

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

**Independent Auditor's Report**

**And**

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

**June 30, 2018 and 2017**



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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., which comprise the statement of financial position as of June 30, 2018 and 2017, and the related statements of activities 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, 2018 and 2017 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 Matter***

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 30, 2018 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.

*Regis Carr & Monroe LLP*

October 30, 2018  
Wichita, Kansas

**South Central Kansas Economic Development District, Inc.**  
**Statements of Financial Position**  
**June 30, 2018 and 2017**

	2018						2017
	Loan Funds	Trust Funds	Weather- ization	Admin- istration Contracts	Local General	Total	Total
<b>ASSETS</b>							
Cash and cash equivalents	\$ 1,785,113	\$ 7,372	\$ 118,839	\$ -	\$ 287,387	\$ 2,198,711	\$ 1,699,437
Accounts receivable	-	-	-	-	2,341	2,341	-
Grants receivable	-	-	-	-	31,297	31,297	91,961
Contracts receivable	-	-	-	-	47,625	47,625	41,338
Interfund receivable/payable	-	-	4,078	566,941	(571,019)	-	-
Prepaid expenses	-	-	-	-	16,217	16,217	2,252
Interest receivable	29,657	-	-	-	-	29,657	32,944
Supplies inventory	-	-	18,660	-	-	18,660	24,486
Notes receivable, net of allowance for loan losses of \$258,650 and \$342,900, respectively	2,295,692	-	-	-	-	2,295,692	3,225,277
Investments	-	-	-	-	198,570	198,570	174,577
Property and equipment at cost, net of accumulated depreciation of \$479,407 and \$419,616, respectively	-	-	216,459	-	41,646	258,105	222,275
Total assets	<u>\$ 4,110,462</u>	<u>\$ 7,372</u>	<u>\$ 358,036</u>	<u>\$ 566,941</u>	<u>\$ 54,064</u>	<u>\$ 5,096,875</u>	<u>\$ 5,514,547</u>
<b>LIABILITIES AND NET ASSETS</b>							
Liabilities							
Withdrawals in excess of funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 63,770
Accrued expenses and accounts payable	-	-	-	-	168,453	168,453	139,121
Interest payable	1,319	-	-	-	-	1,319	1,453
Notes payable	885,436	-	-	-	-	885,436	1,475,799
Deferred revenue	-	-	137,500	-	12,937	150,437	21,064
Funds held for others	-	7,372	-	-	-	7,372	7,215
Total liabilities	886,755	7,372	137,500	-	181,390	1,213,017	1,708,422
Net assets-Unrestricted	3,223,707	-	220,536	566,941	(127,326)	3,883,858	3,806,125
Total liabilities and net assets	<u>\$ 4,110,462</u>	<u>\$ 7,372</u>	<u>\$ 358,036</u>	<u>\$ 566,941</u>	<u>\$ 54,064</u>	<u>\$ 5,096,875</u>	<u>\$ 5,514,547</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, 2018 and 2017**

	<b>2018</b>						<b>2017</b>
	<b>Loan Funds</b>	<b>Weather- ization</b>	<b>Administration Contracts</b>	<b>Local General</b>	<b>Eliminations</b>	<b>Total</b>	<b>Total</b>
<b>REVENUES</b>							
Grant revenue	\$ -	\$ 3,035,461	\$ -	\$ 217,567	\$ -	\$ 3,253,028	\$ 2,869,783
County fees	-	-	-	111,777	-	111,777	108,488
Contract revenue	-	260,071	162,105	-	-	422,176	534,625
Gain (loss) on investments	-	-	-	11,501	-	11,501	19,361
Gain (loss) on sale of assets	-	25,046	-	560	-	25,606	102,105
Interest income	187,937	-	-	12,523	-	200,460	241,957
Loan administration and servicing fees:							
Small Business Administration	-	-	-	106,256	-	106,256	94,304
RLF	-	-	-	73,666	(70,044)	3,622	6,546
IRP	-	-	-	3,993	(3,993)	-	-
RBDTC	-	-	-	10,490	(10,409)	81	3,607
RBEG	-	-	-	1,898	(1,898)	-	-
RMAP	-	-	-	-	-	-	1,183
Other	4,934	5,458	2,706	25,289	(6,708)	31,679	33,718
Interfund transfers	(30,000)	-	-	30,000	-	-	-
Total revenues	<u>\$ 162,871</u>	<u>\$ 3,326,036</u>	<u>\$ 164,811</u>	<u>\$ 605,520</u>	<u>\$ (93,052)</u>	<u>\$ 4,166,186</u>	<u>\$ 4,015,677</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, 2018 and 2017**

	2018						2017
	Loan Funds	Weather-ization	Administration Contracts	Local General	Eliminations	Total	Total
<b>EXPENSES</b>							
Program expenses							
Revolving loan funds	\$ 54,484	\$ -	\$ -	\$ -	\$ (70,044)	\$ (15,560)	\$ 58,032
Intermediary loan funds	(9,692)	-	-	-	(3,993)	(13,685)	12,970
Microloan loan funds	(11,632)	-	-	-	-	(11,632)	38,849
Rural business development loan funds	21,374	-	-	-	(10,409)	10,965	33,976
Rural business enterprise grant funds	(2,052)	-	-	-	(1,898)	(3,950)	800
Rural microenterprise assistance loan funds	398	-	-	-	-	398	16,703
Weatherization programs	-	3,289,654	-	-	-	3,289,654	2,979,927
Administrative contracts	-	-	155,198	-	(6,708)	148,490	162,559
Economic development	-	-	-	96,268	-	96,268	107,516
Microloan grant funds	-	-	-	173,828	-	173,828	183,171
Loan servicing	-	-	-	239,596	-	239,596	200,161
Total program expenses	52,880	3,289,654	155,198	509,692	(93,052)	3,914,372	3,794,664
Support expenses							
General and management	-	-	-	174,081	-	174,081	118,144
Total support expenses	-	-	-	174,081	-	174,081	118,144
Total expenses	52,880	3,289,654	155,198	683,773	(93,052)	4,088,453	3,912,808
<b>CHANGE IN NET ASSETS</b>	109,991	36,382	9,613	(78,253)	-	77,733	102,869
<b>UNRESTRICTED NET ASSETS AT BEGINNING OF YEAR</b>	3,113,716	184,154	557,328	(49,073)	-	3,806,125	3,703,256
<b>UNRESTRICTED NET ASSETS AT END OF YEAR</b>	\$ 3,223,707	\$ 220,536	\$ 566,941	\$ (127,326)	\$ -	\$ 3,883,858	\$ 3,806,125

*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, 2018**

	Program Expenses											Support Expenses	Elimi- nations	Total
	Loan Funds						Local General							
	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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 485,418	\$ 88,967	\$ 70,307	\$ 92,052	\$ 149,226	\$ 102,598	\$ -	\$ 988,568
Employee benefits	-	-	-	-	-	-	354,788	28,142	21,953	28,185	48,050	25,685	-	506,803
Professional fees	-	-	-	-	-	-	32,655	2,543	731	33,431	14,622	3,927	-	87,909
Bonds and insurance	-	-	-	-	-	-	34,086	1,107	-	1,198	5,653	1,889	-	43,933
Consumables	-	-	-	-	-	-	20,136	-	-	-	-	-	-	20,136
Depreciation	-	-	-	-	-	-	56,991	-	-	-	-	15,009	-	72,000
Dues and memberships	-	-	-	-	-	-	515	34	-	49	1,788	772	-	3,158
Equipment lease/rental	-	-	-	-	-	-	5,871	727	14	899	965	938	-	9,414
Interest expense	-	1,515	4,729	-	-	4,828	-	-	-	-	-	-	-	11,072
Loan service/ administrative fees	70,044	3,993	-	8,851	1,898	-	-	-	-	-	-	-	(84,786)	-
Office rent/utilities	-	-	-	-	-	-	129,783	4,960	-	5,698	5,663	9,492	-	155,596
Travel per diem	-	-	-	-	-	-	34,306	9,384	1,723	2,950	1,019	143	-	49,525
Postage	-	-	-	-	-	-	6,712	3,379	1	294	532	184	-	11,102
Printing and publishing	-	-	-	-	-	-	10,375	706	-	682	1,101	702	-	13,566
Provision for loan losses	(15,560)	(15,200)	(16,361)	10,965	(3,950)	(4,443)	-	-	-	-	-	-	-	(44,549)
Publications	-	-	-	-	-	-	2,001	3	-	3	3	103	-	2,113
Seminars/conference and education	-	-	-	-	-	-	12,578	1,990	1,114	-	279	1,329	-	17,290
Telephone	-	-	-	-	-	-	19,102	1,357	-	1,757	968	1,267	-	24,451
Training and technical assistance	-	-	-	1,558	-	-	22,723	-	-	-	364	277	(1,558)	23,364
Transportation	-	-	-	-	-	-	92,939	79	19	63	2	3,024	(5,458)	90,668
Weatherization	-	-	-	-	-	-	1,889,510	-	-	-	-	-	-	1,889,510
Other expense	-	-	-	-	-	13	79,165	11,820	406	6,567	9,361	6,742	(1,250)	112,824
Subtotal	54,484	(9,692)	(11,632)	21,374	(2,052)	398	3,289,654	155,198	96,268	173,828	239,596	174,081	(93,052)	4,088,453
Eliminations	(70,044)	(3,993)	-	(10,409)	(1,898)	-	-	(6,708)	-	-	-	-	93,052	-
Total expenses	\$ (15,560)	\$ (13,685)	\$ (11,632)	\$ 10,965	\$ (3,950)	\$ 398	\$ 3,289,654	\$ 148,490	\$ 96,268	\$ 173,828	\$ 239,596	\$ 174,081	\$ -	\$ 4,088,453

*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											Support Expenses	Elimi- nations	Total
	Loan Funds						Local General							
	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			
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.**  
**Statements of Cash Flows**  
**For the Years Ended June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 77,733	\$ 102,869
Adjustments to reconcile change in net assets		
Depreciation	72,000	55,754
Provision for loan losses	44,549	(137,738)
Gain on disposal of assets	(25,606)	(89,970)
Unrealized/realized (gain)/loss on investments	(11,501)	(31,496)
Net changes in:		
Accounts receivable	(2,341)	-
Grants receivable	60,664	62,468
Contracts receivable	(6,287)	(19,688)
Prepaid expenses	(13,965)	(385)
Interest receivable	3,287	4,459
Supplies inventory	5,826	54
Withdrawals in excess of funds	(63,770)	63,770
Accrued expenses	29,332	27,573
Interest payable	(134)	(2,340)
Deferred revenue	129,373	(171,133)
Funds held for others	157	906
Net cash provided (used) by operating activities	<u>299,317</u>	<u>(134,897)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Loan disbursements	(425,366)	(886,982)
Loan repayments	1,310,402	1,070,660
Purchases of property and equipment	(107,829)	(122,359)
Proceeds from sale of property and equipment	25,605	89,970
Purchase of investments	(12,492)	(12,492)
Proceeds from investment redemption	-	242,487
Net cash provided (used) by investing activities	<u>790,320</u>	<u>381,284</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from notes payable	-	335,000
Repayment of notes payable	(590,363)	(631,615)
Net cash used by financing activities	<u>(590,363)</u>	<u>(296,615)</u>
Net decrease in cash and cash equivalents	499,274	(50,228)
<b>CASH &amp; CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>1,699,437</u>	<u>1,749,665</u>
<b>CASH &amp; CASH EQUIVALENTS, END OF YEAR</b>	<u><u>\$ 2,198,711</u></u>	<u><u>\$ 1,699,437</u></u>
<b>SUPPLEMENTAL INFORMATION</b>		
Cash paid for interest	<u><u>\$ 11,206</u></u>	<u><u>\$ 15,947</u></u>

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

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

## **Notes to Financial Statements**

**June 30, 2018 and 2017**

### **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 \$258,650 and \$342,900 as of June 30, 2018 and 2017, 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, 2018 and 2017**

**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 90 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 \$72,000 and \$55,574 for the years ended June 30, 2018 and 2017, 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, 2018 and 2017**

**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 3 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, 2018 and 2017. 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, 2018 and 2017**

**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 seven 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 reclassifications have been made to the 2017 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, 2018 and 2017**

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

*Recent Accounting Pronouncements*

Non-Profit Organizations

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.

Revenue Recognition

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606), that will supersede the current revenue recognition requirements. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for SCKEDD’s year ending June 30, 2020. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods.

Leases

In February 2016, the Financial Accounting Standards Board issued ASU No. 2016-02, Leases (Topic 842), that will supersede the current lease requirements. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either financing or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital lease obligations recognized on the statement of financial position. Lessor accounting under the new standard will remain similar to lessor accounting under current GAAP. The reporting of lease-related expenses in the statements of activities and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for SCKEDD’s year ending June 30, 2021 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented.

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

# South Central Kansas Economic Development District, Inc.

## Notes to Financial Statements

June 30, 2018 and 2017

### 2. Investments

Investments consist of the following at June 30:

	2018	2017
Investments		
Money market account	\$ 11,033	\$ 6,408
Mutual fund-fixed income	175,069	155,783
Equity securities	12,468	12,386
	<u>\$ 198,570</u>	<u>\$ 174,577</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.

### 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.



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

## **Notes to Financial Statements**

**June 30, 2018 and 2017**

### **3. Notes Receivable (Continued)**

#### *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. During the year ended June 30, 2016, SCKEDD received another approval for another \$500,000 microloan. SCKEDD has drawn \$500,000 of these funds.

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 \$4,923 and \$0 for the years ended June 30, 2018 and 2017, 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. These funds have been loaned and repaid and are no longer federalized.

#### *Loan administration and servicing fees*

Administration and servicing fees of \$73,666, \$3,993, \$10,490 and \$1,898 were charged on the RLF, IRP, RBDTC, and RBEG loan funds, respectively, for the year ended June 30, 2018 and 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. These fees are derived from the net interest income resulting from the loan funds.

**South Central Kansas Economic Development District, Inc.**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**

**3. Notes Receivable (Continued)**

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 \$109,959 and \$105,640 were recognized for the years ended June 30, 2018 and 2017, 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:

	<b>2018</b>			<b>2017</b>		
	Loan Amount	Allowance for Loan Losses	Net	Loan Amount	Allowance for Loan Losses	Net
Loan Fund						
EDA-RLF	\$ 984,895	\$ 117,500	\$ 867,395	\$ 1,589,620	\$ 152,000	\$ 1,437,620
FmHA-1990 IRP	67,188	3,500	63,688	78,611	11,500	67,111
FmHA-1993 IRP	197,204	9,900	187,304	222,083	12,000	210,083
FmHA-2011 IRP	68,592	3,450	65,142	98,226	8,100	90,126
SBA-2001/2003/2005 Microloan	9,554	1,500	8,054	15,048	2,500	12,548
SBA-2009 Microloan	74,002	8,400	65,602	184,563	28,000	156,563
SBA-2013 Microloan	231,310	21,300	210,010	290,540	32,000	258,540
SBA-2015 Microloan	357,944	27,500	330,444	307,810	18,500	289,310
RBDTC	455,377	60,100	395,277	586,136	55,000	531,136
RBEG	35,916	1,850	34,066	38,293	5,800	32,493
RMAP	72,360	3,650	68,710	157,247	17,500	139,747
	<u>\$ 2,554,342</u>	<u>\$ 258,650</u>	<u>\$ 2,295,692</u>	<u>\$ 3,568,177</u>	<u>\$ 342,900</u>	<u>\$ 3,225,277</u>

**South Central Kansas Economic Development District, Inc.**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**

**3. Notes Receivable (Continued)**

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

	Activity			Activity			
	Balance June 30 2016	FYE June 30, 2017		Balance June 30 2017	FYE June 30, 2018		Balance June 30 2018
		Charge- Offs	Provision for Loan Losses		Charge- Offs	Provision for Loan Losses	
Loan Fund							
EDA-RLF	\$ 114,000	\$ 20,026	\$ 58,026	\$ 152,000	\$ 18,940	\$ (15,560)	\$ 117,500
FmHA-1990 IRP	6,000	-	(6,500)	(500)	-	4,000	3,500
FmHA-1993 IRP	12,000	-	12,000	24,000	-	(14,100)	9,900
FmHA-2011 IRP	37,500	32,264	2,864	8,100	-	(4,650)	3,450
SBA-2001/2003/2005 Microloan	1,800	-	700	2,500	-	(1,000)	1,500
SBA-2009 Microloan	23,600	-	4,400	28,000	1,016	(18,584)	8,400
SBA-2013 Microloan	27,700	12,148	16,448	32,000	-	(10,700)	21,300
SBA-2015 Microloan	4,000	-	14,500	18,500	4,923	13,923	27,500
RBDTC	31,000	-	24,000	55,000	5,865	10,965	60,100
RBEG	5,000	-	800	5,800	-	(3,950)	1,850
RMAP	7,000	-	10,500	17,500	8,957	(4,893)	3,650
	<u>\$ 269,600</u>	<u>\$ 64,438</u>	<u>\$ 137,738</u>	<u>\$ 342,900</u>	<u>\$ 39,701</u>	<u>\$ (44,549)</u>	<u>\$ 258,650</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>2018</u>	<u>2017</u>
Loan Fund		
EDA-RLF	\$ 131,354	\$ 19,900
RBDTC	64,797	-
SBA-2009 Microloan	4,777	-
SBA-2015 Microloan	-	4,923
	<u>\$ 200,928</u>	<u>\$ 24,823</u>

The amount of interest not recognized on nonaccrual loans was approximately \$18,143 and \$2,209 for the years ended June 30, 2018 and 2017, respectively.

# South Central Kansas Economic Development District, Inc.

## Notes to Financial Statements

**June 30, 2018 and 2017**

### 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.

<b>2018</b>				
	Ending Impaired Balance	Average Impaired Balance	Allowance for Loan Losses	Interest Income Cash Basis
Loan Fund				
EDA-RLF-1979	\$ 196,545	\$ 311,906	\$ 86,000	\$ 3,030
FmHA-1990 IRP	-	35,074	-	-
FmHA-2011 IRP	-	15,292	-	-
SBA-2001/2003/2005 Microloan	9,554	11,930	1,500	348
SBA-2009 Microloan	20,866	41,608	5,200	596
SBA-2013 Microloan	15,004	44,395	8,300	609
SBA-2015 Microloan	18,989	11,956	8,700	1,482
RMAP	-	8,978	-	-
RBDTC	87,906	112,831	49,000	86
RBEG	-	19,147	-	-
	<u>\$ 348,864</u>	<u>\$ 613,117</u>	<u>\$ 158,700</u>	<u>\$ 6,151</u>
<b>2017</b>				
	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	2,452	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
	<u>\$ 877,365</u>	<u>\$ 657,401</u>	<u>\$ 217,900</u>	<u>\$ 47,633</u>

### 4. Property and Equipment

Property and equipment consist of the following for June 30, 2018 and 2017:

	<b>2018</b>	<b>2017</b>
Furniture and equipment	\$ 244,750	\$ 218,173
Autos and trucks	442,974	404,718
Leasehold improvements	49,788	19,000
	<u>737,512</u>	<u>641,891</u>
Less accumulated depreciation	479,407	419,616
Total property and equipment	<u>\$ 258,105</u>	<u>\$ 222,275</u>

# South Central Kansas Economic Development District, Inc.

## Notes to Financial Statements

**June 30, 2018 and 2017**

### 5. Notes Payable

Notes payable at June 30 are summarized as follows:

	<u>2018</u>	<u>2017</u>
<b>Note payable to FmHA-2011</b> - 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.	\$ 155,161	\$ 160,485
<b>Note payable to SBA-2009</b> -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. The note was paid in full during the year ending June 30, 2018.	-	176,458
<b>Note payable to SBA-2013</b> -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.	302,402	362,243
<b>Note payable to SBA-2015</b> -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.	427,873	476,305
<b>Note payable to USDA- RMAP</b> - 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. The note was paid in full during the year ending June 30, 2018.	-	300,308
	<u>\$ 885,436</u>	<u>\$ 1,475,799</u>

Aggregate annual maturities of notes payable on June 30, 2018 are summarized as follows:

Year ended June 30	2011 FmHA	2013 SBA	2015 SBA	Total
2019	\$ 5,703	\$ 59,841	\$ 56,964	\$ 122,508
2020	5,760	59,841	57,192	122,793
2021	5,817	59,841	57,421	123,079
2022	5,875	59,841	57,652	123,368
2023	5,934	59,841	57,883	123,658
Thereafter	126,072	3,197	140,761	270,030
	<u>\$ 155,161</u>	<u>\$ 302,402</u>	<u>\$ 427,873</u>	<u>\$ 885,436</u>

**South Central Kansas Economic Development District, Inc.**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**

**6. 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.

SCKEDD leases additional office facilities in Hutchinson, Kansas under an operating lease. The lease expires 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, 2018, are as follows:

<u>Year Ended June 30</u>	<u>Total</u>
2019	\$ 118,116
2020	120,771
2021	109,049
2022	96,000
2023	96,000
Thereafter	256,000
	<u><u>\$ 795,936</u></u>

Rent expense for the years ended June 30, 2018 and 2017 was \$111,410 and \$88,000, 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, 2018, are as follows:

<u>Year Ended June 30</u>	<u>Total</u>
2019	\$ 8,764
2020	6,452
2021	5,622
2022	5,622
2023	937
	<u><u>\$ 27,397</u></u>

Expenses recognized related to the copier lease were \$9,414 and \$5,144 for the year ended June 30, 2018 and 2017, respectively.

**South Central Kansas Economic Development District, Inc.**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**

**7. 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 \$91,806 and \$76,247 for the years ended June 30, 2018 and 2017, respectively.

**8. 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.

**9. Commitments**

SCKEDD was committed to fund new loans totaling \$4,000 and \$108,400 at June 30, 2018 and 2017, respectively. These outstanding loan commitments were authorized under various loan programs as described in Note 3.

**10. 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 not included in the financial statements for the years ended June 30, 2018 and 2017 are \$46,534 and \$25,636, respectively.

**11. Concentrations**

SCKEDD receives a large portion of its funding from governmental grants. Grant revenues approximate 77% and 71% of total revenue for the years ended June 30, 2018 and 2017, respectively.

**12. Subsequent Events**

Management of SCKEDD has evaluated events subsequent to the statement of financial position date (June 30, 2018) through October 30, 2018, the date the financial statements were available to be issued.

## **Supplemental Information**



**South Central Kansas Economic Development District, Inc.**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2018**

Federal Grantor/Pass-Through Grantor/Program Title/Grant Period	Federal CFDA Number	Grant Number/ Loan Number	Expenditures of Federal Awards
<b>U.S. Department of Agriculture</b>			
Rural Business-Cooperative Service			
Intermediary Relending Program			
Direct Loan	10.767	IRP-2011	160,485
Total Direct Loans			160,485
Rural Microentrepreneur Assistance Program			
Direct Loan	10.870	IRP-RMAP	300,308
Formula Grant	10.870	RDBCP-10-RMAP	3,400
Total Direct Loan and Formula Grant			303,708
Total U.S. Department of Agriculture			464,193
<b>U.S. Department of Commerce</b>			
Economic Development Administration			
Economic Development			
Economic Adjustment Assistance	11.307	05-89-01822	1,830,728
Support for Planning Organizations	11.302	ED-16-DEN-3020019	70,000
Total U.S. Department of Commerce			1,900,728
<b>U.S. Small Business Administration</b>			
Microloan Program			
Direct Loan	59.046	3630995004	176,458
Direct Loan	59.046	6108215005	362,243
Direct Loan	59.046	7818425008	476,305
Total Direct Loans			1,015,006
Formula Grant	59.046	SBAHQ-17-Y-0051	117,231
Total Formula Grant			117,231
Total U.S. Small Business Administration			1,132,237
<b>U.S. Department of Energy</b>			
Weatherization Assistance for Low-Income Persons			
Pass-Through from Kansas Housing Resources Corporation			
Weatherization Assistance Program	81.042	2017-DOE-13	971,988
Total U.S. Department of Energy			971,988
<b>U.S. Department of Health and Human Services</b>			
Administration for Children and Families			
Low-Income Home Energy Assistance			
Pass-Through from Kansas Housing Resources Corporation			
Low-Income Home Energy Assistance	93.568	2017-LIEAP-13	2,019,251
Low-Income Home Energy Assistance	93.568	2018-LIEAP-13	163,500
Total U.S. Department of Health and Human Services			2,182,751
Total Expenditures of Federal Awards			\$ 6,651,897

**South Central Kansas Economic Development District, Inc.**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2018**

**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, 2018.

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, 2018.

Federal Grantor/Pass-Through Grantor/Program Title/ Grant Period	Federal CFDA Number	Other Grant Number/ Loan Number	Balance of Direct Loans
<b>U.S. Department of Agriculture</b>			
Rural Development-Cooperative Service Intermediary Relending Program			
Direct Loan	10.767	IRP-2011	\$ 155,161
Total U.S. Department of Agriculture			<u>155,161</u>
<b>U.S. Small Business Administration</b>			
Microloan Program			
Direct Loan	59.046	6108215005	302,402
Direct Loan	59.046	7818425008	427,873
Total U.S. Small Business Administration			<u>730,275</u>
Total Direct Loans			<u><u>\$ 885,436</u></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 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., which comprise the statement of financial position as of June 30, 2018, 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 30, 2018.

**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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

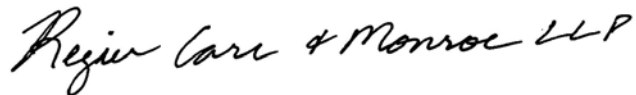
As part of obtaining reasonable assurance about whether South Central Kansas Economic Development District, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2018-001.

### **South Central Kansas Economic Development District, Inc.'s Response to Findings**

South Central Kansas Economic Development District, Inc.'s response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. South Central Kansas Economic Development District, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Regier Carr & Monroe LLP". The signature is written in a cursive, flowing style.

October 30, 2018  
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

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, 2018. 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* (CFR) 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, 2018.

### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2018-001. Our opinion on each major federal program is not modified with respect to these matters.

South Central Kansas Economic Development District, Inc.'s response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. South Central Kansas Economic Development District, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **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, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that were not 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 30, 2018  
Wichita, Kansas

**South Central Kansas Economic Development District, Inc.**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2018**

**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)?   X   yes      \_\_\_\_\_ no

Identification of major programs:

CFDA Number	Name of Federal 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?   X   yes      \_\_\_\_\_ no



**South Central Kansas Economic Development District, Inc.**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2018**

**SECTION II-Financial Statement Findings**

No reportable matters

**SECTION III - MAJOR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**2018-001 Documentation**

**Condition:** Required documentation was not maintained in a loan file. The Revolving Loan Fund finding is under the Economic Adjustment Assistance Program #05-89-01822, CFDA #11.307 U.S. Department of Commerce – Economic Development Administration.

**Criteria:** One loan file did not contain a current bank turn-down letter and/or documentation demonstrating that traditional financing was not otherwise available.

**Cause:** Current bank turn-down documentation was not obtained. Turn-down documentation from the applicant's previous loan two years ago was documented. While analysis had been done regarding the borrower's ability to obtain traditional financing, the analysis was not documented.

**Effect:** The loan file documentation was incomplete. Current support that credit was otherwise unavailable to the borrower was not documented in the file.

**Recommendation:** A process should be implemented with appropriate segregation of duties to ensure that all required loan documentation is maintained within each file.

**Management Response:** The analysis regarding the borrower's ability to obtain financing was documented and added to the loan file. SCKEDD has implemented process refinements to ensure that all loans requiring a bank turn-down letter have the required, current documentation on file.

**South Central Kansas Economic Development District, Inc.**  
**Summary Schedule of Prior Year Audit Findings**  
**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

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