

# **Arrowhead Regional Development Commission**

Financial and Compliance Report  
December 31, 2023

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## Independent Auditor's Report

Board of Commissioners  
Arrowhead Regional Development Commission

### Report on the Audit of the Financial Statements

#### **Opinions**

We have audited the financial statements of the governmental activities and the major fund of Arrowhead Regional Development Commission (the Commission) as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Commission, as of December 31, 2023, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Basis for Opinions**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). 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 Commission 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 opinions.

#### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Commission's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, 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 financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Commission'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.

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the budgetary comparison schedule, schedule of proportionate share of the net pension liability, and schedule of pension contributions be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinions on the basic financial statements are not affected by this missing information.

### **Supplementary Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The combining regional intergovernmental planning fund financial statements and the schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is 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 June 12, 2025, on our consideration of the Commission'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 Commission'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 the Commission's internal control over financial reporting and compliance.

*RSM US LLP*

Duluth, Minnesota  
June 12, 2025

**Basic Financial Statements**

**Government-Wide Financial Statements (GWFS)**

**Arrowhead Regional Development Commission**

**Statement of Net Position  
December 31, 2023**

	Governmental Activities
<b>Assets</b>	
Cash and cash equivalents:	
Unrestricted	\$ 5,121,377
Restricted (Arrowhead Counties Association and North Shore Management Board)	31,353
Receivables:	
Taxes	34,414
Loans	5,006,662
Interest	12,516
Grants and contracts	2,038,538
Prepaid expenses	102,225
Capital assets, net	321,208
<b>Total assets</b>	<u>12,668,293</u>
<b>Deferred Outflows of Resources</b>	
Deferred pension amounts	<u>629,553</u>
<b>Liabilities</b>	
Accounts payable	926,945
Accrued payroll	66,641
Accrued compensated absences	207,553
Deposits held for others	31,353
Unearned revenue	69,268
Net pension liability	1,839,731
<b>Total liabilities</b>	<u>3,141,491</u>
<b>Deferred Inflows of Resources</b>	
Deferred pension amounts	<u>643,493</u>
<b>Net Position</b>	
Investment in capital assets	321,208
Restricted:	
Revolving loan fund	2,885,849
Unrestricted	6,305,805
<b>Total net position</b>	<u>\$ 9,512,862</u>

See notes to financial statements.

**Arrowhead Regional Development Commission**

**Statement of Activities  
Year Ended December 31, 2023**

	Expenses	Program Revenues		Net Revenue (Expense) and Change in Net Position
		Charges for Services	Operating Grants and Contributions	Primary Governmental Activities
Functions/programs:				
Governmental activities:				
General government	\$ 165,452	\$ 9,314	\$ 8,724	\$ (147,414)
Economic development	540,327	192,905	97,443	(249,979)
Regional planning	766,265	181,344	402,317	(182,604)
Metropolitan planning	979,246	-	866,173	(113,073)
Senior Services	5,717,550	5,000	5,561,850	(150,700)
<b>Total primary governmental activities</b>	<b>\$ 8,168,840</b>	<b>\$ 388,563</b>	<b>\$ 6,936,507</b>	<b>(843,770)</b>
General revenue:				
Taxes, tax levy				716,286
Interest income				224,691
<b>Total general revenue</b>				<b>940,977</b>
<b>Change in net position</b>				<b>97,207</b>
Net position:				
Beginning				9,415,655
Ending				<b>\$ 9,512,862</b>

See notes to financial statements.

## **Fund Financial Statements (FFS)**

**Arrowhead Regional Development Commission**

**Balance Sheet  
Governmental Fund  
December 31, 2023**

	Regional Intergovernmental Planning Fund
<b>Assets</b>	
Cash and cash equivalents:	
Unrestricted	\$ 5,121,377
Restricted (Arrowhead Counties Association and North Shore Management Board)	31,353
Receivables:	
Taxes	34,414
Loans	5,006,662
Interest	12,516
Grants and contracts	2,038,538
Prepaid expenses	<u>102,225</u>
<b>Total assets</b>	<b>\$ <u>12,347,085</u></b>
<b>Liabilities, Deferred Inflow of Resources, and Fund Balance</b>	
Accounts payable	\$ 926,945
Accrued payroll	66,641
Deposits held for others	31,353
Unearned revenue	<u>69,268</u>
<b>Total liabilities</b>	<b><u>1,094,207</u></b>
Unavailable revenues:	
Loans receivable	<u>5,006,662</u>
<b>Total deferred inflow of resources</b>	<b><u>5,006,662</u></b>
Fund balance:	
Nonspendable, Prepays	102,225
Restricted, Revolving loan fund	2,885,849
Committed, Technology	60,000
Assigned, Program Development	176,607
Unassigned	<u>3,021,535</u>
<b>Total fund balance</b>	<b><u>6,246,216</u></b>
<b>Total liabilities, deferred inflow of resources, and fund balance</b>	<b>\$ <u>12,347,085</u></b>

See notes to financial statements.

**Arrowhead Regional Development Commission**

**Reconciliation of Governmental Fund Balance Sheet to the Statement of Net Position  
December 31, 2023**

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Total fund balance, governmental fund		\$	6,246,216
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund			321,208
Net pension liability not payable with current and available resources and expenses that will not be liquidated with expendable available resources are not reported in the governmental fund:			
Net pension liability	\$	(1,839,731)	
Deferred outflows, pension		629,553	
Deferred inflows, pension		<u>(643,493)</u>	(1,853,671)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the fund:			
Accrued compensated absences			(207,553)
Loans receivable are not available to pay current-period expenditures and, therefore, are reported as deferred inflow of resources in the fund			<u>5,006,662</u>
<b>Net position of governmental activities</b>		<b>\$</b>	<b><u>9,512,862</u></b>

See notes to financial statements.

**Arrowhead Regional Development Commission**

**Statement of Revenues, Expenditures and Changes in Fund Balance  
Governmental Fund  
Year Ended December 31, 2023**

	Regional Intergovernmental Planning Fund
Revenues:	
Property tax	\$ 716,286
Intergovernmental:	6,936,507
Charges for services	198,636
Interest earnings	224,691
Loan principal	813,882
Loan interest	189,927
<b>Total revenues</b>	<u>9,079,929</u>
Expenditures:	
Direct salaries	2,713,593
Fringe benefits	801,517
Computer supplies and maintenance	186,526
Consultants and contractual	772,350
Printing, internal and external	9,386
Rental	6,652
Postage and shipping	8,324
Telephone and internet	17,196
Meeting expenses	10,042
Dues and memberships	20,156
Maintenance, vehicles	111
Staff travel	95,556
Committee travel	9,478
Subgrantee request	2,934,182
Loans distributed	297,895
Other	186,877
<b>Total expenditures</b>	<u>8,069,841</u>
<b>Excess of revenues over expenditures</b>	<u>1,010,088</u>
Fund balance, beginning of year	<u>5,236,128</u>
Fund balance, end of year	<u>\$ 6,246,216</u>

See notes to financial statements.

**Arrowhead Regional Development Commission**

**Reconciliation of Governmental Fund Statement of Revenues, Expenditures  
and Changes in Fund Balance to the Statement of Activities  
Year Ended December 31, 2023**

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Net change in fund balance, total governmental fund	\$ 1,010,088
Amounts reported for governmental activities in the statement of net position are different because:	
Capital outlays are reported in the governmental fund as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:	
Depreciation expense	(25,014)
Expenditures related to loans receivable are not reported as expense for governmental activities.	297,895
Receipts related to loans receivable are not reported as revenue for governmental activities.	(813,882)
Expenditures in the statement of activities that are not liquidated with expendable resources are not reported as expenditures in the governmental fund.	
Difference between contributions made during the measurement period and the related pension expense.	(147,897)
Revenues in the governmental fund that did provide financial resources in the current year and were recognized as revenues in the statement of activities in the prior year.	
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund. This is the net amount of collection of loans receivable previously written off and amount of loans receivable write-offs during the year.	<u>(223,983)</u>
<b>Change in net position of governmental activities</b>	<b><u><u>\$ 97,207</u></u></b>

See notes to financial statements.

## Arrowhead Regional Development Commission

### Notes to Financial Statements

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#### Note 1. Significant Accounting Policies

The financial reporting policies of Arrowhead Regional Development Commission (the Commission) conform to accounting principles generally accepted in the United States of America.

**Introduction:** The Commission is the planning agency for Region III pursuant to Minnesota Statutes § 462.381–462.396 and was created to facilitate intergovernmental cooperation; to ensure coordination of state, federal and local comprehensive planning; and to develop programs for the solution of economic, social, physical and governmental problems of the state and its citizens. Region III comprises the counties of Aitkin, Carlton, Cook, Itasca, Koochiching, Lake and St. Louis.

The Commission's membership, terms of office, and methods of selection of members are defined by statute. The Chair is selected by the Commissioners. The business and affairs of the Commission are managed by a board of directors consisting of 13 individuals, six of whom need not be members of the Commission.

**The financial reporting entity:** The Commission is the basic level of government that has financial accountability and control over all activities related to the operations of the general government of the Commission. The Commission receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities. However, the Commission is not included in any other governmental "reporting entity" since the Commission appoints its own board, is not fiscally dependent on another government and does not have a financial benefit/burden relationship with another government. In addition, there are no component units which are to be included in the Commission's reporting entity.

**Basis of presentation:** The basic financial statements of the Commission include the government-wide financial statements (GWFS) and the fund financial statements (FFS). The focus is on the Commission as a whole in the GWFS, while reporting additional and detailed information about the Commission's major governmental funds is the focus in the FFS.

Based on the above standards, the Commission's external financial reporting is composed of:

1. Government-wide financial statements
2. Fund financial statements and related reconciliations
3. Notes to the financial statements

The external statements are prepared from accounts of the Commission that are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. The fund of the Commission is classified into governmental activities.

#### Government-Wide Financial Statements

The GWFS include the statement of net position and statement of activities that display information about the Commission. These statements include the financial activities of the overall governmental activities.

## Arrowhead Regional Development Commission

### Notes to Financial Statements

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#### Note 1. Significant Accounting Policies (Continued)

The government-wide statement of activities reflects the cost of programs and functions reduced by directly associated revenues to arrive at the net revenue or expense for each program and function. Net program revenue or expense for governmental activities is then adjusted for general revenues to determine the change in net position for the year. Indirect expenses such as support services and administration incurred in the general government and other functions/activities are allocated to programs/functions that they may benefit. When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first, and then unrestricted resources as needed.

#### Fund Financial Statements

The FFS are presented for the governmental fund. The emphasis of the FFS is on the major fund. The Commission reports the following special revenue fund: Regional Intergovernmental Planning Fund, which is considered to be a major governmental fund.

#### Governmental Fund

The governmental programs of the Commission are financed by its governmental fund. The acquisition, use and balances of the Commission's expendable financial resources and the related liabilities are accounted for through the governmental fund. The measurement focus is upon determination of changes in financial position, rather than upon net income determination. The following is the Commission's major governmental fund:

The *Regional Intergovernmental Planning Fund* is used to account for all programs of the Commission. The Commission has the following programs:

*General Programs* accounts for the proceeds of property taxes and is used to directly support other federal, state, and local funding.

The *Economic Development Program* is used to account for the proceeds of grants from the U.S. Economic Development Administration (EDA) in the U.S. Department of Commerce to support employment, industrial and commercial growth planning efforts, and also for the EDA Revolving Loan Fund (RLF) program, which provides gap lending to small businesses.

The *Metropolitan Interstate Council Program* is used to account for the proceeds of consolidated planning grant funds from both the Federal Highways Administration and the Federal Transit Administrations under 23 W.S.C. 104(f) and 49 U.S.C. 5305(d) and the related disbursements that support the deliverables outlined in the grant documents.

The *Area Agency on Aging Administration and PD&C Program* is used to account for the proceeds of grant funds received under the Older Americans Act to provide assistance in the development of new and improved programs to help older persons for community planning and services and for training, through research, development, or training project grants.

The *Area Agency on Aging Direct Service Grants Program* is used to account for the proceeds of Title III of the Older Americans Act federal funds received from the Minnesota Board on Aging for the Planning and Service Area of Region 3 of the State.

*Internal Program* is used to account for the financing of goods or services provided by one program to other programs of the Commission on a cost-reimbursement basis.

## Arrowhead Regional Development Commission

### Notes to Financial Statements

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#### Note 1. Significant Accounting Policies (Continued)

##### Measurement Focus and Basis of Accounting

###### **GWFS**

The GWFS are reported using the economic resources measurement focus and the accrual basis of accounting. Economic resources measurement focus means that all assets and liabilities associated with the operations of the Commission are included in the statement of net position. Accrual basis of accounting means revenues are recorded when earned and expenses are recorded when a liability is incurred.

The statement of activities demonstrates the degree to which the direct expenses of a given function, segment or program are offset by program revenues. Direct expenses are those that are clearly identifiable with specific function or segment. Indirect expenses not allocated to functions are reported separately. Depreciation expense is specifically identified by function and is included in the direct expense of each function. Program revenues include grants and entitlement revenues restricted to meeting the operational or capital requirements of a particular function or program.

###### **FFS**

*Governmental Fund:* The governmental fund is reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Current financial resources measurement focus generally means that only current assets and current liabilities are included in the balance sheet. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are “measurable and available”). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to pay liabilities of the current period.

The Commission considers revenues reported in the governmental fund to be available if the revenues are collected within one year after year-end, except for property tax revenue, which is considered available if the revenues are collected within 60 days after year-end.

Expenditures are recorded when the related fund liability is incurred, except for compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in the governmental fund.

###### **GWFS and FFS**

**Cash and cash equivalents:** For purposes of reporting the statements of cash flows, the Commission includes all money market mutual funds as cash equivalents.

State statute § 475.66 authorizes the Commission to invest in qualified repurchase agreements, obligations of the U.S. government, obligations of the State of Minnesota or its municipalities, shares of certain investment companies, banker’s acceptances, commercial paper and guaranteed investment contracts.

Money market mutual funds are carried at amortized cost. Accrued income on money market mutual funds is recorded as earned, since both measurable and available. Money market mutual funds transactions are recorded on settlement date.

## Arrowhead Regional Development Commission

### Notes to Financial Statements

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#### Note 1. Significant Accounting Policies (Continued)

**Receivables:** Receivables are reported at gross less the allowance for uncollectible accounts where applicable. There was no allowance for uncollectible accounts at December 31, 2023.

**Loans receivable:** Loans receivable are recorded for loans issued to businesses for which credit is not otherwise available. Loans receivable are stated at the amount of unpaid principal less an allowance for possible loan losses. At December 31, 2023, an allowance of \$251,476 was recorded.

**Compensated absences:** Unpaid vacation pay and a portion of sick leave earned is accrued for all employees. Changes in accrued compensated absences for the fiscal year were as follows:

	Balance December 31, 2022	Additions	Reductions	Balance December 31, 2023	Amounts Due Within One Year
Compensated absences	\$ 199,076	\$ 395,726	\$ (387,249)	\$ 207,553	\$ 207,553

**Revenue recognition:** Property taxes are levied for the Commission by the seven northeast Minnesota counties of Aitkin, Carlton, Cook, Itasca, Koochiching, Lake and St. Louis. Property taxes levied January 1 and due May 15 and October 15 are used to finance current operations.

The Counties collect property taxes through the year and pay them to the Commission in three settlements. Revenue is recognized on a modified accrual basis, and the Commission considers all taxes not received within 60 days of year-end to be deferred inflow of resources in the FFS. Revenue is recognized on the full accrual method in the GWFS. Property tax revenue is recognized in the year for which the taxes were levied in the GWFS.

In determining when to recognize intergovernmental revenues (grants and subsidies), the legal and contractual requirements of the individual programs are used as guidance. There are, however, essentially two bases for this revenue recognition. In one, monies must be expended for the specific purpose or project before any amounts will be paid to the Commission; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and nearly irrevocable, i.e., revocable only for failure to comply with prescribed compliance requirements, e.g., equal employment opportunity. These resources are reflected as revenues at the time of receipt or earlier if they meet the criterion of availability. Other major revenues that are determined to be susceptible to accrual include interest.

The Commission reports unearned revenue on its balance sheet. Unearned revenue arises when resources are received by the government before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for unearned revenue is removed from the balance sheet and the revenue is recognized. Nonexchange transactions collectible but not available are deferred inflows of resources in the financial statements.

**Use of estimates in the preparation of financial statements:** The preparation of financial statements 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 expenditures during the reporting period. Actual results could differ from those estimates.

## Arrowhead Regional Development Commission

### Notes to Financial Statements

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#### Note 1. Significant Accounting Policies (Continued)

##### Government-Wide Financial Statements

**Capital assets:** Capital assets are recorded at historical cost or estimated historical cost if the actual historical cost is not known. Contributed assets, including those from the federal government, are recorded at estimated acquisition value on the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. The Commission defines capital assets as assets with an initial cost of more than \$2,500 and useful life of more than one year. Costs incurred for repairs and maintenance are expensed as incurred. Straight-line depreciation is recorded based on the following estimated useful lives:

	<u>Years</u>
Furniture, fixtures and equipment	2-5
Building and improvements	10-40

**Pension:** For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year-end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Deferred inflows and deferred outflows:** Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. Deferred outflows include pension expense, pension related deferrals, and contributions made to the pension plan in the current fiscal year. Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. Such items include pension contributions and other pension related deferrals.

**Net position:** Net position of the Commission is classified in three components. Investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of these assets, if any. Restricted net position is noncapital net position that must be used for a particular purpose, as specified by external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Unrestricted net position is remaining net position that does not meet the definition of invested in capital assets net of related debt or restricted.

##### Fund Financial Statements

**Capital assets:** Amounts incurred related to acquisition/construction of buildings, property and equipment are reported as fund expenditures. Depreciation expense is not reported within the FFS.

**Deferred inflows of resources:** In addition to liabilities, the financial statements will sometimes report a separate section of deferred inflows of resources. This separate financial statement element represents the acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Commission reports loan receivables as deferred inflows of resources.

## Arrowhead Regional Development Commission

### Notes to Financial Statements

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#### Note 1. Significant Accounting Policies (Continued)

**Fund balance accounts:** In the governmental fund financial statements, fund balance is presented using the following classifications:

*Nonspendable fund balance* is the amounts that cannot be spent either because they are (a) not in nonspendable form or (b) because they are legally or contractually required to be maintained intact.

*Restricted fund balance* is amounts that are restricted to specific purposes when constraints placed on the use of the resources are either (a) externally imposed by creditors, grantors, or state or federal laws; or (b) imposed by law through the Commission's constitutional provisions or enabling legislation.

*Committed fund balance* is amounts that can only be used only for specific purposes when pursuant to constraints formally imposed by the Board of Commissioners through resolution approved prior to year-end. Those committed amounts cannot be used for any other purpose unless the Board of Commissioners removes or changes the specified use by taking the same action it employed to commit those amounts.

*Assigned fund balance* is amounts constrained by the Commission's intent to use them for a specific purpose as determined by the Commission's Finance Director.

*Unassigned fund balance* is all amounts not included in other fund balance classifications.

When an expenditure is incurred in governmental funds that can be paid using either restricted or unrestricted resources, the Commission's procedure is to pay the expenditure from restricted fund balance and then from less-restrictive classifications—committed, assigned, and then unassigned fund balance.

**Budgets and appropriations:** The Finance Director submits a proposed operating budget to the Board for the fiscal year commencing the following January 1. The operating budget included proposed expenditures and the means of financing them on a basis consistent with accounting principles generally accepted in the United States of America. The budget is legally adopted by the Commission. Appropriations lapse at year-end.

Budgetary control is maintained at the object of expenditure category level. Inherent in the control function is the management philosophy that the existence of a particular appropriation in the approved budget does not automatically mean that it will be spent. The budget process permits that, where need has been demonstrated, an adjustment can be made within the department budget. Budgeted amounts reported are as originally adopted, or as amended.

For the year ended December 31, 2023, expenditures exceeded budgeted amounts for certain budgeted categories (see page 23). The additional expenditures were funded by over budget interest earnings and loan principal revenues.

#### Note 2. Deposits

The Commission maintains a cash and cash equivalent pool available to all funds. Each fund's share of the pool balance is reported in the financial statements as "cash and cash equivalents." The Commission does not have a formal policy for deposits or investments.

## Arrowhead Regional Development Commission

### Notes to Financial Statements

#### Note 2. Deposits (Continued)

Cash and cash equivalents of the Commission consist of the following at December 31, 2023:

	Amount
Deposits:	
Deposits with financial institutions	\$ 322,310
Cash on hand	100
Total cash	<u>322,410</u>
Cash equivalents, money market mutual funds	4,830,320
Total cash and cash equivalents	<u><u>\$ 5,152,730</u></u>

**Deposits:** The Commission maintains deposits at those depositories authorized by the Board. Such depositories are members of the Federal Reserve System. Minnesota Statutes require that all Commission deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds (140% in the case of mortgage notes pledged). Authorized collateral includes U.S. governmental treasury bills, notes or bonds; issues of U.S. government agencies; certain related general and revenue obligations of state and local governments; certain types of standby letters of credit; and insured certificates of deposit. State statutes require that securities pledged as collateral be held in safekeeping by the Commission or in a financial institution other than that furnishing the collateral.

**Custodial credit risk:** This is the risk that, in the event of failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Deposits in the Commission's accounts had a bank balance of \$512,270 which was entirely covered by federal depository insurance or by collateral held by the Commission's agent in the Commission's name at December 31, 2023.

At December 31, 2023, the Commission had \$4,830,320 in money market mutual funds that are not subject to custodial credit risk as they are collateralized with securities held by the pledging financial institution's agent but not in the Commission's name.

**Credit risk:** This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Commission's money market mutual funds were rated AAAM by S&P Global.

#### Note 3. Capital Assets

	Balance December 31, 2022	Increases	Decreases	Balance December 31, 2023
Building and improvements	\$ 1,225,386	\$ -	\$ -	\$ 1,225,386
Furniture, fixtures and equipment	445,201	-	-	445,201
	<u>1,670,587</u>	-	-	<u>1,670,587</u>
Less accumulated depreciation	1,324,365	25,014	-	1,349,379
Net book value	<u>\$ 346,222</u>	<u>\$ (25,014)</u>	<u>\$ -</u>	<u>\$ 321,208</u>

Depreciation expense of \$25,014 is included in general government expenses in the statement of activities.

## Arrowhead Regional Development Commission

### Notes to Financial Statements

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#### Note 4. Defined Benefit Pension Plan Statewide

**Plan description:** The Commission participates in the following cost-sharing multiple-employer defined benefit pension plans administered by PERA. PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under section 401(a) of the Internal Revenue Code (IRC). All full-time and certain part-time employees of the Commission are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

**Benefits provided:** PERA provides retirement, disability and death benefits. Benefit provisions are established by state statute and can only be modified by the state Legislature. Vested, terminated employees who are entitled to benefits, but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2% for each of the first 10 years of service and 1.7% for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% for all years of service. For members hired prior to July 1, 1989 a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50% of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1% and a maximum of 1.5%. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. In 2023, legislation repealed the statute delaying increases for members retiring before full retirement age.

**Contributions:** Minnesota Statutes Chapter 353, sets the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature.

Coordinated Plan members were required to contribute 6.50% of their annual covered salary in fiscal year 2023, and the Commission was required to contribute 7.50% for Coordinated Plan members. The Commission's contributions to the General Employees Fund for the year ended December 31, 2023, were \$196,564. The Commission's contributions were equal to the required contributions as set by state statute.

## Arrowhead Regional Development Commission

### Notes to Financial Statements

#### Note 4. Defined Benefit Pension Plan Statewide (Continued)

**Pension costs:** At December 31, 2023, the Commission reported a liability of \$1,839,731 for its proportionate share of the General Employees Fund's net pension liability. The Commission's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the Commission totaled \$50,705. The net pension liability was measured as of June 30, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Commission's proportionate share of the net pension liability was based on the Commission's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2022 through June 30, 2023, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2023, the Commission's proportionate share was 0.0329%, compared to the Commission's proportionate share of 0.0300% measured as of June 30, 2022.

	Amount
Commission's proportionate share of net pension liability	\$ 1,839,731
State of Minnesota's proportionate share of the net pension liability associated with the Commission	50,705
Total	<u>\$ 1,890,436</u>

For the year ended December 31, 2023, the Commission recognized pension expense of \$139,421 for its proportionate share of the General Employees Plan's pension expense. In addition, the Commission recognized an additional \$228 as pension expense (and revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At December 31, 2023, the Commission reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 59,139	\$ 12,019
Changes in actuarial assumptions	282,005	504,255
Net difference between projected and actual earnings on pension plan investments	-	101,596
Changes in proportion	196,242	25,623
Contributions paid to PERA subsequent to the measurement date	92,167	-
Total	<u>\$ 629,553</u>	<u>\$ 643,493</u>

## Arrowhead Regional Development Commission

### Notes to Financial Statements

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#### Note 4. Defined Benefit Pension Plan Statewide (Continued)

The \$92,167 reported as deferred outflows of resources related to pensions resulting from Commission contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	Pension Expense Amount
2024	\$ 90,107
2025	(235,906)
2026	79,602
2027	(39,910)
	<u>\$ (106,107)</u>

**Actuarial methods and assumptions:** The total pension liability in the June 30, 2023, actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 7.00%. This assumption is based on a review of inflation and investment return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 7.00% was deemed to be within that range of reasonableness for financial reporting purposes.

Inflation is assumed to be 2.25% for the General Employees Plan. Benefit increases after retirement are assumed to be 1.25% for the General Employees Plan.

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25 percent after one year of service to 3.0 percent after 27 years of service.

Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table. The tables are adjusted slightly to fit PERA's experience.

Actuarial assumptions for the General Employees Plan are reviewed every four years. The most recent four-year experience study for the General Employees Plan was completed in 2022. The assumption changes were adopted by the Board and became effective with the July 1, 2023 actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2023:

#### Changes in actuarial assumptions:

- The investment return assumption and single discount rate were changed from 6.50% to 7.00%.

#### Changes in plan provisions:

- An additional one-time direct state aid contribution of \$170.1 million will be contributed to the Plan on October 1, 2023.
- The vesting period of those hired after June 30, 2010, was changed from five years of allowable service to three years of allowable service.
- The benefit increase delay for early retirements on or after January 1, 2024, was eliminated.
- A one-time, non-compounding benefit increase of 2.5 percent minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024 by March 31, 2024.

## Arrowhead Regional Development Commission

### Notes to Financial Statements

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#### Note 4. Defined Benefit Pension Plan Statewide (Continued)

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	33.5%	5.10%
International equity	16.5%	5.30%
Fixed income	25.0%	0.75%
Private markets	25.0%	5.90%
	<u>100.0%</u>	

**Discount rate:** The discount rate used to measure the total pension liability in 2023 was 7.0%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Pension liability sensitivity:** The following presents the Commission's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the Commission's proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6%)	Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
Proportionate share of the net pension liability	\$ 3,254,632	\$ 1,839,731	\$ 675,921

**Pension plan fiduciary net position:** Detailed information about each pension plan's fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at [www.mnpera.org](http://www.mnpera.org).

#### Note 5. Deferred Compensation Plan

The Commission offers its employees a deferred compensation plan created in accordance with IRC §457. The Plan, available to all employees, permits them to defer a portion of their salary until future years. The assets are held in trust for the exclusive benefit of participants and their beneficiaries, and they are not reported in the accompanying basic financial statements. The Commission contributed \$10,545 to the deferred compensation plan for the year ended December 31, 2023.

## Arrowhead Regional Development Commission

### Notes to Financial Statements

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#### **Note 6. Risk Management**

The Commission is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

#### **Note 7. Pending Accounting Standards**

The Governmental Accounting Standards Board (GASB) has issued several statements not yet implemented by the Commission. Listed below are the statements that may impact future financial statements of the Commission.

GASB Statement No. 100, *Accounting Changes and Error Corrections*, will be effective for the Commission beginning with its year ending December 31, 2024. The primary objective of this statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

GASB Statement No. 101, *Compensated Absences*, will be effective for the Commission beginning with its year ending December 31, 2024. The objective of this statement is to better meet the information needs of the financial statement users by updating the recognition and measurement guidance for compensated absences.

GASB Statement No. 102, *Certain Risk Disclosures*, will be effective for the Commission beginning with its year ending December 31, 2025. The objective of this statement is to provide the user of governmental financial statements with essential information about risk related to governmental vulnerabilities due to certain concentrations or constraints.

GASB Statement No. 103, *Financial Reporting Model Improvements*, will be effective for the Commission beginning with its year ending December 31, 2026. The objective of this statement is to expand on the requirements related to management's discussion and analysis, the presentation of unusual or infrequent items, the presentation of proprietary fund revenues and expenses, and more.

GASB Statement No. 104, *Disclosure of Certain Capital Assets*, will be effective for the Commission beginning with its year ending December 31, 2026. The objective of this statement is to provide users of government financial statements with essential information about certain types of capital assets.

The Commission's management has not yet determined the effect these statements will have on their financial statements.

#### **Note 8. Subsequent Events**

Subsequent events have been evaluated through June 12, 2025, which is the date the financial statements were available to be issued.

## Arrowhead Regional Development Commission

### Notes to Financial Statements

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#### **Note 8. Subsequent Events (Continued)**

In January 2025, several executive orders were signed by President Trump that could impact federal financial assistance. Federal agencies have been tasked with reviewing their federal programs to ensure they align with the President's policy priorities. The Commission receives various federal grants or contracts and payments that could be subject to the abovementioned executive orders. The Commission does not believe any loss of funding would be material to its financial statements, however the implication of these executive orders is not fully known at the date these financial statements were issued. Total federal funding as of December 31, 2023 was \$4,605,366. Grant receivables associated with federal grants or contracts as of December 31, 2023 were \$1,398,914 and had been fully collected subsequent to year-end.

**Arrowhead Regional Development Commission**

**Required Supplementary Information (Unaudited)  
Budgetary Comparison Schedule  
Regional Intergovernmental Planning Fund  
Year Ended December 31, 2023**

	Original and Final Budget	Actual	Over (Under) Budget
<b>Revenues:</b>			
Property tax	\$ 717,799	\$ 716,286	\$ (1,513)
Intergovernmental	9,027,104	6,936,507	(2,090,597)
Charges for services	969,673	198,636	(771,037)
Interest earnings	-	224,691	224,691
Loan principal	239,000	813,882	574,882
Loan interest	-	189,927	189,927
<b>Total revenues</b>	<b>10,953,576</b>	<b>9,079,929</b>	<b>(1,873,647)</b>
<b>Expenditures:</b>			
Direct salaries	2,702,589	2,713,593	11,004
Fringe benefits	945,907	801,517	(144,390)
Computer supplies and maintenance	153,050	186,526	33,476
Consultants and contractual	608,731	772,350	163,619
Printing, internal and external	17,422	9,386	(8,036)
Rental	-	6,652	6,652
Postage and shipping	6,765	8,324	1,559
Telephone and internet	-	17,196	17,196
Meeting expenses	26,375	10,042	(16,333)
Dues and memberships	16,490	20,156	3,666
Maintenance, vehicles	-	111	111
Staff travel	54,771	95,556	40,785
Committee travel	12,400	9,478	(2,922)
Subgrantee request	5,042,290	2,934,182	(2,108,108)
Loans distributed	1,000,000	297,895	(702,105)
Depreciation	64,000	-	(64,000)
Other	302,786	186,877	(115,909)
<b>Total expenditures</b>	<b>10,953,576</b>	<b>8,069,841</b>	<b>(2,883,735)</b>
<b>Change in fund balance</b>	<b>\$ -</b>	<b>\$ 1,010,088</b>	<b>\$ 1,010,088</b>

See notes to required supplementary information.

**Arrowhead Regional Development Commission**

**Required Supplementary Information (Unaudited)  
Schedule of Proportionate Share of the Net Pension Liability  
PERA General Employees Retirement Fund**

	Proportion (Percentage of the Net Pension Liability (NPL))	Proportionate Share (Amount of the NPL (a))	Covered-Employee Payroll (b)	Proportionate Share of the NPL as a Percentage of its Covered-Employee Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
Fiscal year ending:					
June 30, 2023	0.0329%	\$ 1,839,731	\$ 2,527,079	72.80%	83.10%
June 30, 2022	0.0300%	2,376,010	2,335,932	101.72%	76.67%
June 30, 2021	0.0312%	1,332,380	2,177,673	61.18%	87.00%
June 30, 2020	0.0296%	1,774,655	2,112,203	84.02%	79.06%
June 30, 2019	0.0286%	1,581,233	2,020,761	78.25%	80.23%
June 30, 2018	0.0286%	1,586,611	1,922,362	82.53%	79.53%
June 30, 2017	0.0287%	1,832,189	1,851,412	98.96%	75.90%
June 30, 2016	0.0291%	2,362,766	1,805,207	130.89%	68.91%
June 30, 2015	0.0328%	1,699,866	1,926,863	88.22%	78.19%

See notes to required supplementary information.

**Arrowhead Regional Development Commission**

**Required Supplementary Information (Unaudited)  
Schedule of Pension Contributions  
PERA General Employees Retirement Fund**

	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contributions in	Contribution Deficiency (Excess) (a-b)	Covered-Employee Payroll (d)	Contributions as a Percentage of Covered-Employee Payroll (b/d)
Fiscal year ending:					
December 31, 2023	\$ 196,564	\$ 196,564	\$ -	\$ 2,620,848	7.50%
December 31, 2022	178,364	178,364	-	2,378,187	7.50%
December 31, 2021	165,467	165,467	-	2,206,182	7.50%
December 31, 2020	167,795	167,795	-	2,237,272	7.50%
December 31, 2019	155,874	155,874	-	2,078,326	7.50%
December 31, 2018	147,517	147,517	-	1,966,891	7.50%
December 31, 2017	140,316	140,316	-	1,870,868	7.50%
December 31, 2016	137,075	137,075	-	1,827,670	7.50%
December 31, 2015	138,153	138,153	-	1,842,038	7.50%

See notes to required supplementary information.

## Arrowhead Regional Development Commission

### Notes to Required Supplementary Information

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#### Note 1. Budget

The Finance Director submits a proposed operating budget to the Board for the fiscal year commencing the following January 1. The operating budget included proposed expenditures and the means of financing them on a basis consistent with accounting principles generally accepted in the United States of America. The budget is legally adopted by the Commission. Appropriations lapse at year-end.

Budgetary control is maintained at the object of expenditure category level. Inherent in the control function is the management philosophy that the existence of a particular appropriation in the approved budget does not automatically mean that it will be spent. The budget process permits that, where need has been demonstrated, an adjustment can be made within the department budget. Budgeted amounts reported are as originally adopted, or as amended.

#### Note 2. Schedule of Changes in Net Pension Liabilities and Related Ratios

##### 2023 Changes

###### **Changes in Actuarial Assumptions:**

- The investment return assumption and single discount rate were changed from 6.50% to 7.00%.

###### **Changes in Plan Provisions:**

- An additional one-time direct state aid contribution of \$170.1 million will be contributed to the Plan on October 1, 2023.
- The vesting period of those hired after June 30, 2010, was changed from five years of allowable service to three years of allowable service.
- The benefit increase delay for early retirements on or after January 1, 2024, was eliminated.
- A one-time, non-compounding benefit increase of 2.5 percent minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024 by March 31, 2024.

##### 2022 Changes

###### **Changes in Actuarial Assumptions:**

- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

###### **Changes in Plan Provisions:**

- There were no changes in plan provisions since the previous valuation.

##### 2021 Changes

###### **Changes in Actuarial Assumptions:**

- The investment return and single discount rates were changed from 7.50% to 6.50% for financial reporting purposes.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

###### **Changes in Plan Provisions:**

- There were no changes in plan provisions since the previous valuation.

##### 2020 Changes

###### **Changes in Actuarial Assumptions:**

- The price inflation assumption was decreased from 2.50% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.00%.

## Arrowhead Regional Development Commission

### Notes to Required Supplementary Information

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#### Note 2. Schedule of Changes in Net Pension Liabilities and Related Ratios (Continued)

- Assumed salary increase rates were changed as recommended in the June 30, 2019, experience study. The net effect is assumed rates that average 0.25% less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019, experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019, experience study. The new rates are based on service and are generally lower than the previous rates for years 2–5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019, experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100% Joint & Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint & Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

#### **Changes in Plan Provisions:**

- Augmentation for current privatized members was reduced to 2.0% for the period from July 1, 2020 through December 31, 2023, and 0.0% after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

#### **2019 Changes**

##### **Changes in Actuarial Assumptions:**

- The mortality projection scale was changed from MP-2017 to MP-2018.

##### **Changes in Plan Provisions:**

The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The State's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

#### **2018 Changes**

##### **Changes in Actuarial Assumptions:**

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.00% per year through 2044 and 2.50% per year thereafter to 1.25% per year.

## Arrowhead Regional Development Commission

### Notes to Required Supplementary Information

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#### Note 2. Schedule of Changes in Net Pension Liabilities and Related Ratios (Continued)

##### **Changes in Plan Provisions:**

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.00% to 3.00%, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00%, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Postretirement benefit increases were changed from 1.00% per year with a provision to increase to 2.50% upon attainment of 90.00% funding ratio to 50.00% of the Social Security Cost of Living Adjustment, not less than 1.00% and not more than 1.50%, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

#### 2017 Changes

##### **Changes in Actuarial Assumptions:**

- The combined service annuity (CSA) loads were changed from 0.80% for active members and 60.00% for vested and nonvested deferred members. The revised CSA loads are now 0.00% for active member liability, 15.00% for vested deferred member liability, and 3.00 % for nonvested deferred member liability.
- The assumed postretirement benefit increase rate was changed for 1.00% per year for all years to 1.00% per year through 2044 and 2.50% per year thereafter.

##### **Changes in Plan Provisions:**

- The State's contribution for the Minneapolis Employees Retirement Fund equals \$16,000,000 in 2017 and 2018, and \$6,000,000 thereafter.
- The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from \$21,000,000 to \$31,000,000 in calendar years 2019 to 2031. The state's contribution changed from \$16,000,000 to \$6,000,000 in calendar years 2019 to 2031.

#### 2016 Changes

##### **Changes in Actuarial Assumptions:**

- The assumed postretirement benefit increase rate was changed from 1.00% per year through 2035 and 2.50% per year thereafter to 1.00% per year for all years.
- The assumed investment return was changed from 7.90% to 7.50%. The single discount rate changed from 7.90% to 7.50%.
- Other assumptions were changed pursuant to the experience study June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

## Arrowhead Regional Development Commission

### Notes to Required Supplementary Information

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#### Note 2. Schedule of Changes in Net Pension Liabilities and Related Ratios (Continued)

##### ***Changes in Plan Provisions:***

- There have been no changes since the prior valuation.

##### **2015 Changes**

##### ***Changes in Actuarial Assumptions:***

- The assumed postretirement benefit increase rate was changed from 1.00% per year through 2030 and 2.50% per year thereafter to 1.00% per year through 2035 and 2.50% per year thereafter.

##### ***Changes in Plan Provisions:***

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increase the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised; the State's contribution of \$6.0 million, which meets the special funding situation definition, was due September 2015.

Arrowhead Regional Development Commission

Combining Balance Sheet  
Regional Intergovernmental Planning Fund  
December 31, 2023

	Grant Programs								Total Governmental Funds
	General Programs	Economic Development	Metropolitan Interstate Council	Area Agency on Aging		Other Governmental Programs	Internal Programs	Eliminations	
				Administration and PD&C	Direct Service Grants				
<b>Assets</b>									
Cash and cash equivalents:									
Unrestricted	\$ 1,794,991	\$ 2,885,849	\$ -	\$ -	\$ -	\$ -	\$ 440,537	\$ -	\$ 5,121,377
Restricted (Arrowhead Counties Association and North Shore Management Board)	31,353	-	-	-	-	-	-	-	31,353
Receivables:									
Taxes	34,414	-	-	-	-	-	-	-	34,414
Loans	-	5,006,662	-	-	-	-	-	-	5,006,662
Interest	-	12,516	-	-	-	-	-	-	12,516
Grants and contracts	345	-	376,862	113,538	1,325,778	222,015	-	-	2,038,538
Prepaid expenses	100,000	-	-	-	-	-	2,225	-	102,225
Due from other programs	834,689	-	-	-	-	-	-	(834,689)	-
<b>Total assets</b>	<b>\$ 2,795,792</b>	<b>\$ 7,905,027</b>	<b>\$ 376,862</b>	<b>\$ 113,538</b>	<b>\$ 1,325,778</b>	<b>\$ 222,015</b>	<b>\$ 442,762</b>	<b>\$ (834,689)</b>	<b>\$ 12,347,085</b>
<b>Liabilities, Deferred Inflow of Resources, and Fund Balances</b>									
Accounts payable	\$ 10,837	\$ 2,544	\$ 135,212	\$ 9,910	\$ 731,744	\$ 24,600	\$ 12,098	\$ -	\$ 926,945
Accrued payroll	506	714	5,371	8,222	41,209	10,619	-	-	66,641
Due to other programs	-	9,258	235,279	95,406	330,650	164,096	-	(834,689)	-
Accrued compensated absences	-	-	-	-	-	-	-	-	-
Deposits held for others	31,353	-	-	-	-	-	-	-	31,353
Unearned revenue	-	-	1,000	-	61,277	6,991	-	-	69,268
<b>Total liabilities</b>	<b>42,696</b>	<b>12,516</b>	<b>376,862</b>	<b>113,538</b>	<b>1,164,880</b>	<b>206,306</b>	<b>12,098</b>	<b>(834,689)</b>	<b>1,094,207</b>
Unavailable revenues:									
Loans receivable	-	5,006,662	-	-	-	-	-	-	5,006,662
<b>Total deferred inflow of resources</b>	<b>-</b>	<b>5,006,662</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,006,662</b>
Fund balances:									
Nonspendable, Prepaids	100,000	-	-	-	-	-	2,225	-	102,225
Restricted, Revolving loan fund	-	2,885,849	-	-	-	-	-	-	2,885,849
Committed, Technology	60,000	-	-	-	-	-	-	-	60,000
Assigned, Program Development	-	-	-	-	160,898	15,709	-	-	176,607
Unassigned	2,593,096	-	-	-	-	-	428,439	-	3,021,535
<b>Total fund balances</b>	<b>2,753,096</b>	<b>2,885,849</b>	<b>-</b>	<b>-</b>	<b>160,898</b>	<b>15,709</b>	<b>430,664</b>	<b>-</b>	<b>6,246,216</b>
<b>Total liabilities, deferred inflow of resources, and fund balances</b>	<b>\$ 2,795,792</b>	<b>\$ 7,905,027</b>	<b>\$ 376,862</b>	<b>\$ 113,538</b>	<b>\$ 1,325,778</b>	<b>\$ 222,015</b>	<b>\$ 442,762</b>	<b>\$ (834,689)</b>	<b>\$ 12,347,085</b>

**Arrowhead Regional Development Commission**

**Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
Regional Intergovernmental Planning Fund  
Year Ended December 31, 2023**

	Grant Programs								Total Governmental Funds
	General Programs	Economic Development	Metropolitan Interstate Council	Area Agency on Aging		Other Governmental Programs	Internal Programs	Eliminations	
				Administration and PD&C	Direct Service Grants				
<b>Revenues:</b>									
Property tax	\$ 716,286	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 716,286
Intergovernmental	8,724	97,443	866,173	416,466	4,960,000	587,701	-	-	6,936,507
Charges for services	10,160	2,978	-	-	5,000	171,184	9,314	-	198,636
Interest earnings	99,804	124,887	-	-	-	-	-	-	224,691
Loan principal	-	813,882	-	-	-	-	-	-	813,882
Loan interest	-	189,927	-	-	-	-	-	-	189,927
<b>Total revenues</b>	<b>834,974</b>	<b>1,229,117</b>	<b>866,173</b>	<b>416,466</b>	<b>4,965,000</b>	<b>758,885</b>	<b>9,314</b>	<b>-</b>	<b>9,079,929</b>
<b>Expenditures:</b>									
Direct salaries	23,736	188,201	390,172	308,231	1,291,925	380,974	130,354	-	2,713,593
Fringe benefits	3,772	53,007	117,981	96,272	376,129	114,646	39,710	-	801,517
Allocated indirect costs	4,320	22,265	49,760	40,475	161,686	49,887	(328,393)	-	-
Computer supplies and maintenance	794	1,797	11,542	16,866	34,730	15,624	105,173	-	186,526
Consultants and contractual	36,484	28,553	342,665	47,283	55,086	262,279	-	-	772,350
Printing, internal and external	293	204	622	1,441	3,203	2,460	1,163	-	9,386
Rental	-	-	-	-	-	-	6,652	-	6,652
Postage and shipping	619	82	52	159	6,323	532	557	-	8,324
Telephone and internet	-	1,155	882	1,730	9,551	1,633	2,245	-	17,196
Meeting expenses	2,000	120	3,266	196	4,078	382	-	-	10,042
Dues and memberships	4,289	1,975	2,833	5,058	546	5,211	244	-	20,156
Maintenance, vehicles	-	-	-	-	-	-	111	-	111
Staff travel	2,277	1,990	21,910	7,063	31,461	27,625	3,230	-	95,556
Committee travel	8,733	-	-	533	-	212	-	-	9,478
Subgrantee request	4,000	-	-	-	2,930,182	-	-	-	2,934,182
Loans distributed	-	297,895	-	-	-	-	-	-	297,895
Other	32,259	8,388	19,429	17,244	64,377	18,575	26,605	-	186,877
<b>Total expenditures</b>	<b>123,576</b>	<b>605,632</b>	<b>961,114</b>	<b>542,551</b>	<b>4,969,277</b>	<b>880,040</b>	<b>(12,349)</b>	<b>-</b>	<b>8,069,841</b>
<b>Excess of revenues over (under) expenditures</b>	<b>711,398</b>	<b>623,485</b>	<b>(94,941)</b>	<b>(126,085)</b>	<b>(4,277)</b>	<b>(121,155)</b>	<b>21,663</b>	<b>-</b>	<b>1,010,088</b>
<b>Other financing sources (uses):</b>									
Transfers, in	-	85,769	94,941	126,085	10,943	-	-	(317,738)	-
Transfers, out	(440,625)	-	-	-	1,810	121,155	(78)	317,738	-
<b>Total other financing (uses) sources</b>	<b>(440,625)</b>	<b>85,769</b>	<b>94,941</b>	<b>126,085</b>	<b>12,753</b>	<b>121,155</b>	<b>(78)</b>	<b>-</b>	<b>-</b>
<b>Excess of revenues and other financing sources over expenditures and other financing uses</b>	<b>270,773</b>	<b>709,254</b>	<b>-</b>	<b>-</b>	<b>8,476</b>	<b>-</b>	<b>21,585</b>	<b>-</b>	<b>1,010,088</b>
Fund balances, January 1	2,482,323	2,176,595	-	-	152,422	15,709	409,079	-	5,236,128
Fund balances, December 31	\$ 2,753,096	\$ 2,885,849	\$ -	\$ -	\$ 160,898	\$ 15,709	\$ 430,664	\$ -	\$ 6,246,216

# Arrowhead Regional Development Commission

## Schedule of Expenditures of Federal Awards Year Ended December 31, 2023

Grantor Agency/Pass-through Agency/Program Titles	Federal Assistance Listing Number (ALN)	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Commerce:				
Direct programs:				
Economic Development Cluster:				
Economic Adjustment Assistance:				
COVID-19—CARES Revolving Loan Fund (Note 4)	11.307		\$ -	\$ 4,117,737
<b>Total ALN 11.307, Economic Development Cluster</b>			-	4,117,737
Passed through Economic Development Administration:				
Economic Development Support for Planning Organizations	11.302	ED22CHI3020021	-	97,443
Passed through Minnesota Department of Natural Resources:				
Coastal Zone Management Administration Awards	11.419	NA21NOS4190083	-	3,506
<b>Total U.S. Department of Commerce</b>			-	4,218,686
U.S. Department of Transportation:				
Transit Services Programs Cluster:				
Passed through Minnesota Department of Transportation				
Enhanced Mobility of Seniors, Individuals with Disabilities	20.513	MN-2021-0043-01	-	76,418
Enhanced Mobility of Seniors, Individuals with Disabilities	20.513	MN-2023-0034-00	-	77,041
<b>Total ALN 20.513, Transit Services Programs Cluster</b>			-	153,459
Highway Planning and Construction Cluster:				
Passed through Minnesota Department of Transportation:				
Highway Planning and Construction (Federal-Aid Highway Program)	20.205	1051585	-	561,335
Passed through Wisconsin Department of Transportation:				
Highway Planning and Construction (Federal-Aid Highway Program)	20.205	NWRPC	-	68,124
<b>Total ALN 20.205, Highway Planning and Construction Cluster</b>			-	629,459
<b>Total U.S. Department of Transportation</b>			-	782,918
Environmental Protection Agency:				
Direct:				
Brownfields Multipurpose, Assessment, Revolving Loan Fund, and Cleanup Cooperative Agreements	66.818		-	188,888
<b>Total Environmental Protection Agency</b>			-	188,888
U.S. Department of Health and Human Services:				
Aging Cluster				
Passed through Minnesota Board on Aging:				
Special Programs for the Aging (Aging Cluster):				
COVID-19 - Title III, Part B -- Grants for Supportive Services and Senior Centers	93.044	2101MNSSC6-00, 2101MNCMC6-00, 2101MNHDC6-00, 2101MNFCC6-00	-	66,088
Title III, Part B -- Grants for Supportive Services and Senior Centers	93.044	2201MNOASS-00, 2301MNOASS-00, 2301MNOASS-00	394,219	498,907
Title III, Part B -- Grants for Supportive Services and Senior Centers	93.044	2301MNOASS-00, 2301MNOACM-00, 2301MNOAHD-00, 2301MNOAFC-00	-	207,478
COVID-19 --Title III, Part B -- Grants for Supportive Services and Senior Centers	93.044	2101MNSSC6-00	182,631	182,631
<b>Total ALN 93.044</b>			576,850	955,104
Passed through Minnesota Board on Nutrition:				
Special Programs for the Aging (Aging Cluster):				
Title III, Part C—Nutrition Services	93.045	2101MNOAHD-00, 2201MNOAHD-00, 2301MNOAHD-00	490,989	490,989
Title III, Part C—Nutrition Services	93.045	2201MNOACM-00, 2301MNOACM-00	681,489	681,489
Title III, Part C—Nutrition Services	93.045	2301MNOANS-00	96,816	96,816
COVID-19—Title III, Part C—Nutrition Services	93.045	2101MNCMC6-00	46,782	46,782
COVID-19—Title III, Part C—Nutrition Services	93.045	2101MNHDC6-00	166,712	166,712
<b>Total ALN 93.045</b>			1,482,788	1,482,788
Nutrition Services Incentive Program	93.053	2201MNOACM-00, 2301MNOACM-00	96,615	96,615
Nutrition Services Incentive Program	93.053	2301MNOANS-00	87,738	87,738
COVID-19 - Nutritional Services Incentive Program	93.053	2101MNCMC6-00	25,380	25,380
COVID-19 - Nutritional Services Incentive Program	93.053	2101MNHDC6-00	57,067	57,067
<b>Total ALN 93.053</b>			266,800	266,800
<b>Total Aging Cluster</b>			2,326,438	2,704,692

(Continued)

# Arrowhead Regional Development Commission

## Schedule of Expenditures of Federal Awards (Continued) Year Ended December 31, 2023

Grantor Agency/Pass-through Agency/Program Titles	Federal Assistance Listing Number (ALN)	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
Passed through Minnesota Board on Health Promotion:				
COVID 19 --Title III, Part D -- Disease Prevention and Health Promotion Services	93.043	2101MNPHC6-00	\$ 3,336	\$ 3,336
COVID 19 --Title III, Part D -- Disease Prevention and Health Promotion Services	93.043	2101MNPHC6-00	9,361	9,361
COVID-19 - Title III, Part D—Disease Prevention and Health Promotion Services	93.043	2101MNPHC6-00	6,522	6,522
Title III, Part D—Disease Prevention and Health Promotion Services	93.043	2101MNOAPH-00, 2201MNOAPH-00, 2301MNOAPH-00	37,371	37,371
<b>Total ALN 93.043</b>			<u>56,590</u>	<u>56,590</u>
Passed through Minnesota Board on Aging:				
Title IV and Title II, Discretionary Projects	93.048	333-23-OPAS-032	-	119,735
Title IV and Title II, Discretionary Projects	93.048	90MPP40071-01	-	26,381
Title IV and Title II, Discretionary Projects	93.048	BP 2024 AppropID,MA ADM - Medicaid, Administration (FMAP)	-	98,816
<b>Total ALN 93.048</b>			<u>-</u>	<u>244,932</u>
Medical Enrollment Assistance Program	93.071	333-23-MIPA-012	-	45,273
COVID-19 - State Health Insurance Assistance Program	93.324	2201MNSTPH-00	-	38,212
State Health Insurance Assistance Program	93.324	333-23-DSHP-031/90SHPH0024	-	27,000
COVID-19 - State Health Insurance Assistance Program	93.324	333-23-SHPH-03	-	7,575
COVID-19 - State Health Insurance Assistance Program	93.324	333-23-SHPH-03/90SHPH0024	-	2,934
<b>Total ALN 93.324</b>			<u>-</u>	<u>75,721</u>
Passed through Minnesota Board on Caregivers:				
National Family Caregiver Support, Title III, Part E	93.052	2101MNOAFC-00, 2201MNOAFC-00, 2301MNOAFC-00	227,036	256,535
COVID-19 -National Family Caregiver Support Title III, Part E	93.052	2101MNFC6-00	54,302	54,302
<b>Total ALN 93.052</b>			<u>281,338</u>	<u>310,837</u>
Passed through Public Health & Human Services				
Immunization Cooperative Agreements	93.268	6-NU50CK000508-02-05	-	100,000
<b>Total U.S. Department of Health and Human Services</b>			<u>2,664,366</u>	<u>3,538,045</u>
<b>Total expenditures of federal awards</b>			<u>\$ 2,664,366</u>	<u>\$ 8,728,537</u>

See notes to schedule of expenditures of federal awards.

## Arrowhead Regional Development Commission

### Notes to Schedule of Expenditures of Federal Awards

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#### Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Commission under programs of the federal government for the year ended December 31, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Commission, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Commission.

#### Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

#### Note 3. Indirect Cost Rate

The Commission has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

#### Note 4. Revolving Loan Fund

The Commission administers a revolving loan fund program, which was funded by a CARES Act Supplemental U.S. Department of Commerce, Economic Development Administration (EDA) award for Revolving Loan Fund Grant Recipients where there are no local matching requirements. The amount of federal expenditures for the year ended December 31, 2023, was determined as follows:

	CARES RLF Grant 12/31/2023
Loans outstanding	\$ 3,029,131
Cash balance	1,041,206
Administrative expenses paid out during fiscal year 2023	47,400
	<u>4,117,737</u>
Federal portion	100.0%
Federal expenditures reported	<u><u>\$ 4,117,737</u></u>

**Report on Internal Control Over Financial Reporting and  
on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance With Government Auditing Standards**

**Independent Auditor's Report**

Board of Commissioners  
Arrowhead Regional Development Commission

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 (*Government Auditing Standards*), the financial statements of the governmental activities and the major fund of Arrowhead Regional Development Commission (the Commission), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated June 12, 2025.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting (internal control) as a basis for designing 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 Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission'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. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2023-002 that we consider to be a material weakness.

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Commission'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 financial statements. 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*.

**The Commission's Response to Findings**

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

**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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*RSM US LLP*

Duluth, Minnesota  
June 12, 2025

**Report on Compliance for the Major Federal Program  
and Report on Internal Control Over Compliance  
Required by the Uniform Guidance**

**Independent Auditor's Report**

Board of Commissioners  
Arrowhead Regional Development Commission

**Report on Compliance for the Major Federal Program**

***Opinion on the Major Federal Program***

We have audited Arrowhead Regional Development Commission's (the Commission) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on the Commission's major federal program for the year ended December 31, 2023. The Commission's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Commission complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2023.

***Basis for Opinion on the Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Commission and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for the major federal program. Our audit does not provide a legal determination of the Commission's compliance with the compliance requirements referred to above.

***Responsibilities of Management for Compliance***

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

### ***Auditor's Responsibilities for the Audit of Compliance***

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

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

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

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

### ***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2023-001. Our opinion on the major federal program is not modified with respect to this matter.

*Government Auditing Standards* requires the auditor to perform limited procedures on the Commission's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Commission's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### ***Report on Internal Control Over Compliance***

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain a deficiency in internal control over compliance that we consider to be a significant deficiency.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2023-001 to be a significant deficiency.

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

Government Auditing Standards requires the auditor to perform limited procedures on the Commission's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Commission's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*RSM US LLP*

Duluth, Minnesota  
June 12, 2025

**Arrowhead Regional Development Commission**

**Schedule of Findings and Questioned Costs  
Year Ended December 31, 2023**

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**I. SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?  Yes  No

Significant deficiency(ies) identified?  Yes  None Reported

Noncompliance material to financial statements noted?  Yes  No

**Federal Awards**

Internal control over major federal programs:

Material weakness(es) identified?  Yes  No

Significant deficiency(ies) identified?  Yes  None Reported

Type of auditor's report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

Yes  No

Identification of major federal programs:

Assistance Listing Number(s) (ALN)      Name of Federal Program or Cluster

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93.044, 93.045, 93.053      Aging Cluster

Dollar threshold used to distinguish between Type A and Type B programs

\$750,000

Auditee qualifies as a low-risk auditee?

Yes  No

**Arrowhead Regional Development Commission**

**Schedule of Findings and Questioned Costs  
Year Ended December 31, 2023**

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**Section II. Financial Statement Findings**

A. Internal Control Finding

See item 2023-002.

B. Compliance Finding

No matters to report.

**Section III. Federal Awards Findings and Questioned Costs**

A. Internal Control Finding

See item 2023-001.

B. Compliance Finding

See item 2023-001.

**Arrowhead Regional Development Commission**

**Schedule of Findings and Questioned Costs  
Year Ended December 31, 2023**

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**Item 2023-001: Late Issuance of 2023 Single Audit Reporting Package**

**Identification of federal programs:** All Assistance Listing Numbers included on the schedule of expenditures of federal awards for the year ended December 31, 2023.

**Criteria:** The Uniform Guidance (2 CFR 200.512) requires the single audit to be completed and the data collection form and reporting package to be submitted within the earlier of 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the audit period.

**Condition:** The submission of the 2023 single audit reporting package should have been submitted by September 30, 2024.

**Cause:** The audit was not completed by September 30, 2024.

**Effect:** ARDC was not in compliance with the Uniform Guidance (2 CFR 200.512).

**Questioned costs:** None

**Context:** The December 31, 2023 Single Audit reporting package.

**Repeat finding:** No

**Recommendation:** We recommend ARDC continue its efforts to ensure the reporting package is filed timely with the Federal Audit Clearinghouse.

**Views of responsible officials of the auditee:** ARDC concurs with this finding and a response is included in the corrective action plan.

## Arrowhead Regional Development Commission

### Schedule of Findings and Questioned Costs Year Ended December 31, 2023

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#### 2023-002 Allowance on Loans Receivable

**Criteria:** Management of the Commission is responsible for establishing and maintaining effective internal controls over financial reporting. These controls should allow management or employees to prevent, or detect and correct, misstatements to the trial balance, and perform financial reporting on a timely basis.

GASB Cod. 2200.179 requires that asset valuation allowances for losses, such as those on receivables, should be deducted from the assets or groups of assets to which those allowances relate, with appropriate disclosure.

**Condition:** Loans receivables were overstated \$251,476 due to allowance for doubtful accounts not recorded for amounts management determined were doubtful would be collected.

**Cause:** The Commission did not have an effective procedure to properly evaluate and record allowance on loans receivable.

**Effect:** The Commission's financial statements were not accurate related to the item listed above. The amounts were corrected during the audit.

**Recommendation:** We recommend the Commission develop a process to evaluate allowance on loans receivable and adjust the balances accordingly.

**Views of responsible officials:** The Commission agrees with the above finding.



Arrowhead Regional Development Commission  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
For the Year Ended December 31, 2023

The prior year single audit disclosed no findings in the *Schedule of Findings and Questioned Costs* and no uncorrected or unresolved findings exist from the prior audit's *Summary of Prior Audit Findings*.

A handwritten signature in blue ink, which appears to read "Lorna M. Morrisroe", is positioned above a horizontal line.

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Lorna M. Morrisroe  
Finance Director

**Minnesota Legal Compliance**  
**Independent Auditor's Report**

Board of Commissioners  
Arrowhead Regional Development Commission

We have audited, 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, the financial statements of the governmental activities and the major fund of Arrowhead Regional Development Commission (the Commission) as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated June 12, 2025.

In connection with our audit, nothing came to our attention that caused us to believe that the Commission failed to comply with the provisions of the contracting-bid laws, depositories of public funds and public investments, conflicts of interest, claims and disbursements, and miscellaneous provisions sections of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statutes § 6.65, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Commission's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

*RSM US LLP*

Duluth, Minnesota  
June 12, 2025