

**LAKE AGASSIZ REGIONAL COUNCIL
FARGO, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Lake Agassiz Regional Council
Fargo, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Lake Agassiz Regional Council, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Lake Agassiz Regional 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 auditors consider 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, and 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.

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 Lake Agassiz Regional Council as of December 31, 2020, and the respective changes in financial position and, where applicable, cash flows 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 budgetary comparison information on pages 24 - 25 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 of 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 Management's Discussion and Analysis information 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 this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lake Agassiz Regional Council's basic financial statements. The schedule of expenditures of federal awards, 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), is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards 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. Such 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 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 our report dated June 23, 2021, on our consideration of Lake Agassiz Regional Council'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 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 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 Lake Agassiz Regional Council's internal control over financial reporting and compliance.



**BRADY, MARTZ & ASSOCIATES, P.C.
FARGO, NORTH DAKOTA**

June 23, 2021

LAKE AGASSIZ REGIONAL COUNCIL
STATEMENT OF NET POSITION
DECEMBER 31, 2020

	Governmental Activities
Assets:	
Cash and cash equivalents	\$ 80,308
Restricted cash	222,004
Accounts receivable	122,525
Loans receivable, net	1,400,398
Total assets	1,825,235
Liabilities:	
Accounts payable	7,844
Due to related party	160,000
Accrued expenses	9,332
Unearned revenue	90
Noncurrent liabilities:	
Due within one year	55,617
Due in more than one year	472,871
Total liabilities	705,754
Net position:	
Restricted net position	1,096,780
Unrestricted net position	22,701
Total net position	\$ 1,119,481

See notes to the financial statements

LAKE AGASSIZ REGIONAL COUNCIL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2020

Functions/programs	Expenses	Program Revenues		Net (expenses)
		Charges for services	Operating grants and contributions	revenues and changes in net position
				Governmental activities
Governmental activities:				
Current:				
Administrative	\$ 14,832	\$ 66,134	\$ 45,100	\$ 96,402
Grant	42,704	-	199,902	157,198
Loan closing costs	206	-	-	(206)
Insurance	8,385	-	-	(8,385)
Bad debt and change in allowance	-	14,425	-	14,425
Other	5,409	-	-	(5,409)
Rent	9,060	-	-	(9,060)
Utilities	2,011	-	-	(2,011)
Professional services	15,050	-	-	(15,050)
Contracted services	90,000	-	-	(90,000)
Salaries & benefits	151,693	-	-	(151,693)
Interest	6,579	42,802	-	36,223
Total governmental activities	<u>\$ 345,929</u>	<u>\$ 123,361</u>	<u>\$ 245,002</u>	<u>22,434</u>
		General revenues:		
			Miscellaneous	<u>74,724</u>
			Total general revenues	<u>74,724</u>
			Changes in net position	97,158
			Total net position - beginning	<u>1,022,323</u>
			Total net position - ending	<u><u>\$ 1,119,481</u></u>

See notes to the financial statements

LAKE AGASSIZ REGIONAL COUNCIL
BALANCE SHEET – GOVERNMENTAL FUNDS
DECEMBER 31, 2020

	General fund	EDA revolving loan fund	Community Development Loan fund	Grant fund	Total governmental funds
Assets:					
Cash and cash equivalents	\$ 80,308	\$ -	\$ -	\$ -	\$ 80,308
Restricted cash	-	207,567	14,347	90	222,004
Accounts receivable	119,500	3,025	-	-	122,525
Loans receivable, net	-	883,208	517,190	-	1,400,398
Total assets	\$ 199,808	\$ 1,093,800	\$ 531,537	\$ 90	\$ 1,825,235
Liabilities:					
Accounts payable	\$ 2,503	\$ 5,341	\$ -	\$ -	\$ 7,844
Due to related party	-	160,000	-	-	160,000
Accrued expenses	9,332	-	-	-	9,332
Unearned revenue	-	-	-	90	90
Total liabilities	11,835	165,341	-	90	177,266
Fund balance:					
Restricted - loan & grant programs	-	1,093,731	531,537	-	1,625,268
Unassigned	187,973	(165,272)	-	-	22,701
Total fund balance	187,973	928,459	531,537	-	1,647,969
Total liabilities, deferred inflows of resources and fund balance	\$ 199,808	\$ 1,093,800	\$ 531,537	\$ 90	\$ 1,825,235

See notes to the financial statements

LAKE AGASSIZ REGIONAL COUNCIL
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2020

Total Fund Balances for Governmental Funds \$ 1,647,969

Amounts presented for governmental activities in the statement of
Net Position are different because:

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. All liabilities - both current and noncurrent are reported in
the Statement of Net Position. Balance at December 31, 2020 is:

Long-term debt (528,488)

Total net position \$ 1,119,481

See notes to the financial statements

LAKE AGASSIZ REGIONAL COUNCIL
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2020

	General fund	EDA revolving loan fund	Community Development Loan Fund	Grant fund	Total governmental funds
Revenues:					
Administrative	\$ 59,717	\$ 6,242	\$ 175	\$ -	\$ 66,134
Federal grants	170,000	3,025	-	-	173,025
State grants	-	-	-	26,877	26,877
Local support	45,100	-	-	-	45,100
Interest income	176	30,583	12,043	-	42,802
Bad debt recovery and change in allowance	-	14,425	-	-	14,425
Miscellaneous	74,724	-	-	-	74,724
Total revenues	349,717	54,275	12,218	26,877	443,087
Expenditures:					
Current:					
Administrative	14,832	-	-	-	14,832
Grants	15,827	-	-	26,877	42,704
Loan closing costs	-	158	48	-	206
Insurance	8,385	-	-	-	8,385
Other	13,351	167	11	-	13,529
Rent	9,060	-	-	-	9,060
Utilities	2,011	-	-	-	2,011
Professional services	15,050	-	-	-	15,050
Contracted services	90,000	-	-	-	90,000
Salaries & benefits	151,693	-	-	-	151,693
Debt service:					
Principal	-	-	136,928	-	136,928
Interest	276	-	6,303	-	6,579
Total expenditures	320,485	325	143,290	26,877	490,977
Excess (deficiency) of revenues over (under) expenditures	29,232	53,950	(131,072)	-	(47,890)
Other financing sources (uses):					
Transfers in	30,714	-	-	-	30,714
Transfers out	-	(25,213)	(5,501)	-	(30,714)
Long-term debt issued	-	-	200,000	-	200,000
Total other financing sources (uses)	30,714	(25,213)	194,499	-	200,000
Net change in fund balances	59,946	28,737	63,427	-	152,110
Fund balance - beginning of year	128,027	899,722	468,110	-	1,495,859
Fund balance - end of year	\$ 187,973	\$ 928,459	\$ 531,537	\$ -	\$ 1,647,969

See notes to the financial statements

LAKE AGASSIZ REGIONAL COUNCIL
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2020

Net change in fund balances - total governmental funds \$ 152,110

Amounts reported for governmental activities in the Statement of
 Activities are different because:

The proceeds of debt issuance are reported as financing sources in
 governmental funds and thus contribute to the change in fund balance.
 In the Statement of Net Position, issuing debt increases long-term liabilities
 and does not affect the statement of activities. (200,000)

Governmental funds report repayment of principal on long-term liabilities
 as an expenditure because the repayments use current financial resources.
 In contrast, the repayments reduce the balance of the long-term liabilities
 in the Statement of Net Position. 136,928

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. 8,120

Changes in net position of governmental activities \$ 97,158

LAKE AGASSIZ REGIONAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Lake Agassiz Regional Council (Council) was organized as a public non-profit corporation in 1974 to address the resource conservation and community development needs of the southeastern North Dakota counties of Cass, Ransom, Richland, Sargent, Steele and Traill. The Council provides a broad array of services and programs to communities throughout its service area, including economic development planning, business lending, resource conservation, and community development.

Government-Wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the Council are included in the statement of net position.

Government-wide financial statements are prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The government-wide financial statements consist of a statement of net position and a statement of activities. These statements display information about the Council as a whole. The activities reported include all of the financial activities of the Council.

The statement of net position presents the financial condition of the governmental activities of the Council at year-end.

The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Council's governmental activities. The statement identifies the extent to which each governmental function is self-financing or drawing from the general revenues of the Council.

Direct expenses are expenses that are specifically associated with a service, program, or department. The direct expenses are clearly identifiable to a particular function. Program revenues include charges to recipients for goods or services offered by the program, grants, and contributions that are restricted to meet the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the Council.

Fund Financial Statements

The governmental funds are accounted for using a flow of current financial resources measurement focus. Under this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources and uses of current financial resources.

LAKE AGASSIZ REGIONAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2020

The Council's governmental funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Council considers revenues to be available if they are collected within 60 days of the end of its fiscal year. Expenditures are generally recorded as the related fund liability is incurred. The following revenues are susceptible to accrual under the modified basis of accounting:

Federal, state, and local support

Funds for which the Council serves in a fiscal agent-like capacity in the area it serves.

The current financial resources measurement focus differs from the manner that the governmental activities of the government-wide financial statements are prepared. Due to the difference, the Council's financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for government funds.

Separate fund financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Typically, aggregated information for the non-major governmental funds is reported in a single column in the fund financial statements. Currently, all funds of the Council are considered major in the fund financial statements.

Description of Funds

The accounts of Lake Agassiz Regional Council are organized into four separate major funds, as follows:

General Fund

Accounts for general operating revenues and expenditures not accounted for elsewhere.

EDA Revolving Loan Fund

Accounts for operations of revolving loan program for qualifying small businesses. The Council receives interest on the loan repayments and a portion for administering the program.

Community Development Loan Fund

Accounts for operations of community development loan program for qualifying borrowers. The Council receives interest on the loan repayments and as a portion for administering the program.

Grant Fund

Accounts for the revenues and expenditures of specific grant programs.

LAKE AGASSIZ REGIONAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2020

With the exception of the General fund, all assets, liabilities, and fund balances of each fund are required to be returned to the granting agency if the programs are discontinued.

Non-Major Governmental Funds

Typically, aggregated information for the non-major governmental funds is reported in a single column in the fund financial statements. Currently, all funds of the Council are considered major in the fund financial statements.

Fund Balances

The difference between assets and liabilities is “fund balance” on the governmental fund financial statements. In the governmental fund financial statements, fund balances are classified as nonspendable, restricted, committed, assigned, or unassigned. No minimum fund balance is required.

Nonspendable fund balance represents a portion of fund balance that includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. At December 31, 2020, the Council did not have any nonspendable funds.

Restricted fund balance represents a portion of fund balance that reflects constraints placed on the use of resources (other than nonspendable items) that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Council’s highest level of decision-making authority. At December 31, 2020, the Council did not have any funds committed.

Assigned fund balance represents amounts constrained by the Council’s intent to be used for specific purposes, but neither restricted nor committed. The assigned amounts are determined by the Board of Directors. At December 31, 2020, the Council did not have any funds assigned.

Unassigned fund balance represents residual classification for the General fund. This classification represents fund balance not assigned to other funds and not restricted, committed, or assigned for specific purposes within the General fund. The General fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned for those purposes, it would be necessary to report a negative unassigned fund balance.

When both restricted and unrestricted fund balances are available, restricted fund balance takes priority and will be utilized first. When committed, assigned, and/or unassigned fund balances are available, committed fund balance takes priority and will be utilized first.

LAKE AGASSIZ REGIONAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2020

Net Position

In the government-wide financial statements, equity is classified as “net position,” and is the difference between total assets plus deferred outflows of resources, less total liabilities less deferred inflows of resources. Net position is further categorized into the following two components:

Restricted Net Position

Consists of equity with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments or (2) law through constitutional provisions or enabling legislation.

Unrestricted Net Position

Comprises all other equity that does not meet the definition of “restricted”.

Interfund Transactions

The Council has the following types of transactions among funds:

Nonreciprocal Interfund Transfers

Flows of resources between funds without equivalent flows of resources in return and without a requirement for repayment. This includes the transfer of interest collected in the EDA Revolving Loan and Community Development Loan Funds to the General Funds (see Note 3).

Nonreciprocal Interfund Reimbursements

Repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them (see Note 10).

Transactions that fall into these two categories are eliminated in the government-wide financial statements.

Basis of Presentation

The financial statements of the Council have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard setting body for establishing governmental accounting and financial reporting principles.

LAKE AGASSIZ REGIONAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2020

Estimates

The preparation of financial statements in conformity with GAAP 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.

Grant Fund

The Council serves in a fiscal agent-like capacity for several cities and counties in the area it serves. The Council is the recipient of Agricultural Products Utilization (APUC) and Environmental Protection Agency (EPA) Grants, the funds of which are passed-through to other third-party grantees, as specified by the grant awards. Undispersed funds are accounted for as restricted cash, with an equal and offsetting amount of unavailable revenue. As funds are disbursed by the Council to the grantee, grant revenue is recognized, along with an equal and offsetting amount of expense.

Accounts Receivable

Accounts receivable represents credit extended by the Council to its customers. Balances outstanding more than 30 days are subject to a service charge. As of December 31, 2020, the Council's accounts receivable did not include any balances outstanding more than 30 days.

The Council uses the allowance method to account for bad debts. Allowances are established based upon management's estimate of the collectability of the accounts and review of past collection experience. As of December 31, 2020, no allowance was deemed necessary.

Vacation and Sick Leave

Lake Agassiz Regional Council employees are granted vacation and sick leave in varying amounts. Employees terminating their employment in good standing shall be paid for all earned vacation leave. Vacation leave accumulated is reported as an expense when accrued for in the government-wide financial statements.

Allocation of Cost

A method of cost allocation is utilized by the Council, whereby employee time records are maintained and used to specifically allocate costs to various program functions. An hourly rate is assigned to each employee based on direct salary costs. Indirect costs are allocated on the basis of a percentage of direct salary costs. Costs that can be identified with a specific program are charged directly to that program.

LAKE AGASSIZ REGIONAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2020

Income Taxes

The Council is exempt from payment of federal income taxes under the provisions of Section 501(c)(f) of the Internal Revenue Code.

The Council's policy is to evaluate the likelihood that its uncertain tax positions will prevail upon examination based on the extent to which those positions have substantial support within the Internal Revenue Code and Regulations, Revenue Rulings, court decisions, and other evidence.

Fundraising

There are no material fund raising expenses to be disclosed for the year presented.

Contingencies

From time-to-time, the Council has bank balances in excess of the federally insured limits.

NOTE 2 CASH AND CASH EQUIVALENTS

The Council's funds are required to be deposited and invested with the designated depositories in accordance with the laws of North Dakota. North Dakota laws require all public deposits be protected by insurance, surety bond, or collateral pledged by the financial institution. Pledged collateral must equal 110% of the deposits not covered by insurance or bonds.

In accordance with North Dakota laws, the Council maintains deposits at a depository authorized by the Board. All deposits held are protected by insurance or collateral pledged by the financial institution.

Credit Risk

North Dakota laws restrict allowable investments for public funds in order to safeguard the principle on investments. North Dakota law authorizes political subdivisions to invest surplus funds in:

- a) Bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities or organizations created by an act of Congress.
- b) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above.
- c) Certificates of deposit fully insured by the Federal Deposit Insurance Corporation of the state.
- d) Obligations of the state.

Interest Rate Risk

The Council does not have a formal deposit policy that limits deposit maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

LAKE AGASSIZ REGIONAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2020

Restricted Cash

The Council is required to keep administrative records to track income, expenses, and capital based under the revolving loan programs. Cash received and maintained under these programs is considered restricted based on grant awards. Undispersed APUC funds are also considered restricted cash, as these funds are not for the use of the Council, as specified by the grant awards.

The Council maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed the federally insured limits as guaranteed by the Federal Deposit Insurance Corporation. The Corporation maintains its cash and cash equivalents deposits in large, well-capitalized institutions. The Corporation has not experienced any losses in such accounts nor does it believe it is exposed to any significant credit risk on cash and cash equivalents.

NOTE 3 LOANS RECEIVABLE

The Council is in charge of payment collection and administrative duties for the Community Development Loan Fund (CDLF) Program. The Council performs loan underwriting and recommends funding of such loans to the North Dakota Division of Community Services after the approval by the Council's Loan Committee. The Council bears no financial obligation for repayment to North Dakota Division of Community Services should any defaults occur. The respective city accepts all risk related to the making, enforceability, and collectability of any loans. The Council collects payments on the outstanding loans and remits them to the North Dakota Division of Community Services. As compensation for these duties the Council receives twenty-five to fifty percent of the interest collected.

The Council also acts as an intermediary under the U.S. Department of Commerce Economic Development Administration (EDA) Revolving Loan Program. Under this program, the EDA grants funds to the Council, who in turn lends the funds to qualifying borrowers.

The following schedule shows the components of loans receivable at December 31, 2020:

CDLF program:	
Principal loan balance	\$ 1,035,190
Allowance for uncollectible loans	<u>(518,000)</u>
CDLF loans, net	<u>517,190</u>
EDA revolving loan program:	
Principal loan balance	923,208
Allowance for uncollectible loans	<u>(40,000)</u>
EDA revolving loans, net	<u>883,208</u>
Total loan balance, net of allowance for uncollectible loans	<u><u>\$ 1,400,398</u></u>

LAKE AGASSIZ REGIONAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2020

The Council uses the allowance method in accounting for bad debts. They provide allowances for uncollectible loans equal to the estimated losses that will be incurred in the collection of the loans. The estimated losses are based on historical collection experience coupled with a review of the current status of existing loans. The allowance for uncollectible loans totaled \$558,000 at December 31, 2020.

At December 31, 2020, loans receivable consists of the following:

Investment in loans on nonaccrual status	\$ 505,905
Investment in loans past due 90 days or more and still accruing interest	7,841
Carrying amount of loans that serve as collateral for borrowings	1,035,190

Loans are considered past due based upon the terms of the loan agreements which outline the required repayment amounts and due dates. Management reviews loans individually and, based upon its judgment and negotiations with borrowers, will periodically place loans on nonaccrual status due to delinquency of repayment. When such a situation occurs, any and all subsequent payments received from the borrower are applied to principal only. The status of nonaccrual loans is continually monitored, until management determines that either the nonaccrual status no longer applies, at which time the accrual of interest resumes, or the loan should be written off. The amount of loans serving as collateral for borrowings relate to the CDLF program.

Loans with payments outstanding more than 30 days are subject to a service charge. Loans are written off when management has explored all avenues for collection. Loan write-offs are approved by the Board of Directors.

The following schedule shows the components of loans receivable at December 31, 2020:

	Current	30-59 days	60-89 days	90 + days
CDLF Program				
Industry:				
Manufacturing	\$ -	\$ -	\$ -	\$ 300,000
Other	13,719	-	-	68,905
Service	489,296	-	-	137,000
Wholesale	26,270	-	-	-
Total	<u>\$ 529,285</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 505,905</u>
EDA revolving loan program				
Industry:				
Lodging/ restaurants/ caterers	\$ 38,182	\$ 998	\$ -	\$ -
Retail	69,911	-	-	5,120
Service	645,052	-	-	2,721
Wholesale	161,224	-	-	-
Total	<u>\$ 914,369</u>	<u>\$ 998</u>	<u>\$ -</u>	<u>\$ 7,841</u>

LAKE AGASSIZ REGIONAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2020

As a result of limitations with the loan software in use by the Council, the above aging schedule presents payment amounts past due which contain both principal and interest. In addition, any and all loans not represented in the above aging schedule are considered to be current by the Council.

Interest income on loans receivable is recorded when received from the borrower. Due to the fact that the loans are made to aid the start-up of businesses, and that extensions of due dates and payments are commonly made, interest receivable has not been accrued and recorded as of the balance sheet date. The accrued interest amounts are instead tracked separately and recorded when the collection of payments has occurred. This method approximates GAAP.

The following table shows the loans allocated by management internal risk ratings as of December 31:

Loans by risk category:						
Risk rate	Level 1	Level 2	Level 3	Level 4	Level 5	Total loans
% Allowance	0%	0%	10%	20%	100%	Receivable
CDLF program						
Manufacturing	\$ -	\$ -	\$ -	\$ -	\$ 300,000	\$ 300,000
Other	13,719	-	-	-	68,905	82,624
Service	289,296	200,000	-	-	137,000	626,296
Wholesale	26,270	-	-	-	-	26,270
CDLF total	<u>\$ 329,285</u>	<u>\$ 200,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 505,905</u>	<u>\$ 1,035,190</u>
EDA loan program						
Lodging/ restaurants/ caterers	\$ -	\$ 39,179	\$ -	\$ -	\$ -	\$ 39,179
Retail	-	-	-	75,031	-	75,031
Service	460,725	95,095	91,954	-	-	647,774
Wholesale	3,485	157,739	-	-	-	161,224
CDLF total	<u>\$ 464,210</u>	<u>\$ 292,013</u>	<u>\$ 91,954</u>	<u>\$ 75,031</u>	<u>\$ -</u>	<u>\$ 923,208</u>

NOTE 4 LONG-TERM DEBT

Long-term debt is comprised of a payable to the North Dakota Division of Community Services for loans to qualified borrowers under the CDLF Program. The Council collects payments on the outstanding loans and forwards payments to the State Agency. Interest rates on the outstanding loans range from 3.00% to 5.00%.

The balance due at December 31, 2020, was \$528,488, and is net of the allowance for uncollectible loans, which reflects the fact that the Council is not responsible for repaying the debt on any loans receivable which are deemed worthless.

LAKE AGASSIZ REGIONAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2020

The following is a summary of changes in long-term indebtedness of the Council for the year ended December 31, 2020:

	<u>ND Division of Community Services</u>
Beginning balance	\$ 983,416
Advances	200,000
Amount retired	<u>(136,928)</u>
Ending balance	<u>\$ 1,046,488</u>
Amount due within one year	<u>\$ 573,617</u>

The following is a schedule of principal and interest payments due on the above debt as of December 31:

	Principal	Interest	Total
2021	\$ 573,617	\$ 16,711	\$ 590,328
2022	71,505	14,186	85,691
2023	73,161	12,530	85,691
2024	73,729	11,962	85,691
2025	73,533	11,411	84,944
2026-2030	150,812	13,305	164,117
2031-2035	30,131	5,223	35,354
	1,046,488	85,328	1,131,816
Less: allowance	(518,000)	-	(518,000)
Total	\$ 528,488	\$ 85,328	\$ 613,816

NOTE 5 RELATED-PARTY TRANSACTIONS

As previously disclosed, the Council administers the CDLF program on behalf of the North Dakota Division of Community Services, and bears no financial obligation for any uncollectible loans. At management's determination, past due CDLF program loans are classified as current, and are offset by an equal amount of allowance. The total amount of principal payments due within 2020, as presented in the preceding schedule, includes these amounts.

The Council shares staff and facilities with Lake Agassiz Regional Development Corporation, a 501(c)(3) organization whose purpose is to provide community planning and economic development assistance to primarily, but not limited to, a six-county region in southeastern North Dakota.

The Council reimburses Lake Agassiz Regional Development Corporation for its share of staffing and facility expenses. For 2020, the amount of these expenses totaled \$118,880, of which \$462 remains in accounts payable at December 31, 2020.

LAKE AGASSIZ REGIONAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2020

In October 2020, the Council and Lake Agassiz Regional Development Corporation agreed to work together to advance funds to a Council borrower. Lake Agassiz Regional Development Corporation loaned the Council \$160,000 to fund an EDA CARES Act loan. Annual interest rate is fixed at 1% with interest and principal due in one lump sum January 2021.

NOTE 6 RETIREMENT PLAN

In 2018 the Council established a profit-sharing and savings plan which qualifies under Section 401(k) of the Internal Revenue Code, which replace the SIMPLE IRA plan. The plan allows eligible employees to contribute up to 5% of their compensation, while the Council matches 80% of the employee's contribution, up to 4% maximum. The plan covers all employees that are at least 21 years of age and have 6 months of service with the Council. Contributions totaled \$4,659 in 2020 and is included in salaries and benefits on the statement of activities.

NOTE 7 VACATION AND SICK LEAVE

The table below sets forth a summary of changes in accrued vacation leave:

Balance, January 1, 2020	\$	8,688
Earned		8,191
Used		<u>(7,824)</u>
Balance, December 31, 2020	\$	<u><u>9,055</u></u>
Due within one year	\$	<u><u>9,055</u></u>

The General fund is typically used to liquidate the accrued balances.

NOTE 8 RISK MANAGEMENT

As disclosed above, the Council has significant loans receivable in the EDA Revolving Loan Fund. There is significant credit risk in this lending process. The Council provides allowances for estimated uncollectible loans and follows sound lending practices to minimize that risk.

The Council is exposed to various risks of loss related to torts, thefts of, damage to, and destruction of assets; errors and omissions insurance; injuries to employees; and natural disasters. Management believes the current insurance coverage is adequate.

NOTE 9 REPORTING ENTITY

The Council, in accordance with GASB, has developed criteria to determine whether outside agencies with activities which benefit the Council should be included within its financial reporting entity. The criteria include, but are not limited to, whether the Council exercises oversight responsibility on financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters, scope of public service and special financing relationships. The Council has determined that no other outside agency meets the above criteria and, therefore, no other agency has been included as a component unit in the Council's financial statements.

LAKE AGASSIZ REGIONAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2020

NOTE 10 TRANSFERS

The following is a summary of transfers from various funds to the General Fund during the year ended December 31, 2020:

EDA Revolving Loan Fund	\$ 25,213
Community Development Loan Fund	<u>5,501</u>
Total Transfers to General Fund	<u><u>\$ 30,714</u></u>

All transfers to the General Fund were for administrative expenses.

NOTE 11 RISKS AND UNCERTAINTIES

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. Federal, state and local governments have since implemented various restrictions on travel, public gatherings, and business operations. The restrictions and government's social distancing recommendations have had significant impacts on the economy. While the Council expects this matter to impact its operations, the extent of the impact is uncertain.

NOTE 12 UNCERTAIN TAX POSITIONS

It is the opinion of management that the Council has no significant uncertain tax positions that would be subject to change upon examination. The federal income tax returns of the Council are subject to examination by the IRS, generally for three years after they were filed. All tax filings are up-to-date.

NOTE 13 RECENT ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 87, *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

LAKE AGASSIZ REGIONAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2020

GASB Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement clarifies the existing definition of a conduit debt obligation; establishes that a conduit debt obligation is not a liability of the issuer; establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improves required note disclosures. This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.

GASB Statement No. 92, *Omnibus 2020*, provides additional guidance to improve consistency of authoritative literature by addressing practice issues identified during the application of certain GASB statements. This statement provides accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activity of public entity risk pools, fair value measurements and derivative instruments. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*, provides guidance to address accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR), most notable, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. This statement provides exceptions and clarifications regarding hedging derivative instruments for such transactions that result from the replacement of IBOR. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs) and also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). The statement provides definitions of PPPs and APAs and provides uniform guidance on accounting and financial reporting for transactions that meet those definitions. A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

LAKE AGASSIZ REGIONAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2020

GASB Statement No. 96, *Subscription-Based Information Arrangements* provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. Under this Statement, a government generally should recognize a right-to use subscription asset—an intangible asset—and a corresponding subscription liability. The requirements of this Statement will improve financial reporting by establishing a definition for SBITAs and providing uniform guidance for accounting and financial reporting for transactions that meet that definition. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32* provides additional guidance for determining whether a primary government is financially accountable for a potential component unit. This Statement requires that the financial burden criterion in paragraph 7 of Statement No. 84, *Fiduciary Activities*, be applicable to only defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement No. 67, *Financial Reporting for Pension Plans*, or paragraph 3 of Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, respectively. This Statement (1) requires that a Section 457 plan be classified as either a pension plan or an other employee benefit plan depending on whether the plan meets the definition of a pension plan and (2) clarifies that Statement 84, as amended, should be applied to all arrangements organized under IRC Section 457 to determine whether those arrangements should be reported as fiduciary activities. The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately. The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021.

Management has not yet determined what effect these pronouncements will have on the Council's financial statements.

NOTE 14 SUBSEQUENT EVENTS

No significant events occurred subsequent to the Council's year-end. Subsequent events have been evaluated through June 23, 2021, which is the date financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

LAKE AGASSIZ REGIONAL COUNCIL
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2020

	Original budget	Final budget	Actual	Variance favorable (unfavorable)
Revenues:				
Administrative	\$ 136,235	\$ 136,235	\$ 59,717	\$ (76,518)
Federal Grants	70,000	70,000	170,000	100,000
Local Support	45,000	45,000	45,100	100
Interest Income	-	-	176	176
Miscellaneous	53,600	53,600	74,724	21,124
Total Revenues	<u>304,835</u>	<u>304,835</u>	<u>349,717</u>	<u>44,882</u>
Expenditures:				
Current:				
Administrative	34,500	34,500	14,832	19,668
Grants	-	-	15,827	(15,827)
Insurance	8,400	8,400	8,385	15
Other	11,280	11,280	24,698	(13,418)
Professional services	15,120	15,120	15,050	70
Contracted services	90,000	90,000	90,000	-
Salaries & benefits	138,480	138,480	151,693	(13,213)
Total expenditures	<u>297,780</u>	<u>297,780</u>	<u>320,485</u>	<u>(22,705)</u>
Revenues over (under) expenditures	7,055	7,055	29,232	22,177
Other financing sources:				
Transfers in	-	-	30,714	30,714
Total other financing sources	7,055	7,055	59,946	52,891
Fund balance - beginning of year	<u>128,027</u>	<u>128,027</u>	<u>128,027</u>	<u>-</u>
Fund balance - end of year	<u><u>\$ 135,082</u></u>	<u><u>\$ 135,082</u></u>	<u><u>\$ 187,973</u></u>	<u><u>\$ 52,891</u></u>

See notes to the budgetary comparison schedule for the general fund

LAKE AGASSIZ REGIONAL COUNCIL
NOTES TO THE BUDGETARY COMPARISON SCHEDULE
FOR THE GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2020

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The budgetary comparison schedule contains the budget for the General fund and was prepared on the modified-accrual basis. No budgets have been legally adopted, nor are they required, for the major special revenue funds, and thus, are not presented. All unencumbered appropriations in the General fund lapse at year end.

NOTE 2 EXPENDITURES IN EXCESS OF BUDGET

The budgetary comparison schedule for the General fund contains three categories of expenses where the actual amount expended exceeds the amount budgeted. Grant expense exceeded the budgeted amount by \$15,827, other expense exceeded the budgeted amount by \$13,418 and salaries and benefits exceeded the budgeted amount by \$13,213.

LAKE AGASSIZ REGIONAL COUNCIL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2020

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Commerce:		
Economic Development Administration Planning Grant (Direct)	11.302	\$ 170,000
Economic Development Administration Revolving Loan Fund (Direct)	11.307	<u>1,277,739</u>
Total U.S. Department of Commerce:		<u>1,447,739</u>
Total Expenditures of Federal Awards		<u><u>\$ 1,447,739</u></u>

See notes to the schedule of expenditures of federal awards

LAKE AGASSIZ REGIONAL COUNCIL
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2020

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported in the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

NOTE 2 INDIRECT COST RATE

The Council has not elected the minimum indirect cost rate provided for by The Uniform Guidance, which allows for the allocation of 10% of modified total direct costs (direct salaries and wages, applicable fringe benefits, materials and supplies, services, and travel).

NOTE 3 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the Lake Agassiz Regional Council under programs of the federal government for the year ended December 31, 2020. The information presented in accordance with the requirements of the Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Lake Agassiz Regional Council, it is not intended to and does not present the financial positions, changes in net position, or cash flows of Lake Agassiz Regional Council.

NOTE 4 LOANS OUTSTANDING

The calculation of total federal expenditures for the Economic Development Administration Revolving Loan Fund (EDA RLF) program (CFDA 11.307) are as follows:

	EDA RLF
Balance of loans receivable at December 31, 2020	\$ 923,208
Cash, cash equivalents and Investments	207,567
Administrative expenses	25,213
Unpaid principal of loans written off during the year ended December 31, 2020	121,751
Total Expenditures of Federal Awards	\$ 1,277,739

**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**

To the Board of Directors of
Lake Agassiz Regional Council
Fargo, North Dakota

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 governmental activities and each major fund of Lake Agassiz Regional Council, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise Lake Agassiz Regional Council's basic financial statements, and have issued our report thereon dated June 23, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lake Agassiz Regional Council's internal control over financial reporting (internal control) as a basis for designing 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 Lake Agassiz Regional Council's internal control. Accordingly, we do not express an opinion on the effectiveness of Lake Agassiz Regional 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2020-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lake Agassiz Regional Council's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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*.

Lake Agassiz Regional Council's Response to Findings

Lake Agassiz Regional Council's response to the finding identified in our audit is described in the schedule of findings and questioned costs. Lake Agassiz Regional Council's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result 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.



BRADY, MARTZ & ASSOCIATES, P.C.
FARGO, NORTH DAKOTA

June 23, 2021

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

To the Board of Directors of
Lake Agassiz Regional Council
Fargo, North Dakota

Report on Compliance for Each Major Federal Program

We have audited Lake Agassiz Regional Council's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Lake Agassiz Regional Council's major federal program for the year ended December 31, 2020. Lake Agassiz Regional 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 federal statutes, regulations, and terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

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

Opinion on Each Major Federal Program

In our opinion, Lake Agassiz Regional Council 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 December 31, 2020.

Report on Internal Control Over Compliance

Management of Lake Agassiz Regional Council 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 Lake Agassiz Regional Council'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 our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Lake Agassiz Regional 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 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, however, material weaknesses may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

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.

A handwritten signature in black ink that reads "Brady Martz". The signature is written in a cursive, flowing style.

**BRADY, MARTZ & ASSOCIATES, P.C.
FARGO, NORTH DAKOTA**

June 23, 2021

LAKE AGASSIZ REGIONAL COUNCIL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2020

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	<u> X </u>	Yes	<u> </u>	No
Significant deficiency(ies) identified?	<u> </u>	Yes	<u> X </u>	None Reported
Noncompliance material to financial statements noted?	<u> </u>	Yes	<u> X </u>	No

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?	<u> </u>	Yes	<u> X </u>	No
Significant deficiency(ies) identified?	<u> </u>	Yes	<u> X </u>	None Reported

Type of auditor's report issued on compliance for major federal programs: Unmodified

Any findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

	<u> </u>	Yes	<u> X </u>	No
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CFDA Number(s)	Name of Federal Program or Cluster
11.307	U.S. Department of Commerce: Economic Development Administration Revolving Loan Fund

Dollar threshold used to distinguish between Type A and Type B programs:

 \$750,000

Auditee qualified as low-risk auditee?

	<u> </u>	Yes	<u> X </u>	No
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LAKE AGASSIZ REGIONAL COUNCIL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
DECEMBER 31, 2020

Section II – Financial Statement Findings

2020-001 Financial Statement Preparation

Criteria – An appropriate system of internal control requires Lake Agassiz Regional Council to prepare financial statements in compliance with accounting principles generally accepted in the United States of America.

Condition – Lake Agassiz Regional Council’s personnel prepare periodic financial information for internal use that meets the needs of management and the board. However, the entity currently does not prepare financial statements including accompanying footnote disclosures, as required by accounting principles generally accepted in the United States of America. The entity has elected to have the auditors assist in the preparation of the financial statements and notes.

Context – As auditors, we were requested to assist with the draft of the financial statements and accompanying notes.

Cause – Lake Agassiz Regional Council elected to not allocate resources for the preparation of the financial statements.

Effect or Potential Effect – There is an increased risk of material misstatement to Lake Agassiz Regional Council’s financial statements.

Recommendation – We recommend Lake Agassiz Regional Council consider the additional risk of having the auditors assist in the preparation of the financial statements and footnote disclosures and consider preparing them in the future. As a compensating control the entity should establish an internal control policy to document the annual review of the financial statements and schedules and to review a financial statement disclosure checklist.

Views of Responsible Officials – Due to the cost constraints, Lake Agassiz Regional Council will continue to have the auditors draft the financial statements and accompanying footnotes to the financial statements.

Indication of Repeat Finding - This is a repeat finding of finding 2019-001 from the prior year.

Section III – Federal Awards Findings

None noted.

LAKE AGASSIZ REGIONAL COUNCIL
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2020

2019-001 Financial Statement Preparation

Recommendation – We recommend Lake Agassiz Regional Council consider the additional risk of having the auditor assist in the preparation of the financial statements and footnote disclosures and consider preparing them in the future. As a compensating control the entity should establish an internal control policy to document the annual review of the financial statements and schedules and to review a financial statement disclosure checklist.

Current Year status - Finding is 2019-001 is repeated as finding 2020-001.



Lake Agassiz Regional Council respectfully submits the following corrective action plan for the year ended December 31, 2020.

Name and address of independent public accounting firm:

Brady, Martz & Associates, P.C.
2537 South University Dr.
Fargo, ND 58103

Audit period: For the year ended December 31, 2020

The findings from the schedule of findings and questioned costs are discussed below. The finding is numbered consistently with the number assigned in the schedule of findings and questioned costs.

Findings – Financial Statement Audit

2020-001 Financial Statement Preparation

Planned Corrective Action – Due to cost constraints, Lake Agassiz Regional Council will continue to have the auditors draft the financial statements and accompanying notes to the financial statements.

If the Oversight Agency has any questions regarding this plan, please call Amber Metz at 701-235-1197.

Sincerely yours,

Amber Metz, Executive Director
Lake Agassiz Regional Council



417 Main Ave. Ste 201
Fargo, ND 58103

PHONE: (701) 235-1197
FAX: (701) 235-6706
TDD: (800) 366-6889

