THE CENTER FOR RURAL AFFAIRS AND CONTROLLED ORGANIZATIONS

AUGUST 31, 2012

I N D E X

Nichols, Rise & Company, L.L.P.

Certified Public Accountants and Consultants

To the Board of Directors
The Center for Rural Affairs and Controlled Organizations
Lyons, Nebraska

We have audited the accompanying consolidated statement of financial position of The Center for Rural Affairs and Controlled Organizations as of August 31, 2012, and the related consolidated statements of activities, cash flows, and functional expenses for the year then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Center's 2011 financial statements, and in our report dated February 28, 2012, we expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Center for Rural Affairs and Controlled Organizations as of August 31, 2012, and the changes in its consolidated net assets and its consolidated cash flows for the year then ended in conformity with accounting principles generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2013, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting and compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements of The Center for Rural Affairs and Controlled Organizations taken as a whole. The consolidating information in the supplemental information section of this report is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated 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 taken as a whole.

Nichols, Rise & Company, L.L.P.

Sioux City, Iowa
February 25, 2013

THE CENTER FOR RURAL AFFAIRS AND CONTROLLED ORGANIZATIONS
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

August 31, 2012
With Summarized Financial Information for August 31, 2011

	2012	2011
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 925,434	$ 284,972
Accounts Receivable	5,367	12,178
Grants Receivable	548,351	1,502,839
Accrued Interest	27,902	42,187
Prepaid Expenses	61,225	52,500
Current Maturities of Microloans Receivable	797,246	527,124
Total Current Assets	2,365,525	2,421,800
Property and Equipment, at Cost	496,774	507,120
Other Assets:		
Restricted Cash	414,194	241,181
Grants Receivable	1,403,000	
Cash in Revolving Loan Funds	1,396,585	1,864,349
Microloans Receivable, Net of Current Maturities (Net of Allowance of $110,000 for 2012 and 2011)	2,329,313	2,026,216
Investments	5,403,805	5,487,953
Cash Surrender Value of Life Insurance	40,703	35,755
Total Other Assets	10,987,600	9,655,454
Total Assets	$ 13,849,899	$ 12,584,374
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts Payable	$ 55,290	$ 42,717
Accrued Expenses	151,178	140,257
Current Maturities of Long-Term Obligations	454,035	394,852
Total Liabilities	660,503	577,826
Long-Term Obligations, Net of Current Maturities:		
Obligation Under Gift Annuity Agreements	68,615	72,772
Building Loan Payable	290,665	311,679
Lending Capital Loans Payable	3,343,867	3,276,317
Total Long-Term Obligations	3,703,147	3,660,768
Total Liabilities	4,363,650	4,238,594
Net Assets:		
Unrestricted:		
Board Designated Financial Reserve		83,031
Revolving Loan Fund	844,438	660,988
Net Investment in Property and Equipment	206,109	195,441
Unrestricted, Undesignated	901,264	618,898
	1,951,811	1,558,358
Temporarily Restricted	5,876,135	5,129,119
Permanently Restricted	1,658,303	1,658,303
Total Net Assets	9,486,249	8,345,780
Total Liabilities and Net Assets	$ 13,849,899	$ 12,584,374

See accompanying notes

THE CENTER FOR RURAL AFFAIRS AND CONTROLLED ORGANIZATIONS
CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended August 31, 2012
With Summarized Financial Information for Year Ended August 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals 2012	Totals 2011
Revenue and Support:					
Donations	$ 278,193	$	$	**$ 278,193**	$ 293,038
Fees and Reimbursements	184,675			**184,675**	184,284
Publications	1,425			**1,425**	692
Interest from Microloans	189,382			**189,382**	151,360
Realized and Unrealized Gain on Sale of Investments	102,659			**102,659**	266,513
Interest and Dividend Income	196,168			**196,168**	200,178
Grants and Contracts	42,100	4,458,824		**4,500,924**	3,792,217
	994,602	4,458,824	0	**5,453,426**	4,888,282
Net Assets Released from Restrictions:					
Satisfaction of Grant Restrictions	3,707,452	(3,707,452)		**0**	0
Satisfaction of Donor Restrictions	4,356	(4,356)		**0**	0
	3,711,808	(3,711,808)	0	**0**	0
Total Revenue and Support	4,706,410	747,016	0	**5,453,426**	4,888,282
Expenses:					
Program Services	3,687,717			**3,687,717**	3,251,990
Supporting Services:					
Administrative	493,635			**493,635**	460,943
Fundraising and Development	131,605			**131,605**	186,552
Total Expenses	4,312,957	0	0	**4,312,957**	3,899,485
Change in Net Assets	393,453	747,016	0	**1,140,469**	988,797
Net Assets, Beginning of Year	1,558,358	5,129,119	1,658,303	**8,345,780**	7,356,983
Net Assets, End of Year	$ 1,951,811	$ 5,876,135	$ 1,658,303	**$ 9,486,249**	$ 8,345,780

THE CENTER FOR RURAL AFFAIRS AND CONTROLLED ORGANIZATIONS
CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended August 31, 2012
With Summarized Financial Information for Year Ended August 31, 2011

	2012	2011
Cash Flows from Operating Activities:		
Cash Received from Support and Revenue	**$ 4,518,557**	$ 3,948,824
Cash Paid to Employees and Suppliers	**(4,208,073)**	(3,776,430)
Interest Income	**399,835**	355,827
Interest Expense	**(64,835)**	(84,939)
Net Cash Provided by Operating Activities	**645,484**	443,282
Cash Flows from Investing Activities:		
Proceeds from Sale of Investments	**1,948,311**	3,262,484
Purchase of Investments	**(1,768,584)**	(3,356,528)
Increase in Microloans Receivable	**(573,219)**	(555,488)
Increase in Revolving Loan Fund	**467,764**	(317,579)
Purchase of Property, Plant, and Equipment	**(7,843)**	(6,410)
Net Cash Provided (Used) by Investing Activities	**66,429**	(973,521)
Cash Flows from Financing Activities:		
Payments of Gift Annuity Agreements	**(4,356)**	(4,576)
Payments on Line of Credit		(250,000)
Proceeds from Long-Term Obligations	**500,000**	1,150,000
Payments on Long-Term Obligations	**(394,082)**	(369,688)
Net Cash Provided by Financing Activities	**101,562**	525,736
Net Increase (Decrease) in Cash	**813,475**	(4,503)
Cash, Beginning of Year:		
Unrestricted	**284,972**	327,975
Restricted	**241,181**	202,682
Total Cash, Beginning of Year	**526,153**	530,657
Cash, End of Year:		
Unrestricted	**925,434**	284,972
Restricted	**414,194**	241,181
Total Cash, End of Year	**$ 1,339,628**	$ 526,154

Year Ended August 31, 2012
With Summarized Financial Information for Year Ended August 31, 2011

	2012	2011
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in Net Assets	**$ 1,140,469**	$ 988,797
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation Expense	**18,189**	16,618
Gain on Sale of Investments	**(102,659)**	(266,513)
Clean Tech Ventures Expenses Per K-1	**7,080**	6,419
Changes in Operating Assets and Liabilities:		
Cash Surrender Value of Life Insurance	**(4,948)**	(4,730)
Accrued Interest Receivable	**14,285**	4,289
Accounts Receivable	**6,811**	(10,311)
Grants Receivable	**(448,512)**	(306,366)
Prepaid Expenses	**(8,725)**	(12,726)
Increase (Decrease) in Liabilities:		
Accounts Payable	**12,573**	7,492
Accrued Expenses	**10,921**	20,313
Total Adjustments to Change in Net Assets	**(494,985)**	(545,515)
Net Cash Provided by Operating Activities	**$ 645,484**	$ 443,282

THE CENTER FOR RURAL AFFAIRS AND CONTROLLED ORGANIZATIONS
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended August 31, 2012
With Summarized Financial Information for Year Ended August 31, 2011

	Program Services										Supporting Services		Totals	
	Rural Opportunities and Stewardship Program	MarketPlace	Rural Enterprise Assistance Program	Rural Policy Program	Rural Research and Analysis Program	Rural Organizing and Outreach Program	National Rural Action Network	National Sustainable Agriculture Coalition	Newsletter and Communi-cations	Total Program Services	Admin-istrative	Fundraising and Development	**2012**	2011
Salaries	$ 144,555	$ 36,299	$ 356,231	$ 83,531	$ 67,838	$ 177,577	$ 27,909	$ 548,819	$ 61,999	$ 1,504,758	$ 174,616	$ 40,886	**$ 1,720,260**	$ 1,576,325
Employee Benefits	72,873	18,995	182,906	57,682	50,903	73,077	11,125	187,442	45,666	700,669	150,343	28,734	**879,746**	848,684
Grants and Subcontracts	189,554					21,250		131,972		342,776			**342,776**	239,679
Consultants, Professional Services, and Management Fees	46,830	20,474	164,453	39,167	608	11,416	81	91,628	17,709	392,366	94,666	9,105	**496,137**	379,298
Total Salaries and Related Expenses	453,812	75,768	703,590	180,380	119,349	283,320	39,115	959,861	125,374	2,940,569	419,625	78,725	**3,438,919**	3,043,986
Travel and Per Diem	25,777	2,634	71,920	17,394	889	18,870	2,556	29,753	2,077	171,870	7,731	4,782	**184,383**	197,981
Meeting Expenses	4,876	10,421	487	1,767		918		57,285		75,754	3,009	90	**78,853**	114,816
Office Space	11,262	475	4,092	5,408	4,860	15,994	2,175	70,611	4,240	119,117	13,369	3,287	**135,773**	124,730
Equipment Usage	270	0	345	251		2,254	264			3,384	389	2,230	**6,003**	6,364
Small Equipment		161	2,510	1,259		1,513		6,193		11,636	3,100		**14,736**	22,618
Interest			54,920							54,920	9,493	422	**64,835**	66,013
Insurance and Bonding								922		922	13,292		**14,214**	14,724
Supplies	4,596	1,171	18,499	3,168	2,540	7,664	1,462	8,120	6,335	53,555	8,644	6,512	**68,711**	62,298
Printing	303	1,509	4,228	4,400		4,883		11,123	35,474	61,920		2,664	**64,584**	57,018
Publications and Subscriptions	368	360	6,880	1,665	260	1,400		21,986	1,920	34,839	421	932	**36,192**	35,117
Telephone and Fax	3,414	1,375	12,855	1,085	682	1,949	298	10,241	601	32,500	3,143	421	**36,064**	36,870
Postage and Mail Service	313	611	2,912	1,869		2,961	397	862	10,154	20,079	1,572	7,871	**29,522**	29,839
Payments Under Gift Annuity Agreements										0		18,068	**18,068**	17,848
Staff Development	1,834	100	5,572	370		1,224	1,300	2,554		12,954	61	(450)	**12,565**	12,314
Bad Debt Expense			66,807							66,807			**66,807**	32,480
Miscellaneous	589	926	9,797	10,137		50		9,509	40	31,048	9,786	1,894	**42,728**	24,469
	507,414	95,511	965,414	229,153	128,580	343,000	47,567	1,189,020	186,215	3,691,874	493,635	127,448	**4,312,957**	3,899,485
Allocation of Shared Expenses	25,687	3,307	59,744	30,555	10,843	49,093	2,829		(186,215)	(4,157)		4,157	**0**	0
Total Expenses	$ 533,101	$ 98,818	$ 1,025,158	$ 259,708	$ 139,423	$ 392,093	$ 50,396	$ 1,189,020	$ 0	$ 3,687,717	$ 493,635	$ 131,605	**$ 4,312,957**	$ 3,899,485

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ORGANIZATION

Established in 1973, The Center for Rural Affairs (Center) is a private non-profit corporation working to strengthen small businesses, family farms and ranches, and rural communities through action-oriented programs addressing social, economic, and environmental issues. The Center controls the following two non-profit corporations through its selection of their boards of directors:

Rural Investment Corporation (R.I.C.) - A non-profit corporation which provides financing and technical assistance in support of small businesses and community development in general.

The Granary Foundation (Foundation) - A non-profit supporting organization whose purpose is to solicit and hold endowment funds, the income from which will be used to support the Center's programs.

Current services for the Center include:

Program Services

The Rural Opportunities and Stewardship Program supports sustainable development in rural Nebraska by providing technical assistance and training to support value added agriculture, wind energy development, organic farming, new farmers and ranchers, and entrepreneurship.

The Rural Enterprise Assistance Program provides loans, training, and technical assistance to rural micro entrepreneurs across the full expanse of rural Nebraska. It includes a Rural Women's Business Center and a Rural Hispanic Business Center.

The Rural Policy Program advocates for state and federal policies that support family size farms, value added agriculture, microenterprise development, rural community development, beginning farmers, and soil and water conservation.

The Rural Research and Analysis Program conducts research and publishes analysis on socioeconomic conditions in rural America, public policies affecting rural America, and innovative strategies to revitalize rural communities. It focuses on asset building and entrepreneurship as poverty alleviation strategies.

Rural Organizing and Outreach Program seeks to increase the number of people involved with the Center and deepen the engagement of existing supporters in an effort to increase the Center's capacity to influence rural and agricultural policy decisions. Through leadership development, policy education, and critical action alerts, the program engages rural people from across the nation in decisions that affect their lives and the future of rural communities.

The MarketPlace enterpreneurship conference energizes and connects rural entrepreneurs, small business owners, service providers, and communities. Conference organizers arrange a Nebraska conference each year and assist other states to develop MarketPlace conferences on request.

The National Rural Action Network works to build a network of tens of thousands of people across America committed to building a better future in rural communities. We inform the Network on development affecting rural America and on opportunities to participate in policy debates affecting rural America.

The National Sustainable Agriculture Coalition (NSAC) is an alliance of grassroots organizations that advocates for federal policy reform to advance the sustainability of agriculture, food systems, natural resources, and rural communities.

Support Services

Fundraising and Development expenses include the cost of solicitation of contributions, development of new funding sources, and facilitation of a capital campaign for endowment purposes.

Administrative expenses include expenses for the overall operations and direction of the Center.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets and activities of the Center are classified as follows:

Unrestricted - Net assets that include the resources currently available for use by the Center under the direction of the board.

Temporarily Restricted - Subject to donor-imposed stipulations that will be met, either by actions of the Center and/or the passage of time.

Permanently Restricted - Subject to donor-imposed stipulations on gifts that are to be held in perpetuity. The income on these funds may be used for unrestricted purposes.

Principles of Consolidation

The consolidated financial statements include the accounts of The Center for Rural Affairs and its affiliated supporting organizations, The Granary Foundation and Rural Investment Corporation. Significant intercompany accounts and transactions have been eliminated in the consolidated financial statements.

Cash and Cash Equivalents

For purposes of the consolidated statement of cash flows, the Center considers all unrestricted highly liquid investments with a maturity of three months or less to be cash equivalents, except in those cases where the use has been limited by contractual obligations. Restricted cash is considered cash and cash equivalents for financial statement presentation.

Accounts and Grants Receivable

Accounts and grants receivable are stated at the amount management expects to collect from balances outstanding at year-end. Based on management's assessment of the credit history with customers having outstanding balances and current relationships with them, management has concluded that realization losses on balances outstanding at year-end will be immaterial.

Income Taxes

The Center for Rural Affairs and Controlled Organizations, Rural Investment Corporation, and The Granary are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. As such, income earned in the performance of its exempt purpose is not subject to income tax. Any income earned through activities not related to its exempt purpose is subject to income tax at normal corporate rates. The Center has filed an election under Internal Revenue Code Section 501(h) to make expenditures to influence legislation and, hence, to be subject to excise tax on lobbying expenditures that exceed limits.

Investments

Investments are carried at fair market value in the financial statements. Cash held in investment accounts is classifed as restricted cash and included in cash and cash equivalents for financial statement presentation.

Unrealized holding gains and losses on available for sale securities are included in the change in net assets in the accompanying statement of activities. Realized gains and losses for securities classified as available for sale are accounted for as increases or decreases in unrestricted net assets unless a donor or law temporarily restricts their use.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Endowment

The Granary board of directors interprets the Nebraska law related to institutional fund management as requiring preservation of the fair value of the original gift absent specific donor stipulations to the contrary. As a result, the Foundation classifies the original value of gifts to its endowment as well as accumulations in accordance with the donor gift instrument.

The Foundation utilizes a diversified asset allocation model to achieve its rate of return objectives under its investment policies while assuming a moderate level of investment risk. The investment and spending policies attempt to provide a predictable stream of funding while seeking to maintain the purchasing power of the endowment assets.

The Foundation makes discretionary payments to the Center for Rural Affairs. These payouts are computed as 4% of the average of the three most recent December 31 balances of the endowment funds. A maximum of four payments will be made during a year. Before the Board of Directors approves a payment, the inflation adjusted balance of the endowment fund will be analyzed to determine if the endowment fund has funds available for a payment.

Microloans Receivable

Loans receivable are stated at the amount management expects to collect from balances outstanding at year-end. Based on management's assessment of the credit history with entities having outstanding balances and current relationships with them, it has concluded that realization losses on balances outstanding at year-end will be immaterial.

Property and Equipment

Property and equipment is recorded at cost or at estimated fair value if donated. Donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Depreciation is provided using the straight-line method over the estimated useful lives of the assets. Maintenance and repairs are charged to appropriate expense accounts; additions and improvements are capitalized. In accounting for the retirement of assets, the cost and related depreciation are eliminated from the accounts, and the resulting gain or loss is reflected in the statement of activities.

Contributions and Grants

Unconditional promises to give are recorded as received. Grants and other contributions are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Center reports the contribution as unrestricted.

Noncash contributions are recorded at fair value in the period received.

Allocation of Expenses

Expenses that relate directly to a specific program or support service are recorded directly to the program of support service benefited. Expenses that cannot be specifically identified with one program or support service are accumulated in various cost pools. Those cost pools are then allocated periodically on a consistent basis to programs and support services.

Use of Estimates

The financial statements are prepared in conformity with generally accepted accounting principles and, accordingly, include amounts that are based on management's estimates and judgments.

INVESTMENTS

Investments held as of August 31, 2012, are summarized as follows:

	Fair Value	Cost	Unrealized Appreciation (Depreciation)
Limited Partnership Interests..	$ 176,289	$ 168,385	$ 7,904
Bond Fund..	1,274,392	1,304,089	(29,697)
Corporate Bonds.	449,045	412,825	36,220
Common Stocks.	3,220,606	3,064,996	155,610
Government Bonds.	283,473	293,269	(9,796)
	$ 5,403,805	$ 5,243,564	$ 160,241

FAIR VALUE MEASUREMENTS

Generally accepted accounting principles establish a fair value hierarchy that prioritizes the inputs to valuation techniques as follows:

Level 1 - Inputs are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2 - Inputs include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at August 31, 2012.

Limited Partnership Interests - Valued based on tax basis capital account.

Common Stock - Valued at the closing price reported on the active market on which the individual securities are traded.

Bond Fund - Valued at the observable net asset value (NAV) of shares held by the Foundation.

Corporate Bonds - Valued based on yields currently available on comparable securities of issuers with similar credit ratings.

Government Bonds - Valued at the observable net asset value (NAV) of shares held by the Foundation. Other government bonds are valued using independent pricing models.

Annuity Agreements - Valued using the estimated present value of the annuity obligation. The discount rates (3.8% - 7.0%) and actuarial assumptions used in calculating the annuity obligation are those provided in Internal Revenue Service guidelines and actuarial tables.

FAIR VALUE MEASUREMENTS (Continued)

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Assets are categorized within the fair value hierarchy as of August 31, 2012, as follows:

	Level 1	Level 2	Level 3	**Total**
Investments:				
Limited Partnership Interests.	$	$	$ 176,289	**$ 176,289**
Common Stock..	3,220,606			**3,220,606**
Bond Fund.	1,274,392			**1,274,392**
Corporate Bonds.		449,045		**449,045**
Government Bonds.	152,075	131,398		**283,473**
Total Investments at Fair Value	$ 4,647,073	$ 580,443	$ 176,289	**$ 5,403,805**
Due to Annuitants	$ 0	$ 0	$ 72,772	**$ 72,772**

The following table sets forth a summary of changes in the fair value of the Granary's level 3 assets for the year ended August 31, 2012.

	Limited Partnership Interests	Due to Annuitants
Beginning Balance.	$ 188,268	$ 77,128
Change in Unrealized Gains or Losses Included in Earnings..	(16,774)	
Management Fees.	(7,080)	
Purchases of Additional Securities..	11,875	
Actuarial Change in Value of Split-Interest Agreements Included in Increase in Temporarily Restricted Net Assets.		(4,356)
Ending Balance	$ 176,289	$ 72,772

CASH SURRENDER VALUE OF LIFE INSURANCE

The life insurance policy was donated to The Granary Foundation. The Foundation is the owner and beneficiary.

LINE OF CREDIT

The Center established a line of credit on December 1, 2008, in the amount of $250,000. Interest is variable using an internal index the bank establishes, not to be less than 5.5% per annum and not more than 12% per annum. The line of credit is secured by essentially all of the Center's assets. In addition, the Foundation has pledged investments as collateral for the line of credit.

MICROLOAN PROGRAM

Microloans Receivable

The Center's Rural Enterprise Assistance Project (REAP) is an intermediary in the U.S. Small Business Administration's (SBA) Microloan Program. Through this loan program, REAP offers business management training, technical assistance, and credit assistance to a variety of small businesses.

Small business owners can qualify for loans ranging from $100 to $50,000 through REAP's revolving loan fund. Individuals qualify for the direct loans. As of August 31, 2012, in the SBA approved program there were 219 outstanding loans to small businesses with total loan balances of $1,749,132.

The interest rates on these loans vary from 5.25% to 9.70%, and maturities range from one month to 72 months. The loans are collateralized by various assets of the borrowers.

In addition to the SBA program, the Center and Rural Investment Corporation have a microloan program for small businesses that do not meet the SBA program requirements. The terms, rates, and collateral requirements are comparable to the SBA approved program. As of August 31, 2012, there were 110 outstanding loans to small businesses with total loan balances of $1,487,428. These loans are collateralized by various assets of the borrowers.

The peer and direct microloans receivable from the SBA program and the non-SBA program total $3,236,560 and are shown on the consolidated statement of financial position net of an estimated allowance for uncollectible loans of $110,000. Interest income is recorded when the Center receives payment from the borrower on the loan. Accrued interest receivable on the microloans as of August 31, 2012, was $27,902 and is included in accrued interest on the Statement of Financial Position.

Loans are only written off after management has exhausted all efforts to collect on the past due loans.

Aggregate maturities of microloan programs receivables receivables for the years following August 31, 2012, are as follows:

Year Ending August 31,	
2013	$ 797,246
2014	579,332
2015	562,356
2016	494,676
2017	349,895

SBA Loans Payable

Funding for the SBA Microloan Program was obtained through loans from the SBA. The SBA loan agreements require the Center to maintain loan loss reserve funds equal to 10% of the outstanding SBA microloans receivable balance and a revolving fund for monies committed to the SBA program. At August 31, 2012, the amounts in the loan loss reserve funds met the 10% requirement. The SBA loan agreements also require a 15% match from private sources in the revolving funds with any additional borrowing. The interest rate on the four SBA loans ranges from .875% to 4.50%.

The Center has pledged loan receivables, contract rights, and security interests in notes arising from the SBA microloan program and cash held in the SBA microloan revolving funds and SBA loan loss reserve funds as collateral for the loans payable to the SBA. In the statement of financial position as of August 31, 2012, the amount of loans pledged to the SBA included in microloans receivable was $1,749,132 and cash pledged included in cash in revolving loan funds was $706,790. The loans are repaid to the SBA with cash in the revolving loan funds.

MICROLOAN PROGRAM (Continued)

SBA Loans Payable

Aggregate maturities of SBA loans for the years following August 31, 2012, are as follows:

Year Ending August 31,		
2013	$	414,911
2014		347,234
2015		270,482
2016		259,345
2017		234,617

The SBA approved another loan to the Center in April 2007 for an additional $750,000 in microlending capital. The Center has two years to draw down the full amount of the note from the date the loan was signed. Payments on this loan began one year after the note was signed and will be amortized over 10 years at 4.5% per annum. As of August 31, 2008, the Center had drawn down $500,000. In September 2008, the Center made its final draw down of $250,000.

In July 2009, the Center was approved for another SBA loan for an additional $750,000 in microlending capital. The Center has two years to draw down the full amount of the note from the date the loan was signed. Payments on this loan will begin one year after the note was signed and will be amortized over 10 years at 1.875% per annum. In August 2009, the Center made its first draw down of $250,000. In July 2010, the Center made its second draw down of $250,000. In September 2010, the Center made its final draw down of $250,000.

In August 2011, the Center was approved for another SBA loan for an additional $750,000 in microlending capital. The Center has two years to draw down the full amount of the note from the date the loan was signed. Payments on this loan will begin one year after the note was signed and will be amortized over 10 years at 2.125% per annum. In August 2011, the Center made its first draw down of $250,000. The full $750,000 had been advanced as of August 31, 2012.

Evergreen Loans Payable

The Center has entered into seven separate agreements with the Nebraska Microenterprise Partnership Fund. These "Evergreen Loans" are for a total of $700,000 at 4.0% interest. The Center has also entered into three separate agreements with the Nebraska Enterprise Fund. These "Evergreen Loans" are for $362,500 at 2% interest and $250,000 at 3% interest. Monthly payments are interest only for the first 60 months and then convert to principal and interest if the note is not renewed with Nebraska Microenterprise Partnership Fund. The proceeds are to be used as microlending capital. The full $1,312,500 had been advanced as of August 31, 2011. The Center granted the lender a security interest in all loans made from these funds. The Center had transferred $1,200,000 of these loans to Rural Investment Corporation as of August 31, 2012.

Aggregate maturities of Evergreen loans for the years following August 31, 2012, are as follows:

Year Ending August 31,		
2013	$	0
2014		0
2015		0
2016		0
2017		0

RMAP Loans Payable

The Center has entered into an agreement with the United States Department of Agriculture. This "RMAP Loan" is for a total of $400,000 at 2.0% interest. Monthly payments are interest only for the first 2 years and then convert to principal and interest for next 18 years. The proceeds are to be used as microlending capital. The full $400,000 had been advanced as of August 31, 2011. The Center granted the lender a security interest in all loans made from these funds.

MICROLOANS PROGRAM (Continued)

RMAP Loans Payable

Aggregate maturities of the RMAP loan for the years following August 31, 2012, are as follows:

Year Ending August 31,		
2013	$	13,953
2014		18,932
2015		19,314
2016		19,704
2017		20,102

BUILDING LOAN PAYABLE

The Center finished construction of a new office in Lyons, Nebraska, in December 2003. The construction of this building was financed through an arrangement between the City of Lyons, a local bank, and the Center. The City of Lyons issued 2004 Industrial Development Bonds, which were sold to a local bank. The bond issue proceeds facilitated a loan between Center for Rural Affairs and the bond holder. The loan is secured by a deed of trust on the real estate. The loan is amortized over 20 years with monthly principal and interest payments of $2,780 and a final maturity date of December 31, 2023. The interest rate, currently 4.97%, is fixed for five-year periods. At the end of each period, the rate will be recalculated based on the Federal Home Loan Bank of Topeka's 60-month rate, and the monthly payments will be adjusted over the remainder of the loan term. The next recalculation date for the interest rate and monthly payment is June 1, 2013.

Future principal payments as of August 31, 2012, are expected to be:

Year Ending August 31,		
2013	$	21,014
2014		22,082
2015		23,205
2016		24,352
2017		25,623

At the time of this loan agreement, the Granary Foundation entered into a bond purchase agreement with the bond holder. Though the Center is liable for monthly payments on the bonds, the Foundation agreed to purchase the bonds from the holder for the then outstanding principal balance of the bonds, if the Center is in default on the bonds. At such time, the bond holder will deliver possession of the deed of trust and the borrowing agreement to the Foundation.

OBLIGATION UNDER GIFT ANNUITY AGREEMENTS

The Foundation has entered into gift annuity agreements with four different individuals. Under the terms of the agreements, the Foundation will make annual payments at specified start dates to individuals identified by the donor. Upon the death of the annuitants, the annuity liability will be closed and the change in the value of the obligation under the annuity will be recognized in the statement of activities.

The liability under these agreements is recalculated annually based on the Internal Revenue Service's life expectancy of the annuitants and the interest rate at date of the gift. Total cash paid under the agreements was $22,434 for the year ended August 31, 2012. $4,356 reduced the obligation and $18,068 was included in expenses for the year ended August 31, 2012. Scheduled annual payments to beneficiaries for the year ending August 31, 2013, is $22,424 of which $4,157 will reduce the obligation (current maturities) and $18,267 will be expensed.

RESTRICTED NET ASSETS

Temporary restricted net assets are available for the following purposes:

Rural Opportunities and Stewardship	$ 95,867
Rural Enterprise Assistance Program	178,576
Rural Policy Program	143,627
Rural Organizing and Outreach Program	296,392
Rural Research and Analysis Program	33,555
National Rural Action Network	91,099
National Sustainable Agriculture Coalition	1,284,911
Center's Endowment Held by the Granary	3,647,591
Obligations Under Gift Annuity	104,517
	$ 5,876,135

Permanently restricted net assets are held per donor stipulations as follows:

Center's Endowment Held by the Granary	$ 1,500,000
Revolving Loan Fund	147,790
Center's Endowment Held at a Community Foundation	10,513
	$ 1,658,303

PROPERTY AND EQUIPMENT

The cost, book value after accumulated depreciation, and the estimated useful lives are as follows:

	Estimated Lives	
Buildings and Improvements	15-39 years	$ 613,252
Land		10,000
Vehicle		7,000
Equipment		196,061
		826,313
Less Accumulated Depreciation		(329,539)
		$ 496,774

Depreciation expense for the year ended August 31, 2012, was $18,189.

OPERATING LEASES

The Center rents office space on a month-to-month basis. The lease calls for monthly payments of $200.

The Center also rents equipment on a month-to-month basis. The lease calls for monthly payments of $599.

On April 1, 2010, the Center entered into a three-year lease for office space. The lease calls for monthly payments of $4,895 with a yearly increase of 4%.

On October 1, 2008, the Center entered into a five-year lease for office equipment. The lease calls for monthly payments of $350.

OPERATING LEASES (Continued)

The following is a schedule of future minimum lease payments as of August 31, 2012:

Year Ending August 31,		
2013	$	41,258

Rent expense for the fiscal year ended August 31, 2012, was $83,019.

INCOME TAXES

The Center is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is not a private foundation. Tax years potentially subject to examination of returns by authorities are 2009, 2010, 2011, and 2012.

BEQUESTS

The Foundation has been named beneficiary in a number of bequests. Such a gift will not be recorded in the financial statements until the donor's will has been declared valid by the probate court after the donor's death and the value of the amounts to be received are determinable. The Foundation's management believes that the fair market value of assets to be received could be as much as $2,500,000.

DONATED SERVICES

Many volunteers donated time and services to The Center for Rural Affairs and Controlled Organizations. There is no objective basis available to measure the value of these services.

RETIREMENT

The Center has a tax-sheltered annuity retirement plan for substantially all employees with two or more years of service. The Center contributes an amount equal to five percent of the eligible employee's salaries. The employees may also make voluntary contributions to the plan subject to the maximum amount allowed by the Internal Revenue Code. Plan expenses were $67,837 for the year ended August 31, 2012, and consisted of employer contributions only.

CONTINGENCIES

In the normal course of operations, the Center enters into grant agreements, which are subject to a third-party audit to determine the allowability of expenses claimed. In the opinion of management, the results of audits, if any, would not have a material adverse effect on the Center's financial position or the results of its activities.

SUMMARIZED FINANCIAL INFORMATION FOR 2011

The financial statements include certain prior-year summarized financial information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Agency's financial statements for the year ended August 31, 2011, from which the summarized information was derived.

SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 25, 2013, the date the statements are available to be issued.

THE CENTER FOR RURAL AFFAIRS AND CONTROLLED ORGANIZATIONS
CONSOLIDATING STATEMENT OF FINANCIAL POSITION

August 31, 2012

	Center for Rural Affairs	Rural Investment Corporation	The Granary Foundation	Elimi- nations	**Consoli- dated**
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$ 846,389	$ 140	$ 78,905	$	**$ 925,434**
Accounts Receivable	1,867		3,500		**5,367**
Grants Receivable.	548,351				**548,351**
Accrued Interest	23,228	4,674			**27,902**
Prepaid Expenses	61,225				**61,225**
Current Maturities of Microloans Receivable	622,146	175,100			**797,246**
Due from Affiliates.	101,656	131,906		(233,562)	**0**
Total Current Assets	2,204,862	311,820	82,405	(233,562)	**2,365,525**
Property and Equipment	496,774				**496,774**
Other Assets:					
Restricted Cash.			414,194		**414,194**
Grants Receivable.	1,403,000				**1,403,000**
Cash in Revolving Loan Funds	1,042,087	354,498			**1,396,585**
Microloans Receivable, Net of Current Maturities (Net of Allowance of $110,000).	1,783,534	545,779			**2,329,313**
Investments.			5,403,805		**5,403,805**
Cash Surrender Value of Life Insurance			40,703		**40,703**
Total Other Assets	4,228,621	900,277	5,858,702	0	**10,987,600**
Total Assets	$ 6,930,257	$ 1,212,097	$ 5,941,107	$ (233,562)	**$ 13,849,899**
LIABILITIES AND NET ASSETS					
Current Liabilities:					
Accounts Payable	$ 55,290	$	$	$	**$ 55,290**
Accrued Expenses	151,178				**151,178**
Due to Affiliates	131,906		101,656	(233,562)	**0**
Current Maturities of Long-Term Debt	449,878		4,157		**454,035**
Total Current Liabilities	788,252	0	105,813	(233,562)	**660,503**
Long-Term Obligations, Net of Current Maturities:					
Obligations Under Gift Annuity Agreements			68,615		**68,615**
Building Loan Payable	290,665				**290,665**
Lending Capital Loans Payable	2,143,867	1,200,000			**3,343,867**
Total Long-Term Obligations	2,434,532	1,200,000	68,615	0	**3,703,147**
Total Liabilities	3,222,784	1,200,000	174,428	(233,562)	**4,363,650**
Net Assets:					
Unrestricted:					
Revolving Loan Fund	844,438				**844,438**
Net Investment in Property and Equipment	206,109				**206,109**
Unrestricted, Undesignated	374,596	12,097	514,571		**901,264**
	1,425,143	12,097	514,571	0	**1,951,811**
Temporarily Restricted	2,124,027		3,752,108		**5,876,135**
Permanently Restricted.	158,303		1,500,000		**1,658,303**
Total Net Assets	3,707,473	12,097	5,766,679	0	**9,486,249**
Total Liabilities and Net Assets	$ 6,930,257	$ 1,212,097	$ 5,941,107	$ (233,562)	**$ 13,849,899**

THE CENTER FOR RURAL AFFAIRS AND CONTROLLED ORGANIZATIONS
CONSOLIDATING STATEMENT OF ACTIVITIES - UNRESTRICTED

Year Ended August 31, 2012

	Center for Rural Affairs	Rural Investment Corporation	The Granary Foundation	Elimi-nations	**Consoli-dated**
Unrestricted:					
Revenue and Support:					
Donations	$ 262,296	$ 140	$ 15,757	$	**$ 278,193**
Fees and Reimbursements	183,830	294	551		**184,675**
Publications	1,425				**1,425**
Interest from Microloans	142,019	47,363			**189,382**
Realized and Unrealized Gain on Investments			102,659		**102,659**
Interest and Dividend Income.	5,426		190,742		**196,168**
Grants and Contracts	42,100				**42,100**
	637,096	47,797	309,709	0	**994,602**
Net Assets Released from Restrictions:					
Satisfaction of Grant Restrictions.	3,707,452				**3,707,452**
Satisfaction of Donor Restrictions			4,356		**4,356**
	3,707,452	0	4,356	0	**3,711,808**
Total Revenue and Support	4,344,548	47,797	314,065	0	**4,706,410**
Expenses:					
Program Services:					
Rural Opportunities and Stewardship Program	533,101				**533,101**
MarketPlace	98,818				**98,818**
Rural Enterprise Assistance Program	989,323	35,835			**1,025,158**
Rural Policy Program	259,708				**259,708**
Rural Research and Analysis Program	139,423				**139,423**
Rural Organizing and Outreach Program	392,093				**392,093**
National Rural Action Network	50,396				**50,396**
National Sustainable Agriculture Coalition	1,189,020				**1,189,020**
	3,651,882	35,835	0	0	**3,687,717**
Supporting Services:					
Administrative	426,832		66,803		**493,635**
Fundraising and Development	92,413		39,192		**131,605**
Total Expenses	519,245	0	105,995	0	**625,240**
	4,171,127	35,835	105,995	0	**4,312,957**
Change in Unrestricted Net Assets	173,421	11,962	208,070	0	**393,453**
Net Assets, Beginning of Year	1,251,722	135	306,501		**1,558,358**
Net Assets, End of Year	$ 1,425,143	$ 12,097	$ 514,571	$ 0	**$ 1,951,811**

THE CENTER FOR RURAL AFFAIRS AND CONTROLLED ORGANIZATIONS
CONSOLIDATING STATEMENT OF ACTIVITIES - TEMPORARILY RESTRICTED AND PERMANENTLY RESTRICTED (CONTINUED)

Year Ended August 31, 2012

	Center for Rural Affairs	Rural Investment Corporation	The Granary Foundation	Elimi-nations	**Consoli-dated**
Temporarily Restricted:					
Revenue and Support:					
Grants and Contracts.	$ 4,458,824	$	$	$	**$ 4,458,824**
Net Assets Released from Restrictions:					
Satisfaction of Grant Restrictions.	(3,707,452)				**(3,707,452)**
Satisfaction of Donor Restrictions.			(4,356)		**(4,356)**
	(3,707,452)	0	(4,356)	0	**(3,711,808)**
Change in Temporarily Restricted Net Assets	751,372	0	(4,356)	0	**747,016**
Net Assets, Beginning of Year.	1,372,655		3,756,464		**5,129,119**
Net Assets, End of Year	$ 2,124,027	$ 0	$ 3,752,108	$ 0	**$ 5,876,135**
Permanently Restricted:					
Net Assets, Beginning of Year.	$ 158,303	$	$ 1,500,000	$	**$ 1,658,303**
Net Assets, End of Year	$ 158,303	$ 0	$ 1,500,000	$ 0	**$ 1,658,303**

THE CENTER FOR RURAL AFFAIRS AND CONTROLLED ORGANIZATIONS
CONSOLIDATING STATEMENT OF CASH FLOWS

Year Ended August 31, 2012

	Center for Rural Affairs	Rural Investment Corporation	The Granary Foundation	Elimi-nations	**Consoli-dated**
Cash Flows from Operating Activities:					
Cash Received from Support and Revenue.	$ 4,505,263	$ 434	$ 12,860	$	**$ 4,518,557**
Cash Paid to Employees and Suppliers.	(4,109,158)		(98,915)		**(4,208,073)**
Interest Income.	160,022	42,689	197,124		**399,835**
Interest Expense.	(29,000)	(35,835)			**(64,835)**
Net Cash Provided by Operating Activities.	527,127	7,288	111,069	0	**645,484**
Cash Flows from Investing Activities:					
Proceeds from Sale of Investments..			1,948,311		**1,948,311**
Purchase of Investments..			(1,768,584)		**(1,768,584)**
Increase in Microloans Receivable..	(573,219)				**(573,219)**
Decrease in Revolving Loan Fund..	467,764				**467,764**
Purchase of Property, Plant, and Equipment.	(7,843)				**(7,843)**
Net Cash Provided (Used) by Investing Activities.	(113,298)	0	179,727	0	**66,429**
Cash Flows from Financing Activities:					
Due to/from Affiliates.	108,495	(7,148)	(101,347)		**0**
Payments of Gift Annuity Agreements..			(4,356)		**(4,356)**
Proceeds from Long-Term Obligations.	500,000				**500,000**
Payments on Long-Term Obligations..	(394,082)				**(394,082)**
Net Cash Provided (Used) by Financing Activities. . . .	214,413	(7,148)	(105,703)	0	**101,562**
Net Increase in Cash..	628,242	140	185,093	0	**813,475**
Cash, Beginning of Year:					
Unrestricted.	218,147		66,825		**284,972**
Restricted.			241,181		**241,181**
Total Cash, Beginning of Year..	218,147	0	308,006	0	**526,153**
Cash, End of Year:					
Unrestricted.	846,389	140	78,905		**925,434**
Restricted.			414,194		**414,194**
Total Cash, End of Year	$ 846,389	$ 140	$ 493,099	$ 0	**$ 1,339,628**

THE CENTER FOR RURAL AFFAIRS AND CONTROLLED ORGANIZATIONS
CONSOLIDATING STATEMENT OF CASH FLOWS (CONTINUED)

Year Ended August 31, 2012

	Center for Rural Affairs	Rural Investment Corporation	The Granary Foundation	Elimi-nations	**Consoli-dated**
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Change in Net Assets	$ 924,793	$ 11,962	$ 203,714	$	**$ 1,140,469**
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:					
Depreciation Expense	18,189				**18,189**
Gain on Sale of Investments			(102,659)		**(102,659)**
Clean Tech Ventures Expenses Per K-1			7,080		**7,080**
Changes in Operating Assets and Liabilities:					
Cash Surrender Value of Life Insurance			(4,948)		**(4,948)**
Accrued Interest Receivable	12,577	(4,674)	6,382		**14,285**
Accounts Receivable	5,311		1,500		**6,811**
Grants Receivable	(448,512)				**(448,512)**
Prepaid Expenses	(8,725)				**(8,725)**
Increase (Decrease) in Liabilities:					
Accounts Payable	12,573				**12,573**
Accrued Expenses	10,921				**10,921**
Total Adjustments to Change in Net Assets	(397,666)	(4,674)	(92,645)	0	**(494,985)**
Net Cash Provided by Operating Activities	$ 527,127	$ 7,288	$ 111,069	$ 0	**$ 645,484**

Non-Cash Investing and Financing Activities:

	Center for Rural Affairs	Rural Investment Corporation
Transfer of Microloans Receivable	$ 720,879	$ (720,879)
Transfer of Revolving Loan Fund	354,498	(354,498)
Transfer of Long-Term Debt	(1,200,000)	1,200,000
Due to/from Affiliates	124,623	(124,623)

THE CENTER FOR RURAL AFFAIRS AND CONTROLLED ORGANIZATIONS
CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES

Year Ended August 31, 2012

	Center for Rural Affairs	Rural Investment Corporation	The Granary Foundation	Elimi-nations	**Consoli-dated**
Salaries	$ 1,718,108	$	$ 2,152	$	**$ 1,720,260**
Employee Benefits	878,668		1,078		**879,746**
Grants and Subcontracts	342,776				**342,776**
Consultants, Professional Services, and Management Fees.	434,032		62,105		**496,137**
Total Salaries and Related Expenses	3,373,584	0	65,335	0	**3,438,919**
Travel and Per Diem	178,918		5,465		**184,383**
Meeting Expenses	78,597		256		**78,853**
Office Space	135,651		122		**135,773**
Equipment Usage	5,918		85		**6,003**
Small Equipment	14,736				**14,736**
Interest	29,000	35,835			**64,835**
Insurance and Bonding	11,180		3,034		**14,214**
Supplies	67,442		1,269		**68,711**
Printing	64,299		285		**64,584**
Publications and Subscriptions	36,105		87		**36,192**
Telephone and Fax	35,974		90		**36,064**
Postage and Mail Service	29,522				**29,522**
Payments Under Gift Annuity Agreements			18,068		**18,068**
Staff Development	12,565				**12,565**
Bad Debt Expense	66,807				**66,807**
Miscellaneous	42,350		378		**42,728**
	4,182,648	35,835	94,474	0	**4,312,957**
Allocation of Indirect Expenses	(11,521)		11,521		**0**
Total Expenses	$ 4,171,127	$ 35,835	$ 105,995	$ 0	**$ 4,312,957**

THE CENTER FOR RURAL AFFAIRS AND CONTROLLED ORGANIZATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended August 31, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant Identifying Number	Federal Expenditures
U.S. Small Business Administration:			
Microloan Program:			
Grants.	59.046	SBAHQ-10-Y-0066	$ 52,735
Grants.	59.046	SBAHQ-11-Y-0065	406,611
Grants.	59.046	SBAHQ-12-Y-0098	595
Loans.	59.046		2,060,232
Women's Business Center Program.	59.043	SBAHQ-06-W-0021	93,254
U.S. Department of Agriculture:			
Institution Capacity Building Grants.	10.216	2009-35400-05076	9,054
Rural Business Enterprise Grants.	10.769	32-011-0470553823	105,968
National Institute of Food and Agriculture:			
Beginning Farmers and Rancher Development Program.	10.311		202,967
Cooperative State Research, Education, and Extension Service:			
North Central SARE.	10.500	2009-47001-05621	9,250
Farmers' Market Promotion Program.	10.168	12-25-G-0958	37,426
Rural Microenterprise Assistance Program:			
Grant.	10.870	32-011-0470553823	36,296
Loans.	10.870		400,000
Farm Service Agency:			
Socially Disadvantage Farmers and Ranchers Program.	10.443	59-2501-10-050-0	146,647
Natural Resources Conservative Service Environmental Quality Incentives Program:			
Conservative Innovation Grants.	10.912	69-3A75-10-131	56,950
Risk Management Agency:			
Risk Management Agency.	10.455	11-IE-53102-076	69,797
Corporation for National and Community Service:			
Americorp State.	94.006		39,900
			$ 3,727,682

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

BASIS OF PRESENTATION

The accompanying schedule of federal awards includes the federal grant activity of The Center for Rural Affairs and Controlled Organizations and is presented on the modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the consolidated financial statements.

SUBRECIPIENTS

The Center for Rural Affairs and Controlled Organizations had no subreceipients.

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*

Nichols, Rise & Company, L.L.P.

Certified Public Accountants and Consultants

To the Board of Directors
The Center for Rural Affairs and Controlled Organizations
Lyons, Nebraska

We have audited the consolidated financial statements of The Center for Rural Affairs and Controlled Organizations as of and for the year ended August 31, 2012, and have issued our report thereon dated February 25, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of The Center for Rural Affairs and Controlled Organizations is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered The Center for Rural Affairs and Controlled Organizations' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described below, that we consider to be significant deficiencies in internal control over financial reporting. 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. We consider the deficiency described below to be a significant deficiency.

The preparation of GAAP financial statements and footnote disclosures requires extensive knowledge of constantly changing accounting pronouncements. Currently, no one in the Company has the training to prepare GAAP financial statements with complete footnote disclosures.

The entity's response to the significant deficiency identified in our audit is described in the accompanying corrective action plan. We did not audit the entity's response; and accordingly, we express no opinion on it.

Compliance and Other Matters

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

This report is intended solely for the information and use of the board of directors, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Nichols, Rise & Company, L.L.P.

Sioux City, Iowa
February 25, 2013

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

Nichols, Rise & Company, L.L.P.

Certified Public Accountants and Consultants

To the Board of Directors
The Center for Rural Affairs and Controlled Organizations
Lyons, Nebraska

Compliance

We have audited the compliance of The Center for Rural Affairs and Controlled Organizations with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended August 31, 2012. The Center for Rural Affairs and Controlled Organizations' major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of The Center for Rural Affairs and Controlled Organizations' management. Our responsibility is to express an opinion on The Center for Rural Affairs and Controlled Organizations' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about The Center for Rural Affairs and Controlled Organizations' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of The Center for Rural Affairs and Controlled Organizations' compliance with those requirements.

In our opinion, The Center for Rural Affairs and Controlled Organizations complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended August 31, 2012.

Internal Control Over Compliance

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

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

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

This report is intended solely for the information and use of the board of directors, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Nichols, Rise & Company, L.L.P.

Sioux City, Iowa
February 25, 2013

THE CENTER FOR RURAL AFFAIRS AND CONTROLLED ORGANIZATIONS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended August 31, 2012

Previous Finding Reference Number: 2011-1

Narrative:	This finding is outstanding at August 31, 2012, because management is satisfied with the financial statement presentation.
Status:	Outstanding
Reporting Period:	August 31, 2011

THE CENTER FOR RURAL AFFAIRS AND CONTROLLED ORGANIZATIONS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended August 31, 2012

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	___yes _X_no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	_X_yes ___none reported
Noncompliance material to financial statements noted?	___yes _X_no

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	___yes _X_no
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	___yes _X_none reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	___yes _X_no

Identification of major programs:

CFDA Number	Name of Federal Program
59.046	SBA Microloan Program

Dollar threshold used to distinguish between type A and type B programs:	$300,000
Auditee qualified as low-risk auditee?	_X_yes ___no

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding 2012-1:

Criteria:	There is nobody in the organization with the training and experience needed to prepare GAAP financial statements with complete footnote disclosures.
Condition:	Internal control includes controls over financial reporting under generally accepted accounting principles (GAAP). The entity should have appropriate controls over financial reporting.
Cause:	The preparation of GAAP financial statements and footnote disclosures requires extensive knowledge of constantly changing accounting pronouncements.
Effect:	The financial statements prepared by the entity may not be prepared in accordance with GAAP.
Recommendation:	Management has engaged us as auditors to prepare GAAP basis financial statements with disclosures as permitted by Generally Accepted Auditing Standards. However, we are not a part of the entity's internal control. Accordingly, this is a significant deficiency in internal control. No further action is necessary.

THE CENTER FOR RURAL AFFAIRS AND CONTROLLED ORGANIZATIONS
CORRECTIVE ACTION PLAN

Year Ended August 31, 2012

Finding Number	Responsible Individual	Management Views	Corrective Action	Anticipated Completion Date
2012-01	Center's Management	The Center's management and Board of Directors will rely on the auditors to prepare the financial statements.	N/A	Continuous