

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

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund of Lake Agassiz Regional Council, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise Lake Agassiz Regional Council's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund of Lake Agassiz Regional Council, as of December 31, 2021, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Lake Agassiz Regional Council and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Lake Agassiz Regional Council's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Lake Agassiz Regional Council's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Lake Agassiz Regional Council's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 is the responsibility of management and, 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 the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America is required 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 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.

Supplementary 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 accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic 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 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 29, 2022, 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 Lake Agassiz Regional 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 Lake Agassiz Regional Council's internal control over financial reporting and compliance.

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 29, 2022

LAKE AGASSIZ REGIONAL COUNCIL
STATEMENT OF NET POSITION
DECEMBER 31, 2021

	Governmental Activities
Assets:	
Cash and cash equivalents	\$ 123,896
Restricted cash	466,833
Accounts receivable	216,138
Loans receivable, net	2,464,237
Prepaid expenses	3,000
Total assets	3,274,104
Liabilities:	
Accounts payable	1,947
Due to related party	118,953
Accrued leave	9,190
Accrued expenses	1,732
Noncurrent liabilities:	
Due within one year	59,488
Due in more than one year	398,681
Total liabilities	589,991
Net position:	
Restricted net position	2,468,774
Unrestricted net position	215,339
Total net position	\$ 2,684,113

See notes to the financial statements

LAKE AGASSIZ REGIONAL COUNCIL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2021

Programs	Expenses	Program Revenues		Net (expenses) revenues and changes in net position
		Charges for services	Operating grants and contributions	
				Governmental activities
Governmental activities:				
Economic development	\$ 405,759	\$ 47,797	\$ 249,457	\$ (108,505)
EDA Revolving Loan	305	77,220	1,547,014	1,623,929
Community Development Loan	8,199	15,248	-	7,049
Grant	90	-	90	-
Total governmental activities	\$ 414,353	\$ 140,265	\$ 1,796,561	1,522,473
		General revenues:		
		Miscellaneous		42,159
		Total general revenues		42,159
		Changes in net position		1,564,632
		Total net position - beginning		1,119,481
		Total net position - ending		<u>\$ 2,684,113</u>

See notes to the financial statements

LAKE AGASSIZ REGIONAL COUNCIL
BALANCE SHEET – GOVERNMENTAL FUNDS
DECEMBER 31, 2021

	General fund	EDA revolving loan fund	Community Development Loan fund	Grant fund	Total governmental funds
Assets:					
Cash and cash equivalents	\$ 123,896	\$ -	\$ -	\$ -	\$ 123,896
Restricted cash	-	458,628	8,205	-	466,833
Accounts receivable	149,241	66,897	-	-	216,138
Loans receivable, net	-	2,008,682	455,555	-	2,464,237
Prepaid expenses	3,000	-	-	-	3,000
Total assets	<u>\$ 276,137</u>	<u>\$ 2,534,207</u>	<u>\$ 463,760</u>	<u>\$ -</u>	<u>\$ 3,274,104</u>
Liabilities:					
Accounts payable	\$ 1,829	\$ 118	\$ -	\$ -	\$ 1,947
Due to related party	48,047	70,906	-	-	118,953
Accrued leave	9,190	-	-	-	9,190
Accrued expenses	1,732	-	-	-	1,732
Total liabilities	<u>60,798</u>	<u>71,024</u>	<u>-</u>	<u>-</u>	<u>131,822</u>
Fund balance:					
Restricted - loan & grant programs	-	2,463,183	463,760	-	2,926,943
Unassigned	215,339	-	-	-	215,339
Total fund balance	<u>215,339</u>	<u>2,463,183</u>	<u>463,760</u>	<u>-</u>	<u>3,142,282</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 276,137</u>	<u>\$ 2,534,207</u>	<u>\$ 463,760</u>	<u>\$ -</u>	<u>\$ 3,274,104</u>

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, 2021

Total Fund Balances for Governmental Funds \$ 3,142,282

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, 2021 is:

Long-term debt (458,169)

Total net position \$ 2,684,113

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, 2021

	General fund	EDA revolving loan fund	Community Development Loan Fund	Grant fund	Total governmental funds
Revenues:					
Administrative	\$ 46,597	\$ 2,769	\$ -	\$ -	\$ 49,366
Federal grants	120,000	1,547,014	-	-	1,667,014
State grants	-	-	-	90	90
Local support	129,457	-	-	-	129,457
Interest income	1,200	56,451	15,248	-	72,899
Bad debt recovery and change in allowance	-	18,000	-	-	18,000
Miscellaneous	42,159	-	-	-	42,159
Total revenues	339,413	1,624,234	15,248	90	1,978,985
Expenditures:					
Current:					
Administrative	19,632	69	-	-	19,701
Grants	7,902	-	-	90	7,992
Loan closing costs	-	236	-	-	236
Insurance	9,321	-	-	-	9,321
Other	4,384	-	-	-	4,384
Rent	9,120	-	-	-	9,120
Utilities	2,258	-	-	-	2,258
Professional services	15,200	-	-	-	15,200
Contracted services	187,013	-	-	-	187,013
Salaries & benefits	150,863	-	-	-	150,863
Debt service:					
Principal	-	-	70,319	-	70,319
Interest	66	-	8,199	-	8,265
Total expenditures	405,759	305	78,518	90	484,672
Excess (deficiency) of revenues over (under) expenditures	(66,346)	1,623,929	(63,270)	-	1,494,313
Other financing sources (uses):					
Transfers in	93,712	-	-	-	93,712
Transfers out	-	(89,205)	(4,507)	-	(93,712)
Total other financing sources (uses)	93,712	(89,205)	(4,507)	-	-
Net change in fund balances	27,366	1,534,724	(67,777)	-	1,494,313
Fund balance - beginning of year	187,973	928,459	531,537	-	1,647,969
Fund balance - end of year	\$ 215,339	\$ 2,463,183	\$ 463,760	\$ -	\$ 3,142,282

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, 2021

Net change in fund balances - total governmental funds \$ 1,494,313

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

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.

70,319

Changes in net position of governmental activities

\$ 1,564,632

See notes to the financial statements

LAKE AGASSIZ REGIONAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021

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, 2021

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 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, 2021

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, 2021, 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, 2021, 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, 2021, 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, 2021

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.

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.

LAKE AGASSIZ REGIONAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

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

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.

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.

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.

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.

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.

LAKE AGASSIZ REGIONAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

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, 2021, 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, 2021, 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.

Income Taxes

The Council is exempt from payment of federal income taxes under the provisions of Section 501(c)(4) 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.

LAKE AGASSIZ REGIONAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

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.

The Council maintains cash on deposit at one financial institution. The amounts on deposit are insured by FDIC up to \$250,000 per financial institution. At December 31, 2021, \$340,728 of the Council's deposits were exposed to credit risk.

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.

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.

LAKE AGASSIZ REGIONAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

NOTE 3 LOANS RECEIVABLE

Loans receivable consists of the following at December 31, 2021:

CDLF program	
Loans bearing interest from 3%-5%, with maturity dates through 2032, secured with personal guarantees, inventory, property, and equipment, of the borrowers.	\$ 973,554
Less: allowance for doubtful accounts	<u>(518,000)</u>
CDLF loans receivable, net	<u>455,554</u>
EDA RLF program:	
Loans bearing interest from 2%-5.5%, with maturity dates through 2034, secured with personal guarantees, inventory, property, and equipment, of the borrowers.	2,030,683
Less: allowance for doubtful accounts	<u>(22,000)</u>
EDA RLF loans receivable, net	<u>2,008,683</u>
Total loans receivable, net	<u><u>\$ 2,464,237</u></u>

The follow table presents information data by class of financing regarding their age and interest accrual status at December 31, 2021:

	Past Due				Status of Interest Accruals		
	Current	30-59 days	60-89 days	90 + days	Total past due	Total financing receivables on nonaccrual status	Financing receivables past due > 90 days and still accruing interest
CDLF Program	\$ 394,020	\$ 73,629	\$ -	\$ 505,905	\$ 579,534	\$ 505,905	\$ -
EDA revolving loan program	1,927,608	13,878	89,197	-	103,075	-	-
Allowance for loan losses	<u>(34,095)</u>	-	-	<u>(505,905)</u>	<u>(505,905)</u>	-	-
Total	<u><u>\$ 2,287,533</u></u>	<u><u>\$ 87,507</u></u>	<u><u>\$ 89,197</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 176,704</u></u>	<u><u>\$ 505,905</u></u>	<u><u>\$ -</u></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, 2021, was \$458,169, 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, 2021

The following is a summary of changes in long-term indebtedness of the Council for the year ended December 31, 2021:

	<u>ND Division of Community Services</u>
Beginning balance	\$ 1,046,488
Amount retired	<u>(70,319)</u>
Ending balance	<u>\$ 976,169</u>
Amount due within one year	<u>\$ 577,488</u>

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

	Principal	Interest	Total
2022	\$ 577,488	\$ 14,108	\$ 591,596
2023	73,731	11,961	85,692
2024	74,315	11,377	85,692
2025	74,867	10,825	85,692
2026	71,490	10,257	81,747
2027-2031	98,728	9,025	107,753
2032-2035	5,550	5,415	10,965
	<u>976,169</u>	<u>72,968</u>	<u>1,049,137</u>
Less: allowance	(518,000)	-	(518,000)
Total	<u>\$ 458,169</u>	<u>\$ 72,968</u>	<u>\$ 531,137</u>

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 2021, as presented in Note 4, 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 2021, the amount of these expenses totaled \$109,449, of which \$480 remains in accounts payable at December 31, 2021.

LAKE AGASSIZ REGIONAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 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 replaced 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 \$4,651 in 2021 and is included in economic development expenses 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, 2021	\$ 9,055
Earned	7,564
Used	<u>(7,429)</u>
Balance, December 31, 2021	<u>\$ 9,190</u>
Due within one year	<u>\$ 9,190</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, 2021

NOTE 10 TRANSFERS

The following is a summary of transfers from various funds to the General Fund during the year ended December 31, 2021:

EDA Revolving Loan Fund	\$ 89,205
Community Development Loan Fund	<u>4,507</u>
Total Transfers to General Fund	<u><u>\$ 93,712</u></u>

All transfers to the General Fund were for administrative expenses.

NOTE 11 CONTINGENCIES

The Council participates in federal programs, which are governed by various rules and regulations of the grantor agency. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agency; therefore, to the extent that the Council has not complied with rules and regulations governing the grants, refunds of any money received maybe required. In the opinion of the Council, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

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. 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;

LAKE AGASSIZ REGIONAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

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.

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

LAKE AGASSIZ REGIONAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

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 29, 2022, 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, 2021

	Original/Final budget	Actual	Variance favorable (unfavorable)
Revenues:			
Administrative	\$ 189,592	\$ 46,597	\$ (142,995)
Federal Grants	270,000	120,000	(150,000)
Local Support	50,000	129,457	79,457
Interest Income	-	1,200	1,200
Miscellaneous	49,450	42,159	(7,291)
	<u>559,042</u>	<u>339,413</u>	<u>(219,629)</u>
Total Revenues			
Expenditures:			
Current:			
Administrative	36,120	19,632	16,488
Grants	60,000	7,902	52,098
Insurance	9,000	9,321	(321)
Other	11,280	15,828	(4,548)
Professional services	15,540	15,200	340
Contracted services	175,000	187,013	(12,013)
Salaries & benefits	188,700	150,863	37,837
	<u>495,640</u>	<u>405,759</u>	<u>89,881</u>
Total expenditures			
Revenues over (under) expenditures	63,402	(66,346)	(129,748)
Other financing sources:			
Transfers in	-	93,712	93,712
	<u>63,402</u>	<u>27,366</u>	<u>(36,036)</u>
Total other financing sources			
Fund balance - beginning of year	<u>187,973</u>	<u>187,973</u>	<u>-</u>
Fund balance - end of year	<u>\$ 251,375</u>	<u>\$ 215,339</u>	<u>\$ (36,036)</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, 2021

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.

LAKE AGASSIZ REGIONAL COUNCIL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2021

<u>Federal Grantor/Program Title</u>	<u>Federal AL Number</u>	<u>Federal Expenditures</u>
U.S. Department of Commerce:		
Economic Development Administration Planning Grant (Direct)	11.302	\$ 120,000
Economic Development Administration Revolving Loan Fund (Direct)	11.307	<u>1,580,491</u>
Total U.S. Department of Commerce:		<u>1,700,491</u>
Total Expenditures of Federal Awards		<u><u>\$ 1,700,491</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, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported in the accompanying schedule of expenditures of federal awards (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 Schedule includes the federal award activity of the Lake Agassiz Regional Council under programs of the federal government for the year ended December 31, 2021. 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 (AL 11.307) are as follows:

	EDA RLF
Balance of loans receivable at December 31, 2021	\$ 1,214,934
Cash, cash equivalents and Investments	276,353
Administrative expenses	89,204
Total Expenditures of Federal Awards	\$ 1,580,491

LAKE AGASSIZ REGIONAL COUNCIL
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS -
CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2021

NOTE 5 FINANCIAL STATEMENT RECONCILIATION

Government grant revenue per the statement of revenues, expenditures, and changes in fund balance – governmental funds for the year ended December 31, 2021 has been reconciled to the total federal expenditures per the Schedule of Expenditures of Federal Awards as follows:

Federal grants	\$ 1,667,014
Less federal funds used in the loan pool	<u>(1,547,014)</u>
Total federal grants	120,000
EDA RLF Loan	<u>1,580,491</u>
Total	<u><u>\$ 1,700,491</u></u>
Total federal expenditures on SEFA	<u><u>\$ 1,700,491</u></u>

**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, 2021, 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 29, 2022.

Report on 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 the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2021-001 that we consider to be a material weakness.

Report on 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

Government Auditing Standards requires the auditor to perform limited procedures on Lake Agassiz Regional Council's response to the finding identified in our audit and described in the accompanying schedule of findings and questioned costs. Lake Agassiz Regional Council response was not subjected to other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 29, 2022

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

Opinion on Each Major Federal Program

We have audited Lake Agassiz Regional Council's compliance with the types of compliance requirements identified as subject to audit 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, 2021. 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.

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 program for the year ended December 31, 2021.

Basis for Opinion on Each Major Federal Program

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* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Lake Agassiz Regional Council and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Lake Agassiz Regional Council's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Lake Agassiz Regional Council's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Lake Agassiz Regional Council's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Lake Agassiz Regional Council's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Lake Agassiz Regional Council's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Lake Agassiz Regional Council's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 Lake Agassiz Regional Council's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.



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

June 29, 2022

LAKE AGASSIZ REGIONAL COUNCIL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2021

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
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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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AL 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:	<u> \$750,000 </u>
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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, 2021

Section II – Financial Statement Findings

2021-001 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 2020-001 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, 2021

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.

Current Year status - Finding 2020-001 is repeated as finding 2021-001.



Lake Agassiz Regional Council respectfully submits the following corrective action plan for the year ended December 31, 2021.

Audit period: For the year ended December 31, 2021.

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

2021-001 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



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