

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

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2018

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements:	
Statement of Net Position – Modified Cash Basis	4
Statement of Activities – Modified Cash Basis	5
Governmental Fund Financial Statements:	
Balance Sheet – Governmental Funds - Modified Cash Basis	6
Statement of Receipts, Disbursements and Changes in Fund Balance – Governmental Funds - Modified Cash Basis	7
Notes to the Financial Statements	8
SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule – Modified Cash Basis – General Fund	17
Budgetary Comparison Schedule – Modified Cash Basis – IRP Fund	18
Budgetary Comparison Schedule – Modified Cash Basis – RLF Fund	19
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>	20
Schedule of Findings and Responses	22



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying modified cash basis 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, 2018, 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 the modified cash basis of accounting described in Note 1; this includes determining that 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 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 modified cash basis financial position of the governmental activities and each major fund of the South Central Dakota Regional Council, as of March 31, 2018, and the respective changes in modified cash basis financial position for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

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

Report on Summarized Comparative Information

We also have previously audited, in accordance with auditing standards generally accepted in the United States of America, the South Central Dakota Regional Council's basic financial statements for the year ended March 31, 2017. In our report dated July 7, 2017, we expressed unmodified opinions on the respective financial statements of the governmental activities and each major fund. In our opinion, the 2017 summarized information is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Council's basic financial statements. The budgetary comparison schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary comparison schedules are the responsibility of management and were derived from and relate 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 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 budgetary schedules are 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 July 14, 2018 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.

Forady Martz

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

July 14, 2018

SOUTH CENTRAL DAKOTA REGIONAL COUNCIL
STATEMENT OF NET POSITION – MODIFIED CASH BASIS
MARCH 31, 2018

	2018	2017 (Memorandum Only)
ASSETS:		
Cash and investments	\$ 972,135	\$ 788,176
Notes receivable	675,457	975,325
Total assets	1,647,592	1,763,501
LIABILITIES:		
Current liabilities:		
Current portion of long-term debt	14,811	14,665
Non-current liabilities:		
Non-current portion of long-term debt	359,027	373,838
Total liabilities	373,838	388,503
NET POSITION:		
Restricted for economic development	1,153,019	1,110,857
Unrestricted	120,735	264,141
Total net position	\$ 1,273,754	\$ 1,374,998

See Notes to the Financial Statements

SOUTH CENTRAL DAKOTA REGIONAL COUNCIL
STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS
FOR THE YEAR ENDED MARCH 31, 2018

	Disbursements	Program Receipts		Net (Disbursements)	Net (Disbursements)
		Charges for Services	Operating Grants and Contributions	Receipts and Changes in Net Position 2018 Total	Receipts and Changes in Net Position 2017 Total (Memorandum Only)
Governmental Activities:					
Economic Development	\$ 406,071	\$ 41,102	\$ 110,337	\$ (254,632)	\$ (187,914)
IRP	11,854	33,202	-	21,348	15,073
RLF	16,962	35,546	-	18,584	14,010
Total Governmental Activities	<u>434,887</u>	<u>109,850</u>	<u>110,337</u>	<u>(214,700)</u>	<u>(158,831)</u>
General Receipts					
Dues				79,991	130,977
Project income				18,800	16,000
Interest				14,615	18,652
Other receipts				50	146
Total general receipts				<u>113,456</u>	<u>165,775</u>
Change in net position				<u>(101,244)</u>	<u>6,944</u>
Net position - beginning of period				<u>1,374,998</u>	<u>1,368,054</u>
Net position - end of period				<u>\$ 1,273,754</u>	<u>\$ 1,374,998</u>

See Notes to the Financial Statements

SOUTH CENTRAL DAKOTA REGIONAL COUNCIL
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
MARCH 31, 2018

	General	IRP	RLF	2018 Total	2017 Total (Memorandum Only)
Assets:					
Cash and investments	\$ 148,115	\$ 402,509	\$ 421,511	\$ 972,135	\$ 788,176
Due from other funds	-	12,818	14,562	27,380	19,108
Notes receivable	-	215,401	460,056	675,457	975,325
Total assets	\$ 148,115	\$ 630,728	\$ 896,129	\$ 1,674,972	\$ 1,782,609
Liabilities and fund balances:					
Liabilities:					
Due to other funds	\$ 27,380	\$ -	\$ -	\$ 27,380	\$ 19,108
Fund balances:					
Nonspendable	-	569,350	830,133	1,399,483	1,399,483
Restricted for economic development	-	61,378	65,996	127,374	99,877
Assigned for fixed asset replacement reserve	8,173	-	-	8,173	8,112
Unassigned	112,562	-	-	112,562	256,029
Total fund balances	120,735	630,728	896,129	1,647,592	1,763,501
Total liabilities and fund balances	\$ 148,115	\$ 630,728	\$ 896,129	\$ 1,674,972	\$ 1,782,609

Reconciliation of the Balance Sheet to the Statement of Net Position March 31, 2018 and 2017 (Memorandum Only)

Total fund balance	\$ 1,647,592	\$ 1,763,501
Notes payable	(373,838)	(388,503)
Net position of governmental activities	\$ 1,273,754	\$ 1,374,998

See Notes to the Financial Statements

SOUTH CENTRAL DAKOTA REGIONAL COUNCIL
STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUNDS – MODIFIED CASH BASIS
FOR THE YEAR ENDED MARCH 31, 2018

	General	IRP	RLF	2018 Total	2017 Total (Memorandum Only)
Receipts:					
Dues	\$ 79,991	\$ -	\$ -	\$ 79,991	\$ 130,977
Project income	18,800	-	-	18,800	16,000
Intergovernmental	110,337	-	-	110,337	130,331
Interest	12,385	31,371	35,029	78,785	51,899
Charges for services	41,102	3,238	1,340	45,680	52,321
Other	50	-	-	50	146
Total receipts	262,665	34,609	36,369	333,643	381,674
Disbursements:					
Current:					
Salaries	218,035	4,966	7,882	230,883	221,414
Employee benefits	84,321	2,183	3,427	89,931	68,677
Travel	22,551	-	1,800	24,351	13,401
Professional fees	15,818	146	2,322	18,286	23,214
Building	25,341	505	794	26,640	26,640
Insurance	1,816	-	-	1,816	1,704
Meetings	2,104	31	411	2,546	2,082
Supplies	12,233	-	110	12,343	6,426
Communication	6,971	138	216	7,325	6,600
Miscellaneous	200	-	-	200	537
Relocation	4,200	-	-	4,200	-
Bad debt	12,481	-	-	12,481	-
Debt service:					
Principal retirement	-	14,665	-	14,665	14,518
Interest	-	3,885	-	3,885	4,035
Total disbursements	406,071	26,519	16,962	449,552	389,248
Excess of receipts over (under) disbursements	<u>(143,406)</u>	<u>8,090</u>	<u>19,407</u>	<u>(115,909)</u>	<u>(7,574)</u>
Fund balance - beginning of period	<u>264,141</u>	<u>622,638</u>	<u>876,722</u>	<u>1,763,501</u>	<u>1,771,075</u>
Fund balance - ending of period	<u>\$ 120,735</u>	<u>\$ 630,728</u>	<u>\$ 896,129</u>	<u>\$ 1,647,592</u>	<u>\$ 1,763,501</u>

Reconciliation of Statement of Receipts, Disbursements and Changes in Fund Balances of Governmental Fund to the Statement of Activities For the Years Ended March 31, 2017 and 2016 (Memorandum Only)

Net changes in fund balance	\$ (115,909)	\$ (7,574)
Principal payments on notes payable	14,665	14,518
Change in net position of governmental activities	<u>\$ (101,244)</u>	<u>\$ 6,944</u>

See Notes to the Financial Statements

SOUTH CENTRAL DAKOTA REGIONAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the South Central Dakota 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 government's accounting policies are described below.

Reporting Entity

In accordance with Government Accounting Standards Board, for financial reporting purposes, a reporting entity's financial statements should include all component units over which that component unit (oversight unit) exercises oversight responsibility. Criteria used to determine a potential component unit include: is it legally separate, does it have separate corporate powers, who appoints the governing board, is there fiscal dependency, can the oversight unit impose its will, and is there a financial benefit/burden relationship.

Based upon the criteria, there are no component units.

Basis of Presentation

The Council's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements which provide a more detail level of financial condition.

Government-wide and Fund Financial Statements

The Statement of Net Position and the Statement of Activities display information about the Council as a whole. These statements include the financial activities of the reporting entity, except for fiduciary funds. The statements distinguish between governmental activities, which are normally financed by taxes and intergovernmental receipts, and business-type activities, which are normally financed in whole or in part by fees and charges for services. For the most part, the effect of interfund activity has been removed from these statements.

The Statement of Net Position presents the financial condition of the governmental activities of the Council at year end. The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program receipts. Direct expenses are those that are clearly identifiable with a specific function or segment. Program receipts include charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment; operating grants and contributions; and capital grants and contributions. Receipts that are not classified as program receipts are presented as general receipts of the Council. The comparison of direct expenses with program receipts identifies the extent to which each governmental function is self-financing or draws from the general receipts of the Council.

SOUTH CENTRAL DAKOTA REGIONAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
MARCH 31, 2018

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate reporting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, receipts, and expenses/disbursements. The Council's funds are governmental. The Council currently has no fiduciary or proprietary funds.

The focus of government fund financial statements is on major funds. A fund is considered major if it is the primary operating fund of the Council or meets the following criteria:

- 1) Total assets, liabilities, receipts, or disbursements of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- 2) Total assets, liabilities, receipt, or disbursements of the individual governmental fund are at least 5 percent of the corresponding total of all governmental funds combined.

The Council reports the following major governmental funds:

- 1) 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.
- 2) Intermediary Relending Loan Fund (IRP). The IRP is used to account for loans made with funding from the United States Department of Agriculture. The fund is used to account for loans to businesses that qualify under the program requirements.
- 3) Revolving Loan Fund (RLF). The RLF is a revolving loan fund created by funding received from the Economic Development Administration. The fund is used to account for loans to businesses that qualify under the program requirements.

The Council has no nonmajor funds.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

Government-wide financial statements

In the government-wide financial statements, the governmental activities are prepared using the economic resources measurement focus within the limitations of the modified cash basis of accounting.

SOUTH CENTRAL DAKOTA REGIONAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
MARCH 31, 2018

Fund financial statements

In the fund financial statements, the current financial resources measurement focus or the economic resources measurement focus as applied to the modified cash basis of accounting is used as appropriate.

All governmental funds are accounted for using a flow of current financial resources measurement focus. With the measurement focus, only current assets and current liabilities generally are included on the balance sheet. The Statement of Receipts, Disbursements and Changes in Fund Balances reports on the sources (i.e., receipts and other financing sources) and uses (i.e., disbursements and other financing uses) of current financial resources during a given period. These funds use fund balances as their measure of available spendable financial resources at the end of the period.

Basis of Accounting

Both government-wide statements of net position and statement of activities and the fund financial statements are presented using the modified cash basis of accounting. This basis recognizes assets, liabilities, net position/fund equity, receipts, and disbursements when they result from cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which cash transactions or events occurred, with a provision for long term debt and notes receivable in the government-wide statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP).

As a result of the use of this modified cash basis of accounting, certain assets and their related receipts (such as accounts receivable and receipts for billed or provided services not yet collected) and certain liabilities and their related disbursements (such as accounts payable and disbursements for goods or services received but not yet paid, and 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.

If the Council utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

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.

Except as provided by North Dakota Century Code, the balance of each appropriation becomes a part of the unappropriated fund balance at year end.

SOUTH CENTRAL DAKOTA REGIONAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
MARCH 31, 2018

The Council prepares its budget and reports its governmental funds on the same basis of accounting.

For the year ended March 31, 2018, the General Fund exceeded budgeted expenditures by \$11,186 and the IRP fund exceeded budgeted expenditures by \$4,021.

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.

Notes Receivable

Notes receivable consist of loans made to businesses that qualify under the programs in which the Council operates. No allowance for uncollectible loans is recorded, as the Council's financial statements are presented under the modified cash basis of accounting.

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.

Equity Classifications

Government-wide Financial Statements

Equity is classified as net position and displayed in two components:

- 1) Restricted net position - Consists of net position with constraints placed on the use either by a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or b) law through constitutional provisions or enabling legislation.
- 2) Unrestricted net position - All other net position that do not meet the definition of net investment in capital assets or restricted.

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.

SOUTH CENTRAL DAKOTA REGIONAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
MARCH 31, 2018

Fund Financial Statements

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 Council’s highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the board 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 board and executive director have 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 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.

Fund Financial Statements

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

SOUTH CENTRAL DAKOTA REGIONAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
MARCH 31, 2018

- 1) 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.
- 2) Interfund services - Sales or purchases of goods and services between funds are reported as receipts and disbursements.
- 3) Interfund reimbursements - Repayments from funds responsible for certain disbursements/expenses to the funds that initially paid for them are not reported as reimbursements but as adjustments to disbursements/expenses in the respective funds.
- 4) Interfund transfers - Flow of assets from one fund to another where repayment is not expected are reported as transfers in and out.

Government-wide Financial Statements

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

- 1) Internal balances - Amounts reported in the fund financial statements as interfund receivables and payables are eliminated in the statement of net position.
- 2) 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.

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, 2018, none of the Council's deposits were exposed to credit risk. \$684,910 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, 2018

NOTE 3 NOTES RECEIVABLE

During the year ended March 31, 2018, the following changes occurred in loans receivable reported in assets:

	Receivable 4/1/2017	Increases	Decreases	Receivable 3/31/2018
IRP	\$ 331,968	\$ -	\$(116,567)	\$ 215,401
RLF	643,357	-	(183,301)	460,056
Total	<u>\$ 975,325</u>	<u>\$ -</u>	<u>\$(299,868)</u>	<u>\$ 675,457</u>

NOTE 4 LONG TERM DEBT

The following is a summary of long-term debt transactions of the Council for the year ended March 31, 2018:

	Balance 4/1/2017	Additions	Reductions	Balance 3/31/2018	Due Within One Year
Notes Payable	<u>\$ 388,503</u>	<u>\$ -</u>	<u>\$ 14,665</u>	<u>\$ 373,838</u>	<u>\$ 14,811</u>

Notes payable as of March 31, 2018 consisted of the following:

	Balance 3/31/2018
Notes payable to USDA, due in annual installments of \$12,339, including interest at 1.00% through October 2038	\$ 232,288
Notes payable to USDA, due in annual installments of \$6,211, including interest at 1.00% through May 2043.	<u>141,550</u>
Total	<u>\$ 373,838</u>

SOUTH CENTRAL DAKOTA REGIONAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
MARCH 31, 2018

The future expected requirements to amortize long-term debt, including interest, as of March 31, 2018 are as follows:

	Principal	Interest
2019	\$ 14,811	\$ 3,739
2020	14,959	3,591
2021	15,108	3,442
2022	15,260	3,290
2023	15,413	3,137
2024-2028	79,406	13,344
2029-2033	83,456	9,294
2034-2038	87,713	5,037
2039-2044	47,712	1,389
	\$ 373,838	\$ 46,263

NOTE 5 INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund receivables and payables as of March 31, 2018 is as follows:

	Due from	Due to
IRP	\$ 12,818	\$ -
RLF	14,562	-
General	-	(27,380)
	\$ 27,380	\$ (27,380)

These advances were to cover expenditures payments made out of these funds before the fund could collect fees to cover the expenditures. The fund will repay these advances as funds become available.

NOTE 6 LEASE

The Council leases office space under an operating lease. Future payments on this lease are as follows:

2019	\$ 26,640
2020	26,640
2021	26,640
2022	26,640
2023	26,640
2024-2025	35,520

Rental expense was \$26,640 for the year ended March 31, 2018.

SOUTH CENTRAL DAKOTA REGIONAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
MARCH 31, 2018

NOTE 7 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 insurance coverage. The coverage by NDRIF 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.

Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years.

NOTE 8 SUBSEQUENT EVENT

Subsequent events were evaluated through July 14, 2018, which is the date these financial statements were available to be issued.

SOUTH CENTRAL DAKOTA REGIONAL COUNCIL
SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE – MODIFIED CASH BASIS – GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2018

	Original Budget	Final Budget	Actual	Variance- Favorable (Unfavorable)
Receipts:				
Dues	\$ 100,660	\$ 100,660	\$ 79,991	\$ (20,669)
Project income	93,000	93,000	18,800	(74,200)
Intergovernmental	132,400	132,400	110,337	(22,063)
Interest	15,168	15,168	12,385	(2,783)
Charges for services	49,850	49,850	41,102	(8,748)
Other	500	500	50	(450)
Total receipts	<u>391,578</u>	<u>391,578</u>	<u>262,665</u>	<u>(128,913)</u>
Disbursements:				
Current:				
Salaries	221,544	221,544	218,035	3,509
Employee benefits	78,598	78,598	84,321	(5,723)
Travel	14,941	14,941	22,551	(7,610)
Professional fees	19,650	19,650	15,818	3,832
Building	27,370	27,370	25,341	2,029
Insurance	1,800	1,800	1,816	(16)
Meetings	4,401	4,401	2,104	2,297
Supplies	7,355	7,355	12,233	(4,878)
Communication	6,885	6,885	6,971	(86)
Miscellaneous	6,341	6,341	4,400	1,941
Equipment	6,000	6,000	-	6,000
Bad debt	-	-	12,481	(12,481)
Total disbursements	<u>394,885</u>	<u>394,885</u>	<u>406,071</u>	<u>(11,186)</u>
Excess of receipts under disbursements	<u>\$ (3,307)</u>	<u>\$ (3,307)</u>	<u>(143,406)</u>	<u>\$ (140,099)</u>
Fund balance - April 1, 2017			<u>264,141</u>	
Fund balance - March 31, 2018			<u>\$ 120,735</u>	

SOUTH CENTRAL DAKOTA REGIONAL COUNCIL
SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE – MODIFIED CASH BASIS – IRP FUND
FOR THE YEAR ENDED MARCH 31, 2018

	Original Budget	Final Budget	Actual	Variance- Favorable (Unfavorable)
Receipts:				
Interest	\$ 19,248	\$ 19,248	\$ 31,371	\$ 12,123
Charges for services	3,250	3,250	3,238	(12)
Total receipts	22,498	22,498	34,609	12,111
Disbursements:				
Current:				
Salaries	1,623	1,623	4,966	(3,343)
Employee benefits	650	650	2,183	(1,533)
Travel	425	425	-	425
Professional fees	480	480	146	334
Building	430	430	505	(75)
Meetings	-	-	31	(31)
Supplies	25	25	-	25
Communication	115	115	138	(23)
Miscellaneous	200	200	-	200
Debt service:				
Principal retirement	14,665	14,665	14,665	-
Interest and fiscal charges	3,885	3,885	3,885	-
Total disbursements	22,498	22,498	26,519	(4,021)
Excess of receipts over disbursements	\$ -	\$ -	8,090	\$ 8,090
Fund balance - April 1, 2017			622,638	
Fund balance - March 31, 2018			\$ 630,728	

SOUTH CENTRAL DAKOTA REGIONAL COUNCIL
SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE – MODIFIED CASH BASIS – RLF FUND
FOR THE YEAR ENDED MARCH 31, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
Receipts:				
Interest	\$ 22,115	\$ 22,115	\$ 35,029	\$ 12,914
Charges for services	<u>1,500</u>	<u>1,500</u>	<u>1,340</u>	<u>(160)</u>
Total receipts	<u>23,615</u>	<u>23,615</u>	<u>36,369</u>	<u>12,754</u>
Disbursements:				
Current:				
Salaries	10,000	10,000	7,882	2,118
Employee benefits	4,000	4,000	3,427	573
Travel	1,700	1,700	1,800	(100)
Professional fees	6,000	6,000	2,322	3,678
Building	1,200	1,200	794	406
Meetings	-	-	411	(411)
Supplies	215	215	110	105
Communication	300	300	216	84
Miscellaneous	<u>200</u>	<u>200</u>	<u>-</u>	<u>200</u>
Total disbursements	<u>23,615</u>	<u>23,615</u>	<u>16,962</u>	<u>6,653</u>
Excess of receipts over disbursements	<u>\$ -</u>	<u>\$ -</u>	<u>19,407</u>	<u>\$ 19,407</u>
Fund balance - April 1, 2017			<u>876,722</u>	
Fund balance - March 31, 2018			<u>\$ 896,129</u>	



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

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, 2018, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements, and have issued our report thereon dated July 14, 2018.

Internal Control over Financial Reporting

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

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

Our consideration of 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 our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency. We consider the deficiency 2018-001 as described in the accompanying schedule of findings and responses 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 response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Council's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



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

July 14, 2018

SOUTH CENTRAL DAKOTA REGIONAL COUNCIL
SCHEDULE OF FINDINGS AND RESPONSES
MARCH 31, 2018

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.

Views of responsible officials

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.