



Financial Statements
September 30, 2019

Lewis and Clark Regional Development Council

Lewis and Clark Regional Development Council

Table of Contents
September 30, 2019

Independent Auditor's Report.....	1
Basic Financial Statements	
Statement of Net Position	4
Statement of Activities.....	5
Balance Sheet – Governmental Funds	6
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	7
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	8
Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	9
Notes to Financial Statements	10
Required Supplementary Information	
Combined Statement of Revenues and Expenditures – Budget Compared to Actual	24
Notes to the Required Supplementary Information.....	26
Supplementary Information	
Independent Auditor's Report on Compliance for The Major Federal Program and Report on Internal Control over Compliance Required by the Uniform Guidance	29
Schedule of Expenditures of Federal Awards	31
Notes to Schedule of Expenditures of Federal Awards	32
Notes to Schedule of Expenditures of Federal Awards	33
Schedule of Findings and Questioned Costs	34
Schedule of Findings and Questioned Costs	35



Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Lewis and Clark Regional Development Council (the Council) as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Lewis and Clark Regional Development Council, as of September 30, 2019, 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.

Restatement

As discussed in Note 15 to the financial statements, certain errors resulting in misstatements of amounts previously reported for amounts due to other governments and deferred inflows of resources as of September 30, 2018, were discovered during the current year. Accordingly, adjustments have been made to beginning fund balance and net position as of October 1, 2018, to correct the errors. Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the combined statement of revenues and expenditures - budget compared to actual on page 24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lewis and Clark Regional Development Council's financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the 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 a report dated December 5, 2019, on our consideration of the Council's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Council's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Council's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Aberdeen, South Dakota
December 5, 2019

Lewis and Clark Regional Development Council

Statement of Net Position

September 30, 2019

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 5,381,949
Receivables	
Accounts receivable	25,112
Loans, net of allowance for loan loss of \$1,166,938	7,608,296
Interest receivable	39,697
Due from related parties	1,326,497
Capital assets, net of depreciation	<u>1,463</u>
Total assets	<u><u>\$ 14,383,014</u></u>
Liabilities and Net Position	
Liabilities	
Accounts payable	\$ 9,221
Accrued liabilities	25,397
Interest payable	1,744
Due to other governments	8,388,503
Non-current liabilities	
Due within one year	113,233
Due in more than one year	<u>1,455,507</u>
Total liabilities	<u><u>9,993,605</u></u>
Net Position	
Net investment in capital assets	1,463
Restricted for lending activities	2,856,648
Unrestricted	<u>1,531,298</u>
Total net position	<u><u>4,389,409</u></u>
Total liabilities and net position	<u><u>\$ 14,383,014</u></u>

Lewis and Clark Regional Development Council

Statement of Activities

Year Ended September 30, 2019

Functions/Programs	Expenses	Program Revenues		Net Revenues and Changes in Net Position
		Charges for Services	Operating Grants	
Governmental activities				
Economic development	\$ 725,094	\$ 461,843	\$ 77,612	\$ (185,639)
Interest	15,633	-	-	(15,633)
Total governmental activities	<u>\$ 740,727</u>	<u>\$ 461,843</u>	<u>\$ 77,612</u>	<u>(201,272)</u>
General revenues				
County member contributions				133,719
Interest income on cash deposits				99,622
Total general revenues				<u>233,341</u>
Change in net position				<u>32,069</u>
Net position, October 1, 2018, as previously reported				5,404,259
Restatement (Note 15)				<u>(1,046,919)</u>
Net position, October 1, 2018, as restated				<u>4,357,340</u>
Net position, September 30, 2019				<u>\$ 4,389,409</u>

Lewis and Clark Regional Development Council

Balance Sheet – Governmental Funds

September 30, 2019

	<u>General</u>	<u>Revolving Loan Fund</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 246,984	\$ 5,134,965	\$ 5,381,949
Receivables			
Accounts receivable	25,112	-	25,112
Loans, net of allowance for loan loss of \$1,166,938	-	7,608,296	7,608,296
Interest receivable	-	39,697	39,697
Due from related parties	1,326,497	-	1,326,497
Due from other funds	8,476	20	8,496
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 1,607,069</u>	<u>\$ 12,782,978</u>	<u>\$ 14,390,047</u>
Liabilities, Deferred Inflows of Resources and Fund Balances			
Liabilities			
Accounts payable	\$ 9,221	\$ -	\$ 9,221
Accrued liabilities	25,397	-	25,397
Due to other funds	20	8,476	8,496
Due to other governments	-	8,388,503	8,388,503
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>34,638</u>	<u>8,396,979</u>	<u>8,431,617</u>
Deferred Inflows of Resources			
Unavailable revenue	1,200,000	-	1,200,000
Fund Balances			
Restricted for:			
Lending activities	-	4,385,999	4,385,999
Unassigned	372,431	-	372,431
	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>372,431</u>	<u>4,385,999</u>	<u>4,758,430</u>
	<u> </u>	<u> </u>	<u> </u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,607,069</u>	<u>\$ 12,782,978</u>	<u>\$ 14,390,047</u>

Lewis and Clark Regional Development Council
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
Year Ended September 30, 2019

Total Fund Balances for Governmental Funds	\$ 4,758,430
Total net position reported for governmental activities in the statement of net position is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	1,463
Certain receivables from services provided that are not available to pay for current period expenditures are not reported in the funds	1,200,000
Long-term liabilities applicable to the Council's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds; but, rather, is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net position. The balances at September 30, 2019, include:	
Compensated absences	(41,133)
Interest payable	(1,744)
Note payable - CommunityWorks ND	(25,000)
Note payable - ND Development Fund	(37,500)
Note payable - Rural Development	(1,465,107)
	<hr/>
Total Net Position	<u><u>\$ 4,389,409</u></u>

Lewis and Clark Regional Development Council
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
Year Ended September 30, 2019

	General	Community Development and Planning Fund	Revolving Loan Fund	Total
Revenues				
Grant	\$ -	\$ 77,612	\$ -	\$ 77,612
Interest	2,486	-	282,653	285,139
Services rendered and other	216,612	-	34,714	251,326
County member contributions	103,719	30,000	-	133,719
Total revenues	<u>322,817</u>	<u>107,612</u>	<u>317,367</u>	<u>747,796</u>
Expenditures				
Economic development	438,322	123,680	156,787	718,789
Debt service				
Interest	-	-	15,764	15,764
Principal	-	-	86,508	86,508
Total expenses	<u>438,322</u>	<u>123,680</u>	<u>259,059</u>	<u>821,061</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(115,505)</u>	<u>(16,068)</u>	<u>58,308</u>	<u>(73,265)</u>
Other Financing Sources (Uses)				
Transfer In	169,736	16,068	-	185,804
Transfer Out	<u>(16,068)</u>	<u>-</u>	<u>(169,736)</u>	<u>(185,804)</u>
Total Other Financing Sources (Uses)	<u>153,668</u>	<u>16,068</u>	<u>(169,736)</u>	<u>-</u>
Change in Fund Balance	<u>38,163</u>	<u>-</u>	<u>(111,428)</u>	<u>(73,265)</u>
Fund Balance, Beginning of Year, As Previously Reported	<u>1,509,268</u>	<u>-</u>	<u>5,544,346</u>	<u>7,053,614</u>
Restatement (Note 15)	<u>(1,175,000)</u>	<u>-</u>	<u>(1,046,919)</u>	<u>(2,221,919)</u>
Fund Balance, Beginning of Year, As Restated	<u>334,268</u>	<u>-</u>	<u>4,497,427</u>	<u>4,831,695</u>
Fund Balance, End of Year	<u>\$ 372,431</u>	<u>\$ -</u>	<u>\$ 4,385,999</u>	<u>\$ 4,758,430</u>

Lewis and Clark Regional Development Council

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to
the Statement of Activities
Year Ended September 30, 2019

Net Change in Fund Balances - Total Governmental Funds	\$ (73,265)
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The changes in net position reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures.
However, in the statement of activities the cost of those
assets is allocated over their estimated useful lives and
reported as depreciation expense.

Depreciation expense	(307)
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Governmental funds report principal payments on debt service as expenditures, whereas the statement of activities does not consider this as an expense.	86,508
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Governmental funds report revenues when funds become available, whereas the statement of activities report revenues when earned.	25,000
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Some expenses reported in the statement of activities do not
require the use of current financial resources and are not
reported as expenditures in governmental funds.

Net increase in compensated absences	(5,998)
Net decrease in interest payable	<u>131</u>

Change in Net Position of Governmental Activities	<u><u>\$ 32,069</u></u>
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Note 1 - Summary of Significant Accounting Policies**Nature of Activities**

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

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

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

Reporting Entity

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

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

Basis of Presentation

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

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

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

Description of Funds

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

- a) General Fund - This is the general operating fund of the Council and is used to account for all financial resources except those required to be accounted for in another fund.
- b) Community Development and Planning Fund - The special revenue fund is used to account for the proceeds of special revenue sources that are legally restricted expenditures for a specific purpose. This fund is set up to account for operating grants received by the Council for community development and planning. Revenue sources consist of grants and county member contributions.
- c) Revolving Loan Fund - The revolving loan fund is a special revenue fund used to account for lending activity including the receipt of principal and interest for various loan programs, as well as account for resources held by the Council for the Consortium of Cities’ State Small Business Credit Initiative. Loans are made to regional businesses to provide for economic growth. Revenues sources consist of interest income on deposits, interest income on loans, and other related lending fees.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

Loans Receivable

Loans are reported at their outstanding unpaid principal balances adjusted for charge-offs and the allowance for loan losses. Interest income is accrued on the unpaid principal balance. Interest is generally accrued until a loan is deemed uncollectible and charged off against the allowance for loan losses, unless management deems non-accrual status is appropriate in the circumstances. All loans are collateralized by either mortgages on real estate, equipment, inventory, or accounts receivable.

Allowance for Loan Losses

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

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

A loan is considered impaired when, based on current information and events, it is probable that the Council will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of delay, the reasons for the delay, the borrower's prior payment record, and amount of the shortfall in relation to the principal and interest owed. As of September 30, 2019, loans with a balance of \$956,041 were considered impaired.

Capital Assets

Furniture and equipment are recorded at cost with acquisitions of furniture and equipment having a cost of \$5,000 or more are capitalized. Replacements, maintenance, and repairs, which do not improve or extend the lives of respective assets, are charged to expenditures. Depreciation is computed on the useful life of the furniture and equipment and is depreciated on a straight-line basis over the following estimated lives:

Furniture and equipment

10 - 15 years

Compensated Absences

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

Deferred Inflows of Resources

Deferred inflows of resources represent acquisitions of net position that applies to a future period or periods. These items will not be recognized as an inflow of resources until the applicable future period. Deferred inflows of resources in the general fund consists of unavailable revenue from providing administrative services to Lewis and Clark Certified Development Company, a related party (see Note 11).

Fund Equity

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

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

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

Government-Wide Net Position

Net position in the government-wide statements is displayed in three components:

- Net investment in capital assets – consists of capital assets net of accumulated depreciation.
- Restricted net position – consists of net position with constraints on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation. As of September 30, 2019, restricted net position was restricted by grantors for revolving lending activities.
- Unrestricted net position – all other net position that does not meet the definition of restricted or net investment in capital assets.

Income Taxes

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

Allocation of Costs

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

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

Estimates

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

Note 2 - Cash and Cash Equivalents

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

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

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

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

At year-end September 30, 2019, the Council's carrying amount of deposits was \$5,381,949 and the bank balance was \$5,392,524, all of which was insured and collateralized.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Council does not have a formal investment policy that specifically addresses credit risk. At September 30, 2019, the Council did not have any investments that are rated.

Concentration of Credit Risk

In the case of cash and investments, this is the risk that, in the event of the failure of a depository financial institution, the Council will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Council does not have a formal policy that limits the amount that may be deposited with one institution.

Interest Rate Risk

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

Note 3 - Loans Receivable

The Council had the following revolving loan funds under the special revenue fund as of September 30, 2019:

Revolving Loan Fund

The Revolving Loan Fund was established with a federal grant from the Department of Commerce of \$500,000 and \$168,050 of local sources to provide loans to entities. The purpose of the fund is to provide flexible and accessible loans, primarily gap financing, that will strengthen, create, or save business and job opportunities.

\$ 572,116

Intermediary Relending Program

The initial funding for this program was a \$500,000 loan from the USDA, Rural Development, and \$168,000 from local sources. The purpose of the loan fund is to provide flexible and accessible loans, primarily gap financing, that will strengthen, create, or save business and job opportunities in non-metropolitan areas of the region.

125,074

Intermediary Relending Program II

The initial funding for this program was a \$450,000 loan from the USDA, Rural Development, and \$151,300 from local sources. The purpose of the loan fund is to provide flexible and accessible loans, primarily gap financing that will strengthen, create, or save business and job opportunities in non-metropolitan areas of the region.

190,845

Intermediary Relending Program - Mandan

The initial funding for this program was a \$750,000 loan from the USDA, Rural Development, and \$250,000 from local sources. The purpose of the loan fund is to provide a revolving loan fund for Mandan, North Dakota, to attract new retail and primary sector businesses and help small business owners to acquire land, capital, and inventory.

387,423

Intermediary Relending Program II - Mandan

The initial funding for this program was a \$750,000 loan from the USDA, Rural Development, and \$250,000 from local sources. The purpose of the loan fund is to provide a revolving loan fund for Mandan, North Dakota, to attract new retail and primary sector businesses and help small business owners to acquire land, capital, and inventory.

680,139

Lewis and Clark Regional Development Council

Notes to Financial Statements

September 30, 2019

Recap Revolving Loan Fund

In 1999, the Economic Development Administration (EDA) of the U.S.

Department of Commerce awarded the Council a recapitalization grant of \$250,000. The Council provided \$83,334. The purpose of this fund is for recapitalization of the funds described above.

344,393

State Small Business Credit Initiative

The funding for this program is from an award made to the Mandan Consortium from the U.S. Department of the Treasury provided for under the State Small Business Credit Initiative Act of 2010.

The Council was contracted by the Mandan Consortium to administer the loan fund. The purpose of the loan fund is to provide loans to small businesses and manufacturers to expand and create jobs.

6,475,244

Total

8,775,234

Less allowance for loan loss

(1,166,938)

Total loans receivable, net of allowance

\$ 7,608,296

An analysis of the allowance for loan losses follows:

Allowance for
Loan Losses

Balance, September 30, 2018

\$ 1,262,885

Loans charged off

(475,269)

Provision

379,322

Balance, September 30, 2019

\$ 1,166,938

Note 4 - Due From/To Other Funds

Due from/to other funds consisted of the following at September 30, 2019:

<u>Fund</u>	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General	\$ 8,476	\$ 20
Revolving Loan Fund	20	8,476
	<u> </u>	<u> </u>
Total all funds	<u>\$ 8,496</u>	<u>\$ 8,496</u>

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

Note 5 - Capital Assets

The following is a summary of changes in capital assets for the year ended September 30, 2019:

Governmental Activities

	<u>Balance October 1</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance September 30</u>
Capital assets, being depreciated				
Furniture and equipment	<u>\$ 9,790</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,790</u>
Total capital assets, being depreciated	<u>9,790</u>	<u>-</u>	<u>-</u>	<u>9,790</u>
Less accumulated depreciation				
Furniture and equipment	<u>8,020</u>	<u>307</u>	<u>-</u>	<u>8,327</u>
Total accumulated depreciation	<u>8,020</u>	<u>307</u>	<u>-</u>	<u>8,327</u>
Total capital assets, net	<u>\$ 1,770</u>	<u>\$ (307)</u>	<u>\$ -</u>	<u>\$ 1,463</u>

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

Governmental activities	
Economic development	<u>\$ 307</u>

Note 6 - Due to Other Governments

The Council administers the State Small Business Credit Initiative (SSBCI) program for the Consortium of Cities. Under the operating agreement, the Council receives funds for the SSBCI program and makes loans to eligible recipients. If the SSBCI program ends, the Council will be required to return the funds to the Consortium of Cities less ten percent of the funds, which the Council will retain. The funds will only be required to be repaid if the Consortium of Cities chooses to end the SSBCI program, which they can do through a majority, or if the Consortium of Cities would choose to have a different entity administer the program. At September 30, 2019, the Council had a liability for \$8,388,503 recorded for the amount of funds that would be required to be returned to the Consortium of Cities if the program ended.

Note 7 - Non-Current Liabilities

During the year ended September 30, 2019, the following changes occurred in governmental activities non-current compensated absences:

	Balance October 1	Increases	Decreases	Balance September 30	Due Within One Year
Compensated absences	\$ 35,135	\$ 25,862	\$ 19,864	\$ 41,133	\$ 25,862

Note 8 - Long-Term Debt

During the year ended September 30, 2019, the following changes occurred in governmental activities long-term debt direct borrowings:

	Balance October 1	Increases	Decreases	Balance September 30	Due Within One Year
Long-term debt direct borrowings	\$ 1,614,115	\$ -	\$ 86,508	\$ 1,527,607	\$ 87,371

The Council borrowed a total of \$2,450,000 from the U.S. Department of Agriculture – Rural Development to fund the Intermediary Relending Program as of September 30, 2019. The loans bear interest at 1% and are repayable over 30 years with varying maturity dates through 2039. The collateral for these loans are the Notes Receivable in the Intermediary Relending Program, Intermediary Relending Program II, Intermediary Relending Program – Mandan, and Intermediary Relending Program – Mandan II of \$125,074, \$190,845, \$387,423, and \$680,139, respectively. The total outstanding balance due the U.S. Agriculture – Rural Development at September 30, 2019 was \$1,465,107.

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

Lewis and Clark Regional Development Council

Notes to Financial Statements

September 30, 2019

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

Debt service requirements on long-term debt at September 30, 2019, are as follows:

	Long-Term Debt	
	Principal	Interest
2020	\$ 87,371	\$ 15,519
2021	88,244	14,653
2022	89,128	13,780
2023	90,019	12,896
2024	90,918	12,005
2025 - 2029	418,619	47,016
2030 - 2034	379,588	28,166
2035 - 2039	283,720	9,572
	<u>\$ 1,527,607</u>	<u>\$ 153,607</u>

Total interest paid was \$15,764 for the year ended September 30, 2019.

Note 9 - Lease

The Council leases its office space from CommunityWorks North Dakota, a related party under an operating lease ending May 31, 2029. The lease provides for monthly rent of \$900 plus thirty-three percent of estimated operating expenses which was \$1,000 per month in 2019 and will be negotiated annually during the life of the lease. Total rent expense for 2019 was \$22,800. Under this operating lease, future commitments are \$22,800 each year 2020 through 2024 and \$106,400 thereafter.

Note 10 - Retirement Plan

The Council has a Simplified Employee Pension Plan through Mutual of America. It is a fully-vested defined contribution plan with the Council contributing the same percentage of compensation for every employee limited annually to the smaller of \$41,000 or 10% of compensation. Employees over 21 years old who have been employed in at least one of the immediately preceding five years are eligible to participate in the plan. The Council is only responsible for current contributions. The amount of pension expense for 2019, 2018, and 2017 was \$31,906, \$30,864, and \$29,344, respectively.

Note 11 - Related Party

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

Shared expenses with CommunityWorks North Dakota consist of telephone, postage, supplies, equipment, employees, and the executive director. Each entity is responsible for paying its own share of these expenses, except for payroll costs, which are reimbursed. Payments made to CommunityWorks North Dakota for reimbursed expenses during 2019 were \$92,795. The Council received payments of \$10,349 from CommunityWorks North Dakota for shared staff in 2019. As of September 30, 2019, the Council had accounts payable due to CommunityWorks North Dakota of \$7,248. The general fund has a \$111,717 loan receivable made to CommunityWorks North Dakota. The loan has a fixed interest rate of 2%, matures on June 1, 2029, and is secured by an assignment of leases. Interest payments on the loan totaled \$2,372 during 2019.

As of September 30, 2019, the general fund has accounts receivable of \$14,780 due from Lewis and Clark Certified Development Company, a separate non-profit organization related through common management, for administrative expenses. The general fund also has a \$1,200,000 long-term receivable from the Lewis and Clark Certified Development Company for unpaid administrative expenses. The receivable is non-interest bearing, matures on October 1, 2033, and will be repaid when cash flows are deemed available.

Note 12 - Risk Management

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

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

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

Note 13 - Indirect Expenses

Indirect (common) costs are costs incurred for a common or joint purpose which benefit more than one grant or program. The Council allocates indirect costs on the basis of a ratio of program direct salary and benefit costs to total salary and benefit costs on a monthly basis pursuant to Office of Management and Budget and Uniform Guidance. A detailed summary of the indirect costs for 2019 are as follows:

Salaries	\$	75,693
Fringe benefits		32,105
Travel		5,554
Printing and publishing		1,160
Subscriptions		494
Supplies		1,017
Rent		22,800
Postage		428
Dues		1,153
Equipment		9,734
Professional		30,370
Insurance		4,107
Other		60
		<u>60</u>
Total indirect expenses	\$	<u>184,675</u>

Note 14 - Transfer In/Transfer Out

Transfer in/out of other funds consisted of the following at September 30, 2019:

<u>Transfers</u>	<u>General Fund</u>	<u>Community Development and Planning Fund</u>	<u>Revolving Loan Fund</u>
Transfer In	\$ 169,736	\$ 16,068	\$ -
Transfer Out	<u>(16,068)</u>	<u>-</u>	<u>(169,736)</u>
Total of Transfers	<u>\$ 153,668</u>	<u>\$ 16,068</u>	<u>\$ (169,736)</u>

Transfers in to the general fund from the revolving loan fund were made to move revenues earned for the administration of the State Small Business Credit Initiative (SSBCI) program. Transfers out of the general fund to the planning grant fund were made to cover expenses in excess of grant funds.

Note 15 - Restatement

Certain errors resulting in misstatements of amounts previously reported for deferred inflows of resources and due to other governments as of September 30, 2018, were discovered during the current year. Accordingly, adjustments have been made to beginning fund balance and net position as of October 1, 2018, to correct the errors identified.

The effects of the restatement on the applicable opinion units as of October 1, 2018, are as follows:

	General Fund	Revolving Loan Fund	Total Governmental Funds	Governmental Activities
Fund Balance/Net Position, October 1, as Previously Reported	\$ 1,509,268	\$ 5,544,346	\$ 7,053,614	\$ 5,404,259
Restatement				
Understatement of due to other governments	-	(1,046,919)	(1,046,919)	(1,046,919)
Understatement of deferred inflows of resources	(1,175,000)	-	(1,175,000)	-
Fund Balance/Net Position, October 1, as Restated	<u>\$ 334,268</u>	<u>\$ 4,497,427</u>	<u>\$ 4,831,695</u>	<u>\$ 4,357,340</u>



Required Supplementary Information
September 30, 2019

Lewis and Clark Regional Development Council

Lewis and Clark Regional Development Council
Combined Statement of Revenues and Expenditures – Budget Compared to Actual
Year Ended September 30, 2019

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance Favorable (Unfavorable)
Revenues				
Grants	\$ 77,500	\$ 77,500	\$ 77,612	\$ 112
Interest	445,750	445,750	285,139	(160,611)
Services rendered and other	303,670	303,670	251,326	(52,344)
Dues income	133,719	133,719	133,719	-
Total revenues	<u>960,639</u>	<u>960,639</u>	<u>747,796</u>	<u>(212,843)</u>
Expenditures				
Economic Development				
Salaries	309,320	309,320	309,600	(280)
Fringe benefits	103,003	103,003	96,060	6,943
Travel	11,220	11,220	16,058	(4,838)
Printing and publications	3,250	3,250	385	2,865
Supplies	2,000	2,000	1,122	878
Seminars and dues	7,300	7,300	9,417	(2,117)
Equipment	7,501	7,501	8,212	(711)
Marketing	21,331	21,331	11,733	9,598
Processing, closing fees	1,050	1,050	976	74
Telephone & postage	420	420	243	177
Indirect costs	135,970	135,970	184,675	(48,705)
Bad debt expense	-	-	66,887	(66,887)
Depreciation	1,500	1,500	307	1,193
Interest	16,200	16,200	15,764	436
Professional fees	13,000	13,000	13,074	(74)
Other	2,544	2,544	40	2,504
Total expenses	<u>635,609</u>	<u>635,609</u>	<u>734,553</u>	<u>(98,944)</u>
Excess of Revenue over Expenditures	<u>\$ 325,030</u>	<u>\$ 325,030</u>	<u>\$ 13,243</u>	<u>\$ (311,787)</u>

Lewis and Clark Regional Development Council
Combined Statement of Revenues and Expenditures – Budget Compared to Actual
Year Ended September 30, 2019

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

Actual amounts (budgetary basis) from the budgetary comparison schedule	\$ 734,553
Differences - Budgetary to GAAP	
The Council budgets for debt principal payments on the accrual basis rather than the modified accrual basis	<u>86,508</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances	<u><u>\$ 821,061</u></u>

An explanation of differences between budgetary revenues over expenditures and
GAAP revenues over expenditures follows:

Actual excess revenues over expenditures (budgetary basis) from the budgetary comparison schedule	\$ 13,243
Differences - Budgetary to GAAP	
The Council budgets for debt principal payments on the accrual basis rather than the modified accrual basis	<u>(86,508)</u>
Excess of revenues over expenditures as reported on the statement of revenues, expenditures, and changes in fund balance	<u><u>\$ (73,265)</u></u>

Note 1 - Stewardship, Compliance and Accountability

Budgetary Information

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

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



Supplementary Information
September 30, 2019

Lewis and Clark Regional Development Council



Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Lewis and Clark Regional Development Council (the Council) as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements, and have issued our report thereon dated December 5, 2019.

Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2019-001 that we consider to be a material weakness.

Compliance and Other Matters

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

Council's Response to Findings

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

Purpose of this Report

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

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Aberdeen, South Dakota
December 5, 2019



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

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

Report on Compliance for the Major Federal Program

We have audited the Lewis and Clark Regional Development Council's (the Council's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Council's major federal program for the year ended September 30, 2019. The Council's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on the compliance for the Council's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Council's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on the Major Federal Program

In our opinion, the Council complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended September 30, 2019.

Report on Internal Control over Compliance

Management of the Council is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Council's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control over compliance.

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

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

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

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Aberdeen, South Dakota
December 5, 2019

Lewis and Clark Regional Development Council
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2019

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
Direct Federal Financial Assistance			
Department of Agriculture			
Intermediary Relending Program (see Note D)	10.767		\$ 1,551,615
Department of Commerce			
Economic Development Support for Planning Organizations	11.302		70,000
Economic Development Cluster			
Economic Adjustment Assistance (see Note E)	11.307		781,890
Total Department of Commerce			851,890
Indirect Federal Financial Assistance			
U.S. Department of Housing & Urban Development			
Passed through ND Division of Community Services			
Community Block Grant Administration	14.228	3876-CDBG-15	7,612
Total Federal Financial Assistance			\$ 2,411,117

Lewis and Clark Regional Development Council

Notes to Schedule of Expenditures of Federal Awards

Year Ended September 30, 2019

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the Lewis and Clark Regional Development Council (the Council) under programs of the federal government for the year ended September 30, 2019. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirement, Cost Principles, and Audit requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Council, it is not intended to and does not present the financial position or changes in net position or fund balance of the Council.

Note B – Summary of Significant Accounting Policies

Expenditures reported in the schedule are reported on the accrual basis of accounting. When applicable, 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. No federal financial assistance has been provided to a subrecipient.

Note C – Indirect Cost Rate

The Council does not draw for administrative expenses and has not elected to use the 10% *de minimis* cost rate.

Note D – Intermediary Relending Program Expenditures

Expenditures of the Intermediary Relending Program (CFDA # 10.767) consist of the beginning of the year outstanding loan balances plus advances made on the loans during the year (if any) as follows:

IRP Loan #1	
Note payable outstanding at September 30, 2018	\$ 141,807
IRP Loan #2	
Note payable outstanding at September 30, 2018	297,212
IRP Loan Mandan	
Note payable outstanding at September 30, 2018	531,108
IRP Loan Mandan II	
Note payable outstanding at September 30, 2018	<u>581,488</u>
Total federal expenditures	
	<u><u>\$ 1,551,615</u></u>

The balance of IRP notes payable outstanding at September 30, 2019, was \$1,465,107.

Note E – Economic Development Assistance Expenditures

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

	RLF # 1	RLF # 2	Total RLF
Revolving loan fund (RLF) loans receivable outstanding at September 30, 2019	\$ 572,116	\$ 344,393	\$ 916,509
Cash balance in the RLF at September 30, 2019	62,775	49,337	112,112
Administrative expenses paid out of RLF income during 2019	14,077	11,974	26,051
	<u>648,968</u>	<u>405,704</u>	<u>1,054,672</u>
Federal share of the RLF	<u>74.3%</u>	<u>73.9%</u>	<u>74.1%</u>
Total federal expenditures	<u><u>\$ 482,110</u></u>	<u><u>\$ 299,781</u></u>	<u><u>\$ 781,890</u></u>

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

Type of auditor’s report issued	Unmodified
Internal control over financial reporting:	
Material weakness identified	Yes
Significant deficiency identified not considered to be a material weaknesses	None Reported
Noncompliance material to financial statements noted	No

FEDERAL AWARDS

Internal control over federal programs:	
Material weakness identified	No
Significant deficiency identified not considered to be a material weakness	None reported
Type of auditor’s report issued on compliance with major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516:	No

Identification of major programs:

<u>Name of Federal Program</u>	<u>CFDA number</u>
Intermediary Relending Program	10.767
Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
Auditee qualified as low-risk auditee	Yes

Section II – Financial Statement Findings

2019-001 – Auditor Assistance in Preparation of Financial Statements, Audit Adjustments, and Correction of Errors

Material Weakness in Internal Control over Financial Reporting

Criteria: An organization's internal control structure should provide for the complete and accurate recording of all necessary adjustments, as well as the preparation of financial statements in accordance with generally accepted accounting principles.

Condition: During our engagement, we discovered errors in previously issued financial statements that were corrected by management, as well as proposed certain current year adjustments to amounts in the financial statements. We also assisted in preparing the financial statements in the current year, including the restatement.

Cause: Existing internal controls did not identify the necessary adjustments required for the correction of prior year errors and current year misstatements.

Effect: The identification of errors in previously issued financial statements and proposed audit adjustments increases the risk that unidentified and uncorrected misstatements in the financial statements exist and interim financial information being utilized by management and the board of directors may not be materially correct.

Recommendation: We recommend increased oversight over year-end adjustments relating to the allowance for loan losses and related risk rating process, and the amount due to other governments to ensure all necessary adjustments are recorded.

Views of Responsible Officials: Management agrees with the finding.

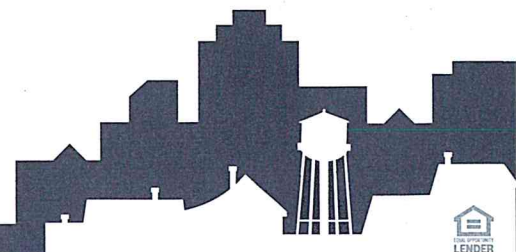
Section III – Federal Award Findings and Questioned Costs

No findings reported in the current year.



Management's Response to Auditor's Findings:
Summary Schedule of Prior Audit Findings and
Corrective Action Plan
September 30, 2019

Prepared by Management of
**Lewis and Clark Regional Development
Council**



Corrective Action Plan

Finding 2019-001 – Auditor Assistance in Preparation of Financial Statements, Audit Adjustments, and Correction of Errors

Material Weakness in Internal Control over Financial Reporting

Finding Summary: During our engagement, we discovered errors in previously issued financial statements that were corrected by management, as well as proposed certain current year adjustments to amounts in the financial statements. We also assisted in preparing the financial statements in the current year, including the restatement.

Responsible Individuals: Brent Ekstrom, Executive Director

Corrective Action Plan: The auditors disagreed with the risk ratings determined by lending staff in the year-end review of the loan portfolio. Auditors determined the risk ratings on 1 loan should be a 7 instead of a 6. The auditors calculated allowance was higher than determined by management. The uncollectible allowance is an identified estimate and the evaluation is inherently subjective so it is not unusual for risk ratings to vary when done by different people. LCRDC staff followed the internal policy to review and rate the loans.

The current year auditors determined that the reporting of the SSBCI loan fund should be changed from what the prior auditors have previously agreed was proper reporting for the amount of the due to other governments.

In addition, the current year auditors determined the reporting for the Lewis & Clark CDC receivable had been incorrect in the general fund in the prior years. The amount, \$1,200,000 has been reclassified to deferred inflows of resources on the Governmental Funds Balance Sheet. No change was required on the government-wide statement of net position.

Anticipated Completion Date: Implemented immediately.