

RED RIVER
REGIONAL COUNCIL
GRAFTON, NORTH DAKOTA

FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2021

RED RIVER REGIONAL COUNCIL

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RED RIVER REGIONAL COUNCIL
LIST OF OFFICIALS
DECEMBER 31, 2021

Chris Lipsh	President
Cynthia Pic	Vice-president
Lauren Wild	Treasurer
Dawn Mandt	Secretary
Dan Stenvold	Past President
Lacey Hinkle	
Gerald Uglem	
Kristina Halverson	
Mary Houdek	
Maynard Loibl	
Bret Weber	
Barry Wilfahrt	
Nick Rutherford	
Korrey Tweed	
Todd Whitman	

Shelley Popiel, Advisory
Mike Dunn, Advisory
Gary Paulson, Advisory

Harold J. Rotunda

Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT

To the Governing Board
Red River Regional Council
Grafton, North Dakota

Opinion

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities and each major fund of the Red River Regional Council as of December 31, 2021, and the respective changes in modified cash basis financial position for the year then ended, in accordance with the modified cash basis of accounting as described in Note 1.

Basis for Opinions

I conducted my 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. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of the Council and to meet my other ethical responsibilities, in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis of Accounting

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1, and for determining the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Red River Regional Council's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation in the financial statements.

- Conclude whether, in my judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about Red River Regional Council's ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Council's basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 GAAS. In my opinion, the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole on the basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, I have also issued reports dated December 1, 2022, on my considerations of the Council's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on 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.

Fargo, North Dakota
December 1, 2022

RED RIVER REGIONAL COUNCIL
 STATEMENT OF NET POSITION- MODIFIED CASH BASIS
 DECEMBER 31, 2021

	Governmental Activities
ASSETS	
Cash and investments	996,389.53
Loans receivable	966,737.83
 Total Assets	 1,963,127.36
LIABILITIES	
Accounts Payable	-
Salaries and benefits payable	16,814.38
Accrued vacation	34,912.61
 Total liabilities	 51,726.99
 Net Position	
Restricted for:	
Loan programs	1,488,607.95
Unrestricted	422,792.42
 Total Net Position	 1,911,400.37

The accompanying notes are an integral part of these financial statements.

RED RIVER REGIONAL COUNCIL

STATEMENT OF ACTIVITIES- MODIFIED CASH BASIS

YEAR ENDED DECEMBER 31, 2021

		Program Revenues		Revenue & Changes
		Charges for	Operating grants	in Net Position
	Expenses	Services	and Contributions	Governmental
				Activities
Governmental activities:				
Economic development	739,375.43	54,827.75	626,717.24	(57,830.44)
Lending activity	150,554.63		649,191.09	498,636.46
 Total Governmental Activities	 889,930.06	 54,827.75	 1,275,908.33	 440,806.02
Net expense		Governmental		
		440,806.02		
 General Revenues				
Dues		133,404.00		
Other		6,519.15		
Interest income		550.81		
Total General Revenues		140,473.96		
 Change in Net Position		 581,279.98		
 Net Position- January 1		 1,330,120.39		
 Net Position- December 31		 1,911,400.37		

The accompanying notes are an integral part of these financial statements.

RED RIVER REGIONAL COUNCIL
BALANCE SHEET- GOVERNMENTAL FUNDS- MODIFIED CASH BASIS
DECEMBER 31, 2021

	GENERAL	PROGRESS	RLF	CATALYST	TOTAL GOVERNMENTAL FUNDS
ASSETS					
Cash and investments	474,519.41	307,425.74	188,760.25	25,684.13	996,389.53
Loans receivable		389,961.42	111,629.26	465,147.15	966,737.83
Total Assets	474,519.41	697,387.16	300,389.51	490,831.28	1,963,127.36
LIABILITIES					
Accounts Payable	-	-			-
Accrued payroll expenses	51,726.99	-			51,726.99
Total liabilities	51,726.99	-	-	-	51,726.99
FUND BALANCE					
Restricted for Loan programs		697,387.16	300,389.51	490,831.28	-
Unassigned	422,792.42	-	-	-	1,488,607.95
Total fund balance	422,792.42	697,387.16	300,389.51	490,831.28	422,792.42
					1,911,400.37

The accompanying notes are an integral part of these financial statements.

RED RIVER REGIONAL COUNCIL
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES- GOVERNMENTAL FUNDS- MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2021

	GENERAL	PROGRESS	RLF	CATALYST	TOTAL GOVERNMENTAL FUNDS
Dues	133,404.00				133,404.00
Project income	435,564.14	10,447.48	5,889.57	632,854.04	1,084,755.23
Intergovernmental	252,500.00				252,500.00
Interest	550.81				550.81
Other	-				-
Total Revenues	822,018.95	10,447.48	5,889.57	632,854.04	1,471,210.04
Current:					
Salaries	324,829.82				324,829.82
Employee benefits	138,690.33				138,690.33
Travel	4,887.68				4,887.68
Professional fees	16,105.31				16,105.31
Rent	18,623.95				18,623.95
Communication	7,077.65				7,077.65
Office expense	16,317.07				16,317.07
Miscellaneous	48,746.16				48,746.16
Project costs	164,097.46	5,239.79	3,292.08	142,022.76	314,652.09
Total Expenditures	739,375.43	5,239.79	3,292.08	142,022.76	889,930.06
Excess revenues (expenditures)	82,643.52	5,207.69	2,597.49	490,831.28	581,279.98
Net change in fund balances	82,643.52	5,207.69	2,597.49	490,831.28	581,279.98
Fund balance- beginning	340,148.90	692,179.47	297,792.02	-	1,330,120.39
Fund balance- ending	422,792.42	697,387.16	300,389.51	490,831.28	1,911,400.37

The accompanying notes are an integral part of these financial statements.

RED RIVER REGIONAL COUNCIL
GRAFTON, NORTH DAKOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Red River Regional Council (Council) have been prepared on the modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP) as applicable to 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 Council's accounting policies are described below.

A. Reporting Entity

The accompanying financial statements present the activities of the Council. The Council has considered all potential component units for which the Council is financially accountable and other organizations for which the nature and significance of their relationships with the Council such that exclusion would cause the Council's financial statements to be misleading or incomplete. 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 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 the Council.

Based on these criteria, there are no component units.

B. BASIS OF PRESENTATION, BASIS OF ACCOUNTING

Government-wide statements: The statement of net assets and the statement of activities display information about the primary government, the Council. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

RED RIVER REGIONAL COUNCIL
Notes to Financial Statements- Continued

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 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, including all taxes, are presented as general revenues.

Fund Financial Statements: Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenses/expenditures. Funds are organized into one major categories: governmental. The Council currently has no fiduciary funds.

The Council reports the following major governmental funds: General Fund. The General Fund is the primary operating fund of the Council and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Red River Revolving Loan Fund. The RLF fund is used to account for funds received for loans to businesses in the Council area.

Progress Revolving Loan Fund. The RLF fund is used to account for funds received for loans to businesses in the Council area.

Catalyst Revolving Loan Fund. The Catalyst fund is used to account for funds received for loans to businesses.

C. Measurement Focus and Basis of Accounting

The financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. The basis of accounting involves modifications to the cash basis of accounting to report in the statement of net position or balance sheet cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transactions or event occurred. Such report balances include investments, receivables, capital assets, deferred outflows, short-term liabilities, long-term liabilities, and deferred inflows arising from cash transactions or events.

RED RIVER REGIONAL COUNCIL
Notes to Financial Statements- Continued

The modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected, and other accrued revenue and receivables) and certain liabilities and their related expenses or expenditures (such as accounts payable and expenses for goods or services received but not yet paid, and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

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, there are both restricted and unrestricted net assets available to finance the program. It is the Council's policy to first apply cost-reimbursement grant resources to such programs, and then by general revenues.

D. Budgets

Based upon available financial information and requests by the board, the director and business manager prepares the Council budget. The budget is prepared for the general fund on the modified cash basis of accounting. The budget includes the proposed expenditures and the means of financing them. All annual appropriations lapse at year-end.

E. Cash, Cash Equivalents and Investments

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

Investments consist of certificates of deposits, with a maturity date in excess of 90 days, stated at cost.

RED RIVER REGIONAL COUNCIL
Notes to Financial Statements- Continued

F. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the Council is depreciated using the straight line method over the following estimated useful lives:

ASSETS	YEARS
Permanent Buildings	50
Vehicles	10
Other Equipment	10

G. Long-Term Obligations

In the government-wide financial statements, long term debt and other long term obligations are reported as liabilities in the governmental activities statement of net assets. Bond premiums, discounts and issuance costs are recognized in the current period since the amounts are not material.

In the fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

RED RIVER REGIONAL COUNCIL
Notes to Financial Statements- Continued

H. Fund Balance

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 - inventories; or (b) legally or contractually required to be maintained intact.

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

Restricted - This classification reflects the constraints imposed on resources either (a) externally 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-the Council's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the council removes 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 specific purposes, but are neither restricted nor committed. The council 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, the Council's preference is to first use restricted resources, then unrestricted resources-committed, assigned, and unassigned-in order as needed.

The council has set a General Fund minimum fund balance target at 10% of expenditures and recurring transfers.

RED RIVER REGIONAL COUNCIL
Notes to Financial Statements- Continued

I. Interfund Transactions

In the governmental fund statements, transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed.

All other interfund transactions, except reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

In the government-wide financial statements, interfund transactions have been eliminated.

NOTE 2: LEGAL COMPLIANCE - BUDGETS

BUDGET AMENDMENTS

The board did not amend the General Fund budget in 2021.

EXPENDITURES OVER APPROPRIATIONS

The Council did not overspend the budget. No remedial action is required by the Council.

NOTE 3 DEPOSITS AND INVESTMENTS

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.

Deposits must either be deposited with the Bank of North Dakota or in other 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.

RED RIVER REGIONAL COUNCIL
Notes to Financial Statements- Continued

Authorized collateral includes bills, notes, or bonds issued by the United State government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, Federal Land Bank bonds, notes, warrants, and 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, instrumentalities, or by any Council, Council, 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 December 31, 2021, the Council's carrying amount of deposits was \$996,390. Of the bank balances, \$250,000 was covered by Federal Depository Insurance. The remaining balance was collateralized with securities held by the pledging financial institution's agent in the government's name.

Credit Risk

State statutes authorize the Council to invest in: (1) Bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress. (2) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are the type listed above. (3) Certificates of Deposit fully insured by the federal deposit insurance corporation or the state. (4) Obligations of the state.

Concentration of Credit Risk

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

NOTE 4: LOAN RECEIVABLE

Changes in Loan Receivables - During the year ended December 31, 2021, the following changes occurred in assets:

	Receivable		Receivable	
	2020	Increases	Decreases	2021
RLF	186 216		74 587	111 629
Progress	525 610		135 649	389 961
Catalyst		488 480	23 333	465 147
Total	711 826	488 480	233 569	966 738

RED RIVER REGIONAL COUNCIL
Notes to Financial Statements- Continued

NOTE 5: INTERFUND RECEIVABLES

Interfund receivables consists of expenses paid by one fund for another that is reimbursed after year end.

NOTE 6: CAPITAL ASSETS

The Council does not have any assets that meet the capitalization criteria.

NOTE 7: RETIREMENT PLAN

The Council participates in a defined contribution, individual account, money purchase, retirement plan that covers all employees who work over 20 hours per week. In accordance with the plan agreement, the Council contributes 10 percent of the employee's gross wages to the plan. During the years ended December 31, 2021 and 2020, the Agency contributed \$21,778 and \$23,621 respectively, to the retirement plan.

NOTE 8: 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 (NDRIF), 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 NDRIF for its general liability and automobile insurance coverage. The coverage by NDRIF is limited to losses of one million dollars per occurrence..

The State Bonding Fund currently provides the Council with blanket fidelity bond coverage in the amount of \$1,000,000 for its employees. 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.

RED RIVER REGIONAL COUNCIL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2021

Federal Grantor/Pass-through <u>Grantor/Program Title</u>	CFDA	<u>Number</u>	<u>Expenses</u>
U.S. Department of Commerce-			
Direct Assistance			
Planning grant		11.302	70,000
Economic Adjustment Assistance- Cares Act		11.307	200,000
Economic Adjustment Assistance- Cares Act		11.307	532,859
Economic Adjustment Assistance- Loan		11.307	<u>738,804</u>
Total			<u>1,471,663</u>
U.S. Department of Agriculture-			
Direct Assistance			
Rural Housing Preservation		10.433	35,107
Total			<u>35,107</u>
Total assistance			1,576,770 =====

RED RIVER REGIONAL COUNCIL
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2021

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Council under programs of the federal government for the year ended December 31, 2021. The information in the schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Uniform Guidance. Because the schedule presents only a selected portions of the operations of the Council, it is not intended to be and does not present the financial position or changes in net position of the Council. The Council has not elected to use the 10% de minimis cost rate.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Expenditures reported on the schedule are reported on the modified cash basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards wherein certain types of expenditures are allowable or are limited as to reimbursement. The Council has not elected to use the 10% de minimis cost rate.

NOTE 3: LOANS OUTSTANDING

The Council manages a federal loan program, the Revolving Loan Fund, through the U.S. Economic Development Administration (EDA). The calculation of the federal expenditures related to the Revolving Loan Fund is as follows:

	RLF	Catalyst
End of year loan balance	\$501,591	\$465,147
End of year cash balance	515,993	25,689
Current loans written off	-	-
Current year administrative expenses	<u>8,532</u>	<u>42,023</u>
Total expenditures	1,026,116	533,859
Federal percentage	72%	100%
Total federal expenditures	738,804	532,859
	=====	=====

Harold J. Rotunda

Certified Public Accountant

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*

Independent Auditor's Report

To the Governing Board
Red River Regional Council
Grafton, North Dakota

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the modified cash basis financial statements of the governmental activities and each major fund of Red River Regional Council as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise basic financial statements, and have issued my report thereon dated December 1, 2022.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Red River Regional 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, I do not express an opinion on the effectiveness of internal control.

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

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. I identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items (2021-001, 2021-002, 2021-003 and 2021-004) that I consider to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Council's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2021-005.

Council's Response to Findings

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

Purpose of This Report

The purpose of this report is solely to describe the scope of my 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.

Fargo, North Dakota
December 1, 2022

Harold J. Rotunda

Certified Public Accountant

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

Governing Board
Red River Regional Council
Grafton, North Dakota

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

I have audited the Council's compliance with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement that could have a direct and material effect on each of the Council's major federal programs for the year ended December 31, 2021. The Council's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In my opinion, the Council complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2021.

Basis for Opinion on Each Major Federal Program

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); 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). My responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of my report.

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

In performing an audit in accordance with GAAS, Government Auditing Standards, and the Uniform Guidance, I:

- * Exercise professional judgment and maintain professional skepticism throughout the audit.
- * Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Council's compliance with the compliance requirements referred to above and performing such other procedures as I considered necessary in the circumstances.
- * Obtain an understanding of the Council's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control over compliance. Accordingly, no such opinion is expressed.

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

Other Matters

The results of my auditing procedures disclosed instances of noncompliance which are 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 2021-005. My opinion on each major program is not modified with respect to these matters. Government Auditing Standards requires the auditor to perform limited procedures on the Council's response to the noncompliance finding identified in my compliance audit described in the accompanying schedule of findings and questioned costs. The Council's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, I express no opinion on the responses.

Report on Internal Control over Compliance

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of my 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.

Fargo, North Dakota

December 1, 2022

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

Section I - Summary of Auditor's Results

Financial Statements

Type of Report Issued?

Governmental Activities
Major Funds

Unmodified
Unmodified

Internal Control over financial reporting:

Material weaknesses identified? _____ Yes X No
Significant deficiencies identified not
Considered to be material weaknesses? X Yes _____ No
Noncompliance material to financial statements
Noted? _____ Yes X No

Federal Awards

Internal Control over major programs:

Material weaknesses identified? _____ Yes X No
Reportable conditions identified not considered
To be material weaknesses? _____ Yes X 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 CFR

Section 200.516? X Yes _____ No

Identification of major programs:

CFDA Numbers _____ Name of Federal Program Or Cluster

11.307 Economic Adjustment Assistance

Dollar threshold used to distinguish between Type

A and B programs: \$750,000

Auditee qualified as low-risk auditee? _____ Yes X No

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

Section II- Financial Statement Findings

2021-001 Segregation of Duties

Criteria

Generally, a system of internal control has the proper segregation of duties between the authorization, custody, record keeping and reconciliation functions.

Condition

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

Cause

Size and budget constraints limit the number of personnel within the accounting department.

Effect

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

Recommendation

The above functions should be reviewed periodically and consideration given to improving the segregation of duties. Compensating controls over the underlying financial information may be obtained through oversight by management and the Board.

Views of responsible officials and planned corrective actions

The Council will review its current monitoring functions and determine if any additional monitoring procedures are warranted.

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

2021-002 Financial Statement Preparation

Criteria

Management of the Council is responsible for the preparation of the Council's annual financial statements to ensure that the financial statements and accompanying note disclosures are reliable, accurate, free of material misstatement in accordance with the modified cash basis of accounting.

Condition

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

Cause

Management is not fully knowledgeable of the process of preparing financial statements in compliance with the modified cash basis of accounting.

Effect

There is an increased risk of material misstatement to the Council's financial statements.

Recommendation

I recommend that management continue to obtain sufficient knowledge to prepare the financial statements and accompanying note disclosures in accordance with the modified cash basis of accounting.

Views of responsible officials

Agee. The Council is aware that there is a risk having the auditor prepare the financial statements and accompanying note disclosures.

2021-003 Proposition of Journal Entries

Criteria

An appropriate system of internal controls requires that the Council make a determination that financial statements and the underlying general ledger accounts are properly stated in compliance with the modified cash basis of accounting. This requires that the Council's personnel to maintain a working knowledge of current accounting principles and required financial statement disclosures.

Condition

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

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

Cause

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

Effect

The Council's financial statements were misstated prior to adjustments detected as a result of audit procedures.

Recommendation

Accounting personnel will need to determine the proper balance in each general ledger account prior to the audit.

Views of Responsible Officials and Planned Corrective Actions

The Accountant is now preparing financial statements and reconciling all accounts on a monthly basis in order to accurately reflect proper balances on an ongoing basis.

2021-004 Preparation of and Modifications to the Schedule of Expenditures of Federal Awards

Criteria

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

Condition

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

Cause

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

Effect

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

Recommendation

Accountant personnel will need to determine the proper balance in each general ledger account prior to audit and ensure all required information is included on the schedule of expenditures of federal awards.

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

Views of Responsible Officials and Planned Corrective Actions

The Council has developed an internal control process to prepare the schedule of expenditures of federal awards before future audits.

Section III - Federal Award Findings and Questioned Costs

2021-005

Criteria

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

Condition

Several key line items on the ED-209 reports submitted by the Council for the six months ending June 30, 2021 and December 31, 2021 did not reconcile back to the Council's trial balance or other records.

Questioned costs

None

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

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

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

View of Responsible Officials and Planned Corrective Action

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

Indication of repeat finding

This is not a repeat finding

RED RIVER REGIONAL COUNCIL
SCHEDULE OF PRIOR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2021

2020-001 Segregation of Duties

Criteria

Generally, a system of internal control has the proper segregation of duties between the authorization, custody, record keeping and reconciliation functions.

Condition

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

Cause

Size and budget constraints limit the number of personnel within the accounting department.

Effect

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

Status

This is a repeat finding, see current year finding 2021-001.

RED RIVER REGIONAL COUNCIL
SCHEDULE OF PRIOR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2021

2020-002 Financial Statement Preparation and Journal Entries

Criteria

An appropriate system of internal control requires the entity to determine that financial statements are properly stated in compliance with generally accepted accounting principles of accounting. This requires the entity's personnel to maintain knowledge of current accounting principles and required financial statement disclosures.

Condition

The Council's personnel prepare periodic financial information for internal use that meets the needs of management and the Council's Board. However, the Council has not designed internal controls to identify all journal entries required to maintain a general ledger and prepare full-disclosure financial statements required by generally accepted accounting principles of accounting for external reporting. The Council is aware of this deficiency, and obtains auditor assistance in the preparation of the Council's annual financial statements.

Cause

The Council's internal controls have not been designed to address the specific training needs that are required of its personnel to obtain and maintain knowledge of current accounting principles and required financial statement disclosures.

Effect

An appropriate system of internal controls is not present to make a determination that financial statements and the related disclosures are fairly stated in compliance with generally accepted accounting principles of accounting. However, the Council is aware of the deficiency and addresses it by reviewing and approving the completed statements prior to distribution to the end users.

Status

This is a repeat finding, see current finding 2021-002

RED RIVER REGIONAL COUNCIL
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2021

2021-001 Segregation of Duties- Contact Person- Dawn Mandt
Due to the small size of the Council, it is not cost effective for the Council to properly address this significant deficiency.

Completion Date- Ongoing

2021-002 Financial Statement Preparation-Contact Person- Dawn Mandt
Due to the financial efficiency and time constraints, it has been determined by the Council's management it is in the best interest of the Council to have our auditors prepare the financial statements.

Completion Date- Ongoing

2021-003 Proposition of Journal Entries- Contact Person- Dawn Mandt
Due to the financial efficiency and time constraints, it has been determined by the Council's management it is in the best interest of the Council to have our auditors propose the Journal entries.

Completion Date- Ongoing

2021-004 Preparation of and Modifications to the Schedule of Expenditures of Federal Awards- Contact Person- Dawn Mandt
Due to the financial efficiency and time constraints, it has been determined by the Council's management it is in the best interest of the Council to have our auditors prepare the Schedule of Expenditures of Federal Awards.

Completion Date- Ongoing

Federal Award Findings and Questioned Costs

2021-005 Contact Person- Dawn Mandt

The Council's management will reconcile the ED-209 to the Council's trail balance going forward.

Completion Date- Ongoing