

**LEECH LAKE FINANCIAL SERVICES, INC.**  
**CASS LAKE, MINNESOTA**  
**FINANCIAL STATEMENTS**  
**AND INDEPENDENT AUDITOR'S REPORT**  
**DECEMBER 31, 2019**

**LEECH LAKE FINANCIAL SERVICES, INC.**  
**CASS LAKE, MINNESOTA**  
**DECEMBER 31, 2019**

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MILLER MCDONALD, INC.  
*Certified Public Accountants*  
513 Beltrami Avenue  
P.O. Box 486  
Bemidji, MN 56619  
(218) 751 - 6300  
Fax (218) 751 - 0782  
www.millermcdonald.com

## **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, 2019, 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, 2019, 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.

**Emphasis of Matter**

As discussed in Note 10 to the financial statements, in 2019, Leech Lake Financial Services, Inc. adopted Accounting Standards Update (ASU) No. 2018-08, *Clarifying the Scope of Accounting Guidance for Contributions Received and Contributions Made* and Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*. Our opinion is not modified with respect to this matter.

*Miller McDonald, Inc.*

July 8, 2020  
Bemidji, Minnesota

**LEECH LAKE FINANCIAL SERVICES, INC.**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2019**

**ASSETS**

**Current Assets**

Cash and cash equivalents	\$ 376,263
Accounts receivable	12,320
Grants receivable	15,244
Loans receivable, net	291,643
<b>Total Current Assets</b>	<b>695,470</b>

**Fixed Assets**

Property and equipment, net of accumulated depreciation	110,687
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**Other Assets**

Loans receivable - less current portion	56,394
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**Total Assets**

**\$ 862,551**

**LIABILITIES AND NET ASSETS**

**Current Liabilities**

Accounts payable	\$ 41,236
Accrued expenses	35,929
Deferred revenue	2,620
Line of credit	134,985
Current portion long-term debt	116,020
<b>Total Current Liabilities</b>	<b>330,790</b>

**Non-Current Liabilities**

Long-term debt - less current portion	153,938
Other non-current liabilities	5,316
<b>Total Non-Current Liabilities</b>	<b>159,254</b>

**Total Liabilities**

**490,044**

**Net Assets**

Without donor restrictions	(13,276)
With donor restrictions	385,783
<b>Total Net Assets</b>	<b>372,507</b>

**Total Liabilities and Net Assets**

**\$ 862,551**

See Accompanying Notes to Consolidated Financial Statements.

**LEECH LAKE FINANCIAL SERVICES, INC.**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b><u>Revenue, Gains, and Other Support</u></b>			
Support from the public:			
Grants and contributions	\$ 223,321	\$ -	\$ 223,321
Other revenue:			
Other revenue	47,036	-	47,036
Total revenue, gains and other support	270,357	-	270,357
<b><u>Net Asset Restriction Transfers</u></b>			
Revenue released from donor restrictions	110,805	(110,805)	-
Total revenue	381,162	(110,805)	270,357
<b><u>Expenses</u></b>			
Program services	242,709	-	242,709
Management and general	169,774	-	169,774
Total expenses	412,483	-	412,483
<b><u>Change in Net Assets</u></b>	(31,321)	(110,805)	(142,126)
<b><u>Net Assets, Beginning of Year</u></b>	18,045	496,588	514,633
<b><u>Net Assets, End of Year</u></b>	\$ (13,276)	\$ 385,783	\$ 372,507

See Accompanying Notes to Consolidated Financial Statements.

**LEECH LAKE FINANCIAL SERVICES, INC.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

**INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS**

<b><u>Cash Flow from Operating Activities</u></b>	
Change in net assets	\$ (142,126)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
Depreciation expense	5,004
(Increase) decrease in assets:	
Accounts receivable	(12,320)
Grants receivable	130,260
Loans receivable	(75,809)
Increase (decrease) in liabilities:	
Accounts payable	35,807
Accrued expenses	5,497
Other liabilities	5,316
Deferred revenue	<u>(14,733)</u>
Cash Provided by (Used in) Operating Activities	<u>(63,104)</u>
<b><u>Cash Flow from Investing Activities</u></b>	
Cash paid for purchases of fixed assets	<u>(47,090)</u>
<b><u>Cash Flow from Financing Activities</u></b>	
Borrowings on line of credit	33,529
Principal payments on line of credit	(37,610)
Principal payments on notes payable	(4,425)
Borrowings on notes payables	<u>134,651</u>
Cash Provided by (Used in) Financing Activities	<u>126,145</u>
<b><u>Net Increase in Cash and Cash Equivalents</u></b>	15,951
<b><u>Cash and Cash Equivalents, Beginning of Year</u></b>	<u>360,312</u>
<b><u>Cash and Cash Equivalents, End of Year</u></b>	<u><u>\$ 376,263</u></u>
<b>CASH PAID DURING THE YEAR FOR:</b>	
Interest	\$ 12,986

See Accompanying Notes to Consolidated Financial Statements.

**LEECH LAKE FINANCIAL SERVICES, INC.**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	<b>Program Services</b>	<b>Supporting Services</b>	
	<b>Financial Services</b>	<b>Management and General</b>	<b>Total</b>
Salaries	\$ 94,441	\$ 105,330	\$ 199,771
Payroll taxes	7,016	7,786	14,802
Employee benefits	7,116	9,950	17,066
Occupancy	-	3,432	3,432
Telephone	-	3,108	3,108
Supplies	2,212	10,536	12,748
Postage and shipping	120	-	120
Conference and meetings	4,562	-	4,562
Travel	9,973	-	9,973
Professional fees	47,318	9,933	57,251
Miscellaneous expenses	29,278	2,889	32,167
Depreciation	-	5,004	5,004
Bad debt expense	39,493	-	39,493
Interest expense	1,180	11,806	12,986
	<b>\$ 242,709</b>	<b>\$ 169,774</b>	<b>\$ 412,483</b>

See Accompanying Notes to Consolidated Financial Statements.



**LEECH LAKE FINANCIAL SERVICES, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

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

**LEECH LAKE FINANCIAL SERVICES, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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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, 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 2019.

Deferred revenue 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**  
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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 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**  
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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 includes \$322,369 of cash restricted for business loans and related administrative costs.

**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.

**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	\$ 17,084
Building and Building Improvements	40 Years	5,245
		<u>\$ 22,329</u>

2. **Loans Receivable**

Loans receivable are summarized as follows:

Individuals	\$	334,106
Businesses		<u>104,707</u>
Total loans receivable		438,813
Allowance for loan loss		<u>90,776</u>
Loans receivable, net	\$	<u>348,037</u>

3. **Lines of Credit**

The Organization has two lines of credit with its bank for \$39,500 due October 6, 2020 and \$100,000 due December 1, 2020. The lines have an interest rate that is set 1% above the NY Prime rate. The current rate is 5.75% subject to changes in the NY Prime rate. All unpaid principal and interest is due at maturity. The note is secured by assets of the Organization. The balance outstanding on the line of credit at December 31, 2019 was \$134,985.

**LEECH LAKE FINANCIAL SERVICES, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**4. Long-Term Notes Payable**

On May 18, 2016, the Organization obtained a mortgage from a bank in the amount of \$50,000. The note is payable in monthly installments of \$557, with an interest rate of 6%. The note is secured by all of the Organization's assets. The note is due May 15, 2021. The balance outstanding at December 31, 2019 was \$35,308.

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, 2019 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, 2019 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, 2019 was \$34,650.

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

December 31, 2020	\$ 116,020
2021	142,274
2022	11,664
	<u>\$ 269,958</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 2019.

**6. Commitments and Contingencies**

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

**LEECH LAKE FINANCIAL SERVICES, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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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, 2019 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.

**7. Net Assets Classification**

Net assets with donor restrictions at December 31, 2019 were available for the following purposes:

<b>Purpose Restriction</b>	
Rural Business Enterprise Grant	\$ 362,603
IDA Savings Match	8,188
Auto Loans Program	14,992
	<u>\$ 385,783</u>

**8. Liquidity and Availability**

The Organization has \$695,470 of liquid assets available within one year of the balance sheet date. Of that amount, \$339,983 of financial assets are available for general expenditures, such as operating expenses and scheduled principal payments on debt.

**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.

**LEECH LAKE FINANCIAL SERVICES, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**10. New Accounting Guidance**

The Organization adopted the requirements of the Financial Accounting Standards Board (FASB), Accounting Standards Codifications (ASC) Topic 606 – Revenue from Contracts with Customers. Under Topic 606, revenue is recognized when, or as, promised goods and services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services.

The Organization adopted the requirements of the new guidance utilizing the modified retrospective method of transition. The difference to revenue and cost recognition-related account balances under the new guidance as opposed to the prior revenue recognition guidance was determined to be immaterial. Accordingly, no adjustment to beginning net assets was necessary.

During 2019, The Organization also adopted FASB ASU No. 2018-08 *Clarifying the Scope of Accounting Guidance for Contributions Received and Contributions Made*, which requires that an entity evaluate whether transactions should be accounted for as contributions or as exchange transactions and determining whether a contribution is conditional. The Organization adopted ASU 2018-08 using modified prospective application to agreements not completed as of January 1, 2019. The implementation of ASU 2018-08 did not have a material effect on the Organization’s financial positions, results of operations or cash flows. There was no cumulative effect of a change in accounting principle recorded related to the adoption of ASU 2018-08 on January 1, 2019.

**11. Subsequent Events**

In early 2020, an outbreak of the novel strain of coronavirus (COVID-19) emerged globally. As a result, there have been mandates from federal, state and local authorities resulting in an overall decline in economic activity resulting in a decrease in loan applications compared to this time last year. Although the Organization cannot estimate the length or gravity of the impact of the COVID-19 outbreak at this time, if the pandemic continues, it will have an adverse effect on the Organization’s operations.