

LEECH LAKE FINANCIAL SERVICES, INC.
CASS LAKE, MINNESOTA
CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2022

LEECH LAKE FINANCIAL SERVICES, INC.
CASS LAKE, MINNESOTA
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CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1-2
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities	4
Consolidated Statement of Cash Flows	5
Consolidated Statement of Functional Expenses	6
Notes to the Consolidated Financial Statements	7-13



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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying consolidated financial statements of Leech Lake Financial Services, Inc., (a nonprofit organization) and subsidiary (the Organization), which comprise the consolidated statement of financial position as of December 31, 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 our 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 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, misrepresentations, 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 judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 the Organization'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 of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are 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 we identified during the audit.

Miller McDonald, Inc.

June 28, 2023
Bemidji, Minnesota

LEECH LAKE FINANCIAL SERVICES, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2022

<u>ASSETS</u>	
<u>Current Assets</u>	
Cash and Cash Equivalents	\$ 800,060
Accounts Receivable	15,643
Grants Receivable	202,527
Current Portion Loans Receivable, Net	368,501
Total Current Assets	<u>1,386,731</u>
<u>Fixed Assets</u>	
Buildings and Improvements	270,451
Furniture, Fixtures, and Equipment	30,226
Construction in Progress	46,640
	<u>347,317</u>
Less Accumulated Depreciation	(42,989)
Fixed Assets, Net	<u>304,328</u>
<u>Other Assets</u>	
Loans Receivable - Less Current Portion, Net	<u>81,090</u>
<u>Total Assets</u>	<u>\$ 1,772,149</u>
<u>LIABILITIES AND NET ASSETS</u>	
<u>Current Liabilities</u>	
Line of Credit	\$ 140,000
Current Portion Long-Term Debt	156,874
Accounts Payable	30,344
Accrued Expenses	33,278
Refundable Advance	474,892
Total Current Liabilities	<u>835,388</u>
<u>Non-Current Liabilities</u>	
Long-Term Debt - Less Current Portion	247,087
Other Non-Current Liabilities	13,610
Total Non-Current Liabilities	<u>260,697</u>
<u>Total Liabilities</u>	<u>1,096,085</u>
<u>Net Assets</u>	
Without Donor Restrictions	289,546
With Donor Restrictions	386,518
Total Net Assets	<u>676,064</u>
<u>Total Liabilities and Net Assets</u>	<u>\$ 1,772,149</u>

See Accompanying Notes to the Consolidated Financial Statements.

LEECH LAKE FINANCIAL SERVICES, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
<u>Revenue, Gains, and Other Support</u>			
Support From the Public:			
Grants and Contributions	\$ 651,173	\$ -	\$ 651,173
Other Revenue:			
Other Revenue	53,065	-	53,065
Total Revenue	704,238	-	704,238
Net Assets Released from Restrictions	24,469	(24,469)	-
Total Revenue, Gains and Other Support	728,707	(24,469)	704,238
<u>Expenses</u>			
Program Services	414,694	-	414,694
Management and General	286,369	-	286,369
Total Expenses	701,063	-	701,063
<u>Change in Net Assets</u>	27,644	(24,469)	3,175
<u>Net Assets, Beginning of Year</u>	261,902	410,987	672,889
<u>Net Assets, End of Year</u>	\$ 289,546	\$ 386,518	\$ 676,064

See Accompanying Notes to the Consolidated Financial Statements.

LEECH LAKE FINANCIAL SERVICES, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022

<u>Cash Flow from Operating Activities</u>	
Change in Net Assets	\$ 3,175
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities:	
Depreciation Expense	9,418
(Increase) Decrease in Assets:	
Accounts Receivable	(11,323)
Grants Receivable	(154,409)
Loans Receivable	(56,023)
Increase (Decrease) in Liabilities:	
Accounts Payable	6,017
Accrued Expenses	7,775
Due to Granting Agency	(51,710)
Other Liabilities	5,340
Refundable Advance	363,744
	<u>122,004</u>
<u>Cash Flow from Investing Activities</u>	
Cash Paid for Purchases of Fixed Assets	<u>(37,479)</u>
<u>Cash Flow from Financing Activities</u>	
Borrowings on Line of Credit	140,000
Principal Payments on Notes Payable	<u>(17,547)</u>
	<u>122,453</u>
<u>Net Increase in Cash and Cash Equivalents</u>	206,978
<u>Cash and Cash Equivalents, Beginning of Year</u>	<u>593,082</u>
<u>Cash and Cash Equivalents, End of Year</u>	<u>\$ 800,060</u>
<u>CASH PAID DURING THE YEAR FOR:</u>	
Interest	<u>\$ 17,287</u>

See Accompanying Notes to the Consolidated Financial Statements.

LEECH LAKE FINANCIAL SERVICES, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022

	<u>Program Services</u>	<u>Supporting Services</u>	
	<u>Financial Services</u>	<u>Management and General</u>	<u>Total</u>
Salaries	\$ 110,748	\$ 176,003	\$ 286,751
Payroll Taxes	9,728	15,133	24,861
Employee Benefits	11,956	23,017	34,973
Occupancy	-	7,744	7,744
Telephone	-	8,037	8,037
Supplies	1,101	19,783	20,884
Rental and Maintenance of Equipment	-	166	166
Printing and Publications	16,250	4,124	20,374
Postage and Shipping	289	-	289
Conference and Meetings	3,814	-	3,814
Travel	20,983	2,100	23,083
Professional Fees	174,671	9,975	184,646
Awards and Grants	5,000	-	5,000
Miscellaneous Expenses	8,100	9,208	17,308
Depreciation	4,740	4,678	9,418
Bad Debt Expense	36,428	-	36,428
Interest Expense	10,886	6,401	17,287
	<u>\$ 414,694</u>	<u>\$ 286,369</u>	<u>\$ 701,063</u>

See Accompanying Notes to the Consolidated Financial Statements.

LEECH LAKE FINANCIAL SERVICES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022

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 Organization. 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 Assets 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 the 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

LEECH LAKE FINANCIAL SERVICES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022

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.

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, 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. The Organization has net assets with donor restrictions 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 contributions with donor restrictions.

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 net assets with donor restrictions to net assets without donor restrictions 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 2022.

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.

LEECH LAKE FINANCIAL SERVICES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022

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.

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, LLC 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.

LEECH LAKE FINANCIAL SERVICES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022

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.

The Organization's cash and cash equivalents include \$386,518 of cash with use restrictions:

Rural Community Development	\$ 353,144
IDA Match Funds	33,374
	\$ 386,518

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, 2022 was \$20,374.

Change in Accounting Principles – In September 2021, the FASB issued Accounting Standards Update (ASU) No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* to increase the transparency of contributed nonfinancial assets for not-for-profit (NFP) entities. The Update did not change existing recognition and measurement requirements for contributed nonfinancial assets under ASC 958-605. The Organization adopted the standard in fiscal year 2022, with no significant impact to the consolidated financial statements.

Effective January 1, 2022, the Organization adopted FASB ASU No. 2016-02, *Leases* (Topic 842), and all related amendments using the modified retrospective approach. The Organization elected to apply Topic 842 to all prior periods presented. Under ASU No. 2016-02, all of the Organization's leases are classified as operating leases. The application of Topic 842 did not have a material effect on the Organization's accounting for leases as the lessor.

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:

LEECH LAKE FINANCIAL SERVICES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022

		<u>Accumulated Depreciation</u>
Furniture, Fixtures, and Equipment	5-10 Years	\$ 37,772
Building and Building Improvements	40 Years	5,217
		<u>\$ 42,989</u>

2. **Loans Receivable**

Loans receivable are summarized as follows:

Individuals	\$ 283,609
Businesses	<u>248,362</u>
Total Loans Receivable	531,971
Allowance for Loan Loss	<u>(82,380)</u>
Loans Receivable, Net	<u>\$ 449,591</u>

3. **Lines of Credit**

The Organization has two lines of credit with its bank for \$40,000 and \$100,000, respectively due February 24, 2023. The lines have an interest rate that is set 1% above the NY Prime rate. The current rate is 8.5% 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, 2022 was \$140,000.

4. **Long-Term Notes Payable**

In 2021, the Organization obtained a loan from a financial institution in the amount of \$151,000 for the purpose of consumer lending. During 2022, the note was extended to May 27, 2023. The note is payable in quarterly interest installments, with an interest rate of 4%. This note is secured by inventory and equipment. The balance outstanding at December 31, 2022 was \$151,000.

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 was payable in annual payments of \$11,324, with an interest rate of 3%. This note was unsecured. This note was due October 1, 2022. The balance outstanding at December 31, 2022 was \$0.

LEECH LAKE FINANCIAL SERVICES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022

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, 2022 was \$102,961.

In 2021, the Organization obtained a loan from a foundation in the amount of \$150,000. The note is payable in annual interest payments, with an interest rate of 1%, starting February 1, 2022 with a balloon payment due February 1, 2028. The balance outstanding at December 31, 2022 was \$150,000.

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

December 31, 2023	\$ 156,874
2024	6,206
2025	90,881
2026	-
2027	-
Thereafter	<u>150,000</u>
	<u><u>\$ 403,961</u></u>

5. 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 2022.

6. Liquidity and Availability

The Organization has \$1,386,731 of liquid assets available within one year of the balance sheet date. Of that amount, \$1,021,917 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, \$0 is available for operating expenses.

LEECH LAKE FINANCIAL SERVICES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022

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, 2022 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 consolidated financial statements for such contingencies.

8. Net Assets Classification

Net assets with donor restrictions at December 31, 2022 were available for the following purposes:

Purpose Restriction	
Rural Community Development	\$ 353,144
IDA Match Funds	33,374
	<u>\$ 386,518</u>

9. 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.