

**RED RIVER REGIONAL COUNCIL
GRAFTON, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Red River Regional Council
Grafton, North Dakota

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying modified cash basis financial statements of the governmental activities, and each major fund of Red River Regional Council, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the 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 modified cash basis financial position of the governmental activities, and each major fund of Red River Regional Council as of December 31, 2023, and the respective changes in modified cash basis financial position for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

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 described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Red River 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.

Emphasis of Matter

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

As described in Note 11 to the financial statements, a prior period adjustment was recorded. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the modified cash basis of accounting described in Note 1, and for determining that the modified cash basis of accounting is an acceptable basis for the presentation of the financial statements in the circumstances. Management is also responsible 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.

Auditor's Responsibilities 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 Red River 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 Red River 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole. The 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 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 information 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 April 2, 2025, on our consideration of Red River 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 Red River 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 Red River Regional Council's internal control over financial reporting and compliance.



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

April 2, 2025

RED RIVER REGIONAL COUNCIL
STATEMENT OF NET POSITION – MODIFIED CASH BASIS
DECEMBER 31, 2023

ASSETS	<u>Total</u>
CURRENT ASSETS	
Cash and cash equivalents	\$ 1,225,405
Current portion of loans receivable	<u>193,439</u>
Total current assets	<u>1,418,844</u>
 CAPITAL ASSETS	
Non-depreciable	115,678
Depreciable, net	<u>1,215,278</u>
Total capital assets	<u>1,330,956</u>
 OTHER ASSETS	
Loans receivable, net	<u>932,087</u>
Total assets	<u>3,681,887</u>
 NET POSITION	
Net investment in capital assets	1,330,956
Restricted	
Restricted for economic development	2,031,271
Unrestricted	<u>319,660</u>
Total net position	<u><u>\$ 3,681,887</u></u>

SEE NOTES TO THE FINANCIAL STATEMENTS

RED RIVER REGIONAL COUNCIL
STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2023

Program Activities	Disbursements	Program Receipts		Net (Disbursements) Receipts and Changes in Net Position
		Charges for Services	Operating Grants & Contributions	
Governmental activities				
Economic development	\$ 960,254	\$ 367,376	\$ 344,034	\$ (248,844)
Lending programs	17,604	-	17,229	(375)
Total Government activities	<u>\$ 977,858</u>	<u>\$ 367,376</u>	<u>\$ 361,263</u>	<u>(249,219)</u>
General revenues				
Local support				184,424
Interest income				6,643
Total general revenues				<u>191,067</u>
Change in net position				(58,152)
Net position - beginning of year, originally stated				<u>2,492,710</u>
Prior period adjustment - see Note 11				1,247,329
Net position - beginning of year, restated				<u>3,740,039</u>
Net position - end of year				<u>\$ 3,681,887</u>

SEE NOTES TO THE FINANCIAL STATEMENTS

RED RIVER REGIONAL COUNCIL
BALANCE SHEET – GOVERNMENTAL FUNDS – MODIFIED CASH BASIS
DECEMBER 31, 2023

	Major Funds				Total Governmental Funds
	General Fund	Revolving Loan Fund	Progress Fund	Catalyst Fund	
ASSETS:					
CURRENT ASSETS					
Cash and cash equivalents	\$ 319,660	\$ 210,991	\$ 424,059	\$ 270,695	\$ 1,225,405
Current portion of loans receivable	-	9,849	26,162	157,428	193,439
Total current assets	<u>319,660</u>	<u>220,840</u>	<u>450,221</u>	<u>428,123</u>	<u>1,418,844</u>
NON-CURRENT ASSETS					
Loans receivable, net	-	65,146	31,881	835,060	932,087
Total assets	<u>\$ 319,660</u>	<u>\$ 285,986</u>	<u>\$ 482,102</u>	<u>\$ 1,263,183</u>	<u>\$ 2,350,931</u>
FUND BALANCE					
Spendable					
Restricted					
Revolving loan funds	\$ -	\$ 285,986	\$ 482,102	\$ 1,263,183	\$ 2,031,271
Unassigned	<u>319,660</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>319,660</u>
Total fund balance	<u>\$ 319,660</u>	<u>\$ 285,986</u>	<u>\$ 482,102</u>	<u>\$ 1,263,183</u>	<u>\$ 2,350,931</u>

SEE NOTES TO THE FINANCIAL STATEMENTS

RED RIVER REGIONAL COUNCIL
RECONCILIATION OF THE MODIFIED CASH BASIS GOVERNMENTAL FUNDS BALANCE
SHEET TO THE STATEMENT OF NET POSITION – MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2023

Total Governmental Funds Balance	\$ 2,350,931
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Total net position reported for governmental activities in the
statement of net position is different because:

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds.

Cost of capital assets	\$ 1,365,678	
Less accumulated depreciation	<u>(34,722)</u>	
Net capital assets		<u>1,330,956</u>

Net Position of Governmental Activities	<u><u>\$ 3,681,887</u></u>
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SEE NOTES TO THE FINANCIAL STATEMENTS

RED RIVER REGIONAL COUNCIL
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE-
GOVERNMENTAL FUNDS – MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2023

	Major Funds				Total Governmental Funds
	General Fund	Revolving Loan Fund	Progress Fund	Catalyst Fund	
OPERATING RECEIPTS					
Administrative	\$ 324,720	\$ -	\$ -	\$ -	\$ 324,720
Grant income	116,000	-	-	-	116,000
Loan interest	475	3,206	3,281	10,742	17,704
Local support	184,424	-	-	-	184,424
Other contracts/projects	42,656	-	-	-	42,656
Project income	217,555	-	-	-	217,555
Rent income	10,004	-	-	-	10,004
Interest income	172	1,668	3,224	1,579	6,643
TOTAL OPERATING RECEIPTS	896,006	4,874	6,505	12,321	919,706
DISBURSEMENTS					
Current:					
Administration expense	820	3,333	4,800	9,471	18,424
Advertising	928	-	-	-	928
Dues & memberships	4,106	-	-	-	4,106
Insurance	120,385	-	-	-	120,385
Interest & fees	793	-	-	-	793
Legal & professional	255	-	-	-	255
Miscellaneous	3,542	-	-	-	3,542
Office expense	9,129	-	-	-	9,129
Project costs	203,994	-	-	-	203,994
Rent expense	23,077	-	-	-	23,077
Repairs and maintenance	23,913	-	-	-	23,913
Retirement	30,596	-	-	-	30,596
Salaries & benefits	432,452	-	-	-	432,452
Taxes	35,834	-	-	-	35,834
Training & seminars	11,295	-	-	-	11,295
Travel & meetings	24,957	-	-	-	24,957
Utilities	2,127	-	-	-	2,127
Total current	928,203	3,333	4,800	9,471	945,807
Capital outlay	115,678	-	-	-	115,678
TOTAL DISBURSEMENTS	1,043,881	3,333	4,800	9,471	1,061,485
Excess (deficiency) of receipts over disbursements	(147,875)	1,541	1,705	2,850	(141,779)
OTHER FINANCING SOURCES (USES)					
Transfers	(18,399)	(153,940)	179,307	(6,968)	-
TOTAL OTHER FINANCING SOURCES (USES)	(18,399)	(153,940)	179,307	(6,968)	-
Net change in fund balances	(166,274)	(152,399)	181,012	(4,118)	(141,779)
Fund balance - January 1	485,934	438,385	301,090	1,267,301	2,492,710
Fund balance - December 31	\$ 319,660	\$ 285,986	\$ 482,102	\$ 1,263,183	\$ 2,350,931

SEE NOTES TO THE FINANCIAL STATEMENTS

RED RIVER REGIONAL COUNCIL
RECONCILIATION OF THE MODIFIED CASH BASIS GOVERNMENTAL FUNDS
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE TO
THE STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2023

Net Change in Fund Balance - Total Governmental Funds	\$ (141,779)
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The change in net position reported for governmental activities in the statement of activities is different because:

Amounts of capital asset purchases are reported as expenditures on the fund financial statements but increase assets on the government-wide statements. The amount of capital asset purchases is:	115,678
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Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net position, but it does not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in the governmental funds. The amount of depreciation expense for the current year is:	<u>(32,051)</u>
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Total Change in Net Position of Governmental Activities	<u><u>\$ (58,152)</u></u>
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SEE NOTES TO THE FINANCIAL STATEMENTS

RED RIVER REGIONAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Red River Regional Council operates as an entity under Chapter 54-40 of the North Dakota Century Code. The financial statements of the Council have been prepared in conformity with the modified cash basis of accounting as applicable to governments.

Following is a summary of the more significant policies:

Reporting Entity

The Council's policy is to include in the financial statements all funds, departments, agencies, boards, commissions, and other component units for which the Council is considered to be financially accountable.

Component units are legally separated entities for which the Council (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit includes whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit or is fiscally dependent upon by the potential component unit.

Based on these criteria, there are no organizations considered to be component units of the Council and the Council is not includable as a component unit within another reporting entity.

Basis of Presentation

The government-wide financial statements (i.e. the statement of net position – modified cash basis and the statement of activities – modified cash basis) display information about the reporting government as a whole. These statements include all the financial activities of the Council. Governmental activities generally are financed through intergovernmental revenues, and other nonexchange transactions, which rely to a significant extent on fees and charges for support.

The statement of activities – modified cash basis demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Indirect expenses are those benefiting more than one function and include administrative and supporting services. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Governmental fund financial statements: The fund financial statements provide information about the Council's funds. The emphasis of fund financial statements is on major governmental, each displayed as separate columns in the fund financial statements. Any remaining governmental would be aggregated and reported as nonmajor funds, however currently all funds of the Council qualify as major.

RED RIVER REGIONAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2023

The Council reports the following major governmental funds:

General Fund – The general fund is the primary operating fund of the Council and is always classified as a major fund. It accounts for all financial resources except those required to be accounted for in another fund.

Revolving Loan Fund – The Revolving Loan Fund (RLF) was established to provide loans to entities in the Council's area through federal funds. As loans are repaid, the revolved funds are loaned. Revenue from this fund is considered operating revenue.

Progress Fund – The Progress Fund was established to provide loans to entities in the Council's area that have been affected by sudden and severe economic dislocation. As loans are repaid, the revolved funds are loaned. Revenue from this fund is considered operating revenue.

Catalyst Fund – The Catalyst Loan Fund – CARES Funding was established to provide loans to entities in the Council's area that have been affected by the COVID-19 disaster through federal and donated funds. As loans are repaid, the revolved funds are loaned. Revenue from this fund is considered operating revenue.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide financial statements: The government-wide financial statements are reported using the economic resources measurement focus within the limitations of the modified cash basis of accounting. Receipts are recorded when received and disbursements are recorded at the time of payment. Nonexchange transactions, in which the Council gives (or receives) value without directly receiving (or giving) equal value in exchange, includes grants, entitlements, and donations. Revenue from grants, entitlements, and donations are recognized when received by the provider.

Governmental fund financial statements: Governmental funds are reported using the current financial resources measurement focus within the limitations of the modified cash basis of accounting. Under this method, receipts are recognized when received. Disbursements are recorded when the related payment is made with the exception of amounts due to other entities, payments made on the line of credit, and payroll withholding which is recorded as a liability when the related payroll is paid. General capital asset acquisitions are reported as disbursements in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

Under the terms of grant agreements, the Council funds certain programs by a combination of specific cost-reimbursement grants and general receipts. Thus, when program disbursements are incurred and there is both restricted and unrestricted net position available to finance the program, it is the Council's policy to first apply cost-reimbursement grant resources to such programs and then apply general receipts.

Cash and Cash Equivalents

Cash includes amounts in demand deposits and money market accounts.

RED RIVER REGIONAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2023

Capital Assets

Capital assets include property, plant, equipment and furniture. Assets are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the Council as assets with a cost of \$5,000 or more. Assets are recorded at cost if purchased and at acquisition value if donated. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Equipment will be depreciated using the straight-line method with the following estimated useful lives:

Buildings	39 years
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Loans Receivable

Loans receivable represent funds advanced to borrowers under federal programs. The loans are generally collateralized by one or more of the following: inventory, real property, equipment, and personal guarantees. Loans are stated at unpaid principal balances. Interest income on loans receivable is recorded when received.

Long-term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only the portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. There were no long-term obligations as of December 31, 2023.

Net Position

Government-wide Financial Statements

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the board or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position is reported as unrestricted for all other assets that do not meet the definition of "restricted" or "net investment in capital assets."

Fund Balance Classifications

The governmental fund financial statements present fund balances based on a hierarchy that shows, from highest to lowest, the level or form of constraints on fund balance resources and the extent to which the Council is bound to honor them. The Council first determines and reports non-spendable balances, the restricted, then committed, and so forth. The Council's governmental fund balances classifications are summarized as follows:

The non-spendable fund balance classification 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.

RED RIVER REGIONAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2023

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted - consists of amounts related to (a) externally imposed constraints established by creditors, grantors, contributors; or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed – These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the board of directors. – the Council's highest level of decision-making authority. Those committed amounts cannot be used for any other purpose unless the board of directors removed the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – This classification reflects the amounts constrained by the Council's "intent" to be used for special purposes but are neither restricted nor committed. The board of directors has the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as non-spendable and are neither restricted nor committed.

Unassigned – This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the Council's policy to first use restricted resources, and then use unrestricted resources as they are needed. When committed, assigned or unassigned resources are available for use, it is the Council's policy to use resources in the following order: 1) committed, 2) assigned and 3) unassigned.

Interfund Transactions

In the process of aggregating information for the government-wide statement of net position and statement of activities, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Government-wide Financial Statements: Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

Internal balances – Amounts reported in the fund financial statements as interfund receivables and payables are eliminated in the statement of net position.

Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide statements of activities. The effects of interfund services between funds, if any, are not eliminated on the statement of activities.

RED RIVER REGIONAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2023

Fund Financial Statements: Interfund activity, if any, within and among the governmental funds is reported as follows in the fund financial statements:

Interfund loans – Amounts provided with a requirement for repayment are not reported as interfund receivables and payables. Advance to and advance from represent noncurrent interfund receivables and payables.

Interfund services – Sales or purchases of goods and services between funds are reported as receipts and disbursements.

Interfund reimbursements – Repayments from funds responsible for certain expenses to the funds that initially paid for them are not reported as reimbursements but as adjustments to expenses in the respective funds.

Interfund transfers – Flow of assets from one fund to another where repayment is not expected are reported as transfers in and out.

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting 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 disbursements during the reporting period. Actual results could differ from those estimates.

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.

State statutes authorize the Council to invest in:

- (1) 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.
- (2) 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.
- (3) Certificates of deposit fully insured by the federal deposit insurance corporation or by the state.
- (4) Obligations of the state.

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

RED RIVER REGIONAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2023

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

The Council maintains cash on deposit at various financial institutions. The amounts on deposit are insured up to the FDIC up to \$250,000 per financial institution. At December 31, 2023, the Council's deposits were covered by FDIC and the remaining balance of \$995,825 was covered by a pool of pledged securities in the name of the financial institution where the Council's deposits are held.

Concentration of Credit Risk

The Council does not have a limit on the amount it may invest in one issuer.

Interest Rate Risk

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

NOTE 3 CAPITAL ASSETS

Details pertaining to capital assets and accumulated depreciation as of December 31, 2023 is as follows:

	Balance 1/1/2023 (Restated)	Additions/ Transfers	Deletions/ Transfers	Balance 12/31/2023
Non-depreciable:				
Construction in process	\$ -	\$ 115,678	\$ -	\$ 115,678
Depreciable:				
Buildings	1,250,000	-	-	1,250,000
Less accumulated depreciation	(2,671)	(32,051)	-	(34,722)
Depreciable, net	1,247,329	(32,051)	-	1,215,278
Total capital assets	\$ 1,247,329	\$ 83,627	\$ -	\$ 1,330,956

Depreciation expense of \$32,051 was charged to Council's economic development program for the year ended December 31, 2023.

RED RIVER REGIONAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2023

NOTE 4 EDA RLF LOANS RECEIVABLE

Red River Regional Council provides loans to businesses and local governments in its region for start-up, expansion and capital improvements. The Council had three separate loan programs which the EDA granted permission to combine during the year for reporting purposes, consisting of the following:

Revolving Loan Fund

Loan bearing interest at 4.00%, with a maturity date of 2030, secured with personal guarantees, inventory, property, and equipment.	\$ 74,995
Less: Current portion of loans receivable	(9,849)
Total long-term RLF loans receivable	<u>65,146</u>

Progress Fund

Loans bearing interest from 3.00% to 5.00%, with maturity dates ranging from 2024 through 2029, secured with personal guarantees, inventory, property, and equipment.	76,849
Less: Current portion of loans receivable	(26,162)
Total long-term Progress Fund loans receivable	<u>50,687</u>

Catalyst Fund

Loans bearing interest at 1.00%, with maturity dates ranging from 2026 through 2032, secured with personal guarantees, inventory, property, and equipment.	992,488
Less: Current portion of loans receivable	(157,428)
Total long-term Catalyst fund loans receivable	<u>835,060</u>

Less: loans in process	(18,806)
Total long-term notes receivable, net	<u><u>\$ 932,087</u></u>

The Council did not have any past due and nonaccrual notes receivable as of December 31, 2023.

NOTE 5 RETIREMENT PLAN

The Council participates in a defined contribution retirement plan that covers all employees who work over 20 hours per week. In agreement with the plan, the council contributes 10 percent of the employee's gross wages to the plan. During the year end December 31, 2023, the Council contributed \$30,596 to the retirement plan.

NOTE 6 RESTRICTED NET POSITION/RESTRICTED FUND BALANCES

The restricted net position and restricted fund balances are the result of the Revolving Loan Fund, Progress Fund, and Catalyst Fund. The funds are to continue being loaned under the provisions of each of the loan programs.

RED RIVER REGIONAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2023

NOTE 7 RISK MANAGEMENT

The Council has significant loans receivable in the Revolving Loan, Progress, and Catalyst funds. There is significant risk in this lending process. The Council provides allowances for estimated uncollectible loans and follows sound lending practices to minimize that risk.

The State Bonding Fund currently provides the Council with blanket fidelity bond coverage in the amount of \$619,400 for its employees and officials. The State Bonding fund does not currently charge any premium for this coverage.

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 8 LEASES

The Council leases a copier under an operating lease agreement. The lease requires monthly payments of \$469 and expires in October 2028. Future minimum lease payments due under this lease for the year ending December 31 are as follows:

2024	\$ 5,628
2025	5,628
2026	5,628
2027	5,628
2028	4,690

NOTE 9 INTERFUND TRANSFERS

The following interfund transfers were made during the year ended December 31, 2023

	General Fund	Revolving Loan Fund	Progress Fund	Catalyst Fund	Total
Transfers in	\$ -	\$ -	\$179,307	\$ -	\$ 179,307
Transfers out	(18,399)	(153,940)	-	(6,968)	(179,307)
	<u>\$ (18,399)</u>	<u>\$ (153,940)</u>	<u>\$179,307</u>	<u>\$ (6,968)</u>	<u>\$ -</u>

NOTE 10 COMMITMENTS AND 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 may be 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.

RED RIVER REGIONAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2023

NOTE 11 PRIOR PERIOD ADJUSTMENT

A prior period adjustment was recorded to properly capitalize the 532 Hill Avenue building along with related accumulated depreciation to actual as of December 31, 2022. The effect of this adjustment was a net increase in capital assets and increase in net position of \$1,247,329.

NOTE 12 NEW ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 99, *Omnibus 2022*, provides guidance on the following accounting matters:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.
- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

GASB Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*, enhances the accounting and financial reporting requirements for accounting changes and error corrections. The standard is effective for fiscal years beginning after June 15, 2023.

GASB Statement No. 101, *Compensated Absences*, updates the recognition and measurement guidance for compensated absences through aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The standard is effective for fiscal years beginning after December 15, 2023.

GASB Statement No. 102, *Certain Risk Disclosures*, requires entities to disclose critical information about their exposure to risks due to certain concentrations or limitations that could lead to financial distress or operational challenges. This statement is effective for fiscal years beginning after June 15, 2024.

GASB Statement No. 103, *Financial Reporting Model Improvements*, revises the requirements for management's discussion and analysis with the goal of making it more readable and understandable, requires unusual or infrequent items to be presented separately, defines operating and nonoperating revenues, includes a new section for noncapital subsidies for proprietary funds' statement of revenues, expenses and changes in net position, removes the option to disclose major component information in the notes and requires them to be shown individually or in combine financial statements following the fund financial statements and requires budgetary comparisons to be presented as RSI with new columns for variances between original-to-final budget and final budget-to-actual results. This statement is effective for fiscal years beginning after June 15, 2025.

RED RIVER REGIONAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2023

GASB Statement No. 104, *Disclosure of Certain Capital Assets*, establishes requirements for certain types of capital assets to be disclosed separately in the capital assets note. These items include disclosing separately lease assets, intangible right-to-use assets, subscription assets and intangible assets. In addition, additional disclosures will be required for capital assets held for sale. This statement is effective for fiscal years beginning after June 15, 2025. Earlier application is encouraged.

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

NOTE 13 SUBSEQUENT EVENTS

No significant events occurred subsequent to the Council's year end. The Council has evaluated subsequent events through April 2, 2025, the date which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

RED RIVER REGIONAL COUNCIL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2023

Federal Grantor/Pass-Through Grantor/Program Title	Federal AL Number	Federal Expenditures
<u>U.S. Department of Commerce, Economic Development</u>		
<u>Administration Public Works</u>		
Economic Development - Support for Planning Organizations	11.302	\$ 76,000
Economic Development Cluster		
Economic Adjustment Assistance - Revolving Loan Fund	11.307	215,196
Economic Adjustment Assistance - Recapitalization of a Title IX Sudden and Severe Economic Dislocation Disaster Assistance Revolving Loan Fund	11.307	359,660
Economic Adjustment Assistance - Revolving Loan Fund (CARES Act)	11.307	1,272,654
Total Economic Development Cluster		1,847,510
Total U.S. Department of Commerce		1,923,510
<u>U.S. Department of Agriculture, Rural Development</u>		
Rural Housing Preservation Grants	10.433	82,623
Total U.S. Department of Agriculture		82,623
Total Federal Expenditures		\$ 2,006,133

SEE NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

RED RIVER REGIONAL COUNCIL
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2023

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported in the schedule of expenditures of federal awards (the "Schedule") are reported on the modified cash basis of accounting. Such expenditures are recognized following the cost principles contained in 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 to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 3 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Red River Regional Council under programs of the federal government for the year ended December 31, 2023. The information in this schedule is presented in accordance with the 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). Because the Schedule presents only a selected portion of the operations of Red River Regional Council, it is not intended to and does not present the financial position or change in net position of Red River Regional Council.

NOTE 4 LOAN PROGRAMS

The Council manages the federal Revolving Loan Programs, through the U.S. Economic Development Administration (EDA). The calculation of the federal expenditures related to the Revolving Loan Programs are as follows:

	<u>Revolving Loan Fund</u>	<u>Progress</u>	<u>Catalyst</u>	<u>Total</u>
End of year loan balance	\$ 74,995	\$ 50,688	\$ 992,488	
End of year cash balance	210,991	424,059	270,695	
Current year administrative expenses	3,333	4,800	9,471	
Total expenditures	289,319	479,547	1,272,654	
Federal percentage	74.38%	75.00%	100.00%	
Total federal expenditures	<u>\$ 215,195</u>	<u>\$ 359,660</u>	<u>\$ 1,272,654</u>	<u>\$ 1,847,510</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
Red River Regional Council
Grafton, 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 modified cash basis financial statements of the governmental activities, and each major fund of Red River Regional Council, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise Red River Regional Council's basic financial statements, and have issued our report thereon dated April 2, 2025.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Red River Regional Council's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Red River Regional Council's internal control. Accordingly, we do not express an opinion on the effectiveness of Red River Regional Council's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significance deficiencies and therefore, material weakness or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to material weaknesses and a significant deficiency.

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 Council's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2023-001, 2023-002, and 2023-004 to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2023-003 to be a significant deficiency.

Report on Compliance and Other Matters

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

Red River Regional Council's Responses to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Council'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 Council's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



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

April 2, 2025

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
Red River Regional Council
Grafton, North Dakota

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Red River 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 Red River Regional Council's major federal program for the year ended December 31, 2023. Red River 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, Red River Regional Council complied, in all material respects, with the 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, 2023.

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 Red River 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 Red River 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 Red River 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 Red River Regional Council's compliance based on our audit. Reasonable assurance is a high level of assurance but it 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 Red River 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 Red River 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 Red River 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 Red River 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.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance which are required to be reported in accordance with the Uniform Guidance with which are described in the accompanying schedule of findings and questioned costs as item 2023-005. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on Red River Regional Council's response to noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. Red River Regional Council's responses were not subject to other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2023-005 to be a significant deficiency.

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.

Government Auditing Standards requires the auditor to perform limited procedures on Red River Regional Council's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. Red River Regional Council's responses were not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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.
BISMARCK, NORTH DAKOTA**

April 2, 2025

RED RIVER REGIONAL COUNCIL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2023

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? X Yes No

Significant deficiency(ies) identified? X Yes None Reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified? Yes X No

Significant deficiency(ies) identified? X Yes None Reported

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

Any findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? X Yes No

AL Number(s)	Name of Federal Program or Cluster
11.307	U.S. Department of Commerce: Economic Development Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes X No

RED RIVER REGIONAL COUNCIL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2023

Section II - Financial Statement Findings

2023-001 Financial Statement Preparation – Material Weakness

Criteria: An appropriate system of internal control requires Red River Regional Council to prepare modified cash basis financial statements in compliance with accounting principles generally accepted in the United States of America.

Condition: Red River 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 modified cash basis 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 modified cash basis financial statements and notes.

Cause: Red River Regional Council elected to not allocate resources for the preparation of the modified cash basis financial statements.

Effect or Potential Effect: There is an increased risk of material misstatement to Red River Regional Council's modified cash basis financial statements.

Recommendation: We recommend Red River Regional Council consider the additional risk of having the auditors assist in the preparation of the modified cash basis 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: Management recognizes the deficiency and believes it is effectively handling the reporting responsibilities given the size of the Council.

Indication of Repeat Finding: This is a repeat finding of finding 2022-002 from the prior year.

2023-002 Material Adjusting Entries – Material Weakness

Criteria: The Council is required to maintain internal controls at a level where underlying support for general ledger accounts can be developed, and a determination can be made that the general ledger accounts are properly reflected on the modified cash basis of accounting.

Condition: During our audit, adjusting entries to the financial statements were proposed in order to bring the financial statements into compliance with the modified cash basis of accounting.

Cause: The Council's internal controls have not been designed to address the specific training needs that are required of its personnel to identify the adjustments necessary to properly reflect the financial statements in accordance with the modified cash basis of accounting.

RED RIVER REGIONAL COUNCIL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2023

Effect or Potential Effect: The Council's financial statements were not properly stated in accordance with the modified cash basis of accounting prior to adjustments detected as a result of audit procedures.

Recommendation: In order to comply with this requirement, accounting personnel will need to determine the proper balance of each general ledger account prior to the start of the audit.

View of Responsible Officials: Management recognizes the deficiency and plans to implement the auditor's recommendations.

Indication of Repeat Finding: This is a repeat finding of finding 2022-003 from the prior year.

2023-003 Segregation of Duties– Significant Deficiency

Criteria: An appropriate system of internal control has the proper separation of duties between authorization, custody, record keeping, and reconciliation functions.

Condition: The Council has one person responsible for most accounting functions.

Cause: The Council is subject to size and budget constraints limiting the number of personnel within the accounting department.

Effect or Potential Effect: The design of internal control over financial reporting could adversely affect the ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Recommendation: We recommend the organization review their internal controls over the accounting functions to determine if additional procedures can be implemented that are cost effective. The board should constantly be aware of this condition. Compensating controls that mitigate the related risks could be (or are) provided through appropriate oversight of the performance of these functions and review of the financial reports by individuals with knowledge of current operations and accounting principles.

View of Responsible Officials: Management recognizes the deficiency and plans to implement the auditor's recommendations.

Indication of Repeat Finding: This is a repeat finding of finding 2022-001 from the prior year.

2023-004 Preparation of and Modification to the Schedule of Expenditures of Federal Awards – Material Weakness

Criteria: Proper controls over financial reporting include the ability to prepare the schedule of expenditures of federal awards and accompanying notes to the schedule of expenditures of federal awards that are materially correct.

RED RIVER REGIONAL COUNCIL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2023

Condition: During audit testing of the schedule of expenditures of federal awards, modifications were necessary in order to properly present the schedule of expenditures of federal awards and related notes, as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*.

Cause: The Council has not established the internal controls necessary to ensure all required information is reported.

Effect or Potential Effect: The schedule of expenditures of federal awards was not materially accurate prior to modifications proposed by the Council's auditor.

Recommendation: We recommend Red River Regional Council consider the additional risk of having the auditors assist in the preparation of the schedule of expenditures of federal awards and consider preparing them in the future.

Views of Responsible Officials: Management recognizes the deficiency and believes it is effectively handling the reporting responsibilities given the size of the Council.

Indication of Repeat Finding: This is a repeat finding of finding 2022-004 from the prior year.

Section III - Findings and Questioned Costs for Federal Awards

2023-005 Reporting – Significant Deficiency

Federal Program: All Federal programs

Criteria: The Uniform Guidance requires all entities that expend in excess of \$750,000 of federal expenditures to file audited financial statements within 9 months of year end.

Condition: The Council's December 31, 2023 and 2022 audited financial statements were not filed with the Federal Audit Clearinghouse within nine months of the Council's year end.

Cause: Change of auditors.

Questioned Costs: None

Effect or Potential Effect: The Council is not in compliance with Uniform Guidance requirements.

Recommendation: We recommend the Council ensure records are reconciled and available for audit within a timely manner of year end.

Views of Responsible Officials: Management recognizes the deficiency and plans to implement the auditor's recommendations.

Indication of Repeat Finding: This is a new finding in the current year.

RED RIVER REGIONAL COUNCIL
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2023

2022-001 Segregation of Duties

Condition: The Council's internal control structure does not provide for the proper segregation of duties and reconciliation.

Current year status: This is a repeat finding, see current year finding 2023-003.

2022-002 Financial Statement Preparation

Condition: The Council does not prepare the financial statements, including the accompanying note disclosures, in conformity with the modified cash basis of accounting. Management has elected to have the financial statements and note disclosures prepared by the auditors.

Current year status: This is a repeat finding, see current year finding 2023-001.

2022-003 Proposition of Journal Entries

Condition: During my audit, adjusting entries to the financial statements were proposed to properly reflect the financial statements in accordance with the modified cash basis of accounting.

Current year status: This is a repeat finding, see current year finding 2023-002.

2022-004 Preparation of and Modification to the Schedule of Expenditures of Federal Awards

Condition: During my testing of the schedule of expenditures of federal awards, modifications were necessary in order to properly present the schedule of expenditures of federal awards and related notes, as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*.

Current year status: This is a repeat finding, see current year finding 2023-004.

2022-005 Reporting

Condition: Several key line items on the ED-209 reports submitted by the Council for the six months ending June 30, 2022 and December 31, 2022 did not reconcile back to the Council's trial balance or other records.

Current year status: This finding has been resolved as of December 31, 2023.

Corrective Action Plan – December 31, 2023

2023-001

Contact Person – Dawn Mandt

Corrective Action Plan – No action is planned on the finding. The Council feels that the additional costs to the Council would not be significantly beneficial. The Council does mitigate this situation through the review of the draft financial statements and accompanying notes to the financial statements.

Completion Date – None. See above.

2023-002

Contact Person – Dawn Mandt

Corrective Action Plan – The Council will review internal controls and determine the proper balance in each general ledger account prior to the audit being done each year.

Completion Date – Ongoing.

2023-003

Contact Person – Dawn Mandt

Corrective Action Plan – The Council will review their current internal controls and determine what monitoring and segregation controls each can implement on a cost-effective basis.

Completion Date – Ongoing.

2023-004

Contact Person – Dawn Mandt

Corrective Action Plan – Due to the small size of the Council, it is not cost effective for the Council to properly address this significant deficiency. However, management will continue to pursue a cost-effective means of correcting this finding.

Completion Date – None. See above.

2023-005

Contact Person – Dawn Mandt

Corrective Action Plan – The Council will ensure records are reconciled and available for audit within a timely manner of year end.

Completion Date – Ongoing.