

THE CENTER FOR RURAL AFFAIRS AND CONTROLLED ORGANIZATIONS

AUGUST 31, 2013

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated statement of The Center for Rural Affairs and Controlled Organizations, which comprise the statement of financial position as of August 31, 2013, and the related consolidated statements of activities, cash flows, and functional expenses for the year 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 of 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 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, 2013, 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 in the United States of America.

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Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements 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 as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 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 as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 3, 2014, 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited the Center for Rural Affairs and Controlled Organizations' consolidated financial statements, and our report dated February 25, 2013, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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

Sioux City, Iowa

June 3, 2014

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

August 31, 2013

With Summarized Financial Information for August 31, 2012

	2013	2012
ASSETS		
Current Assets:		
Cash and Cash Equivalents.	\$ 1,236,724	\$ 925,434
Accounts Receivable.	4,132	5,367
Grants Receivable.	528,984	548,351
Accrued Interest.	23,277	27,902
Prepaid Expenses.	63,189	61,225
Current Maturities of Microloans Receivable.	<u>929,432</u>	<u>797,246</u>
Total Current Assets	2,785,738	2,365,525
Property and Equipment, at Cost.	477,147	496,774
Other Assets:		
Restricted Cash.	554,446	414,194
Grants Receivable.	1,113,049	1,403,000
Cash in Revolving Loan Funds.	1,281,788	1,396,585
Microloans Receivable, Net of Current Maturities (Net of Allowance of \$110,000 for 2013 and 2012).	2,461,707	2,329,313
Investments.	5,645,547	5,403,805
Cash Surrender Value of Life Insurance.	<u>45,411</u>	<u>40,703</u>
Total Other Assets	<u>11,101,948</u>	<u>10,987,600</u>
 Total Assets	 <u>\$ 14,364,833</u>	 <u>\$ 13,849,899</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts Payable.	\$ 47,865	\$ 55,290
Accrued Expenses.	175,697	151,178
Current Maturities of Building Loan Payable.	28,040	21,014
Current Maturities of Long-Term Obligations.	<u>390,448</u>	<u>433,021</u>
Total Liabilities	642,050	660,503
Long-Term Obligations, Net of Current Maturities:		
Obligation Under Gift Annuity Agreements.	13,238	68,615
Building Loan Payable.	261,063	290,665
Lending Capital Loans Payable.	<u>3,282,928</u>	<u>3,343,867</u>
Total Long-Term Obligations	<u>3,557,229</u>	<u>3,703,147</u>
Total Liabilities	4,199,279	4,363,650
Net Assets:		
Unrestricted:		
Revolving Loan Fund.	877,734	844,438
Net Investment in Property and Equipment.	188,045	185,095
Unrestricted, Undesignated.	<u>1,775,112</u>	<u>932,791</u>
Total Unrestricted	2,840,891	1,962,324
Temporarily Restricted.	5,676,873	5,876,135
Permanently Restricted.	<u>1,647,790</u>	<u>1,647,790</u>
Total Net Assets	<u>10,165,554</u>	<u>9,486,249</u>
 Total Liabilities and Net Assets	 <u>\$ 14,364,833</u>	 <u>\$ 13,849,899</u>

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

Year Ended August 31, 2013

With Summarized Financial Information for Year Ended August 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2013	2012
Revenue and Support:					
Donations.....	\$ 346,676	\$	\$	\$ 346,676	\$ 278,193
Fees and Reimbursements.....	318,428			318,428	184,675
Publications.....				0	1,425
Interest from Microloans.....	206,576			206,576	189,382
Realized and Unrealized Gain on Sale of Investments..	493,783			493,783	102,659
Interest and Dividend Income.....	203,750			203,750	196,168
Grants and Contracts.....	10,500	4,318,163		4,328,663	4,500,924
	1,579,713	4,318,163	0	5,897,876	5,453,426
Net Assets Released from Restrictions:					
Satisfaction of Grant Restrictions.....	4,458,537	(4,458,537)		0	0
Satisfaction of Donor Restrictions.....	58,888	(58,888)		0	0
	4,517,425	(4,517,425)	0	0	0
Total Revenue and Support	6,097,138	(199,262)	0	5,897,876	5,453,426
Expenses:					
Program Services.....	4,485,691			4,485,691	3,687,717
Supporting Services:					
Administrative.....	506,851			506,851	493,635
Fundraising and Development.....	226,029			226,029	131,605
Total Expenses	5,218,571	0	0	5,218,571	4,312,957
Change in Net Assets.....	878,567	(199,262)	0	679,305	1,140,469
Net Assets, Beginning of Year.....	1,962,324	5,876,135	1,647,790	9,486,249	8,345,780
Net Assets, End of Year	<u>\$ 2,840,891</u>	<u>\$ 5,676,873</u>	<u>\$ 1,647,790</u>	<u>\$ 10,165,554</u>	<u>\$ 9,486,249</u>

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

Year Ended August 31, 2013

With Summarized Financial Information for Year Ended August 31, 2012

	2013	2012
Cash Flows from Operating Activities:		
Cash Received from Support and Revenue.	\$ 5,299,612	\$ 4,518,557
Cash Paid to Employees and Suppliers.	(5,094,108)	(4,208,073)
Interest Income.	414,951	399,835
Interest Expense.	<u>(82,244)</u>	<u>(64,835)</u>
Net Cash Provided by Operating Activities.	538,211	645,484
Cash Flows from Investing Activities:		
Proceeds from Sale of Investments.	2,179,403	1,948,311
Purchase of Investments.	(1,934,824)	(1,768,584)
Increase in Microloans Receivable.	(264,580)	(573,219)
Decrease in Revolving Loan Fund.	114,797	467,764
Purchase of Property, Plant, and Equipment.	<u> </u>	<u>(7,843)</u>
Net Cash Provided by Investing Activities.	94,796	66,429
Cash Flows from Financing Activities:		
Payments of Gift Annuity Agreements.	(58,888)	(4,356)
Proceeds from Long-Term Obligations.	337,480	500,000
Payments on Long-Term Obligations.	<u>(460,057)</u>	<u>(394,082)</u>
Net Cash Provided (Used) by Financing Activities.	<u>(181,465)</u>	<u>101,562</u>
Net Increase in Cash.	451,542	813,475
Cash, Beginning of Year:		
Unrestricted.	925,434	284,972
Restricted.	<u>414,194</u>	<u>241,181</u>
Total Cash, Beginning of Year.	<u>1,339,628</u>	<u>526,153</u>
Cash, End of Year:		
Unrestricted.	1,236,724	925,434
Restricted.	<u>554,446</u>	<u>414,194</u>
Total Cash, End of Year	<u><u>\$ 1,791,170</u></u>	<u><u>\$ 1,339,628</u></u>

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

Year Ended August 31, 2013

With Summarized Financial Information for Year Ended August 31, 2012

	2013	2012
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in Net Assets.	\$ 679,305	\$ 1,140,469
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation Expense.	19,627	18,189
Gain on Sale of Investments.	(493,783)	(102,659)
Clean Tech Ventures Expenses Per K-1.	7,462	7,080
Changes in Operating Assets and Liabilities:		
Cash Surrender Value of Life Insurance.	(4,708)	(4,948)
Accrued Interest Receivable.	4,625	14,285
Accounts Receivable.	1,235	6,811
Grants Receivable.	309,318	(448,512)
Prepaid Expenses.	(1,964)	(8,725)
Increase (Decrease) in Liabilities:		
Accounts Payable.	(7,425)	12,573
Accrued Expenses.	24,519	10,921
Total Adjustments to Change in Net Assets	<u>(141,094)</u>	<u>(494,985)</u>
Net Cash Provided by Operating Activities	\$ <u>538,211</u>	\$ <u>645,484</u>

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

Year Ended August 31, 2013

With Summarized Financial Information for Year Ended August 31, 2012

	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 Communications	Total Program Services	Administrative	Fundraising and Development	2013	2012
Salaries.....	\$ 190,665	\$ 13,555	\$ 395,940	\$ 116,080	\$ 41,245	\$ 183,235	\$ 28,184	\$ 528,124	\$ 73,805	\$ 1,570,833	\$ 176,456	\$ 77,788	\$ 1,825,077	\$ 1,720,260
Employee Benefits.....	84,134	10,726	231,015	71,952	33,535	81,975	18,638	213,048	52,209	797,232	149,945	56,997	1,004,174	879,746
Grants and Subcontracts.....	181,979					112,350		46,676		341,005		10,000	351,005	342,776
Consultants, Professional Services, and Management Fees.....	81,554	16,739	365,309	101,634		11,132	20,500	333,978	44,347	975,193	111,246	11,820	1,098,259	496,137
Total Salaries and Related Expenses	538,332	41,020	992,264	289,666	74,780	388,692	67,322	1,121,826	170,361	3,684,263	437,647	156,605	4,278,515	3,438,919
Travel and Per Diem.....	37,229	1,828	74,068	19,557	1,171	19,252	2,496	52,682	720	209,003	6,843	19,955	235,801	184,383
Meeting Expenses.....	5,623	14,846	1,945	1,180		1,611	124	30,464		55,793	3,579	1,500	60,872	78,853
Office Space.....	11,598	812	7,062	7,123	2,824	15,841	2,072	84,458	5,134	136,924	13,160	5,277	155,361	135,773
Equipment Usage.....	75	393		416		2,067			12	2,963	307	2,307	5,577	6,003
Small Equipment.....	2,402		24,395			604			4,258	31,659		1,229	32,888	14,736
Interest.....			76,130							76,130	6,114		82,244	64,835
Insurance and Bonding.....								762		762	14,499		15,261	14,214
Supplies.....	4,915	398	17,624	3,426	1,187	4,458	745	3,176	6,317	42,246	6,317	6,553	55,116	68,711
Printing.....	925	2,950	4,356	690		2,113		3,597	23,882	38,513		5,951	44,464	64,584
Publications and Subscriptions.....	200		13,293	4,189	425	2,091	408	20,593	3,411	44,610	530	629	45,769	36,192
Telephone and Fax.....	4,202	557	14,189	1,278	752	1,706	293	10,155	742	33,874	2,709	680	37,263	36,064
Postage and Mail Service.....	381		3,910	275		430	18	454	9,982	15,450	1,208	9,220	25,878	29,522
Payments Under Gift Annuity Agreements.....										0		10,134	10,134	18,068
Staff Development.....	1,605		5,887	3,224	140	4,486	480	4,081	629	20,532	1,935	215	22,682	12,565
Bad Debt Expense.....			42,117							42,117			42,117	66,807
Miscellaneous.....	2,053	7,983	9,231	600		38	1,501	39,441	150	60,997	5,515	2,117	68,629	42,728
	609,540	70,787	1,286,471	331,624	81,279	443,389	75,459	1,371,689	225,598	4,495,836	500,363	222,372	5,218,571	4,312,957
Allocation of Shared Expenses.....	30,792	4,951	82,521	40,008	8,700	41,929	6,552		(225,598)	(10,145)	6,488	3,657	0	0
Total Expenses	\$ 640,332	\$ 75,738	\$ 1,368,992	\$ 371,632	\$ 89,979	\$ 485,318	\$ 82,011	\$ 1,371,689	\$ 0	\$ 4,485,691	\$ 506,851	\$ 226,029	\$ 5,218,571	\$ 4,312,957

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 entrepreneurship 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 classified 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, 2013, are summarized as follows:

	<u>Fair Value</u>	<u>Cost</u>	<u>Unrealized Appreciation (Depreciation)</u>
Limited Partnership Interests.....	\$ 147,795	\$ 168,385	\$ (20,590)
Bond Fund.....	1,016,860	1,072,499	(55,639)
Corporate Bonds.....	337,748	329,061	8,687
Common Stocks.....	3,946,204	3,368,161	578,043
Government Bonds.....	<u>196,940</u>	<u>233,106</u>	<u>(36,166)</u>
	<u>\$ 5,645,547</u>	<u>\$ 5,171,212</u>	<u>\$ 474,335</u>

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, 2013.

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, 2013, as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Limited Partnership Interests	\$	\$	\$ 147,795	\$ 147,795
Common Stock	3,946,204			3,946,204
Bond Fund	1,016,860			1,016,860
Corporate Bonds		337,748		337,748
Government Bonds	<u>126,348</u>	<u>70,592</u>		<u>196,940</u>
Total Investments at Fair Value	<u>\$ 5,089,412</u>	<u>\$ 408,340</u>	<u>\$ 147,795</u>	<u>\$ 5,645,547</u>
Due to Annuitants	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 13,884</u>	<u>\$ 13,884</u>

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, 2013.

	<u>Limited Partnership Interests</u>	<u>Due to Annuitants</u>
Beginning Balance	\$ 176,289	\$ 72,772
Change in Unrealized Gains or Losses Included in Earnings	(28,532)	
Management Fees	(7,462)	
Purchases of Additional Securities	7,500	
Actuarial Change in Value of Split-Interest Agreements Included in Decrease in Temporarily Restricted Net Assets		<u>(58,888)</u>
Ending Balance	<u>\$ 147,795</u>	<u>\$ 13,884</u>

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, 2013, in the SBA approved program there were outstanding loans to small businesses with total loan balances of \$1,941,673.

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, 2013, there were 116 outstanding loans to small businesses with total loan balances of \$1,559,466. 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 \$3,501,139 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, 2013, was \$23,277 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 for the years following August 31, 2013, are as follows:

<u>Year Ending</u> <u>August 31,</u>	
2014.....	\$ 929,432
2015.....	730,213
2016.....	681,006
2017.....	512,636
2018.....	411,277

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, 2013, 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, 2013, the amount of loans pledged to the SBA included in microloans receivable was \$1,941,673 and cash pledged included in cash in revolving loan funds was \$657,764. 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, 2013, are as follows:

<u>Year Ending</u> <u>August 31,</u>	
2014.....	\$ 370,870
2015.....	305,716
2016.....	295,207
2017.....	271,339
2018.....	203,352

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.

In December 2012, the Center was approved for another SBA loan for an additional \$337,480 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 .625% per annum. The full \$337,480 had been advanced as of August 31, 2013.

Evergreen Loans Payable

The Center and Rural Investment Corporation have entered into agreements with the Nebraska Microenterprise Partnership Fund. These “Evergreen Loans” are for \$1,200,000 to Rural Investment Corporation and \$112,500 to the Center. 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 Center and Rural Investment Corporation granted the lender a security interest in all loans made from these funds.

Aggregate maturities of Evergreen loans for the years following August 31, 2013, are as follows:

<u>Year Ending</u> <u>August 31,</u>	
2014.....	\$ 0
2015.....	0
2016.....	0
2017.....	0
2018.....	0

MICROLOANS PROGRAM (Continued)

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.

Aggregate maturities of the RMAP loan for the years following August 31, 2013, are as follows:

<u>Year Ending</u> <u>August 31,</u>	
2014.....	\$ 18,932
2015.....	19,314
2016.....	19,704
2017.....	20,102
2018.....	20,507

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, 2018.

Future principal payments as of August 31, 2013, are expected to be:

<u>Year Ending</u> <u>August 31,</u>	
2014.....	\$ 28,040
2015.....	28,750
2016.....	29,463
2017.....	30,233
2018.....	31,007

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. In 2013, one of the individuals gifted the remaining balance of their annuity to the Foundation and this amount is recognized in the statement of activities.

OBLIGATION UNDER GIFT ANNUITY AGREEMENTS (Continued)

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 \$12,637 for the year ended August 31, 2013. \$2,503 reduced the obligation and \$10,134 was included in expenses for the year ended August 31, 2013. Scheduled annual payments to beneficiaries for the year ending August 31, 2014, is \$2,850 of which \$646 will reduce the obligation (current maturities) and \$2,204 will be expensed.

RESTRICTED NET ASSETS

Temporary restricted net assets are available for the following purposes:

Rural Opportunities and Stewardship.....	\$ 164,290
Rural Enterprise Assistance Program.....	145,386
Rural Policy Program.....	399,194
National Rural Action Network.....	(42)
National Sustainable Agriculture Coalition.....	1,274,825
Center’s Endowment Held by the Granary.....	3,647,591
Obligations Under Gift Annuity.....	<u>45,629</u>
	<u>\$ 5,676,873</u>

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

Center’s Endowment Held by the Granary.....	\$ 1,500,000
Revolving Loan Fund.....	<u>147,790</u>
	<u>\$ 1,647,790</u>

PROPERTY AND EQUIPMENT

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

	<u>Estimated Lives</u>	
Buildings and Improvements.....	15-39 years	\$ 613,252
Land.....		10,000
Vehicle.....		7,000
Equipment.....		<u>196,061</u>
		826,313
Less Accumulated Depreciation.....		<u>(349,166)</u>
		<u>\$ 477,147</u>

Depreciation expense for the year ended August 31, 2013, was \$19,627.

OPERATING LEASES

The Center rents office space on a month-to-month basis. The lease calls for monthly payments of \$210.

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

On July 1, 2013, the Center entered into a 33-month lease for a storage locker. The lease calls for monthly payments of \$50 with yearly increase of 5%.

The Center rents office space on a month-to-month basis. The lease calls for monthly payments of \$5,919.

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

The following is a schedule of future minimum lease payments as of August 31, 2013:

<u>Year Ending</u> <u>August 31,</u>		
2014.....	\$	955
2015.....		635
2016.....		496

Rent expense for the fiscal year ended August 31, 2013, was \$98,663.

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 2010, 2011, 2012, and 2013.

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 \$78,305 for the year ended August 31, 2013, 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 2012

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, 2012, from which the summarized information was derived.

SUBSEQUENT EVENTS

Subsequent events have been evaluated through June 3, 2014, the date the statements are available to be issued.

RESTATEMENT OF AUGUST 31, 2012 NET ASSETS

The Center made an immaterial restatement between permanently restricted and unrestricted net assets as of August 31, 2012, in the amount of \$10,513.

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

August 31, 2013

	Center for Rural Affairs	Rural Investment Corporation	The Granary Foundation	Elimi- nations	Consoli- dated
ASSETS					
Current Assets:					
Cash and Cash Equivalents.	\$ 1,128,262	\$ 101,305	\$ 7,157	\$	\$ 1,236,724
Accounts Receivable.	4,132				4,132
Grants Receivable.	528,984				528,984
Accrued Interest.	20,176	3,101			23,277
Prepaid Expenses.	63,189				63,189
Current Maturities of Microloans Receivable.	720,364	209,068			929,432
Due from Affiliates.	<u>102,447</u>	<u>52,479</u>		(154,926)	<u>0</u>
Total Current Assets	2,567,554	365,953	7,157	(154,926)	2,785,738
Property and Equipment.	477,147				477,147
Other Assets:					
Restricted Cash.			554,446		554,446
Grants Receivable.	1,113,049				1,113,049
Cash in Revolving Loan Funds.	819,949	461,839			1,281,788
Microloans Receivable, Net of Current Maturities (Net of Allowance of \$110,000).	1,960,144	501,563			2,461,707
Investments.			5,645,547		5,645,547
Cash Surrender Value of Life Insurance.			45,411		45,411
Total Other Assets	<u>3,893,142</u>	<u>963,402</u>	<u>6,245,404</u>	<u>0</u>	<u>11,101,948</u>
Total Assets	<u>\$ 6,937,843</u>	<u>\$ 1,329,355</u>	<u>\$ 6,252,561</u>	<u>\$ (154,926)</u>	<u>\$ 14,364,833</u>
LIABILITIES AND NET ASSETS					
Current Liabilities:					
Accounts Payable.	\$ 47,865	\$	\$	\$	\$ 47,865
Accrued Expenses.	175,697				175,697
Due to Affiliates.	52,479		102,447	(154,926)	0
Current Maturities of Building Loan Payable.	28,040				28,040
Current Maturities of Long-Term Obligations.	<u>389,802</u>		646		<u>390,448</u>
Total Current Liabilities	693,883	0	103,093	(154,926)	642,050
Long-Term Obligations, Net of Current Maturities:					
Obligations Under Gift Annuity Agreements.			13,238		13,238
Building Loan Payable.	261,063				261,063
Lending Capital Loans Payable.	<u>2,082,928</u>	<u>1,200,000</u>			<u>3,282,928</u>
Total Long-Term Obligations	<u>2,343,991</u>	<u>1,200,000</u>	<u>13,238</u>	<u>0</u>	<u>3,557,229</u>
Total Liabilities	3,037,874	1,200,000	116,331	(154,926)	4,199,279
Net Assets:					
Unrestricted:					
Revolving Loan Fund.	877,734				877,734
Net Investment in Property and Equipment.	188,045				188,045
Unrestricted, Undesignated.	<u>760,983</u>	<u>71,119</u>	<u>943,010</u>		<u>1,775,112</u>
	1,826,762	71,119	943,010	0	2,840,891
Temporarily Restricted.	1,925,417	58,236	3,693,220		5,676,873
Permanently Restricted.	<u>147,790</u>		<u>1,500,000</u>		<u>1,647,790</u>
Total Net Assets	<u>3,899,969</u>	<u>129,355</u>	<u>6,136,230</u>	<u>0</u>	<u>10,165,554</u>
Total Liabilities and Net Assets	<u>\$ 6,937,843</u>	<u>\$ 1,329,355</u>	<u>\$ 6,252,561</u>	<u>\$ (154,926)</u>	<u>\$ 14,364,833</u>

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

Year Ended August 31, 2013

	Center for Rural Affairs	Rural Investment Corporation	The Granary Foundation	Elimi- nations	Consoli- dated
Unrestricted:					
Revenue and Support:					
Donations.	\$ 284,434	\$ 1,165	\$ 61,077	\$	\$ 346,676
Fees and Reimbursements.	318,313	115			318,428
Interest from Microloans.	159,879	46,697			206,576
Realized and Unrealized Gain on Investments.			493,783		493,783
Interest and Dividend Income.	3,529	1	200,220		203,750
Grants and Contracts.	183,471			(172,971)	10,500
	<u>949,626</u>	<u>47,978</u>	<u>755,080</u>	<u>(172,971)</u>	<u>1,579,713</u>
Net Assets Released from Restrictions:					
Satisfaction of Grant Restrictions.	4,366,773	91,764			4,458,537
Satisfaction of Donor Restrictions.			58,888		58,888
	<u>4,366,773</u>	<u>91,764</u>	<u>58,888</u>	<u>0</u>	<u>4,517,425</u>
Total Revenue and Support	5,316,399	139,742	813,968	(172,971)	6,097,138
Expenses:					
Program Services:					
Rural Opportunities and Stewardship Program. . .	640,332				640,332
MarketPlace.	75,738				75,738
Rural Enterprise Assistance Program.	1,288,319	80,673			1,368,992
Rural Policy Program.	371,632				371,632
Rural Research and Analysis Program.	89,979				89,979
Rural Organizing and Outreach Program.	485,318				485,318
National Rural Action Network.	82,011				82,011
National Sustainable Agriculture Coalition.	1,371,689				1,371,689
	<u>4,405,018</u>	<u>80,673</u>	<u>0</u>	<u>0</u>	<u>4,485,691</u>
Supporting Services:					
Administrative.	433,186	47	246,589	(172,971)	506,851
Fundraising and Development.	87,089		138,940		226,029
Total Expenses	<u>520,275</u>	<u>47</u>	<u>385,529</u>	<u>(172,971)</u>	<u>732,880</u>
	<u>4,925,293</u>	<u>80,720</u>	<u>385,529</u>	<u>(172,971)</u>	<u>5,218,571</u>
Change in Unrestricted Net Assets.	391,106	59,022	428,439	0	878,567
Net Assets, Beginning of Year.	<u>1,435,656</u>	<u>12,097</u>	<u>514,571</u>		<u>1,962,324</u>
Net Assets, End of Year	<u>\$ 1,826,762</u>	<u>\$ 71,119</u>	<u>\$ 943,010</u>	<u>\$ 0</u>	<u>\$ 2,840,891</u>

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

Year Ended August 31, 2013

	Center for Rural Affairs	Rural Investment Corporation	The Granary Foundation	Elimi- nations	Consoli- dated
Temporarily Restricted:					
Revenue and Support:					
Grants and Contracts.	\$ 4,168,163	\$ 150,000	\$	\$	\$ 4,318,163
Net Assets Released from Restrictions:					
Satisfaction of Grant Restrictions.	(4,366,773)	(91,764)			(4,458,537)
Satisfaction of Donor Restrictions.			(58,888)		(58,888)
	<u>(4,366,773)</u>	<u>(91,764)</u>	<u>(58,888)</u>	<u>0</u>	<u>(4,517,425)</u>
Change in Temporarily Restricted Net Assets.	(198,610)	58,236	(58,888)	0	(199,262)
Net Assets, Beginning of Year.	<u>2,124,027</u>	<u>0</u>	<u>3,752,108</u>	<u></u>	<u>5,876,135</u>
Net Assets, End of Year	<u>\$ 1,925,417</u>	<u>\$ 58,236</u>	<u>\$ 3,693,220</u>	<u>\$ 0</u>	<u>\$ 5,676,873</u>
Permanently Restricted:					
Net Assets, Beginning of Year.	<u>\$ 147,790</u>	<u>\$</u>	<u>\$ 1,500,000</u>	<u>\$</u>	<u>\$ 1,647,790</u>
Net Assets, End of Year	<u>\$ 147,790</u>	<u>\$ 0</u>	<u>\$ 1,500,000</u>	<u>\$ 0</u>	<u>\$ 1,647,790</u>

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

Year Ended August 31, 2013

	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.	\$ 5,261,434	\$ 151,280	\$ 59,869	\$ (172,971)	\$ 5,299,612
Cash Paid to Employees and Suppliers.	(4,846,792)	(42,220)	(378,067)	172,971	(5,094,108)
Interest Income.	166,460	48,271	200,220		414,951
Interest Expense.	<u>(43,744)</u>	<u>(38,500)</u>			<u>(82,244)</u>
Net Cash Provided (Used) by Operating Activities. . . .	537,358	118,831	(117,978)	0	538,211
Cash Flows from Investing Activities:					
Proceeds from Sale of Investments.			2,179,403		2,179,403
Purchase of Investments.			(1,934,824)		(1,934,824)
(Increase) Decrease in Microloans Receivable.	(274,828)	10,248			(264,580)
(Increase) Decrease in Revolving Loan Fund.	<u>222,138</u>	<u>(107,341)</u>			<u>114,797</u>
Net Cash Provided (Used) by Investing Activities. . . .	(52,690)	(97,093)	244,579	0	94,796
Cash Flows from Financing Activities:					
Due to/from Affiliates.	(80,218)	79,427	791		0
Payments of Gift Annuity Agreements.			(58,888)		(58,888)
Proceeds from Long-Term Obligations.	337,480				337,480
Payments on Long-Term Obligations.	<u>(460,057)</u>				<u>(460,057)</u>
Net Cash Provided (Used) by Financing Activities. . . .	(202,795)	79,427	(58,097)	0	(181,465)
Net Increase in Cash.	281,873	101,165	68,504	0	451,542
Cash, Beginning of Year:					
Unrestricted.	846,389	140	78,905		925,434
Restricted.			414,194		414,194
Total Cash, Beginning of Year.	<u>846,389</u>	<u>140</u>	<u>493,099</u>	<u>0</u>	<u>1,339,628</u>
Cash, End of Year:					
Unrestricted.	1,128,262	101,305	7,157		1,236,724
Restricted.			554,446		554,446
Total Cash, End of Year	\$ <u>1,128,262</u>	\$ <u>101,305</u>	\$ <u>561,603</u>	\$ <u>0</u>	\$ <u>1,791,170</u>

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

Year Ended August 31, 2013

	Center for Rural Affairs	Rural Investment Corporation	The Granary Foundation	Elimi- nations	Consoli- dated
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Change in Net Assets	\$ 192,496	\$ 117,258	\$ 369,551	\$	\$ 679,305
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:					
Depreciation Expense.....	19,627				19,627
Gain on Sale of Investments.....			(493,783)		(493,783)
Clean Tech Ventures Expenses Per K-1.....			7,462		7,462
Changes in Operating Assets and Liabilities:					
Cash Surrender Value of Life Insurance.....			(4,708)		(4,708)
Accrued Interest Receivable.....	3,052	1,573			4,625
Accounts Receivable.....	(2,265)		3,500		1,235
Grants Receivable.....	309,318				309,318
Prepaid Expenses.....	(1,964)				(1,964)
Increase (Decrease) in Liabilities:					
Accounts Payable.....	(7,425)				(7,425)
Accrued Expenses.....	24,519				24,519
Total Adjustments to Change in Net Assets	<u>344,862</u>	<u>1,573</u>	<u>(487,529)</u>	<u>0</u>	<u>(141,094)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 537,358</u>	<u>\$ 118,831</u>	<u>\$ (117,978)</u>	<u>\$ 0</u>	<u>\$ 538,211</u>

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

Year Ended August 31, 2013

	Center for Rural Affairs	Rural Investment Corporation	The Granary Foundation	Elimi- nations	Consoli- dated
Salaries.....	\$ 1,769,731	\$ 9,077	\$ 46,269	\$	\$ 1,825,077
Employee Benefits.....	971,635	4,574	27,966		1,004,175
Grants and Subcontracts.....	351,005		172,971	(172,971)	351,005
Consultants, Professional Services, and Management Fees.....	<u>1,015,047</u>	<u>21,027</u>	<u>62,184</u>		<u>1,098,258</u>
Total Salaries and Related Expenses	4,107,418	34,678	309,390	(172,971)	4,278,515
Travel and Per Diem.....	210,763	4,007	21,032		235,802
Meeting Expenses.....	59,135		1,736		60,871
Office Space.....	152,448	28	2,885		155,361
Equipment Usage.....	5,499		76		5,575
Small Equipment.....	31,658		1,229		32,887
Interest.....	43,744	38,500			82,244
Insurance and Bonding.....	12,227		3,034		15,261
Supplies.....	53,627	18	1,471		55,116
Printing.....	43,864		600		44,464
Publications and Subscriptions.....	45,729		40		45,769
Telephone and Fax.....	36,805	2	456		37,263
Postage and Mail Service.....	25,565		315		25,880
Payments Under Gift Annuity Agreements.....			10,134		10,134
Staff Development.....	19,066	3,400	215		22,681
Bad Debt Expense.....	42,117				42,117
Miscellaneous.....	<u>68,611</u>	<u>20</u>			<u>68,631</u>
	4,958,276	80,653	352,613	(172,971)	5,218,571
Allocation of Indirect Expenses.....	<u>(32,983)</u>	<u>67</u>	<u>32,916</u>		<u>0</u>
Total Expenses	<u>\$ 4,925,293</u>	<u>\$ 80,720</u>	<u>\$ 385,529</u>	<u>\$ (172,971)</u>	<u>\$ 5,218,571</u>

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

Year Ended August 31, 2013

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	\$ 90,535
Grants.....	59.046	SBAHQ-11-Y-0065	430,854
Grants.....	59.046	SBAHQ-12-Y-0098	69,898
Loans.....	59.046		1,941,673
Women's Business Center Program.....	59.043	SBAHQ-06-W-0021	139,037
U.S. Department of Agriculture:			
Rural Business Enterprise Grants.....	10.769	32-011-0470553823	65,593
National Institute of Food and Agriculture:			
Beginning Farmers and Rancher Development Program.....	10.311		374,835
Agriculture of Food Research Initiative.....	10.310		20,566
Agriculture Marketing Services:			
Federal-State Marketing Improvement Program.....	10.156		29,388
Cooperative State Research, Education, and Extension Service:			
North Central SARE.....	10.500	2009-47001-05621	53
Rural Microenterprise Assistance Program:			
Grant.....	10.870	32-011-0470553823	57,431
Loans.....	10.870		422,089
Natural Resources Conservative Service Environmental Quality Incentives Program:			
Conservative Innovation Grants.....	10.912	69-3A75-10-131	52,297
Risk Management Agency:			
Risk Management Agency.....	10.455	11-IE-53102-076	<u>30,203</u>
			<u>\$ 3,724,452</u>

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 subrecipients.

**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, 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 consolidated financial statements of The Center for Rural Affairs and Controlled Organizations, which comprise the statement of financial position as of August 31, 2013, and the related consolidated statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statement, have issued our report thereon dated June 3, 2014.

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 (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 the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center'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 that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described below, that we consider to be significant deficiencies. 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.

S. B. Bieber, CPA
C. D. Merry,
CPA, ABV
R. W. Grenko, CPA
L. M. Shoemaker,
CPA, CMA
L. K. Beecher, CPA
B. J. Kooiker, CPA

E. C. Nichols, CPA
(1916-2003)
C. L. Rise, CPA
(1921-2003)
W. F. Sibley, CPA
D. L. Lacey, CPA

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C. A. Moss, CPA
L. M. Kubik, CPA
S. E. Boden
K. J. O'Dell
D. L. Sands
J. A. Perez

P. K. Peters
C. R. Karver
E. J. Schubert

Member of AICPA
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Accounting Firms

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*.

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 Agency'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 Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Sioux City, Iowa

June 3, 2014

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY 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

Report on Compliance for Each Major Federal Program

We have audited The Center for Rural Affairs and Controlled Organizations' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2013. The Center for Rural Affairs and Controlled Organizations' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grant applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of The Center for Rural Affairs and Controlled Organizations' 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about The 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 on compliance for each major federal program. However, our audit does not provide a legal determination of The Center for Rural Affairs and Controlled Organizations' compliance.

Opinion on Each Major Federal Program

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 each of its major federal programs for the year ended August 31, 2013.

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E. J. Schubert

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Report on Internal Control Over Compliance

Management of The Center for Rural Affairs and Controlled Organizations 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 The Center for Rural Affairs and Controlled Organizations' 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 our opinion on compliance for each major federal program 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 Center for Rural Affairs and Controlled Organizations' 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 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 the attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of our testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

Sioux City, Iowa

June 3, 2014

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

Year Ended August 31, 2013

Previous Finding Reference Number: 2012-1

Narrative:	This finding is outstanding at August 31, 2013, because management is satisfied with the financial statement presentation.
Status:	Outstanding
Reporting Period:	August 31, 2012

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

Year Ended August 31, 2013

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 no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes 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 no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
59.046	SBA Microloan Program
10.870	Rural Microenterprise Assistance Program
10.311	Beginning Farmers and Rancher Development Program

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? yes no

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

Year Ended August 31, 2013

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding 2013-1:

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, 2013

Finding Number	Responsible Individual	Management Views	Corrective Action	Anticipated Completion Date
2013-01	Center's Management	The Center's management and Board of Directors will rely on the auditors to prepare the financial statements.	N/A	Continuous