

**SOUTH CENTRAL DAKOTA REGIONAL COUNCIL  
JAMESTOWN, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2019

## TABLE OF CONTENTS

	<b>Page</b>
<b>INDEPENDENT AUDITOR’S REPORT</b>	<b>1</b>
<b>FINANCIAL STATEMENTS</b>	
Government-Wide Financial Statements:	
Statement of Net Position	4
Statement of Activities	5
Governmental Fund Financial Statements:	
Balance Sheet – Governmental Funds	6
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	7
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement Activities	8
Notes to the Financial Statements	9
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Budgetary Comparison Schedule – General Fund	21
Budgetary Comparison Schedule – IRP Fund	22
Budgetary Comparison Schedule – RLF Fund	23
Notes to the Required Supplementary Information	24
<b>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 <i>GOVERNMENT AUDITING STANDARDS</i></b>	<b>25</b>
<b>INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE</b>	<b>27</b>
Schedule of Expenditures of Federal Awards	30
Notes to the Schedule of Expenditures of Federal Awards	31
Schedule of Findings and Questions Costs	33
Schedule of Prior Audit Findings	37
Corrective Action Plan	38

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
South Central Dakota Regional Council  
Jamestown, North Dakota

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the South Central Dakota Regional Council as of and for the year ended March 31, 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 the South Central Dakota Regional Council, as of March 31, 2019, and the respective changes in modified cash basis financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 21-24 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 requires 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 South Central Dakota Regional Council's basic financial statements. The schedule of expenditure 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*, and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2019 on our consideration of the South Central Dakota 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 the South Central Dakota 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 South Central Dakota Regional Council's internal control over financial reporting and compliance.



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

December 27, 2019

**SOUTH CENTRAL DAKOTA REGIONAL COUNCIL**  
**STATEMENT OF NET POSITION**  
**MARCH 31, 2019**

**ASSETS**

**CURRENT ASSETS**

Cash	\$ 1,006,854
Accounts receivable	38,723
Accrued interest	45,244
Current portion of notes receivable	76,938
Total current assets	1,167,759

**OTHER ASSETS**

Certificates of deposit	59,229
Notes receivable, net of current portion and allowance of \$155,363	205,514
Cash restricted for loan loss reserve and debt service	22,893
Total other assets	287,636

Total assets	1,455,395
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**LIABILITIES**

**CURRENT LIABILITIES**

Current portion of notes payable	14,959
Accrued liabilities	12,896
Unavailable dues	46,388
Total current liabilities	74,243

**LONG-TERM LIABILITIES**

Compensated absences payable	3,563
Notes payable, net of current portion	344,068
Total liabilities	421,874

**NET POSITION**

Restricted for economic development	1,000,926
Unrestricted	32,595
	1,033,521

Total net position	\$ 1,033,521
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SEE NOTES TO THE FINANCIAL STATEMENTS

**SOUTH CENTRAL DAKOTA REGIONAL COUNCIL**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED MARCH 31, 2019**

Program Activities	Expenses	Program Revenues		Net Revenue (Expenses) and Changes in Net Position
		Fees, Fines & Charges for Services	Operating Grants & Contributions	
Governmental activities:				
Economic Development	\$ 369,451	\$ 67,227	\$ 77,618	\$ (224,606)
IRP	6,051	10,360	-	4,309
RLF	14,580	20,483	-	5,903
Total governmental activities	\$ 390,082	\$ 98,070	\$ 77,618	(214,394)
General revenues				
Dues				103,681
Project income				17,000
Interest income				13,289
Miscellaneous				1,923
Total general revenues				135,893
Change in net position				(78,501)
Net position, beginning of period				1,112,022
Net position, end of period				\$ 1,033,521

SEE NOTES TO THE FINANCIAL STATEMENTS

**SOUTH CENTRAL DAKOTA REGIONAL COUNCIL**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**MARCH 31, 2019**

	General	Intermediary Relending Program	Revolving Loan Fund	Total Governmental Funds
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 48,515	\$ 358,653	\$ 599,686	\$ 1,006,854
Accounts receivable	38,723	-	-	38,723
Accrued interest	-	470	44,774	45,244
Current portion of notes receivable	-	8,204	68,734	76,938
Total current assets	87,238	367,327	713,194	1,167,759
<b>OTHER ASSETS</b>				
Certificates of deposit	8,204	51,025	-	59,229
Notes receivable, net of current portion	-	160,893	199,984	360,877
Allowance for uncollectible accounts	-	-	(155,363)	(155,363)
Cash restricted for loan loss reserve	-	22,893	-	22,893
Total other assets	8,204	234,811	44,621	287,636
Total assets	\$ 95,442	\$ 602,138	\$ 757,815	\$ 1,455,395
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accrued liabilities	\$ 12,896	\$ -	\$ -	\$ 12,896
Unavailable dues	46,388	-	-	46,388
Total current liabilities	59,284	-	-	59,284
<b>FUND BALANCES</b>				
Nonspendable	-	169,097	113,355	282,452
Spendable				
Unassigned	27,954	-	-	27,954
Assigned for fixed asset replacement reserve	8,204	-	-	8,204
Restricted				
Economic development	-	410,148	644,460	1,054,608
Loan loss reserve	-	22,893	-	22,893
Total fund balances	36,158	602,138	757,815	1,396,111
Total liabilities and fund balances	\$ 95,442	\$ 602,138	\$ 757,815	\$ 1,455,395

**Reconciliation of the Balance Sheet to the Statement of Net Position March 31, 2019**

Total fund balance	\$ 1,396,111
Compensated absences payable	(3,563)
Notes payable	(359,027)
Net position of governmental activities	\$ 1,033,521

SEE NOTES TO THE FINANCIAL STATEMENTS



**SOUTH CENTRAL DAKOTA REGIONAL COUNCIL**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED MARCH 31, 2019**

	General	Intermediary Relending Program	Revolving Loan Fund	Total Governmental Funds
<b>REVENUES</b>				
Dues	\$ 103,681	\$ -	\$ -	\$ 103,681
Project income	17,000	-	-	17,000
Intergovernmental	77,618	-	-	77,618
Interest	10,413	11,896	21,658	43,967
Charges for services	67,227	50	115	67,392
Other	1,923	-	-	1,923
<b>Total revenues</b>	<b>277,862</b>	<b>11,946</b>	<b>21,773</b>	<b>311,581</b>
<b>EXPENDITURES</b>				
Current:				
Salaries	205,910	1,489	2,217	209,616
Payroll taxes	16,011	128	214	16,353
Employee benefits	46,878	121	550	47,549
Travel	11,518	-	1,778	13,296
Professional fees	21,374	233	404	22,011
Legal fees	349	-	571	920
Building	36,681	221	1,081	37,983
Insurance	1,939	-	-	1,939
Meetings	2,153	-	14	2,167
Supplies	5,269	5	13	5,287
Communication	6,025	46	208	6,279
Miscellaneous	11,781	70	-	11,851
Bad debt	-	-	7,530	7,530
<b>Total current expenditures</b>	<b>365,888</b>	<b>2,313</b>	<b>14,580</b>	<b>382,781</b>
Debt service:				
Principal retirement	-	14,810	-	14,810
Interest	-	3,738	-	3,738
<b>Total debt service expenditures</b>	<b>-</b>	<b>18,548</b>	<b>-</b>	<b>18,548</b>
<b>Total expenditures</b>	<b>365,888</b>	<b>20,861</b>	<b>14,580</b>	<b>401,329</b>
<b>EXCESS REVENUE OVER (UNDER)</b>				
<b>EXPENDITURES</b>	<b>(88,026)</b>	<b>(8,915)</b>	<b>7,193</b>	<b>(89,748)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Fund transfers	17,555	(7,538)	(10,017)	-
<b>Net change in fund balances</b>	<b>(70,471)</b>	<b>(16,453)</b>	<b>(2,824)</b>	<b>(89,748)</b>
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<b>106,629</b>	<b>618,591</b>	<b>760,639</b>	<b>1,485,859</b>
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 36,158</b>	<b>\$ 602,138</b>	<b>\$ 757,815</b>	<b>\$ 1,396,111</b>

SEE NOTES TO THE FINANCIAL STATEMENTS

**SOUTH CENTRAL DAKOTA REGIONAL COUNCIL**  
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED MARCH 31, 2019

Net changes in fund balance	\$ (89,748)
Principal payments on notes payable	14,810
Change in compensated absences payable	<u>(3,563)</u>
Change in net position of governmental activities	<u><u>\$ (78,501)</u></u>

SEE NOTES TO THE FINANCIAL STATEMENTS

**SOUTH CENTRAL DAKOTA REGIONAL COUNCIL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2019**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the South Central Dakota Regional Council (Council) have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to governments. In the current year, the Council changed their basis of accounting from the modified cash basis to accrual basis in conformity with accounting principles generally accepted in the United States of America as applicable to governments. The beginning balances of net assets have been modified to present in conformity with the accrual basis of accounting. As described in Note 1, the Council has implemented the financial reporting model as required by the provision of GASB 34, *Basic Financial Statement and Management's Discussion and Analysis for State and Local Governments*. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

**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 and the statement of activities) display information about the reporting government as a whole. These statements include all the financial activities of the Council. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through intergovernmental revenues, and other nonexchange transactions.

The statement of activities 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 charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 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.

**SOUTH CENTRAL DAKOTA REGIONAL COUNCIL**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**MARCH 31, 2019**

*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 funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Currently all funds of the Council qualify as major.

The Council reports the following major governmental funds:

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

Intermediary Relending Program Fund – The Intermediary Relending Program provides loans to entities through funding from the United States Department of Agriculture and local match. As loans are repaid, the revolved funds are loaned.

Revolving Loan Fund – The Revolving Loan Fund was established to provide loans to entities through funding from the Economic Development Administration and donated funds. As loans are repaid, the revolved funds are loaned.

**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 and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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 all eligibility requirements imposed by the provider have been met.

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

Under the terms of grant agreements, the Council funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses 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 revenues.

**SOUTH CENTRAL DAKOTA REGIONAL COUNCIL**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**MARCH 31, 2019**

**Budgets and Budgetary Accounting**

The Council follows the procedures established by North Dakota law for the budgetary process. The operating budget includes proposed disbursements and the means of financing them for the upcoming year, along with estimates for the current year and actual data for the preceding year. Formal budgetary integration is employed as a management control device during the year. The Council prepares its budget and reports its governmental funds on the same basis of accounting. Except as provided by North Dakota Century Code, the balance of each appropriation becomes a part of the unappropriated fund balance at year end.

**Cash and Cash Equivalents**

Cash and cash equivalents include amounts in demand deposits as well as money market accounts.

**Investments**

Investments consist of certificates of deposits reported at cost.

**Accounts Receivable**

Accounts receivable are carried at original invoice amount less a reserve estimate made for doubtful accounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and using historical experience applied to an aging of accounts. Management has determined that no allowance for doubtful accounts is necessary. Accounts receivable are written off when deemed to be uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

**Notes Receivable and Allowance for Bad Debts**

Notes receivable represent funds advanced to borrowers under various federal programs and an internally operated loan program. 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, less an allowance for loan losses. The allowance for loan losses is estimated based on the Council's anticipated uncollectible balances based on historical write-offs and the financial stability of its clients. An allowance of \$155,363 for bad debts has been established to account for potential uncollectible accounts for the Revolving Loan Fund (RLF) and Intermediary Relending Program (IRP) loans. Management believes the estimated allowance for the RLF and IRP is adequate. The Council is required by USDA to establish a loan loss reserve for the IRP loans and these are reported as restricted fund balances. Notes considered uncollectible are liquidated and any amount remaining is charged-off.

Interest income on notes receivable is recorded as earned. Interest stops accruing once a note receivable is considered non-collectible.

There were no changes in the Council's accounting policies during the year. There have been no purchases, sales, or reclassifications of notes receivable.

**SOUTH CENTRAL DAKOTA REGIONAL COUNCIL**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**MARCH 31, 2019**

**Long-Term Debt**

All long-term debt arising from cash basis transactions to be repaid from governmental resources is reported as liabilities in the government-wide statements. The long-term debt consists of notes payable. Long-term debt arising from cash basis transactions of governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as disbursements.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 amounts could differ from those estimates.

**Tax-Exempt Status**

The Council is exempt from Federal Income Taxes under the Internal Revenue Code Section 501(c)(3) and from payment of state income taxes under Section 57-38-09 of the North Dakota Century Code. The Council's policy is to evaluate the likelihood that its uncertain tax positions will prevail upon examination based on the extent to which those positions have substantial support within the Internal Revenue Code and Regulations, Revenue Rulings, court decisions, and other evidence.

**Net Position**

Net position represents the difference between assets and liabilities. 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. It is the Council's policy to first use restricted net position prior to the use of unrestricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

**Fund Balance Classifications**

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. 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.

**SOUTH CENTRAL DAKOTA REGIONAL COUNCIL**  
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED  
MARCH 31, 2019

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.

The Council has set a General fund minimum fund balance target at 10% of budgeted annual disbursements and recurring transfers.

### **Interfund Transactions**

In the process of aggregating the financial 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 statement of activities. The effects of interfund services between funds, if any, are not eliminated in the statement of activities.

**SOUTH CENTRAL DAKOTA REGIONAL COUNCIL**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**MARCH 31, 2019**

*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 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.

**NOTE 2 DEPOSITS AND INVESTMENTS**

**Credit Risk**

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

Deposits must either be deposited with the Bank of North Dakota or in another financial institution 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 deposit not covered by insurance or bonds.

The Council maintains cash on deposit at various financial institutions. The amounts on deposit are insured by the FDIC up to \$250,000 per financial institution. At March 31, 2019, none of the Council's deposits were exposed to credit risk as \$791,403 of the Council's deposits were covered by pledged securities held in the Council's name. These pledged securities exceed 110% of the uninsured balance.

**Concentration of Credit Risk**

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



**SOUTH CENTRAL DAKOTA REGIONAL COUNCIL**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**MARCH 31, 2019**

**NOTE 3 NOTES RECEIVABLE**

South Central Dakota Regional Council provides loans to businesses and local governments in its region for start-up, expansion and capital improvements. The Council has two separate loan programs consisting of the following:

Intermediary Relending Program	
Loans bearing interest from 5.00% to 7.00%, with maturity dates ranging from 2030 through 2034, secured with personal guarantees, inventory, property, and equipment.	\$ 169,097
Less: current portion of notes receivable	<u>(8,204)</u>
Total long-term notes receivable	160,893
Less: allowance for doubtful accounts	-
Total long-term notes receivable, net	<u><u>\$ 160,893</u></u>
Revolving Loan Fund	
Loans bearing interest from 4.00% to 8.00%, with a maturity dates ranging from 2019 through 2031 secured with personal guarantees, inventory, property and equipment.	\$ 268,718
Less: current portion of notes receivable	<u>(68,734)</u>
Total long-term notes receivable	199,984
Less: allowance for doubtful accounts	<u>(155,363)</u>
Total long-term notes receivable, net	<u><u>\$ 44,621</u></u>

*Intermediary Relending Programs* – The Intermediary Relending Program (IRP) provides loans to entities through a federal loan and local match. In 2013, the Council received a second federal loan (IRP #2). The Council is ultimately responsible for the assets and liabilities of the IRP program. A financing statement has been filed for all assets generated from the program and all security interests pledged to the Council by the recipients of loans.

*Revolving Loan Fund* – The Revolving Loan Fund (RLF) was established to provide loans to entities through federal and donated funds.

The Council has established an allowance for bad debts of \$155,363 for the RLF and IRP notes as of March 31, 2019.

The Council is required to repay the original IRP grant funds to USDA.

**SOUTH CENTRAL DAKOTA REGIONAL COUNCIL**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**MARCH 31, 2019**

The following table presents information data by class of financing receivable regarding their age and interest accrual status at March 31, 2019:

	Past Due			Total Past Due	Total Financing Receivables on Nonaccrual Status*
	30 - 59 Days	60 - 89 Days	≥ 90 Days		
RLF	\$ -	\$ -	\$ -	\$ -	\$ -
IRP	-	-	111,460	111,460	2,309
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 111,460</u>	<u>\$ 111,460</u>	<u>\$ 2,309</u>

\* As of March 31, 2019, the Council held a note on their books in which they stopped accruing interest but was not considered past due.

**NOTE 4 LONG TERM DEBT**

The following is a summary of long-term debt transactions of the Council for the year ended March 31, 2019:

	Balance 4/1/2018	Increases	Decreases	Balance 3/31/2019	Due Within One Year
IRP #1 USDA note payable	\$ 232,287	\$ -	\$ 10,010	\$ 222,277	\$ 10,116
IRP #2 USDA note payable	141,550	-	4,800	136,750	4,843
Total Notes Payable	<u>\$ 373,837</u>	<u>\$ -</u>	<u>\$ 14,810</u>	<u>\$ 359,027</u>	<u>\$ 14,959</u>

Interest paid in 2019 on the USDA Rural Development loans was \$3,738.

**SOUTH CENTRAL DAKOTA REGIONAL COUNCIL**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**MARCH 31, 2019**

Notes payable as of March 31, 2019 consisted of the following:

\$300,000, 1.00% IRP #1 note payable to USDA Rural Development, due in annual installments of \$12,339, including interest, through November 2038, at which time the balance is due, secured by notes receivable with a carrying value of \$222,272.	\$ 222,277
\$151,000, 1.00% IRP #2 note payable to USDA Rural Development, due in annual installments of \$6,211, including interest through June 2043, at which time the balance is due, secured by notes receivable with a carrying value of \$136,756.	<u>136,750</u>
Total notes payable	<u>359,027</u>
Less: current maturities included in long-term debt	(14,959)
Total long term liabilities	<u><u>\$ 344,068</u></u>

The future expected requirements to amortize long-term debt, including interest, as of March 31, 2019 are as follows:

Year ending March 31,	Principal	Interest	Total
2020	\$14,959	\$3,591	\$ 18,550
2021	15,109	3,442	18,551
2022	15,260	3,290	18,550
2023	15,413	3,137	18,550
2024	15,567	2,983	18,550
2025-2029	63,839	10,361	74,200
2030-2034	83,456	9,294	92,750
2035-2039	87,713	5,037	92,750
2040-2044	47,711	1,389	49,100
	<u>\$359,027</u>	<u>\$ 42,524</u>	<u>\$401,551</u>

**SOUTH CENTRAL DAKOTA REGIONAL COUNCIL**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**MARCH 31, 2019**

**NOTE 5 LEASE**

In February, 2019 the Council entered into a lease for office space under an operating lease. The lease calls for monthly payments of \$800, increasing by \$100 each February until the lease expires in February, 2022. Future payments on this lease are as follows:

2020	\$ 9,800
2021	11,000
2022	11,000

Rental expense was \$37,983, of which \$7,568 was paid to terminate the lease for the previous office space the Council occupied, for the year ended March 31, 2019.

**NOTE 6 RISK MANAGEMENT**

The Council is exposed to various risks of loss relating to torts; theft of, damage to, and destruction of assets; errors and omissions injuries to employees; and natural disasters. In 1986 state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The Council pays an annual premium to NDIRF for its general liability insurance coverage. The coverage by NDIRF is limited to losses of \$2,000,000 per occurrence.

The State Bonding Fund currently provides the Council with blanket fidelity bond coverage in the amount of \$536,000 for its employees and officials. The State Bonding fund does not currently charge any premium for this coverage.

The Council has workers compensation with the Workforce, Safety and Insurance and purchases commercial insurance for personal property, building, inland marine and boiler and machinery.

No claims resulting from these risks have not exceeded insurance coverage in any of the past three years.

**NOTE 7 GRANT CONTINGENCY**

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.

**SOUTH CENTRAL DAKOTA REGIONAL COUNCIL**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**MARCH 31, 2019**

**NOTE 8 INCOME TAX**

It is the opinion of management that the Council has no significant uncertain tax positions that would be subject to change upon examination. The federal income tax returns of the Council are subject to examination by the Internal Revenue Service, generally for three years after the returns were filed.

**NOTE 9 FUTURE GASB PRONOUNCEMENTS**

GASB Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). This Statement establishes criteria for determining the timing and pattern of recognition of a liability and corresponding deferred outflow of resources for AROs. It also establishes disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

GASB Statement No. 84, *Fiduciary Activities*, provides guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

GASB Statement No. 87, *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This Statement is effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

**SOUTH CENTRAL DAKOTA REGIONAL COUNCIL**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**MARCH 31, 2019**

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

GASB Statement No. 90, *Majority Equity Interests*, provides guidance for reporting when a government has majority equity interest in legally separate organizations. An equity interest is explicit and measurable if the government has a present or future claim to the net resources of the entity and the method for measuring the government's share of the entity's net resources is determinable. If government's holding of that equity interest meets the definition of an investment, as defined by GASB No. 72, the equity interest should be reported as an investment and measured using the equity method and not as a component unit of the government. If a government's holding of a majority interest in a legally separate organization does not meet the definition of an investment, the holding of the majority equity interest results in the government being financially accountable for the organization and therefore, the government should report the legally separate organization as a component unit. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

GASB Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement clarifies the existing definition of a conduit debt obligation; establishes that a conduit debt obligation is not a liability of the issuer; establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improves required note disclosures. This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

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

**NOTE 10 SUBSEQUENT EVENT**

No significant events occurred subsequent to the Council's year end. Subsequent events were evaluated through December 27, 2019, which is the date these financial statements were available to be issued.

**REQUIRED SUPPLEMENTARY INFORMATION**

**SOUTH CENTRAL DAKOTA REGIONAL COUNCIL**  
**BUDGETARY COMPARISON SCHEDULE – GENERAL FUND**  
**FOR THE YEAR ENDED MARCH 31, 2019**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
Receipts:				
Dues	\$ 110,000	\$ 110,000	\$ 103,681	\$ (6,319)
Project income	18,000	18,000	17,000	(1,000)
Intergovernmental	77,618	77,618	77,618	-
Interest	10,040	10,040	10,413	373
Charges for services	124,868	124,868	67,227	(57,641)
Other	500	500	1,923	1,423
Total receipts	<u>341,026</u>	<u>341,026</u>	<u>277,862</u>	<u>(63,164)</u>
Disbursements:				
Current:				
Salaries	194,934	194,934	221,921	(26,987)
Employee benefits	66,059	66,059	46,878	19,181
Travel	13,315	13,315	11,518	1,797
Professional fees	21,390	21,390	21,374	16
Legal fees	1,850	1,850	349	1,501
Building	19,870	19,870	36,681	(16,811)
Insurance	2,000	2,000	1,939	61
Meetings	4,575	4,575	2,153	2,422
Supplies	7,600	7,600	5,269	2,331
Communication	4,433	4,433	6,024	(1,591)
Miscellaneous	4,000	4,000	11,782	(7,782)
Total disbursements	<u>340,026</u>	<u>340,026</u>	<u>365,888</u>	<u>(25,862)</u>
Excess of receipts under disbursements	1,000	1,000	(88,026)	(89,026)
Other financing sources (uses)				
Fund transfers	<u>-</u>	<u>-</u>	<u>17,555</u>	<u>17,555</u>
Net change in fund balances	<u>\$ 1,000</u>	<u>\$ 1,000</u>	(70,471)	<u>\$ (71,471)</u>
Fund balance - April 1, 2018			<u>106,629</u>	
Fund balance - March 31, 2019			<u>\$ 36,158</u>	

SEE NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION



**SOUTH CENTRAL DAKOTA REGIONAL COUNCIL**  
**BUDGETARY COMPARISON SCHEDULE – IRP FUND**  
**FOR THE YEAR ENDED MARCH 31, 2019**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
Receipts:				
Interest	\$ 18,426	\$ 18,426	\$ 11,896	\$ (6,530)
Charges for services	3,160	3,160	50	(3,110)
Total receipts	<u>21,586</u>	<u>21,586</u>	<u>11,946</u>	<u>(9,640)</u>
Disbursements:				
Current:				
Salaries	1,080	1,080	1,617	(537)
Employee benefits	389	389	121	268
Travel	500	500	-	500
Professional fees	-	-	233	(233)
Legal fees	175	175	-	175
Building	380	380	221	159
Supplies	25	25	5	20
Communication	167	167	46	121
Miscellaneous	320	320	70	250
Debt service:				
Principal retirement	14,810	14,810	14,810	-
Interest and fiscal charges	3,740	3,740	3,738	2
Total disbursements	<u>21,586</u>	<u>21,586</u>	<u>20,861</u>	<u>725</u>
Excess of receipts over disbursements	-	-	(8,915)	(8,915)
Other financing sources (uses)				
Fund transfers	-	-	(7,538)	(7,538)
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	(16,453)	<u>\$ (16,453)</u>
Fund balance - April 1, 2018			<u>618,591</u>	
Fund balance - March 31, 2019			<u>\$ 602,138</u>	

SEE NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION

**SOUTH CENTRAL DAKOTA REGIONAL COUNCIL**  
**BUDGETARY COMPARISON SCHEDULE – RLF FUND**  
**FOR THE YEAR ENDED MARCH 31, 2019**

	Original Budget	Final Budget	Actual	Variance- Favorable (Unfavorable)
Receipts:				
Interest	\$ 24,000	\$ 24,000	\$ 21,658	\$ (2,342)
Charges for services	2,500	2,500	115	(2,385)
Total receipts	<u>26,500</u>	<u>26,500</u>	<u>21,773</u>	<u>(4,727)</u>
Disbursements:				
Current:				
Salaries	14,000	14,000	2,431	11,569
Employee benefits	4,900	4,900	550	4,350
Travel	2,000	2,000	1,778	222
Professional fees	750	750	404	346
Legal fees	3,000	3,000	571	2,429
Building	750	750	1,081	(331)
Meetings	500	500	14	486
Supplies	200	200	13	187
Communication	200	200	208	(8)
Miscellaneous	200	200	-	200
Bad debt	-	-	7,530	(7,530)
Total disbursements	<u>26,500</u>	<u>26,500</u>	<u>14,580</u>	<u>11,920</u>
Excess of receipts over disbursements	-	-	7,193	7,193
Other financing sources (uses)				
Fund transfers	-	-	(10,017)	(10,017)
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	(2,824)	<u>\$ (2,824)</u>
Fund balance - April 1, 2018			<u>760,639</u>	
Fund balance - March 31, 2019			<u>\$ 757,815</u>	

SEE NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION

**SOUTH CENTRAL DAKOTA REGIONAL COUNCIL**  
**NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE YEAR ENDED MARCH 31, 2019**

**NOTE 1 BUDGET**

Based upon available financial information and requests by the governing board, the Executive Director and Finance Manager prepare the preliminary Council budget. The Council budget is prepared for the general fund, revolving loan fund and intermediary relending program by function and activity on the modified accrual basis of accounting. The budget is approved by the governing board. Annual appropriations lapse at the end of the fiscal year.

For the year ended March 31, 2019, actual expenditures exceeded the budget in the General Fund by \$27,640.

**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  
South Central Dakota Regional Council  
Jamestown, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the South Central Dakota Regional Council, as of and for the year ended March 31, 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 27, 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.

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 significant deficiencies and therefore, material weaknesses 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 be a material weakness 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 entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described as item 2019-002 in the accompanying schedule of findings and questioned costs to be a material weakness.

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 as described in 2019-001 in the accompanying schedule of findings and questioned costs to be a significant deficiency.

### **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*.

### **South Central Dakota Regional Council's Responses to Findings**

The Council's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Council's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **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 Council's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



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

December 27, 2019

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

To the Board of Directors  
South Central Dakota Regional Council  
Jamestown, North Dakota

### Report on Compliance for Each Major Federal Program

We have audited South Central Dakota Regional Council's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of South Central Dakota Regional Council's major federal programs for the year ended March 31, 2019. South Central Dakota Regional Council's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### Auditor's Responsibility

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

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

### ***Opinion on Each Major Federal Program***

In our opinion, the South Central Dakota Regional Council complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended March 31, 2019.

### **Other Matters**

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2019-003. Our opinion on the major federal program is not modified with respect to this matter.

South Central Dakota Regional Council's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. South Central Dakota Regional Council's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control Over Compliance**

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2019-003, that we consider to be a significant deficiency.

South Central Dakota Regional Council's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. South Central Dakota Regional Council's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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**

December 27, 2019



**SOUTH CENTRAL DAKOTA REGIONAL COUNCIL**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED MARCH 31, 2019**

<u>Federal Grantor/Program or Cluster Title</u>	<u>Identifying Pass-Through Grant Number</u>	<u>Federal CFDA Number</u>	<u>Total Federal Expenditures</u>
<b><u>U.S. Department of Commerce, Economic Development Administration Public Works</u></b>			
Economic Adjustment Assistance-Economic Development Cluster	N/A	11.307	\$ 427,070
Economic Development Support for Planning Organizations	N/A	11.302	70,000
<b>Total U.S. Department of Commerce</b>			<u>497,070</u>
<b><u>Department of Housing and Urban Development</u></b>			
Passed through ND Division of Community Services:			
Community Development Block Grants	4132-CD16-PF- U	14.228	10,267
<b>Total Department of Housing and Urban Development</b>			<u>10,267</u>
<b><u>United States Department of Agriculture, Rural Development</u></b>			
Intermediary Relending Program	N/A	10.767	373,839
<b>Total United States Department of Agriculture</b>			<u>373,839</u>
<b><i>Total Expenditures of Federal Awards</i></b>			<u><u>\$ 881,176</u></u>

SEE NOTES TO THE SCHEDULE OF EXPENTIRUES OF FEDERAL AWARDS

**SOUTH CENTRAL DAKOTA REGIONAL COUNCIL**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**MARCH 31, 2019**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE 2 INDIRECT COST RATE**

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

**NOTE 3 BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of South Central Dakota Regional Council under programs of the federal government for the year ended March 31, 2019. 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 South Central Dakota Regional Council, it is not intended to and does not present the financial statements of the governmental activities, each major fund, and remaining fund information of South Central Dakota Regional Council.

**NOTE 4 OUTSTANDING LOANS**

The Council has the following outstanding federal loans. The beginning balance of the outstanding loans for the current year are also included in the federal expenditures presented in the schedule due to ongoing compliance requirements.

	<u>Federal CFDA Number</u>	<u>Beginning Balance</u>	<u>Ending Balance</u>
Intermediary Relending Program	10.767	\$ 373,839	\$ 359,027

**SOUTH CENTRAL DAKOTA REGIONAL COUNCIL**  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED  
MARCH 31, 2019

**NOTE 5 LOAN PROGRAMS**

The Council manages two federal loan programs, the Revolving Loan Fund (EDA) and the Intermediary Relending Program (USDA). Federal expenditures for the Intermediary Relending Program is the outstanding loan balance as of the beginning of the fiscal year, which is listed in Note 4 above. The following is the calculation of the federal expenditures for the Revolving Loan Fund:

End of year loan balances	\$	268,718
End of year cash balances		599,686
Current year loans written off		10,767
Current year administrative expenses		7,050
Total expenditures		886,221
Federal percentage		48.19%
Total federal expenditures	\$	427,070

**NOTE 6 FEDERAL PORTION OF INTERGOVERNMENTAL REVENUE CALCULATION**

The Council received funds from multiple agencies which were comprised of both federal and non-federal dollars. The calculation of the federal amounts of funding for proper presentation in the Schedule of Expenditures of Federal Awards are as follows:

<u>Charges for Services Revenue per Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds</u>		
Non-federal portion of charges for services revenue	\$	64,743
Federal portion of charges for services revenue		
CDBG City of Edgeley		2,649
Total charges for services revenue	\$	67,392

**NOTE 7 RECONCILIATION OF SEFA SCHEDULE TO FINANCIAL STATEMENTS**

The following schedule ties the total amount of federal awards as stated on the SEFA schedule to the financial statements:

Balance of IRP loan as stated in SEFA footnote 4	\$	373,839
Federal expenditures of Revolving Loan Fund as calculated in SEFA footnote 5		427,070
Federal portion of charges for services revenue as noted in SEFA footnote 6		2,649
Intergovernmental revenue as stated on statement of revenues, expenditures, and changes in fund balances - governmental funds		77,618
Total federal awards as stated on the SEFA schedule	\$	881,176

**SOUTH CENTRAL DAKOTA REGIONAL COUNCIL**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED MARCH 31, 2019**

**Section I – Summary of Auditor’s Results**

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 that are  
not considered to be material weakness(es)?   x   yes    none  
  
Noncompliance material to financial  
statements noted?    yes   x   no

Federal Awards

Internal control over major programs:  
Material weakness(es) identified?    yes   x   no  
Significant deficiency(ies) identified that are  
not considered to be material weakness(es)?   x   yes    none

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

Any audit findings disclosed that are  
required to be reported in accordance with  
the 2 CFR 200.516(a).   x   yes    no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Names of Federal Programs or Clusters</u>
11.307	Economic Adjustment Assistance – Economic Development Administration

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

Auditee qualified as low-risk auditee?    yes   x   no

**SOUTH CENTRAL DAKOTA REGIONAL COUNCIL**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**  
**FOR THE YEAR ENDED MARCH 31, 2019**

**Section II – Financial Statement Findings**

**2019-001 Significant Deficiency: Segregation of Duties**

Criteria

The Council is required to maintain internal controls at a level where there is proper segregation of accounting duties between authorization, custody, record keeping and reconciliation.

Condition

The Council has one staff person performing most of the accounting functions including recording and reconciling.

Cause

The Council has a limited number of office personnel; therefore, the current structure does not allow for proper segregation of duties to assure adequate internal control over financial reporting.

Effect

An appropriate system of internal controls is not present to provide proper segregation of duties. However, the entity is aware of the deficiency and addresses it by implementing compensating controls such as board oversight; Executive Director approval of all disbursements; and the Loan Committee's review of all new loans.

Recommendation

We recommend that the Council and its Board should constantly be aware of this condition. Compensating controls that mitigate the related risks could be 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.

Views of Responsible Officials and Planned Corrective Actions

Due to the limited size of the Council, cost constraints prohibit hiring additional administrative staff to maintain internal controls for complete segregation of accounting duties. Compensating controls have been implemented for mitigation of the deficiency including initial receipt and handling of incoming remittances, receipt of bank deposit receipts, check and invoice request forms prepared by other staff, and Executive Director approval of all expenditures. Approval of all journal entries on a quarterly basis by Executive Director has been implemented.

Executive Board and Executive Director receive monthly financial reports including detailed balance sheet, profit and loss statement, check register, loan reports and receipts register for approval. All invoices and supporting documentation and bank reconciliations are approved by Council Secretary-Treasurer.

Indication of repeat finding

This is a repeat finding. See finding 2018-001

**SOUTH CENTRAL DAKOTA REGIONAL COUNCIL**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**  
**FOR THE YEAR ENDED MARCH 31, 2019**

**2019-002 Material Weakness: Preparation of Financial Statements and Journal Entries**

Criteria

The Council does not have the internal resources to identify all journal entries required to maintain a general ledger and prepare the full-disclosure financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP).

Condition

The Council's personnel prepare periodic financial information for internal use that meets the needs of management and the Board of Directors. However, the Council does not have internal resources to identify all journal entries required to maintain a general ledger and prepare full-disclosure financial statements required by GAAP for external reporting. The Council is aware of this deficiency and obtains the auditor's assistance in adjusting the general ledger in accordance with GAAP and the preparation of the Council's annual financial statements.

Cause

The Council does not have the internal expertise needed to handle all aspects of the external financial reporting.

Effect

The Council's management is aware of the deficiency and addresses it by reviewing and approving the completed statements prior to distribution to the end users.

Recommendation

Accounting personnel will need to determine the proper balance in each general ledger account prior to audit. We recommend that the entity reviews its current training system to determine if it is cost effective for the entity to obtain this knowledge internally. In addition, as a compensating control the Council 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 and Planned Corrective Actions

The Council recognizes the deficiency and believes it is effectively handling the reporting responsibilities with the procedures described above.

Indication of repeat finding

This is not a repeat finding.

**SOUTH CENTRAL DAKOTA REGIONAL COUNCIL**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**  
**FOR THE YEAR ENDED MARCH 31, 2019**

**Section III – Federal Award Findings and Questioned Costs**

**2019-003**

Criteria

The Council must submit an ED-209 form to the EDA on a semi-annual basis (for the six months ending September 30 and March 31) each year.

Condition

Several key line items on the ED-209 report submitted by the Council for the six months ending March 31, 2019 did not reconcile back to the Council's trial balance or other records.

Questioned costs

None

Cause

The Council did not reconcile the report back to the accounting records prior to submission.

Effect

The Council is not in compliance with reporting for the Revolving Loan Funds.

Recommendation

We recommend procedures and controls over submission of the Form ED-209 be implemented to ensure accurate reporting.

Views of Responsible Officials and Planned Corrective Actions

The Council is working to put controls in place to better monitor the submission.

Indication of repeat finding

This is not a repeat finding.

**SOUTH CENTRAL DAKOTA REGIONAL COUNCIL**  
**SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED MARCH 31, 2019**

**2018-001**

Criteria

The Council is required to maintain internal controls at a level where there is proper segregation of accounting duties between authorization, custody, record keeping and reconciliation.

Condition

The Council has one staff person performing most of the accounting functions including recording and reconciling.

Cause

The Council has a limited number of office personnel; therefore, the current structure does not allow for proper segregation of duties to assure adequate internal control over financial reporting.

Effect

An appropriate system of internal controls is not present to provide proper segregation of duties. However, the entity is aware of the deficiency and addresses it by implementing compensating controls such as board oversight; Executive Director approval of all disbursements; and the Loan Committee's review of all new loans.

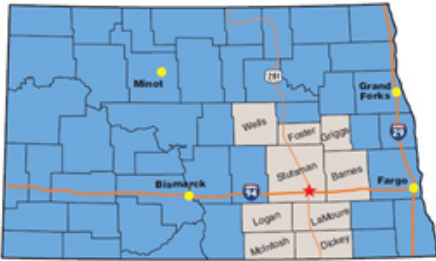
Recommendation

We recommend that the Council and its Board should constantly be aware of this condition. Compensating controls that mitigate the related risks could be 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.

Corrective Action Taken

See current year finding 2019-001





# South Central Dakota Regional Council

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## Corrective Action Plan – March 31, 2019

### **2019-001**

#### Contact Person

Margie Johnson, Executive Director

#### Corrective Action Plan

This finding is noted together with the Board. The Council will make every effort to ensure adequate internal controls. This condition is a repeat from prior years. Because of the very limited number of staff available to the Council, all of the accounting duties cannot be totally segregated in such a way as to eliminate this reportable condition. The only alternative would be the hiring of additional staff, and current cash flows do not justify it. The Organization has reviewed its internal controls and procedures in place and believe the procedures in place provide adequate controls under these circumstances.

#### Completion Date

The Council will implement when it becomes cost effective.

### **2019-002**

#### Contact Person

Margie Johnson, Executive Director

#### Corrective Action Plan

This finding is noted together with the Board. Due to the financial, efficiency, and time constraints, it has been determined by the Council's management that it is in the best interest of South Central Dakota Regional Council and all interested parties to have the auditors propose adjusting journal entries required to present the financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP), and to prepare the financial statements.

#### Completion Date

Fiscal year 2019

### **2019-003**

#### Contact Person

Margie Johnson, Executive Director

#### Corrective Action Plan

The Council is working to put controls in place to better monitor the submission.

#### Completion Date

Fiscal year 2019