Financial Statements
September 30, 2018

Lewis and Clark Regional Development Council

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Independent Auditor's Report

The Board of Directors
Lewis and Clark Regional Development Council
Mandan, North Dakota

Report on the Financial Statements
We have audited the accompanying financial statements of the governmental activities and each major fund of the Lewis and Clark Regional Development Council (the Council) as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements as listed in the table of contents.

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

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

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

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Opinions
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Lewis and Clark Regional Development Council, as of September 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the combined statement of revenues and expenditures - budget compared to actual on page 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods or preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lewis and Clark Regional Development Council's financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 federal expenditures of federal awards is fairly stated, in all material respects, in relation to the basic 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 December 7, 2018 on our consideration of the Council's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely 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 effectiveness of the Council's 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 the Council's internal control over financial reporting and compliance.

Eide Bailly LLP

Bismarck, North Dakota
December 7, 2018

	Governmental Activities
Assets	
Cash and cash equivalents	$ 5,359,458
Receivables	
Accounts receivable	25,818
Loans, net of allowance for loan loss of $1,262,885	7,814,955
Interest receivable	33,919
Due from related parties	1,310,100
Capital assets, net of depreciation	1,770
Total assets	$ 14,546,020
Liabilities and Net Position	
Liabilities	
Accounts payable	$ 9,467
Accrued liabilities	18,626
Interest payable	1,875
Due to other governments	7,462,543
Non-current liabilities	
Due within one year	111,980
Due in more than one year	1,537,270
Total liabilities	9,141,761
Net Position	
Net investment in capital assets	1,770
Restricted for lending activities	3,928,356
Unrestricted	1,474,133
Total net position	5,404,259
Total liabilities and net position	$ 14,546,020

		Program Revenues		Net Revenues
Functions/Programs	Expenses	Charges for Services	Operating Grants	and Changes in Net Position
Governmental activities				
Economic development	$ 617,028	$ 624,739	$ 95,118	$ 102,829
Interest	16,492	-	-	(16,492)
Total governmental activities	$ 633,520	$ 624,739	$ 95,118	86,337
General revenues				
County dues				166,729
Interest income				12,105
Total general revenues				178,834
Loss on sale of real estate held for sale				(23,307)
Change in net position				241,864
Net position, October 1, 2017				5,162,395
Net position, September 30, 2018				$ 5,404,259

	General	Revolving Loan Fund	Total
Assets			
Cash and cash equivalents	$ 188,609	$ 5,170,849	$ 5,359,458
Receivables			
Accounts receivable	25,818	-	25,818
Loans, net of allowance for loan loss of $1,262,885 (RLF)	-	7,814,955	7,814,955
Interest receivable	-	33,919	33,919
Due from related parties	1,310,100	-	1,310,100
Due from other funds	12,814	-	12,814
Total assets	$ 1,537,341	$ 13,019,723	$ 14,557,064
Liabilities and Fund Balances			
Liabilities			
Accounts payable	$ 9,447	$ 20	$ 9,467
Accrued liabilities	18,626	-	18,626
Due to other funds	-	12,814	12,814
Due to other governments	-	7,462,543	7,462,543
Total liabilities	28,073	7,475,377	7,503,450
Fund Balances			
Nonspendable:			
Long-term receivables	-	7,814,955	7,814,955
Unassigned	1,509,268	(2,270,609)	(761,341)
Total fund balances	1,509,268	5,544,346	7,053,614
Total liabilities and fund balances	$ 1,537,341	$ 13,019,723	$ 14,557,064

Total Fund Balances for Governmental Funds	$ 7,053,614
Total net position reported for governmental activities in the statement of net position is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	1,770
Long-term liabilities applicable to the Council's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net position. The balances at September 30, 2018 include:	
Compensated absences	(35,135)
Interest payable	(1,875)
Note payable - CommunityWorks ND	(25,000)
Note payable - ND Development Fund	(37,500)
Note payable - Rural Development	(1,551,615)
Total Net Position	$ 5,404,259

	General	Community Development and Planning Fund	Revolving Loan Fund	Total
Revenues				
Grant	$ -	$ 95,118	$ -	$ 95,118
Interest	2,675	-	366,414	369,089
Services rendered and other	243,932	-	23,823	267,755
Dues income	129,229	37,500	-	166,729
Total revenues	375,836	132,618	390,237	898,691
Expenditures				
Economic development	375,179	157,817	81,851	614,847
Debt service				
Interest	-	-	16,622	16,622
Principal	-	-	85,651	85,651
Total expenses	375,179	157,817	184,124	717,120
Excess (Deficiency) of Revenues Over Expenditures	657	(25,199)	206,113	181,571
Other Financing Sources (Uses)				
Loss on sale of real estate held for sale	-	-	(23,307)	(23,307)
Transfer In	113,912	25,199	-	139,111
Transfer Out	-	-	(139,111)	(139,111)
Total Other Financing Sources (Uses)	113,912	25,199	(162,418)	(23,307)
Change in Fund Balance	114,569	-	43,695	158,264
Fund Balance, Beginning of Year	1,394,699	-	5,500,651	6,895,350
Fund Balance, End of Year	$ 1,509,268	$ -	$ 5,544,346	$ 7,053,614

See Notes to Financial Statements

Net Change in Fund Balances - Total Governmental Funds	$ 158,264
The changes in net position reported for governmental activities in the statement of activities is different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	(307)
Governmental funds report principal payments on debt service as expenditures, whereas the statement of activities does not consider this as an expense.	85,651
Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.	
Net increase in compensated absences	(1,874)
Net decrease in interest payable	130
Change in Net Position of Governmental Activities	$ 241,864

Note 1 - Summary of Significant Accounting Policies

Nature of Activities

The purpose of the organization is to enhance the ability of the individual units of government to resolve common issues and problems through the establishment, preparation and maintenance of long-term, continuing comprehensive planning process for the physical, social and economic development of the central North Dakota region of North Dakota. The Council also provides low cost loans to individual businesses to aid in the economic expansion in their community.

The Council is a non-profit organization under 501(c)(4) of the Internal Revenue Code and is governed by the provision of 54-40.1 of the North Dakota Century Code, which qualifies it as a political sub-division of the State of North Dakota.

The financial statements of the Council have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governments. The Council as described in Note 1, follows the pronouncements of the Governmental Accounting Standards Board (GASB), which is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Reporting Entity

For financial reporting purposes, the Council has included all funds. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the Lewis and Clark Regional Development Council to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to or impose specific financial burdens on Lewis and Clark Regional Development Council.

Based on these criteria, there are no component units to be included within Lewis and Clark Regional Development Council as a reporting entity.

Basis of Presentation

Government-wide Statements – The statement of net position and the statement of activities display information about the primary government, the Council. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through intergovernmental revenues, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Council's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees, fines and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

Fund Financial Statements – The fund financial statements provide information about the Council's funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

Description of Funds

The accounts of the Council are organized into separate funds as follows:

a) General Fund
This is the general operating fund of the Council and is used to account for all financial resources except those required to be accounted for in another fund.
b) Community Development and Planning Fund
The special revenue fund is used to account for the proceeds of special revenue sources that are legally restricted expenditures for a specific purpose. This fund is set up to account for operating grants received by the Council for community development and planning.
c) Revolving Loan Fund
The revolving loan fund is a special revenue fund used to account for lending activity including the receipt of principal and interest. Loans are made to regional businesses to provide for economic growth.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus. The governmental-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Council gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants, entitlements and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements – Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Council considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year end. Charges for services and investment income are considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Generally capital assets acquisitions are reported as expenditures in governmental funds.

Loans Receivable

Loans are reported at their outstanding unpaid principal balances adjusted for charge-offs and the allowance for loan losses. Interest income is accrued on the unpaid principal balance. Interest is accrued until a loan is deemed uncollectible and charged off against the allowance for loan losses.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries of principal balances, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that have a potential for significant revision as more information becomes available.

The allowance consists of specific and general components. The specific component relates to loans that are classified as doubtful, substandard, or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors and to cover uncertainties that could affect management's estimate of probable losses resulting from the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the organization will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of delay, the reasons for the delay, the borrower's prior payment record, and amount of the shortfall in relation to the principal and interest owed. As of September 30, 2018, loans with a balance of $1,450,141 were considered impaired.

Capital Assets

Equipment is recorded at cost. Equipment with a cost of $5,000 or more is capitalized. Depreciation is computed on the useful life of the property and equipment and is depreciated on a straight-line basis over the following estimated lives:

Furniture and equipment	10 - 15 years

Compensated Absences

Vacation is earned at a rate of 8 to 20 hours per month depending upon length of service. Employees can accumulate up to 240 hours of annual leave. Sick leave is granted to all employees at 8 hours per month. If the sick pay is not used, upon termination, the employee will be paid 10% to 25% of the accrued balance based on a sliding scale of years of service.

Fund Equity

The following classifications describe the relative strength of the spending constraints:

- Nonspendable fund balance—amounts that are not in nonspendable form (such as inventory) or are required to be maintained intact.
- Restricted fund balance—amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance—amounts constrained to specific purposes by the Council itself, using its highest level of decision-making authority (i.e., Lewis and Clark Regional Development Council Board of Directors). To be reported as committed, amounts cannot be used for any other purpose unless the Council takes the same highest level action to remove or change the constraint.
- Assigned fund balance—amounts the Council intends to use for a specific purpose. Intent can be expressed by the Board of Directors or by an official or body to which the Board of Directors delegates the authority.
- Unassigned fund balance—amounts that are available for any purpose. Positive amounts are reported only in the general fund.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Council considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Council considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Council's Board of Directors has provided otherwise in its commitment or assignment actions.

Income Taxes

The Council is exempt from federal and state income taxes under Section 501(c)(4) of the Internal Revenue Code.

Allocation of Costs

A method of cost allocation is utilized whereby employee time records are maintained daily and specifically allocate time to various program functions.

Indirect costs are allocated on the basis of a percentage of direct salary and benefit costs. Costs that can be identified with a specific program are charged directly to the program.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Cash and Cash Equivalents

Cash includes deposits in checking accounts and money market accounts. Cash equivalents include deposits in highly liquid investments with an original maturity of three months or less.

Deposits must either be deposited with the Bank of North Dakota or in other financial institutions situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 110% of the deposits not covered by insurance or bonds.

In accordance with North Dakota Statutes, the Council maintains deposits at the depository banks designated by the governing board. All depositories are members of the Federal Reserve System.

Authorized collateral includes bills, notes, or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, Federal land bank bonds, bonds, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investment companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the State of North Dakota, its boards, agencies or instrumentalities or by any county, city, township, school district, park district, or other political subdivision of the state of North Dakota, whether payable from special revenues or supported by the full faith and credit of the issuing body and bonds issued by another state of the United States or such other securities approved by the banking board.

At year-end September 30, 2018, the Council's carrying amount of deposits was $5,359,422 and the bank balance was $5,421,268, all of which was insured and collateralized.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Council does not have a formal investment policy that specifically addresses credit risk. At September 30, 2018, the Council did not have any investments that are rated.

Concentration of Credit Risk

In the case of cash and investments, this is the risk that in the event of the failure of a depository financial institution, the Council will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of investments. The Council does not have a formal investment policy that limits investment maturities as a means of managing its exposure to potential fair value losses arising from future changes in interest rates.

Note 3 - Loans Receivable

The Council had the following revolving loan funds under the special revenue fund as of September 30, 2018:

Revolving Loan Fund		
The Revolving Loan Fund was established with a federal grant from the Department of Commerce of $500,000 and $168,050 of local sources to provide loans to entities. The purpose of the fund is to provide flexible and accessible loans, primarily gap financing, that will strengthen, create or save business and job opportunities.	$	551,355
Intermediary Relending Program		
The initial funding for this program was a $500,000 loan from the USDA, Rural Development and $168,000 from local sources. The purpose of the loan fund is to provide flexible and accessible loans, primarily gap financing, that will strengthen, create or save business and job opportunities in non-metropolitan areas of the region.		140,699
Intermediary Relending Program II		
The initial funding for this program was a $450,000 loan from the USDA, Rural Development and $151,300 from local sources. The purpose of the loan fund is to provide flexible and accessible loans, primarily gap financing that will strengthen, create or save business and job opportunities in non-metropolitan areas of the region.		217,612

Intermediary Relending Program - Mandan	
The initial funding for this program was a $750,000 loan from the USDA, Rural Development and $250,000 from local sources. The purpose of the loan fund is to provide a revolving loan fund for Mandan, North Dakota to attract new retail and primary sector businesses and help small business owners to acquire land, capital, and inventory.	359,186
Intermediary Relending Program II - Mandan	
The initial funding for this program was a $750,000 loan from the USDA, Rural Development and $250,000 from local sources. The purpose of the loan fund is to provide a revolving loan fund for Mandan, North Dakota to attract new retail and primary sector businesses and help small business owners to acquire land, capital, and inventory.	564,529
Recap Revolving Loan Fund	
In 1999, the Economic Development Administration (EDA) of the U.S. Department of Commerce awarded the Council a recapitalization grant of $250,000. The Council provided $83,334. The purpose of this fund is for recapitalization of the funds described above.	224,319
State Small Business Credit Initiative	
The funding for this program is from an award made to the Mandan Consortium from the U.S. Department of the Treasury provided for under the State Small Business Credit Initiative Act of 2010. The Council was contracted by the Mandan Consortium to administer the loan fund. The purpose of the loan fund is to provide loans to small businesses and manufacturers to expand and create jobs.	7,020,140
Total	9,077,840
Less allowance for loan loss	(1,262,885)
Total loans receivable, net of allowance	$ 7,814,955

All loans are collateralized either by mortgages on real estate, equipment, inventory or accounts receivable. All loans are carried on the financial statement at the amount advanced net of payments.

An analysis of allowance for loan losses follows:

	Allowance for Loan Losses
Balance, September 30, 2017	$ 202,100
Loans charged off	(22,705)
Provision	1,083,490
Balance, September 30, 2018	$ 1,262,885

The general fund has $122,070 of loans receivable made to CommunityWorks North Dakota, a related party. The loan has a fixed interest rate of 2%, matures on June 1, 2029 and is secured by an assignment of leases. The general fund also has a $1,175,000 long-term receivable from the Lewis and Clark Certified Development Company, a related party, for unpaid administrative expenses. The receivable is non-interest bearing and matures on October 1, 2033.

Note 4 - Due From/To Other Funds

Due from/to other funds consisted of the following at September 30, 2018:

Fund	Due from Other Funds	Due to Other Funds
General	$ 12,814	$ -
Revolving Loan Fund	-	12,814
Total all funds	$ 12,814	$ 12,814

Interfund transactions constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund. These balances are a result of the time lag between the dates that reimbursable expenditures occur and payments between funds are made.

Note 5 - Capital Assets

The following is a summary of changes in capital assets for the year ended September 30, 2018:

Governmental Activities

	Balance October 1	Additions	Deletions	Balance September 30
Capital assets, being depreciated				
Furniture and equipment	$ 9,790	$ -	$ -	$ 9,790
Total capital assets, being depreciated	9,790	-	-	9,790
Less accumulated depreciation				
Furniture and equipment	7,713	307	-	8,020
Total accumulated depreciation	7,713	307	-	8,020
Total capital assets, net	$ 2,077	$ (307)	$ -	$ 1,770

Depreciation expense was charged to functions/programs of the Council as follows:

Governmental activities	
Economic development	$ 307

Note 6 - Due to Other Governments

The Council administers the State Small Business Credit Initiative (SSBCI) program for the Consortium of Cities. Under the operating agreement, the Council receives funds for the SSBCI program and makes loans to eligible recipients. If the SSBCI program ends, the Council will be required to return the funds to the Consortium of Cities less ten percent of the funds, which the Council will retain. The funds will only be required to be repaid if the Consortium of Cities chooses to end the SSBCI program, which they can do through a majority vote beginning in 2017, or if the Consortium of Cities would choose to have a different entity administer the program. At September 30, 2018, the Council had a liability for $7,462,543 recorded for the amount of funds that would be required to be returned to the Consortium of Cities if the program ended.

Note 7 - Non-Current Liabilities

During the year ended September 30, 2018, the following changes occurred in liabilities reported in non-current liabilities:

Governmental Activities

	Balance October 1	Increases	Decreases	Balance September 30	Due Within One Year
Compensated absences	$ 33,261	$ 25,475	$ 23,601	$ 35,135	$ 25,475
Long-term debt	1,699,766	-	85,651	1,614,115	86,505
Total	$ 1,733,027	$ 25,475	$ 109,252	$ 1,649,250	$ 111,980

The Council borrowed a total of $2,450,000 from the U.S. Department of Agriculture – Rural Development to fund the Intermediary Re-lending Program as of September 30, 2018. The loans bear interest at 1% and are repayable over 30 years. The collateral for these loans are the Notes Receivable in the Intermediary Re-lending Program, Intermediary Re-lending Program II, Intermediary Relending Program – Mandan, and Intermediary Re-lending Program – Mandan II of $140,699, $217,612, $359,186, and $564,529, respectively. The total outstanding balance due the U.S. Agriculture – Rural Development at September 30, 2018 was 1,551,615.

The Council borrowed $37,500 from the North Dakota Development Fund. The loan bears interest of 1% compounded monthly, payable annually and principal is due April 1, 2027. Annual interest payments of $380 are due each April 1, with final payment due April 1, 2027 of $37,880.

The Council borrowed $20,000 from CommunityWorks North Dakota, a related party. The loan bears interest of 0% and the principal is due April 13, 2035. In addition, the Council borrowed another $5,000 from CommunityWorks North Dakota and this loan bears interest of 0% and the principal is due April 13, 2038.

Debt service requirements on long-term debt at September 30, 2018 are as follows:

	Long-Term Debt	
	Principal	Interest
2019	$ 86,505	$ 15,519
2020	87,371	14,653
2021	88,244	13,780
2022	89,128	12,896
2023	90,019	12,005
2024 - 2028	435,862	47,016
2029 - 2033	375,829	28,166
2034 - 2038	330,875	9,572
2039	30,282	303
	$ 1,614,115	$ 153,910

Total interest expense was $16,492 for the year ended 2018.

Note 8 - Lease

The Council leases its office space from CommunityWorks North Dakota, a related party (see Note 10). The Council has an operating lease beginning June 1, 2009 and ending May 31, 2029. The lease provides for monthly rent of $900 plus thirty-three percent of estimated operating expenses which was $900 per month in 2018 and will be negotiated annually during the life of the lease. Total rent expense for 2018 was $22,800. Under this operating lease, future commitments are $22,800 each year 2019 through 2023 and $129,200 thereafter.

Note 9 - Retirement Plan

The Council has a Simplified Employee Pension Plan through Mutual of America. It is a fully vested defined contribution plan with the Council contributing the same percentage of compensation for every employee limited annually to the smaller of $41,000 or 25% of compensation. Employees over 21 years old who have been employed in at least one of the immediately preceding five years are eligible to participate in the plan. The Council is only responsible for current contributions. The amount of pension expense for 2018, 2017, and 2016 was $30,864, $29,344, and $24,767, respectively.

Note 10 - Related Party

The Council is related to CommunityWorks North Dakota through common management and the organizations are co-located. Each organization has its own board of directors with one member serving on each board. The Council has entered into a working agreement with the organization.

Shared expenses consist of telephone, postage, supplies, equipment, employees and the executive director. Each entity is responsible for paying its own share of these expenses, except for payroll costs, which are reimbursed. Payments made to CommunityWorks North Dakota for reimbursed expenses during 2018 were $84,215. The Council received payments of $8,392 from CommunityWorks North Dakota for shared staff in 2018. As of September 30, 2018 the Council had accounts payable due to CommunityWorks North Dakota of $6,884.

The Council has loans receivable due from CommunityWorks North Dakota of $122,070 and a note payable due to CommmunityWorks North Dakota for $25,000 as September 30, 2018 (See Notes 3 & 7).

Lease expense paid to CommunityWorks North Dakota during 2018 was $22,800 (See Note 8).

The general fund has receivables of $1,188,030 from Lewis and Clark Certified Development Company, a separate non-profit organization related through common management, for administrative expenses. The receivables carry no interest.

Note 11 - Risk Management

The Council is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Council pays an annual premium to Cincinnati Insurance Companies for its general insurance coverage. The coverage by Cincinnati Insurance Companies is limited to losses of $2,000,000 per occurrence. The Council carries commercial insurance for all other risks of loss of $1,000,000 per occurrence.

The Council also participates in the State Bonding Fund. The State Bonding Fund currently provides the Council with blanket fidelity bond coverage in the amount of $$1,860,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The Council carries commercial insurance for all other risks of loss, including workers' compensation, and employee health and accident insurance. No claims from these risks have exceeded insurance coverage in any of the past three years. Loans are concentrated in the central region of North Dakota but are issued to a wide variety of types of business in varying dollar amounts.

Note 12 - Indirect Expenses

Indirect (common) costs are costs incurred for a common or joint purpose which benefit more than one grant or program. The Council allocates indirect costs on the basis of a ratio of program direct salary and benefit costs to total salary and benefit costs on a monthly basis pursuant to Office of Management and Budget and Uniform Guidance. A detailed summary of the indirect costs for 2018 are as follows:

Salaries	$ 77,102
Fringe benefits	31,128
Travel	5,344
Printing and publishing	1,832
Subscriptions	400
Supplies	868
Marketing	9,695
Rent	22,800
Postage	570
Dues	214
Equipment	5,173
Professional	17,730
Insurance	5,147
Other	60
Total indirect expenses	$ 178,063

Note 13 - Transfer In/Transfer Out

Transfer in/out of other funds consisted of the following at September 30, 2018:

Transfers	General Fund	Community Development and Planning Fund	Revolving Loan Fund
Transfer In	$ 113,912	$ 25,199	$ -
Transfer Out	-	-	(139,111)
Total of Transfers	$ 113,912	$ 25,199	$ (139,111)

Transfers in were made to move revenues earned for the administration of the State Small Business Credit Initiative (SSBCI) program from the fund that collected the revenues to the Council's general fund.

Transfers out of the general fund were for the planning grant fund to cover expenses in excess grant funds and required cash match.

Required Supplementary Information
September 30, 2018

Lewis and Clark Regional Development Council

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance Favorable (Unfavorable)
Revenues				
Grants	$ 77,500	$ 77,500	$ 95,118	$ 17,618
Interest	410,175	410,175	369,089	(41,086)
Services rendered and other	398,340	398,340	267,755	(130,585)
Dues income	166,728	166,728	166,729	1
Total revenues	1,052,743	1,052,743	898,691	(154,052)
Expenditures				
Economic Development				
Salaries	297,033	297,033	289,514	7,519
Fringe benefits	80,747	80,747	87,555	(6,808)
Travel	14,700	14,700	8,241	6,459
Printing and publications	2,750	2,750	509	2,241
Supplies	1,000	1,000	2,027	(1,027)
Seminars and dues	6,200	6,200	4,884	1,316
Equipment	8,698	8,698	2,191	6,507
Marketing	11,335	11,335	14,974	(3,639)
Processing, closing fees	1,050	1,050	2,779	(1,729)
Telephone & postage	420	420	594	(174)
Indirect costs	172,006	172,006	178,061	(6,055)
Bad debt expense	-	-	-	-
Interest	19,026	19,026	16,622	2,404
Professional fees	12,000	12,000	21,427	(9,427)
Other	2,572	2,572	2,091	481
Total expenses	629,537	629,537	631,469	(1,932)
Excess of Revenue over Expenditures	$ 423,206	$ 423,206	$ 267,222	$ (155,984)

An explanation of differences between budgetary outflows and GAAP expenditures follows:

Actual amounts (budgetary basis) from the budgetary comparison schedule	$ 631,469
Differences - Budgetary to GAAP	
The Council budgets for debt principal payments on the accrual basis rather than the modified accrual basis	85,651
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances	$ 717,120

An explanation of differences between final budget outflows and budgetary outflows follows:

Reconciliation to Combined Statement of Revenues and Expenditures	
Actual excess revenues over expenditures, per above	$ 267,222
Excess of revenues over expenditures on page 8	$ 158,264

Note 1 - Stewardship, Compliance and Accountability

Budgetary Information

The budget is prepared for the total entity on the accrual basis of accounting. All annual budget amounts expire at year-end. As the Council does not prepare the budget on a fund basis, budget to actual presentation by fund is not available. The legal level of control is by line item.

Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting – under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation – is not utilized in the Council funds.

Supplementary Information
September 30, 2018

Lewis and Clark Regional Development Council

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*

The Board of Directors
Lewis and Clark Regional Development Council
Mandan, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Council as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements, and have issued our report thereon dated December 7, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Council'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. Accordingly, we do not express an opinion on the effectiveness of the Council'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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be 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 yet been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs, that we consider to be a significant deficiency as number 2018-A.

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

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

Eide Bailly LLP

Bismarck, North Dakota
December 7, 2018

Independent Auditor's Report on Compliance for The Major Federal Program and Report on Internal Control over Compliance Required by the Uniform Guidance

The Board of Directors
Lewis and Clark Regional Development Council
Mandan, North Dakota

Report on Compliance for the Major Federal Program
We have audited the Council's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Council's major federal program for the year ended September 30, 2018. The Council's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

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

Auditor's Responsibility
Our responsibility is to express an opinion on the compliance for the Council's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the 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 Council'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 the major federal program. However, our audit does not provide a legal determination of the Council's compliance.

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Opinion on the Major Federal Program
In our opinion, the Council complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the major Federal program for the year ended September 30, 2018.

Report on Internal Control over Compliance
Management of the Council is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Council's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Council'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 compliance requirement 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 that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Eide Bailly LLP

Bismarck, North Dakota
December 7, 2018

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditure	Loans Receivable Outstanding * 9/30/18
Department of Agriculture				
Passed through Rural Development				
Intermediary Relending Program	10.767		$ 1,637,266	$ 1,282,027
Department of Commerce				
Economic Development Assistance				
Planning Grant	11.302		87,500	-
Department of Commerce				
Economic Development Assistance				
Revolving Loan Fund	11.307		776,214	775,674
Department of Housing & Urban Development				
Passed through ND Division of Community Services				
Community Block Grant Administration	14.228	3876-CDBG-15	7,618	-
			$ 2,508,598	$ 2,057,701

* Includes federal and matching funds

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the Lewis and Clark Regional Development Council (the Council) under programs of the federal government for the year ended September 30, 2018. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirement, Cost Principles, and Audit requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Lewis and Clark Regional Development Council, it is not intended to and does not present the financial position or changes in net assets of Lewis and Clark Regional Development Council.

Note B – Summary of Significant Accounting Policies

Expenditures reported in the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following cost principles contained in Subpart E – Cost Principles of the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited to reimbursement. During the year ended September 30, 2018, no amounts were paid to subrecipients.

Note C – Indirect Cost Rate

The Council has not elected to use the 10% de minimis cost rate.

Note D – Intermediary Relending Program Expenditures

Expenditures of the Intermediary Relending Program (CFDA # 10.767) are comprised of the following:

IRP Loan #1	
Note payable outstanding at September 30, 2017	$ 161,418
IRP Loan #2	
Note payable outstanding at September 30, 2017	313,183
IRP Loan Mandan	
Note payable outstanding at September 30, 2017	556,392
IRP Loan MandanII	
Note payable outstanding at September 30, 2017	606,273
Total 2018 expenditures for the Intermediary Relending Program	$ 1,637,266

The balance of IRP loans receivable outstanding at September 30, 2018 was $1,282,026. The balance of IRP notes payable outstanding at September 30, 2018 was $1,551,615.

Note E – Economic Development Assistance Expenditures

Expenditures for the Economic Development Assistance Revolving Loan Fund Program (CFDA # 11.307) are comprised of the following:

	RLF # 1	RLF # 2	Ialy
Revolving loan fund (RLF) loans outstanding at September 30, 2018	$ 551,355	$ 224,319	$ 775,674
Cash balance in the RLF at September 30, 2018	75,709	169,003	244,712
Administrative expenses paid out of RLF income during 2018	17,217	9,412	26,629
	644,281	402,734	1,047,015
Federal share of the RLF	74.3%	73.9%	74.2%
Total federal expenditures	$ 478,628	$ 297,586	$ 776,214

The balance of EDA loans receivable outstanding at September 30, 2018 was $775,674.

Section I – Summary of Auditor's Results

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weakness identified	No
Significant deficiency	Yes
Noncompliance material to financial statements noted	No

FEDERAL AWARDS

Internal control over federal programs:	
Material weakness identified	No
Significant deficiency	None reported
Type of auditor's report issued on compliance with major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516:	No

Identification of major programs:

Name of Federal Program	CFDA number
Economic Development Assistance Revolving Loan Fund	11.307

Dollar threshold used to distinguish between Type A and Type B programs	$750,000
Auditee qualified as low-risk auditee	Yes

Section II – Financial Statement Findings

2018-A Schedule of Expenditures of Federal Awards Preparation
Significant Deficiency

Criteria: A good system of internal control includes a system for ensuring the federal expenditures are calculated correctly on the Schedule of Expenditures of Federal Awards.

Condition: During our audit procedures, it was noted the Intermediary Relending Program federal expenditure calculation used the notes receivable balance instead of the debt balance.

Cause: Historical guidance from the Intermediary Relending Program provided the calculations used and the program guidance does not provide a specific calculation. The calculations used have been accepted by the auditor for over eight years. USDA Intermediary Relending Program administrator also agreed with the calculations submitted.

Effect: The balance of the preliminary Schedule of Expenditures of Federal Awards for the Intermediary Relending Program was not calculated using the debt balance resulting in lower federal expenditures being initially computed.

Recommendation: We recommend the federal expenditures for the Intermediary Relending Program be calculated using the debt balance instead of the loan receivable balance.

Views of Responsible Officials: Lewis and Clark Regional Development Council understands Eide Bailly's recalculation of the Intermediary Relending Program federal expenditures and will prepare future Schedule of Expenditures of Federal Awards in this manner but the calculation used has been accepted in the past by the same audit firm and the funding source and the program does not provide specific guidance for calculating the expenditures. In addition, the change did not affect the programs tested or the compliance with the requirements of the program.

Section III – Federal Award Findings and Questioned Costs

None