

LEECH LAKE FINANCIAL SERVICES, INC.
CASS LAKE, MINNESOTA
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2020

LEECH LAKE FINANCIAL SERVICES, INC.
CASS LAKE, MINNESOTA
DECEMBER 31, 2020

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INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors
Leech Lake Financial Services, Inc.
Cass Lake, Minnesota**

We have audited the accompanying consolidated financial statements of Leech Lake Financial Services, Inc. (a nonprofit organization) and subsidiary, which comprise the consolidated statement of financial position as of December 31, 2020, and the related consolidated statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Leech Lake Financial Services, Inc. and subsidiary as of December 31, 2020, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Miller McDonald, Inc.

June 23, 2021
Bemidji, Minnesota

LEECH LAKE FINANCIAL SERVICES, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2020

ASSETS

Current Assets

Cash and cash equivalents	\$ 499,995
Accounts receivable	8,320
Grants receivable	12,512
Current portion loans receivable, net	208,460
Total Current Assets	<u>729,287</u>

Fixed Assets

Buildings and Improvements	205,997
Furniture, Fixtures, and Equipment	24,790
Construction in Progress	46,640
	<u>277,427</u>
Less Accumulated Depreciation	(28,354)
Fixed Assets, net	<u>249,073</u>

Other Assets

Loans receivable - less current portion	<u>58,233</u>
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Total Assets

\$ 1,036,593

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	\$ 6,745
Accrued expenses	29,323
Refundable Advance	93,305
Current portion long-term debt	216,928
Total Current Liabilities	<u>346,301</u>

Non-Current Liabilities

Long-term debt - less current portion	120,282
Other non-current liabilities	14,277
Total Non-Current Liabilities	<u>134,559</u>

Total Liabilities

480,860

Net Assets

Without donor restrictions	172,949
With donor restrictions	382,784
Total Net Assets	<u>555,733</u>

Total Liabilities and Net Assets

\$ 1,036,593

See Accompanying Notes to Consolidated Financial Statements.

LEECH LAKE FINANCIAL SERVICES, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<u>Revenue, Gains, and Other Support</u>			
Support from the public:			
Grants and contributions	\$ 452,056	\$ 10,000	\$ 462,056
Other revenue:			
Other revenue	<u>50,895</u>	<u>-</u>	<u>50,895</u>
Total revenue, gains and other support	502,951	10,000	512,951
<u>Net Assets Released from Restrictions</u>	<u>12,999</u>	<u>(12,999)</u>	<u>-</u>
Total revenue	<u>515,950</u>	<u>(2,999)</u>	<u>512,951</u>
<u>Expenses</u>			
Program services	178,767	-	178,767
Management and general	<u>150,958</u>	<u>-</u>	<u>150,958</u>
Total expenses	<u>329,725</u>	<u>-</u>	<u>329,725</u>
<u>Change in Net Assets</u>	186,225	(2,999)	183,226
<u>Net Assets, Beginning of Year</u>	<u>(13,276)</u>	<u>385,783</u>	<u>372,507</u>
<u>Net Assets, End of Year</u>	<u>\$ 172,949</u>	<u>\$ 382,784</u>	<u>\$ 555,733</u>

See Accompanying Notes to Consolidated Financial Statements.

LEECH LAKE FINANCIAL SERVICES, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020

Cash Flow from Operating Activities

Change in net assets	\$ 183,226
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
Depreciation expense	5,049
(Increase) decrease in assets:	
Accounts receivable	4,000
Grants receivable	2,732
Loans receivable	81,344
Increase (decrease) in liabilities:	
Accounts payable	(34,491)
Accrued expenses	(6,606)
Other liabilities	8,961
Refundable Advance	90,685
	334,900
Cash Provided by (Used in) Operating Activities	334,900

Cash Flow from Investing Activities

Cash paid for purchases of fixed assets	(143,435)
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Cash Flow from Financing Activities

Borrowings on line of credit	11,912
Principal payments on line of credit	(147,234)
Principal payments on notes payable	(47,411)
Borrowings on notes payables	115,000
	(67,733)

Cash Provided by (Used in) Financing Activities	(67,733)
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<u>Net Increase in Cash and Cash Equivalents</u>	123,732
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<u>Cash and Cash Equivalents, Beginning of Year</u>	376,263
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<u>Cash and Cash Equivalents, End of Year</u>	\$ 499,995
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CASH PAID DURING THE YEAR FOR:

Interest	\$ 15,299
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See Accompanying Notes to Consolidated Financial Statements.

LEECH LAKE FINANCIAL SERVICES, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2020

	<u>Program Services</u>	<u>Supporting Services</u>	
	<u>Financial Services</u>	<u>Management and General</u>	<u>Total</u>
Salaries	\$ 88,254	\$ 92,947	\$ 181,201
Payroll taxes	6,706	7,246	13,952
Employee benefits	6,168	9,148	15,316
Occupancy	-	4,645	4,645
Telephone	-	3,050	3,050
Supplies	16	12,306	12,322
Printing and publications	928	-	928
Postage and shipping	242	-	242
Conference and meetings	1,012	-	1,012
Travel	2,156	167	2,323
Professional fees	61,484	7,708	69,192
Awards and grants	2,000	-	2,000
Miscellaneous expenses	4,659	3,305	7,964
Depreciation	-	5,049	5,049
Bad debt expense	(4,770)	-	(4,770)
Interest expense	9,912	5,387	15,299
	<u>\$ 178,767</u>	<u>\$ 150,958</u>	<u>\$ 329,725</u>

See Accompanying Notes to Consolidated Financial Statements.

LEECH LAKE FINANCIAL SERVICES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

1. **Nature of Operations and Summary of Significant Accounting Policies**

Nature of Operations – Leech Lake Financial Services, Inc. is a tribal 501(c)(3) nonprofit corporation, incorporated September 11, 2014. Their purpose is to promote community economic development by providing safe, affordable loans for applicants that normally would not qualify for conventional loans and financial training for individuals and business owners.

During 2019, Leech Lake Financial Services, Inc. established a wholly-owned subsidiary, Build One Properties, LLC, under the laws of the Leech Lake Band of Ojibwe for the purpose of economic development.

Consolidated Financial Statements – The consolidated financial statements include the accounts of Leech Lake Financial Services, Inc. and Build One Properties, LLC (the Organization). Build One Properties, LLC is a wholly owned subsidiary in which Leech Lake Financial Services, Inc. is the only member. All significant intercompany accounts and transactions have been eliminated in the consolidation.

Basis of Accounting – The financial statements of the Organization have been prepared on the accrual basis for financial statement reporting, recognizing revenues when earned and expenses when incurred.

Basis of Presentation – The Organization reports information regarding its financial position and activities according to two classes of net assets as follows:

Net Assets Without Donor Restrictions – consist of net assets that are not subject to donor-imposed restrictions. Items that affect this net asset category primarily consist of fees for services and related expenses associated with the core activities of the Association. In addition to these exchange transactions, changes in this category of net assets include investment returns on “funds functioning as endowment” funds and certain types of philanthropic support.

Net Asset With Donor Restrictions – net assets are subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by donor. Other donor-imposed restrictions may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose has been fulfilled, or both. The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

LEECH LAKE FINANCIAL SERVICES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

Revenue and Support – Contributions received and unconditional promises to give are measured at fair value and reported as increases in net assets. Grants and other contributions of cash and other assets are reported as with donor restrictions if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, with donor restrictions net assets are reclassified to without donor restrictions net assets and reported in the statement of activities as net assets released from restrictions. The Organization has with donor restrictions net assets that are restricted for business loans and related administrative costs.

Program service revenue is reported at the estimated net realizable amount due from third party payers and others when the services are performed.

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of the donation. Such donations are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions.

Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies with donor restrictions net assets to without donor restrictions net assets at that time.

Donated services are recognized as contributions, if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased. There were no donated services included as contributions in 2020.

Refundable advance consists of funds held by the Organization that have not been earned due to timing differences between receipt and expenditure.

Loans Receivable – Loans receivable represent the unpaid balance on loans to individuals and businesses, less an allowance for loan losses. Individual loans are available to employees of Leech Lake Band of Ojibwe, Leech Lake Tribal College, Leech Lake Housing Authority, and Minnesota Chippewa Tribes and are secured by the employees PTO. Business loans are secured by business assets and personal guarantees.

The allowance for loan loss is maintained at a level, in management's judgement, that is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectability of the loan portfolio, including the nature of the portfolio, trends in historical losses, and specific loan impairments.

LEECH LAKE FINANCIAL SERVICES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding.

Functional Allocation of Expenses – The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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

Income Tax Status – The Organization is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. They are required to file Form 990 annually with the Internal Revenue Service to report their activities.

Build One Properties is a for-profit entity that has immunity from federal, state, and local taxes under the sovereignty of Leech Lake Band of Ojibwe.

Uncertain Tax Positions – The Organization follows the recognition requirements for uncertain income tax positions as required by generally accepted accounting principles, with no cumulative effect adjustment required. The guidance prescribes recognition threshold principles for the financial statements recognition of tax positions taken or expected to be taken on a tax filing that are not certain to be realized. The implementation of this guidance had no impact on the Organization's financial statements.

The Organization's tax filings are subject to review and examination by federal and state authorities. The Organization is not aware of any activities that would jeopardize its tax-exempt status, or any activities that are subject to tax on unrelated business income, or other taxes.

Cash and Cash Equivalents – For purposes of the statement of cash flows, all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are considered to be cash equivalents.

The Organization maintains its cash in bank deposit accounts, which at times may exceed federally insured limits. The Organization has not experienced any losses in such accounts.

LEECH LAKE FINANCIAL SERVICES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

The Organization's cash and cash equivalents includes \$354,209 of cash with use restrictions:

Business loans and related administrative cost	\$ 330,526
Individual Development Account match funds	17,313
Auto loan program costs	6,370

Accounts Receivable – Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Based on management's assessment of the credit history with customers having outstanding balances and current relationships with them, it has concluded that bad debt losses on balances outstanding at year-end will be immaterial.

Advertising – Advertising costs are expensed as incurred. Advertising expense for the year ended December 31, 2020 was \$928.

Property and Equipment – Property and equipment are stated at cost if purchased or, if donated, at fair value. The Organization capitalizes additions of property and equipment with an initial cost or fair value of \$5,000 or greater. Depreciation is computed using the straight-line method over the estimated useful life of the particular asset as follows:

		<u>Accumulated Depreciation</u>
Furniture, Fixtures, and Equipment	5-10 Years	\$ 23,305
Building and Building Improvements	40 Years	5,049
		<u>\$ 28,354</u>

2. **Loans Receivable**

Loans receivable are summarized as follows:

Individuals	\$ 256,582
Businesses	91,949
Total loans receivable	<u>348,531</u>
Allowance for loan loss	<u>(81,838)</u>
Loans receivable, net	<u>\$ 266,693</u>

LEECH LAKE FINANCIAL SERVICES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

3. Lines of Credit

The Organization has two lines of credit with its bank for \$40,000 and \$100,000, respectively due February 1, 2021. The lines have an interest rate that is set 1% above the NY Prime rate. The current rate is 4.25% subject to changes in the NY Prime rate. All unpaid principal and interest is due at maturity. The notes are secured by assets of the Organization. The balance outstanding on the lines of credit at December 31, 2020 was \$0.

Subsequent to year end, both lines of credit were extended until February 1, 2022.

4. Long-Term Notes Payable

On March 23, 2018, the Organization obtained a loan from a financial institution in the amount of \$100,000 for the purpose of consumer lending. The note is payable quarterly interest installments of \$1,000, with an interest rate of 4%. This note is secured by inventory and equipment. The note is due April 1, 2021. The balance outstanding at December 31, 2020 was \$100,000.

On November 25, 2019, the Organization obtained a loan from a governmental organization in the amount of \$100,000 for the purpose of consumer lending and operations. The note is payable in quarterly interest installments of \$1,000, with an interest rate of 4%. This note is secured by inventory and equipment. This note is due January 1, 2021. The balance outstanding at December 31, 2020 was \$100,000.

On September 12, 2019, the Organization obtained a loan from a financial institution in the amount of \$34,650 for the purpose of consumer lending. The note is payable in annual payments of \$11,324, with an interest rate of 3%. This note is unsecured. This note is due October 1, 2022. The balance outstanding at December 31, 2020 was \$23,326.

On June 19, 2020, the Organization obtained a mortgage from a bank in the amount of \$115,000. The note is payable in monthly installments of \$946, with an interest rate of 5.5%. A balloon payment is due July 1, 2025. The note is secured by the Organization's building and future rent collections. The balance outstanding at December 31, 2020 was \$113,884.

The following is a schedule of aggregate principal payment obligations for subsequent years:

December 31, 2021	\$ 216,928
2022	17,574
2023	5,874
2024	6,206
2025	90,628
	<u>\$ 337,210</u>

LEECH LAKE FINANCIAL SERVICES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

5. Paycheck Protection Program (PPP) Loan

The Organization has a Paycheck Protection Program (PPP) loan that was approved for up to \$43,100 in April 2020 and has a balance outstanding of \$43,100 at December 31, 2020. It is a non-revolving draw down line of credit in which all or a portion of the loan may be forgiven if the proceeds are used for payroll and other eligible expenses, along with other stipulations in accordance with the Program's provisions. Any amount not forgiven is payable over 18 monthly installments, including interest at 1% at the time of forgiveness and it is unsecured. The Organization has determined that the conditions for forgiveness have been substantially met during the year. Consequently, under FASB ASC 958-605, \$43,100 has been recorded in the statement of activities in grants and contributions without donor restrictions as of and for the year ending December 31, 2020.

6. Risk Management

The Organization is exposed to various risks of loss to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; workers' compensation claims; and natural disasters. Property, casualty, malpractice, and workers' compensation liabilities are insured. The Organization retains risk for the deductible portions of the insurance. Management estimates there were no losses or claims in excess of insurance coverage in 2020.

7. Commitments and Contingencies

The Organization participates in various grant programs, which are governed by rules and regulations of the grantor agencies.

Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Organization has not complied with the rules and regulations governing the grant, refunds of money received may be required and the ability to collect any of the related receivable at December 31, 2020 may be impaired. In the opinion of the Organization, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

LEECH LAKE FINANCIAL SERVICES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

8. Net Assets Classification

Net assets with donor restrictions at December 31, 2020 were available for the following purposes:

Purpose Restriction	
Rural Community Development	\$ 362,691
IDA Match Funds	13,723
Auto Loans Program	6,370
	<u>\$ 382,784</u>

9. Liquidity and Availability

The Organization has \$729,287 of liquid assets available within one year of the balance sheet date. Of that amount, \$385,549 of financial assets are available for general expenditures, such as operating expenses and scheduled principal payments on debt.

Lines of credit are maintained for liquidity needs. As discussed in Note 3, \$140,000 is available for operating expenses.

10. Methods Used for Allocation of Expenses Among Functions

The financial statements of Leech Lake Financial Services, Inc. report certain categories of expenses that are attributable to more than one program or supporting function. Those expenses include payroll. Payroll is allocated based on estimates of time on each function.