

**SOUTHEASTERN
CONNECTICUT ENTERPRISE
REGION CORPORATION**

**FINANCIAL STATEMENTS
AS OF JUNE 30, 2015**

**TOGETHER WITH
INDEPENDENT AUDITORS' REPORT
AND
FEDERAL SINGLE AUDIT REPORTS**

**SOUTHEASTERN CONNECTICUT ENTERPRISE
REGION CORPORATION
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**INDEPENDENT AUDITORS' REPORT
ON THE FINANCIAL STATEMENTS**

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Southeastern Connecticut Enterprise Region Corporation
Groton, Connecticut

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Southeastern Connecticut Enterprise Region Corporation (seCTer), which comprise the statement of financial position as of June 30, 2015, and the related statement of activities and cash flows 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.

AUDITORS' RESPONSIBILITY

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

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

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

OPINION

In our opinion, the financial statements, referred to above present fairly, in all material respects, the financial position of seCTer as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

REPORT ON SUMMARIZED COMPARATIVE INFORMATION

We have previously audited seCTer's 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 3, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

OTHER MATTERS

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by 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 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 a report dated November 2, 2015, on our consideration of seCTer's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering seCTer's internal control over financial reporting and compliance.

Hoyt, Filippetti & Malachuk, LLC

Groton, Connecticut
November 2, 2015

FINANCIAL STATEMENTS

**SOUTHEASTERN CONNECTICUT ENTERPRISE
REGION CORPORATION
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2015
(With Summarized Financial Information for 2014)**

ASSETS

	2015	2014
Cash	\$ 90,441	\$ 78,010
Investments	414,898	414,448
Grants receivable	42,171	27,997
Accounts receivable	92,318	97,858
Prepaid expenses	13,976	12,550
Restricted cash and investments	1,693,675	2,033,000
Loans receivable, less allowance for doubtful loans, net	4,421,047	4,214,847
Property and equipment, net	9,846	13,895
Total assets	\$ 6,778,372	\$ 6,892,605

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 28,278	\$ 7,762
Accrued expenses	49,031	45,882
Due to Connecticut small business lending partner program	46,586	53,207
Due to Connecticut small business express program	22,141	42,787
Deferred grant revenue	53,459	51,342
Rent security deposits	-	615
Total liabilities	199,495	201,595

NET ASSETS

Unrestricted	464,155	437,663
Temporarily restricted	6,114,722	6,253,347
Total net assets	6,578,877	6,691,010
Total liabilities and net assets	\$ 6,778,372	\$ 6,892,605

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

**SOUTHEASTERN CONNECTICUT ENTERPRISE
REGION CORPORATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015
(With Summarized Financial Information for 2014)**

	2015			2014 Total
	Unrestricted	Temporarily Restricted	Total	
SUPPORT AND REVENUE				
Grant revenue	\$ 734,866	\$ -	\$ 734,866	\$ 610,123
Rental income	-	-	-	990
Contributions	84,675	-	84,675	85,702
Interest income	204,567	76,926	281,493	272,562
Program fees	64,216	4,022	68,238	72,213
Investment income	47,060	-	47,060	23,763
Unrealized (loss) gain on investments	(30,409)	-	(30,409)	6,149
Loan write-offs and allowances	(35)	(73,958)	(73,993)	(292,021)
Loan recoveries	-	-	-	395
Net assets released from restrictions:				
Satisfaction of purpose restrictions	145,615	(145,615)	-	-
Total support and revenue	<u>1,250,555</u>	<u>(138,625)</u>	<u>1,111,930</u>	<u>779,876</u>
EXPENSES				
Program services				
Regional revolving loan fund	38,506	-	38,506	44,778
Small business loan fund	39,906	-	39,906	44,290
Southeast regional development fund	51,569	-	51,569	65,229
Connecticut small business lending partner program	12,714	-	12,714	22,502
Connecticut small business express fund	21,650	-	21,650	19,852
Comprehensive economic development strategy	70,000	-	70,000	15,365
Procurement technical assistance center	672,464	-	672,464	608,628
Total program services	<u>906,809</u>	<u>-</u>	<u>906,809</u>	<u>820,644</u>
Supporting services				
Management and general	317,254	-	317,254	367,582
Total expenses	<u>1,224,063</u>	<u>-</u>	<u>1,224,063</u>	<u>1,188,226</u>
Change in net assets	26,492	(138,625)	(112,133)	(408,350)
NET ASSETS, beginning of year	437,663	6,253,347	6,691,010	7,099,360
NET ASSETS, end of year	<u>\$ 464,155</u>	<u>\$ 6,114,722</u>	<u>\$ 6,578,877</u>	<u>\$ 6,691,010</u>

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

**SOUTHEASTERN CONNECTICUT ENTERPRISE
REGION CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015
(With Summarized Financial Information for 2014)**

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (112,133)	\$ (408,350)
Adjustments to reconcile the change in net assets to net cash (used in) provided by operating activities:		
Unrealized loss (gain) on investments	30,409	(6,149)
Depreciation and amortization	4,049	5,207
Bad debt expense	73,993	292,021
Changes in operating assets and liabilities:		
Grants receivable	(14,174)	46,926
Accounts receivable	5,540	2,212
Prepaid expenses	(1,426)	(3,214)
Loans receivable	(280,193)	341,041
Accounts payable	20,516	(22,412)
Accrued expenses	3,149	4,083
Due to Connecticut small business lending partner program	(6,621)	(279)
Due to Connecticut small business express program	(20,646)	4,671
Due to funding source	-	(8,250)
Deferred grant revenue	2,117	3,445
Rent security deposit	(615)	-
Net cash (used in) provided by operating activities	<u>(296,035)</u>	<u>250,952</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	691,000	575,000
Decrease (increase) in restricted cash and investments	339,325	(332,041)
Acquisition of property and equipment	-	(578)
Purchase of investments	<u>(721,859)</u>	<u>(490,210)</u>
Net cash provided by (used in) investing activities	<u>308,466</u>	<u>(247,829)</u>
NET INCREASE IN CASH	12,431	3,123
CASH, beginning of year	<u>78,010</u>	<u>74,887</u>
CASH, end of year	<u>\$ 90,441</u>	<u>\$ 78,010</u>

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

**SOUTHEASTERN CONNECTICUT ENTERPRISE
REGION CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PURPOSE OF ORGANIZATION

Southeastern Connecticut Enterprise Region Corporation (seCTer) is a Connecticut non-stock corporation formed to stimulate and support economic development and diversification within Southeastern Connecticut by performing the following activities:

- Fostering a climate favorable for economic development and diversification.
- Supporting the retention and expansion of existing businesses and the startup of new businesses.
- Recruiting new businesses through a marketing program that promotes the region's resources and competitiveness.
- Coordinating economic development activities among the region's municipalities.
- Participating in efforts to meet the infrastructure needs of a growing regional economy.
- Defining and updating the region's economic goals and strategy.

SeCTer's primary sources of revenue are government grants, investment income, interest income from loans, and contributions.

PRIOR YEAR SUMMARIZED FINANCIAL INFORMATION

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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with seCTer's audited financial statements as of and for the year ended June 30, 2014, from which the summarized information was derived. Certain reclassifications have been made to the 2014 amounts in order to conform to the 2015 presentation.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

NET ASSET CATEGORIES

To ensure observance of limitations and restrictions placed on the use of resources available to seCTer, the accounts of seCTer are maintained in the following net asset categories:

Unrestricted

Unrestricted net assets consist of available resources other than donor restricted contributions. Included in unrestricted net assets are grants, which are earmarked for specific purposes.

**SOUTHEASTERN CONNECTICUT ENTERPRISE
REGION CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

NET ASSET CATEGORIES (Continued)

Unrestricted (Continued)

The board of directors has established the following designations of unrestricted net assets:

- Building/Incubator Reserve Fund \$ 117,500
- Loan Recapitalization Fund \$ 125,000

Temporarily Restricted

Temporarily restricted net assets represent contributions that are restricted by the donor either as to purpose or as to time of expenditure. SeCTer's temporarily restricted net assets consist of amounts received under the Regional Revolving Loan Fund (RRLF), Small Business Loan Fund (SBLF), Southeast Regional Development Fund loan fund (SRDF), and the Lend a Hand loan fund. A portion of the income earned from the RRLF and SBLF programs, including interest income, is temporarily restricted for use in funding related indirect costs of the programs. Loan write-offs and allowances for doubtful loans serve to reduce temporarily restricted net assets.

RECOGNITION OF SUPPORT AND REVENUE

Grants

Grants are generally considered to be exchange transactions in which the grantor requires the performance of specified activities.

Entitlement to cost reimbursement grants is based on the expenditure of funds in accordance with grant restrictions. Therefore, revenue is recognized to the extent of grant expenditures. Grant receipts in excess of amounts expended are recognized as deferred grant revenue.

Contributions

Contributions are defined as voluntary, nonreciprocal transfers, and include amounts received to fund the RRLF, SBLF, SRDF, and Lend a Hand loan programs.

SeCTer recognizes contributions of cash and other assets as restricted support if they are received with donor stipulations that limit the use of such assets. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

**SOUTHEASTERN CONNECTICUT ENTERPRISE
REGION CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

RECOGNITION OF SUPPORT AND REVENUE (*Continued*)

Donated Services

SeCTer recognizes donated services, if they create or enhance non-financial assets, or require specialized skills, and would typically need to be purchased, if not provided by donation. General volunteer services do not meet this criteria for recognition in the financial statements. No donated expenses have been recognized in the accompanying financial statements.

Donated Assets

Donated assets, including the usage of assets such as rent, are recognized at their estimated fair market value.

SeCTer reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, seCTer reports expirations of donor restrictions in full when the donated or acquired long-lived assets are placed in service.

CASH EQUIVALENTS

For purposes of the statement of cash flows, seCTer defines cash equivalents as liquid investments with an original maturity of three months or less, exclusive of restricted cash, which is not available for operations. SeCTer had no cash equivalents as of June 30, 2015.

INVESTMENTS

SeCTer's investments consist of certificates of deposit, bond mutual funds, and marketable debt securities, which are carried at fair value. Fair value is determined based on quoted market price.

PROPERTY AND EQUIPMENT

Property and equipment acquisitions and leasehold improvements that individually exceed \$5,000 are capitalized at cost, if purchased, or fair market value, if donated. Depreciation is provided over the estimated useful lives of property and equipment on a straight-line basis. Leasehold improvements are amortized over the life of the asset or the remaining lease term, whichever is shorter. Repairs and maintenance are charged to expense as incurred.

EXPENSES BY FUNCTION

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

**SOUTHEASTERN CONNECTICUT ENTERPRISE
REGION CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

INCOME TAXES

The Internal Revenue Service has determined that seCTer is exempt from federal income taxes on exempt function income as a public charity under Section 501(c)(3) of the Internal Revenue Code. Consequently, no provision for income taxes has been made in the accompanying financial statements.

SeCTer did not recognize any liability for uncertain tax positions as defined by accounting principles generally accepted in the United States of America.

The federal tax returns of seCTer for the year ended June 30, 2015 are subject to examination by the IRS, generally for three years after they have been filed.

SUBSEQUENT EVENTS

Subsequent events have been evaluated through November 2, 2015, which is the date the financial statements were available to be issued. There were no subsequent events identified that require disclosure.

NOTE 2 - CONCENTRATIONS

CONCENTRATIONS OF CREDIT RISK

SeCTer's financial instruments that are exposed to concentrations of credit risk consist primarily of cash, investments, restricted cash and investments, and loans receivable. SeCTer places its cash deposits in high credit quality institutions and at times such deposits exceed federal depository insurance as of June 30, 2015. Investments are considered by management to be sufficiently diversified to avoid individual industry and investment concentration risks. However, such investments are subject to risks of the market as a whole.

Loans receivable consist of loans to Southeastern Connecticut businesses under state, federal, and privately funded loan programs. Accounts receivable consists primarily of the current interest payments due on the outstanding loans. The loans are generally collateralized by business assets and personal guarantees of the borrower. Loans which are over ninety (90) days past due are considered for non-accrual status. Once placed on non-accrual status, those loans do not accrue interest, and any payments are applied to principal. Management maintains an allowance for potential credit losses, and such losses have been within management expectations.

REVENUE CONCENTRATIONS

Grants from U.S. Department of Defense (DOD) and Connecticut Department of Economic and Community Development (DECD), comprised 66 % of total revenues for the year ended June 30, 2015.

**SOUTHEASTERN CONNECTICUT ENTERPRISE
REGION CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 3 - LOANS RECEIVABLE

A summary of loans receivable by loan program is as follows:

Regional Revolving Loan Fund	\$ 869,714
Small Business Loan Fund	700,585
Southeast Regional Development Fund	3,133,611
Lend a Hand	47,137
	<u>4,751,047</u>
Less: allowance for doubtful loans	330,000
	<u><u>\$ 4,421,047</u></u>

NOTE 4 - RESTRICTED CASH AND INVESTMENTS

In accordance with accounting principles generally accepted in the United States of America, seCTer's carrying amounts of its financial instruments approximate fair value under Level 1.

The following is a summary of the source of fair value measurements for investments that are measured at fair value on a recurring basis as of June 30, 2015.

Description	Total	Assets (Level 1)
Certificates of deposit	\$ 203,383	\$ 203,383
Corporate mutual funds	540,682	540,682
Corporate bonds	425,212	425,212
Cash and cash equivalents	932,801	932,801
Accrued interest	6,495	6,495
	<u>\$ 2,108,573</u>	<u>\$ 2,108,573</u>

Restricted cash and investments have been presented in the statement of financial position as follows:

Investments	\$ 414,898
Restricted cash and investments	1,693,675
	<u><u>\$ 2,108,573</u></u>

NOTE 5 - PROPERTY AND EQUIPMENT

A summary of property and equipment follows:

Office equipment	\$ 65,398
Computer equipment	183,518
	<u>248,916</u>
Less: accumulated depreciation and amortization	239,070
	<u><u>\$ 9,846</u></u>

Depreciation and amortization expense for the year ended June 30, 2015 was \$4,049.

**SOUTHEASTERN CONNECTICUT ENTERPRISE
REGION CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 6 - DEFERRED GRANT REVENUE

Deferred grant revenue will be recognized in the subsequent year as program services are rendered under the Procurement Technical Assistance Center program.

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at June 30, 2015:

Southeast Regional Development Fund	\$ 4,386,461
Regional Revolving Loan Fund	930,082
Small Business Loan Fund	731,079
Lend a Hand Loan Fund	67,100
	<u>\$ 6,114,722</u>

The following assets comprise temporarily restricted net assets at June 30, 2015:

Loans receivable, net	\$ 4,421,047
Restricted cash and investments	1,693,675
	<u>\$ 6,114,722</u>

Net assets released from restrictions for the year ended June 30, 2015 are as follows:

Purpose restrictions:	
Regional Revolving Loan Fund	\$ 38,506
Small Business Loan Fund	37,097
Southeast Regional Development Fund	64,512
Business incubator	5,500
	<u>\$ 145,615</u>

NOTE 8 - OPERATING LEASE

Effective April 1, 2015, seCTer leases its office space under an operating lease which expires in March 2020. SeCTer has the option to renew the lease for two (2) additional five (5) year terms. Prior to that the office space was leased on a month to month basis.

Future minimum lease payments under the lease are as follows:

Year ending June 30:

2016	24,676
2017	24,676
2018	25,220
2019	26,853
2020	20,140
	<u>\$ 121,565</u>

**SOUTHEASTERN CONNECTICUT ENTERPRISE
REGION CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 9 - OPERATING LEASE *(Continued)*

SeCTer also leases space for the Procurement Technical Assistance Center on a month to month basis.

Rent expense for the year ended June 30, 2015 was \$39,298.

NOTE 10 - PENSION PLAN

SeCTer maintains a defined contribution pension plan in which substantially all employees participate. Under the terms of the plan, seCTer contributes 8% of eligible employee compensation. Pension expense for the year ended June 30, 2015 totaled \$57,469.

FEDERAL SINGLE AUDIT REPORTS

**FEDERAL INTERNAL CONTROL
AND COMPLIANCE REPORTS**

INDEPENDENT AUDITORS' 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

To the Board of Directors of
Southeastern Connecticut Enterprise Region Corporation
Groton, Connecticut

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Southeastern Connecticut Enterprise Region Corporation (seCTer), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 2, 2015.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

PURPOSE OF THIS REPORT

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

Hoyt, Filippetti & Malaghan, LLC

Groton, Connecticut

November 2, 2015

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors of
Southeastern Connecticut Enterprise Region Corporation
Groton, Connecticut

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited Southeastern Connecticut Enterprise Region Corporation's (seCTer) 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 seCTer's major federal programs for the year ended June 30, 2015. SeCTer's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of federal findings and questioned costs.

MANAGEMENT'S RESPONSIBILITY

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

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on compliance for each of seCTer's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 seCTer's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of seCTer's compliance.

OPINION ON EACH MAJOR FEDERAL PROGRAM

In our opinion, seCTer complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of seCTer 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 seCTer's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of the internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of seCTer's internal control over compliance.

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

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

REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

We have audited the financial statements of seCTer as of and for the year ended June 30, 2015, and have issued our report thereon dated November 2, 2015, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

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

Hoyt, Filippetti & Malaghan, LLC

Groton, Connecticut

November 2, 2015

**SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS**

**SOUTHEASTERN CONNECTICUT ENTERPRISE
REGION CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015**

<u>Grantor; Pass-through Grantor; Program Title; Description</u>	<u>Grant Number</u>	<u>Federal CFDA Number</u>	<u>Grant Period Ending</u>	<u>Grant Expenditures</u>
U.S. DEPARTMENT OF COMMERCE				
Direct:				
Economic Adjustment Assistance, Sudden and Severe Economic Dislocation Implementation Grant	01-49-03310	11.307		\$ 709,820 *
Economic Adjustment Assistance, Sudden and Severe Economic Dislocation Implementation Grant	01-19-63005	11.307		567,421 *
Economic Development Planning Grant	01-83-14486	11.302		<u>70,000</u>
Total U.S. Department of Commerce				<u><u>1,347,241</u></u>
U.S. DEPARTMENT OF DEFENSE				
Direct:				
Procurement Technical Assistance Program	SP4800-13-2-1305	12.002	8/14	48,669
Procurement Technical Assistance Program	SP4800-14-2-1405	12.002	8/15	<u>244,691</u>
				<u>293,360</u>
Total Federal Awards				<u><u>\$ 1,640,601</u></u>

* See *Note D* for calculation.

The accompanying notes are an integral part of this schedule.

**SOUTHEASTERN CONNECTICUT ENTERPRISE
REGION CORPORATION
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2015**

NOTE A - ACCOUNTING BASIS

BASIC FINANCIAL STATEMENTS

The accounting policies of seCTer conform to accounting principles generally accepted in the United States of America as applicable to nonprofit organizations.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The accompanying schedule of expenditures of federal awards has been prepared on the accrual basis consistent with the preparation of the basic financial statements. Information included in the schedule of expenditures of federal awards is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit organizations*.

For cost reimbursement awards, revenues are recognized to the extent of expenditures. Expenditures have been recognized to the extent the related obligation was incurred within the applicable grant period and liquidated within 90 days after the end of the grant period.

For performance-based awards, revenues are recognized to the extent of performance achieved during the grant period.

NOTE B - LOAN PROGRAMS

The following is a summary of loan activity for the year ended June 30, 2015:

Grantor agency: Department of Commerce
 Loan fund: Regional Revolving
 CFDA number: 11.307
 Grant number: 01-49-03310
 Issue date: September 1993
 Interest rate: 0%
 Original amount: \$1,000,000

	Loan principal	Allowance for collection losses	Net carrying amount
Balance July 1, 2014	\$ 591,604	\$ 42,956	\$ 548,648
Loans made	220,500	-	220,500
Payments received	(123,824)	-	(123,824)
Loan write-offs	(35,996)	-	(35,996)
Increase in allowance or loan losses	-	2,351	(2,351)
Balance June 30, 2015	<u>\$ 652,284</u>	<u>\$ 45,307</u>	<u>\$ 606,977</u>

**SOUTHEASTERN CONNECTICUT ENTERPRISE
REGION CORPORATION
NOTES TO SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
JUNE 30, 2015**

NOTE B - LOAN PROGRAMS (Continued)

Grantor agency: Department of Commerce
 Loan fund: Small Business
 CFDA number 11.307
 Grant number: 01-19-63005
 Issue date: July 1994
 Interest rate: 0%
 Original amount: \$500,000

	Loan principal	Allowance for collection losses	Net carrying amount
Balance July 1, 2014	\$ 502,934	\$ 36,518	\$ 466,416
Loans made	97,500	-	97,500
Payments received	(55,523)	-	(55,523)
Loan write-offs	(19,473)	-	(19,473)
Decrease in allowance for loan losses	-	(22)	22
Balance June 30, 2015	<u>\$ 525,438</u>	<u>\$ 36,496</u>	<u>\$ 488,942</u>

NOTE C - OTHER FEDERAL ASSISTANCE

Southeastern Connecticut Enterprise Region Corporation did not receive any non-cash assistance, or other federal assistance in the form of loan guarantees or insurance.

NOTE D - CALCULATION OF FEDERAL ASSISTANCE

	Regional Revolving 01-49-03310	Small Business 01-19-63005
Net carrying amount of loans, June 30, 2015	\$ 606,977	\$ 488,942
Cash and investments , June 30, 2015	73,963	50,656
Administrative expenses for fiscal year	28,880	27,823
Federal Assistance for fiscal year	<u>\$ 709,820</u>	<u>\$ 567,421</u>

**SCHEDULE OF FEDERAL FINDINGS
AND QUESTIONED COSTS**

**SOUTHEASTERN CONNECTICUT ENTERPRISE
REGION CORPORATION
SCHEDULE OF FEDERAL FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

SECTION I – SUMMARY OF AUDITORS’ RESULTS

FINANCIAL STATEMENTS

Type of auditors’ report issued: Unmodified

Internal control over financial reporting:

○ Material weakness(es) identified? _____ Yes ✓ No

○ Significant deficiency(ies) identified? _____ 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? _____ Yes ✓ None reported

Type of auditors’ report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)? _____ Yes ✓ No

Identification of major programs:

CFDA Number	Name of Federal Program	Expenditures	Federal Assistance
11.307	Economic Adjustment Assistance, Sudden and Severe Economic Dislocation Implementation Grant		\$1,277,241

Auditee qualified as low-risk auditee? _____ Yes ✓ No

Dollar threshold used to distinguish between Type A and Type B program: \$300,000

**SOUTHEASTERN CONNECTICUT ENTERPRISE
REGION CORPORATION
SCHEDULE OF FEDERAL FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

**SECTION II – SUMMARY OF FINDINGS RELATED TO FINANCIAL STATEMENTS
REQUIRED UNDER GENERALLY ACCEPTED *GOVERNMENT
AUDITING STANDARDS***

- We issued a report dated November 2, 2015 on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with *Government Auditing Standards*.
- Our report on compliance indicated no reportable instances of noncompliance.
- Our report on internal control over financial reporting disclosed no material weaknesses.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

- There were no findings or questioned costs reported.

**SOUTHEASTERN CONNECTICUT ENTERPRISE
REGION CORPORATION
SUMMARY SCHEDULE OF THE STATUS OF PRIOR FEDERAL AUDIT
FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015**

PRIOR YEAR AUDIT FINDINGS RESOLVED

None