547</u>	<u>\$ 5,789,517</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, 2017 and 2016

	2017					2016	
	Loan Funds	Weather- ization	Administration Contracts	Local General	Eliminations	Total	Total
REVENUES							
Grant revenue	\$ -	\$ 2,628,201	\$ -	\$ 241,582	\$ -	\$ 2,869,783	\$ 2,125,113
County fees	-	-	-	108,488	-	108,488	116,597
Contract revenue	-	371,765	162,860	-	-	534,625	690,256
Gain (loss) on investments	-	-	-	19,361	-	19,361	(7,032)
Gain (loss) on sale of assets	-	40,895	-	61,210	-	102,105	38,850
Interest income	231,170	-	-	10,787	-	241,957	212,884
Loan administration and servicing fees:							
Small Business Administration	-	-	-	94,304	-	94,304	98,173
RLF	-	-	-	87,847	(81,301)	6,546	13,124
IRP	-	-	-	21,459	(21,459)	-	2,968
RBDTC	-	-	-	8,243	(4,636)	3,607	4,725
RBEG	-	-	-	2,797	(2,797)	-	847
RMAP	-	-	-	1,183	-	1,183	200
Other	7,034	5,558	4,225	22,459	(5,558)	33,718	14,795
Interfund transfers	195,464	1,241	17,642	(214,347)	-	-	-
Total revenues	<u>\$ 433,668</u>	<u>\$ 3,047,660</u>	<u>\$ 184,727</u>	<u>\$ 465,373</u>	<u>\$ (115,751)</u>	<u>\$ 4,015,677</u>	<u>\$ 3,311,500</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, 2017 and 2016

	2017						2016
	Loan Funds	Weather- ization	Administration Contracts	Local General	Eliminations	Total	Total
EXPENSES							
Program expenses							
Revolving loan funds	\$ 139,333	\$ -	\$ -	\$ -	\$ (81,301)	\$ 58,032	\$ 52,146
Intermediary loan funds	34,429	-	-	-	(21,459)	12,970	26,447
Microloan loan funds	38,849	-	-	-	-	38,849	16,909
Rural business development loan funds	38,612	-	-	-	(4,636)	33,976	14,221
Rural business enterprise grant funds	3,597	-	-	-	(2,797)	800	1,974
Rural microenterprise assistance loan funds	16,703	-	-	-	-	16,703	1,668
Weatherization programs	-	2,979,927	-	-	-	2,979,927	2,339,083
Administrative contracts	-	-	168,117	-	(5,558)	162,559	170,455
Economic development	-	-	-	107,516	-	107,516	98,056
Microloan grant funds	-	-	-	183,171	-	183,171	178,263
Loan servicing	-	-	-	200,161	-	200,161	243,917
Total program expenses	<u>271,523</u>	<u>2,979,927</u>	<u>168,117</u>	<u>490,848</u>	<u>(115,751)</u>	<u>3,794,664</u>	<u>3,143,139</u>
Support expenses							
General and management	-	-	-	118,144	-	118,144	133,067
Total support expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>118,144</u>	<u>-</u>	<u>118,144</u>	<u>133,067</u>
Total expenses	<u>271,523</u>	<u>2,979,927</u>	<u>168,117</u>	<u>608,992</u>	<u>(115,751)</u>	<u>3,912,808</u>	<u>3,276,206</u>
CHANGE IN NET ASSETS	162,145	67,733	16,610	(143,619)	-	102,869	35,294
UNRESTRICTED NET ASSETS AT BEGINNING 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>
UNRESTRICTED NET ASSETS AT END OF YEAR	<u>\$ 3,113,716</u>	<u>\$ 184,154</u>	<u>\$ 604,797</u>	<u>\$ (96,542)</u>	<u>\$ -</u>	<u>\$ 3,806,125</u>	<u>\$ 3,703,256</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, 2017

	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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 351,488	\$ 100,332	\$ 79,252	\$ 107,809	\$ 133,234	\$ 55,054	\$ -	\$ 827,169
Employee benefits	-	-	-	-	-	-	210,519	19,444	19,325	23,950	31,588	13,815	-	318,641
Professional fees	-	-	-	-	-	-	56,299	5,290	808	28,498	7,330	6,863	-	105,088
Bonds and insurance	-	-	-	-	-	-	86,480	3,055	1,024	3,039	9,015	2,291	-	104,904
Consumables	-	-	-	-	-	-	32,878	1,466	365	4,009	1,496	2,855	-	43,069
Depreciation	-	-	-	-	-	-	43,383	-	-	-	-	12,371	-	55,754
Dues and memberships	-	-	-	-	-	-	135	16	8	12	2,278	3,156	-	5,605
Equipment lease/rental	-	-	-	-	-	-	2,534	439	15	390	468	1,298	-	5,144
Interest expense	-	4,606	2,798	-	-	6,203	-	-	-	-	-	-	-	13,607
Loan service/ administrative fees	81,301	21,459	-	4,636	2,797	-	-	-	-	-	-	-	(110,193)	-
Office rent/utilities	-	-	-	-	-	-	91,817	6,103	-	5,652	6,960	4,679	-	115,211
Travel per diem	-	-	-	-	-	-	5,382	-	2,311	(632)	-	30	-	7,091
Postage	-	-	-	-	-	-	2,656	2,540	-	460	490	419	-	6,565
Printing and publishing	-	-	-	-	-	-	6,812	729	-	1,088	1,028	1,673	-	11,330
Provision for loan losses	58,026	8,364	36,048	24,000	800	10,500	-	-	-	-	-	-	-	137,738
Publications	-	-	-	-	-	-	393	74	-	-	-	1,165	-	1,632
Seminars/conference and education	-	-	-	-	-	-	1,326	300	-	-	-	-	-	1,626
Telephone	-	-	-	-	-	-	15,698	2,377	26	2,380	1,711	1,662	-	23,854
Training and technical assistance	-	-	-	9,964	-	-	17,579	1,449	-	446	-	-	-	29,438
Transportation	-	-	-	-	-	-	27,199	6,291	4,293	2,954	847	681	(5,558)	36,707
Vehicle expense	-	-	-	-	-	-	94,917	44	18	680	-	2,002	-	97,661
Weatherization	-	-	-	-	-	-	1,887,168	-	-	-	-	-	-	1,887,168
Other expense	6	-	3	12	-	-	45,264	18,168	71	2,436	3,716	8,130	-	77,806
Subtotal	139,333	34,429	38,849	38,612	3,597	16,703	2,979,927	168,117	107,516	183,171	200,161	118,144	(115,751)	3,912,808
Eliminations	(81,301)	(21,459)	-	(4,636)	(2,797)	-	-	(5,558)	-	-	-	-	115,751	-
Total expenses	\$ 58,032	\$ 12,970	\$ 38,849	\$ 33,976	\$ 800	\$ 16,703	\$ 2,979,927	\$ 162,559	\$ 107,516	\$ 183,171	\$ 200,161	\$ 118,144	\$ -	\$ 3,912,808

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						Admin- istrative Contracts	Local General			Support Expenses			
	Revolving (RLF)	Inter- mediary (IRP)	Micro- loan	Rural Bus. Dev. (RBDTC)	Rural Bus. Enter. (RBEG)	Micro. Assist. (RMAP)		Weather- ization	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)	-
Microloan 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
	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.

Statements of Cash Flows

For the Years Ended June 30, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 102,869	\$ 35,294
Adjustments to reconcile change in net assets		
Depreciation	55,754	29,243
Provision for loan losses	(137,738)	(94,026)
Gain on disposal of assets	(89,970)	(38,850)
Unrealized/realized (gain)/loss on investments	(31,496)	7,032
Net changes in:		
Grants receivable	62,468	(72,777)
Contracts receivable	(19,688)	61,043
Prepaid expenses	(385)	1,383
Interest receivable	4,459	4,966
Supplies inventory	54	(5,127)
Withdrawals in excess of funds	63,770	-
Accrued expenses	27,573	(15,694)
Interest payable	(2,340)	(309)
Deferred revenue	(171,133)	69,660
Funds held for others	906	68
Net cash used by operating activities	(134,897)	(18,094)
CASH FLOWS FROM INVESTING ACTIVITIES		
Loan disbursements	(886,982)	(1,681,900)
Loan repayments	1,070,660	1,042,755
Improvements to asset held for sale	-	(13,223)
Purchases of property and equipment	(122,359)	(121,205)
Proceeds from sale of property and equipment	89,970	105,018
Purchase of investments	(12,492)	(222,493)
Proceeds from investment redemption	242,487	210,000
Net cash provided (used) by investing activities	381,284	(681,048)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable	335,000	201,000
Repayment of notes payable	(631,615)	(236,230)
Net cash used by financing activities	(296,615)	(35,230)
Net decrease in cash and cash equivalents	(50,228)	(734,372)
CASH & CASH EQUIVALENTS, BEGINNING OF YEAR	1,749,665	2,484,037
CASH & CASH EQUIVALENTS, END OF YEAR	\$ 1,699,437	\$ 1,749,665
SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ 15,947	\$ 14,406

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

South Central Kansas Economic Development District, Inc.

Notes to Financial Statements

June 30, 2017 and 2016

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, 2017 and 2016, 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, 2017 and 2016

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 \$55,754 and \$29,243 for the years ended June 30, 2017 and 2016, 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, 2017 and 2016

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 years ending June 30, 2017 and 2016. These programs are funded by pass-through grants from the Kansas Housing Resources Corporation. The two 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, 2017 and 2016

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:

- 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.

Reclassifications

Certain reclassification have been made to the 2016 financial statement presentation to correspond to current year's format. Total net assets and change in unrestricted net assets are unchanged due to these reclassifications.

South Central Kansas Economic Development District, Inc.
Notes to Financial Statements
June 30, 2017 and 2016

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

Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board issued ASU 2016-14, Not-for-Profit Entities (Topic 948), which will change how not-for-profit organizations will report and present certain items in their financial statements. The new guidance will take effect for the year ending June 30, 2019. The significant changes are:

Simplification of net asset presentation – net assets will now be presented in two classes, “Net assets with donor restrictions,” and “Net assets without donor restrictions.”

All not-for-profit organizations will be required to present expenses in their natural classification (advertising, payroll, rent, etc.) and by function (program, general and administrative and fund raising).

Enhanced disclosure requirements related to presenting liquidity information and simplification of existing disclosure requirements related to investment returns and long lived assets purchased with donor-restricted funds.

The SCKEDD has not yet determined the effect of applying the requirements of the new standard on the financial statements.

2. Investments

Investments consist of the following at June 30:

	<u>2017</u>	<u>2016</u>
Investment securities		
Money market account	\$ 6,408	\$ 2,765
Mutual fund-fixed income	155,783	139,958
Equity securities	12,386	20,353
Certificate of deposit	-	210,000
	<u>\$ 174,577</u>	<u>\$ 373,076</u>

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.

South Central Kansas Economic Development District, Inc.

Notes to Financial Statements

June 30, 2017 and 2016

3. 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.

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). These funds have been loaned and repaid and are no longer federalized. SCKEDD was awarded an additional loan of \$172,000 on July 25, 2011. 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.

South Central Kansas Economic Development District, Inc.

Notes to Financial Statements

June 30, 2017 and 2016

3. Notes Receivable (Continued)

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. During the year ended June 30, 2016, SCKEDD received another approval for another \$500,000 microloan. SCKEDD had drawn \$500,000 and \$165,000 of these funds during the years ended June 30, 2017 and 2016, respectively.

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 \$0 and \$19,092 for the years ended June 30, 2017 and 2016, 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. 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 \$81,301, \$21,459, \$4,636, and \$2,797 were charged on the RLF, IRP, RBDTC, and RBEG loan funds, respectively, for the year ended June 30, 2017 and 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. 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 \$105,640 and \$120,037 were recognized for the years ended June 30, 2017 and 2016, respectively, for other assistance with the origination and servicing of other SBA loans not held by SCKEDD.

South Central Kansas Economic Development District, Inc.
Notes to Financial Statements
June 30, 2017 and 2016

3. Notes Receivable (Continued)

Notes receivable at June 30 are summarized as follows:

	2017			2016		
	Loan Amount	Allowance for Loan Losses	Net	Loan Amount	Allowance for Loan Losses	Net
Loan Fund						
EDA-RLF	\$ 1,589,620	\$ 152,000	\$ 1,437,620	\$ 1,512,457	\$ 114,000	\$ 1,398,457
FmHA-1990 IRP	78,611	11,500	67,111	112,549	6,000	106,549
FmHA-1993 IRP	222,083	12,000	210,083	233,771	12,000	221,771
FmHA-2011 IRP	98,226	8,100	90,126	164,648	37,500	127,148
SBA-2001/2003/2005 Microloan	15,048	2,500	12,548	26,346	1,800	24,546
SBA-2009 Microloan	184,563	28,000	156,563	272,547	23,600	248,947
SBA-2013 Microloan	290,540	32,000	258,540	372,443	27,700	344,743
SBA-2015 Microloan	307,810	18,500	289,310	90,238	4,000	86,238
RBDTC	586,136	55,000	531,136	536,843	31,000	505,843
RBEG	38,293	5,800	32,493	90,357	5,000	85,357
RMAP	157,247	17,500	139,747	128,618	7,000	121,618
	<u>\$ 3,568,177</u>	<u>\$ 342,900</u>	<u>\$ 3,225,277</u>	<u>\$ 3,540,817</u>	<u>\$ 269,600</u>	<u>\$ 3,271,217</u>

South Central Kansas Economic Development District, Inc.
Notes to Financial Statements
June 30, 2017 and 2016

3. Notes Receivable (Continued)

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

	Activity			Activity				
	Balance	FYE June 30, 2016		Balance	FYE June 30, 2017			Balance
		June 30	Charge-		Provision	June 30		
2015	Offs	for Loan	2016	Offs	for Loan	2017		
Loan Fund								
EDA-RLF	\$ 71,000	\$ 9,136	\$ 52,136	\$ 114,000	\$ 20,026	\$ 58,026	\$ 152,000	
FmHA-1990 IRP	93,000	87,427	427	6,000	-	(6,500)	(500)	
FmHA-1993 IRP	14,000	-	(2,000)	12,000	-	12,000	24,000	
FmHA-2011 IRP	7,000	-	30,500	37,500	32,264	2,864	8,100	
SBA-2001/2003/2005 Microloan	8,000	-	(6,200)	1,800	-	700	2,500	
SBA-2009 Microloan	50,000	22,371	(4,029)	23,600	-	4,400	28,000	
SBA-2013 Microloan	52,000	34,518	10,218	27,700	12,148	16,448	32,000	
SBA-2015 Microloan	-	-	4,000	4,000	-	14,500	18,500	
RBDTC	22,000	-	9,000	31,000	-	24,000	55,000	
RBEG	4,000	974	1,974	5,000	-	800	5,800	
RMAP	9,000	-	(2,000)	7,000	-	10,500	17,500	
	<u>\$ 330,000</u>	<u>\$ 154,426</u>	<u>\$ 94,026</u>	<u>\$ 269,600</u>	<u>\$ 64,438</u>	<u>\$ 137,738</u>	<u>\$ 342,900</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:

Loan Fund	<u>2017</u>	<u>2016</u>
EDA-RLF	\$ 19,900	\$ 35,572
FmHA- IRP	-	57,310
SBA-2001/2003/2005 Microloan	-	7,500
SBA-2015 Microloan	4,923	-
	<u>\$ 24,823</u>	<u>\$ 100,382</u>

The amount of interest not recognized on nonaccrual loans was approximately \$2,209 and \$9,128 for the years ended June 30, 2017 and 2016, respectively.

South Central Kansas Economic Development District, Inc.

Notes to Financial Statements

June 30, 2017 and 2016

3. 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.

		2017			
		Ending Impaired Balance	Average Impaired Balance	Allowance for Loan Losses	Interest Income Cash Basis
Loan Fund					
EDA-RLF-1979	\$	427,267	\$ 297,088	\$ 105,000	\$ 19,646
FmHA-1990 IRP		70,148	35,074	11,000	4,943
FmHA-2011 IRP		30,583	43,947	4,600	2,453
SBA-2001/2003/2005 Microloan		14,305	16,335	2,500	761
SBA-2009 Microloan		62,349	49,470	19,000	3,118
SBA-2013 Microloan		73,785	79,528	19,000	6,088
SBA-2015 Microloan		4,923	2,462	1,000	437
RMAP		17,956	8,978	10,000	1,271
RBDTC		137,756	105,382	40,000	6,216
RBEG		38,293	19,147	5,800	2,700
	\$	877,365	\$ 657,411	\$ 217,900	\$ 47,633

		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	-	-
	\$	437,454	\$ 377,752	\$ 117,600	\$ 23,113

4. 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 during the year ended June 30, 2017. The house was sold on January 15, 2016.

5. Property and Equipment

Property and equipment consist of the following for June 30, 2017 and 2016:

	2017	2016
Furniture and equipment	\$ 218,173	\$ 204,977
Autos and trucks	404,718	572,933
Leasehold improvements	19,000	19,000
	641,891	796,910
Less accumulated depreciation	419,616	641,240
Total property and equipment	\$ 222,275	\$ 155,670

South Central Kansas Economic Development District, Inc.
Notes to Financial Statements
June 30, 2017 and 2016

6. Notes Payable

Notes payable at June 30 are summarized as follows:

	<u>2017</u>	<u>2016</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 was 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. The note was paid in full during the year ending June 30, 2017.	\$ -	\$ 111,350
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. The note was paid in full during the year ending June 30, 2017.	-	341,261
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.	160,485	165,773
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.	176,458	250,348
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.	362,243	418,889
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.	476,305	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.	300,308	319,793
	<u>\$ 1,475,799</u>	<u>\$ 1,772,414</u>

South Central Kansas Economic Development District, Inc.
Notes to Financial Statements
June 30, 2017 and 2016

6. Notes Payable (Continued)

Aggregate annual maturities of notes payable on June 30, 2017 are summarized as follows:

Year ended June 30	2011 FmHA	2009 SBA	2013 SBA	2015 SBA	RMAP	Total
2018	\$ 5,646	73,212	\$ 59,841	33,068	19,747	\$ 191,514
2019	5,703	74,410	59,841	33,608	20,146	193,708
2020	5,760	28,836	59,841	34,159	20,552	149,148
2021	5,817	-	59,841	34,718	20,967	121,343
2022	5,875	-	59,841	35,287	21,391	122,394
Thereafter	131,684	-	63,038	305,465	197,505	697,692
	<u>\$ 160,485</u>	<u>\$ 176,458</u>	<u>\$ 362,243</u>	<u>\$ 476,305</u>	<u>\$ 300,308</u>	<u>\$ 1,475,799</u>

7. Operating Leases

Office Leases

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.

Subsequent to the year ended June 30, 2017, SCKEDD began leasing additional office facilities in Hutchinson, Kansas under an operating lease. The lease will expire December 31, 2020 with an option to renew for a two year term. The facilities will be approximately 2,655 square feet. The lease will require monthly payments based on \$5 per square foot and will increase \$1 per square foot each year. The lease will require additional charges for taxes and maintenance.

Future minimum lease payments at June 30, 2017, are as follows:

<u>Year Ended June 30</u>	<u>Total</u>
2018	\$ 108,899
2019	118,116
2020	120,771
2021	109,049
2022	96,000
Thereafter	352,000
	<u>\$ 904,835</u>

Rent expense for the years ended June 30, 2017 and 2016 was \$88,000 and \$141,666, 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, 2017, are as follows:

<u>Year Ended June 30</u>	<u>Total</u>
2018	\$ 7,774
2019	3,142
2020	829
	<u>\$ 11,745</u>

Expenses recognized related to the copier lease were \$5,144 and \$7,085 for the year ended June 30, 2017 and 2016, respectively.

South Central Kansas Economic Development District, Inc.
Notes to Financial Statements
June 30, 2017 and 2016

8. 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 \$76,247 and \$82,141 for the years ended June 30, 2017 and 2016, respectively.

9. 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.

10. Commitments

SCKEDD was committed to fund new loans totaling \$108,400 and \$0 at June 30, 2017 and 2016, respectively. These outstanding loan commitments were authorized under various loan programs as described in Note 3.

11. 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, 2017 and 2016 are \$25,636 and \$29,101, respectively.

12. Concentrations

SCKEDD receives a large portion of its funding from governmental grants. Grant revenues approximate 71% and 63% of total revenue for the years ended June 30, 2017 and 2016, respectively.

13. Subsequent Events

Management of SCKEDD has evaluated events subsequent to the statement of financial position date (June 30, 2017) through October 25, 2017, 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, 2017

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	\$ 111,350
Direct Loan	10.767	IRP-1993	341,261
Direct Loan	10.767	IRP-2011	165,773
Total Direct Loans			<u>618,384</u>
Rural Microentrepreneur Assistance Program			
Direct Loan	10.870	IRP-RMAP	319,793
Formula Grant	10.870	RDBCP-10-RMAP	14,434
Total Direct Loan and Formula Grant			<u>334,227</u>
Total U.S. Department of Agriculture			<u>952,611</u>
U.S. Department of Commerce			
Economic Development Administration			
Economic Development			
Economic Adjustment Assistance	11.307	05-89-01822	1,861,239
Support for Planning Organizations	11.302	ED-16-DEN-3020019	68,000
Total U.S. Department of Commerce			<u>1,929,239</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	500,000
Total Direct Loans			<u>1,169,237</u>
Formula Grant	59.046	SBAHQ-16-Y-0098	128,106
Total Formula Grant			<u>128,106</u>
Total U.S. Small Business Administration			<u>1,297,343</u>
U.S. Department of Energy			
Weatherization Assistance for Low-Income Persons			
Pass-Through from Kansas Housing Resources Corporation			
Weatherization Assistance Program	81.041	2016-KCC-02	83,700
Weatherization Assistance Program	81.042	DOE-16-13	698,803
Total U.S. Department of Energy			<u>782,503</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-16-13	1,717,936
Low-Income Home Energy Assistance	93.568	LP-17-13	63,976
Total U.S. Department of Health and Human Services			<u>1,781,912</u>
Total Expenditures of Federal Awards			<u>\$ 6,743,608</u>

South Central Kansas Economic Development District, Inc.
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

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, 2017.

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, 2017.

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-2011	\$ 160,485
Direct Loan	10.870	IRP-RMAP	300,308
Total U.S. Department of Agriculture			<u>460,793</u>
U.S. Small Business Administration			
Microloan Program			
Direct Loan	59.046	3630995004	176,458
Direct Loan	59.046	6108215005	362,243
Direct Loan	59.046	7818425008	476,305
Total U.S. Small Business Administration			<u>1,015,006</u>
Total Direct Loans			<u>\$ 1,475,799</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, 2017, 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 25, 2017.

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.

Rejiv Carr & Monroe LLP

October 25, 2017
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, 2017. 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, 2017.

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.

Rejiv Carr & Monroe LLP

October 25, 2017
Wichita, Kansas

South Central Kansas Economic Development District, Inc.
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017

SECTION I-Summary of Auditor's Results

Financials Statements

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

Federal Awards

Internal control over major programs:		
- Material weakness identified?	<u> </u> yes	<u> X </u> no
- Significant deficiencies identified that are not considered to be material weaknesses?	<u> </u> yes	<u> X </u> 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)?	<u> </u> yes	<u> X </u> 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
10.870	U.S. Department of Agriculture - Rural Business - Cooperative Service - Rural Microentrepreneur Assistance Program
11.307	U.S. Department of Commerce - Economic Development Administration - Economic Adjustment Assistance
59.046	U.S. Small Business Administration - Microloan Program
81.042	U.S. Department of Energy - Weatherization Assistance for Low-Income Person.
93.568	U.S. Department of Health and Human Services - Administration for Children and Families - Low-Income Home Energy Assistance

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

South Central Kansas Economic Development District, Inc.
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017

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, 2016**

SECTION II-Financial Statement Findings

No reportable matters

SECTION III - MAJOR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No reportable matters

EL DORADO	PO BOX 847	EL DORADO, KS 67042-0847	316-321-1150
McALESTER	101 S. 2ND. STE. B	McALESTER, OK 74501-5345	918-426-1234
TUCSON	4801 E. BROADWAY BLVD., STE. 501	TUCSON, AZ 85711-3648	520-624-8229
TULSA	4200 E. SKELLY DR., STE. 560	TULSA, OK 74135-3209	918-494-8700
WAGONER	611-D W. CHEROKEE ST.	WAGONER, OK 74467-4618	918-485-5531
WICHITA	300 W. DOUGLAS AVE., STE. 900	WICHITA, KS 67202-2914	316-264-2335