Arrowhead Regional Development Commission

Financial and Compliance Report
December 31, 2022

Contents

Independent Auditor's Report

Board of Commissioners
Arrowhead Regional Development Commission

Report on the Audit of the Financial Statements

Opinions
We have audited the accompanying 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, 2022, 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, 2022, 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.

Emphasis of Matter
As discussed in Note 1 to the financial statements, the Commission elected to change presentation of its financial statements to a single governmental fund during 2022. Our opinion is not modified with respect to this matter.

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.

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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, as listed in the table of contents, 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 supplementary information, as listed in the table of contents, including 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 September 27, 2023, 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
September 27, 2023

Basic Financial Statements

Government-Wide Financial Statements (GWFS)

Arrowhead Regional Development Commission

Statement of Net Position
December 31, 2022

	Governmental Activities
Assets	
Cash and cash equivalents:	
Unrestricted	$ 4,456,186
Restricted (Arrowhead Counties Association and North Shore Management Board)	35,070
Receivables:	
Taxes	15,086
Loans	5,746,632
Interest	25,735
Grants and contracts	1,819,368
Prepaid expenses	291
Capital assets, net	346,222
Total assets	12,444,590
Deferred Outflows of Resources	
Deferred pension amounts	736,004
Liabilities	
Accounts payable	990,440
Accrued payroll	63,362
Accrued compensated absences	199,076
Deposits held for others	35,070
Unearned revenue	26,736
Net pension liability	2,376,010
Total liabilities	3,690,694
Deferred Inflows of Resources	
Deferred pension amounts	74,245
Net Position	
Investment in capital assets	346,222
Restricted:	
Revolving loan fund	2,176,595
Unrestricted	6,892,838
Total net position	$ 9,415,655

See notes to financial statements.

Arrowhead Regional Development Commission

Statement of Activities
Year Ended December 31, 2022

		Program Revenues		Net Revenue (Expense) and Change in Net Position
			Operating	Primary Government
		Charges	Grants and	Governmental
	Expenses	for Services	Contributions	Activities
Functions/programs:				
Governmental activities:				
General government	$ 226,171	$ 19,764	$ 104	$ (206,303)
Economic development	448,258	259,418	569,633	380,793
Regional planning	624,581	122,024	440,135	(62,422)
Metropolitan planning	841,874	-	735,970	(105,904)
Senior Services	5,579,156	53,551	5,334,321	(191,284)
Total primary governmental activities	$ 7,720,040	$ 454,757	$ 7,080,163	(185,120)
General revenue:				
Taxes, tax levy				698,898
Interest income				67,952
Total general revenue				766,850
Change in net position				581,730
Net position:				
Beginning				8,833,925
Ending				$ 9,415,655

See notes to financial statements.

Fund Financial Statements (FFS)

Arrowhead Regional Development Commission

Balance Sheet
Governmental Fund
December 31, 2022

		Regional Intergovernmental Planning Fund
Assets		
Cash and cash equivalents:		
Unrestricted	$	4,456,186
Restricted (Arrowhead Counties Association and North Shore Management Board)		35,070
Receivables:		
Taxes		15,086
Loans		5,746,632
Interest		25,735
Grants and contracts		1,819,368
Prepaid expenses		291
Total assets	$	12,098,368
Liabilities, Deferred Inflow of Resources, and Fund Balance		
Accounts payable	$	990,440
Accrued payroll		63,362
Deposits held for others		35,070
Unearned revenue		26,736
Total liabilities		1,115,608
Unavailable revenues:		
Loans receivable		5,746,632
Total deferred inflow of resources		5,746,632
Fund balance:		
Nonspendable, Prepaids		291
Restricted, Revolving loan fund		2,176,595
Committed, Technology		60,000
Assigned, Program Development		168,131
Unassigned		2,831,111
Total fund balance		5,236,128
Total liabilities, deferred inflow of resources, and fund balance	$	12,098,368

See notes to financial statements.

Arrowhead Regional Development Commission

Reconciliation of Governmental Fund Balance Sheet to the Statement of Net Position
December 31, 2022

Total fund balance, governmental fund			$	5,236,128
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				346,222
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	$	(2,376,010)		
Deferred outflows, pension		736,004		
Deferred inflows, pension		(74,245)		(1,714,251)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the fund:				
Accrued compensated absences				(199,076)
Loans receivable are not available to pay current-period expenditures and, therefore, are reported as deferred inflow of resources in the fund				5,746,632
Net position of governmental activities			$	9,415,655

See notes to financial statements.

Arrowhead Regional Development Commission

Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Fund
Year Ended December 31, 2022

	Regional Intergovernmental Planning Fund
Revenues:	
Property tax	$ 698,898
Intergovernmental:	7,080,163
Charges for services	213,177
Interest earnings	67,952
Loan principal	778,736
Loan interest	200,789
Total revenues	9,039,715
Expenditures:	
Direct salaries	2,492,525
Fringe benefits	710,196
Computer supplies and maintenance	133,812
Consultants and contractual	603,148
Printing, internal and external	13,299
Rental	5,395
Postage and shipping	8,533
Telephone and internet	17,700
Meeting expenses	5,327
Dues and memberships	13,599
Maintenance, vehicles	3,056
Staff travel	69,902
Committee travel	2,311
Subgrantee request	3,157,061
Loans distributed	1,010,397
Other	206,674
Total expenditures	8,452,935
Excess of revenues over expenditures	586,780
Fund balance, January 1	4,649,348
Fund balance, December 31	$ 5,236,128

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, 2022

Net change in fund balance, total governmental fund	$ 586,780
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	(64,530)
Expenditures related to loans receivable are not reported as expense for governmental activities.	1,010,397
Receipts related to loans receivable are not reported as revenue for governmental activities.	(737,945)
Expenditures in the statement of activities that are not liquidated with expendable resources are not reported as expenditures in the governmental fund. This is the difference between contributions made during the measurement period and the related pension expense.	(192,838)
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.	(20,134)
Change in net position of governmental activities	$ 581,730

See notes to financial statements.

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 Commission elected to change the presentation of its financial statements to a single governmental fund during 2022.

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.

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 are 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.

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 acceptance, 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.

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, 2022.

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, 2022, there was no allowance 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, 2021	Additions	Reductions	Balance December 31, 2022	Amounts Due Within One Year
Compensated absences	$ 171,335	$ 352,528	$ (324,787)	$ 199,076	$ 199,076

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.

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 $1,500 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:

	Years
Furniture, fixtures and equipment	2-5
Building and improvements	10-30

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.

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.

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.

Note 2. Deposits (Continued)

Cash and cash equivalents of the Commission consist of the following at December 31, 2022:

		Amount
Deposits:		
Deposits with financial institutions	$	1,381,440
Cash on hand		320
Total cash		1,381,760
Cash equivalents, money market mutual funds		3,109,496
Total cash and cash equivalents	$	4,491,256

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 $1,383,662 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, 2022.

At December 31, 2022, the Commission had $3,109,496 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.

Note 3. Capital Assets

		Balance December 31, 2021		Increases		Decreases		Balance December 31, 2022
Building and improvements	$	1,225,386	$	-	$	-	$	1,225,386
Furniture, fixtures and equipment		445,201		-		-		445,201
		1,670,587		-		-		1,670,587
Less accumulated depreciation		1,259,835		64,530		-		1,324,365
Net book value	$	410,752	$	(64,530)	$	-	$	346,222

Depreciation expense of $64,530 is included in general government expenses in the statement of activities.

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 Social Security Administration (SSA), with a minimum increase of at least 1.0% 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. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

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 2022, 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, 2022, were $178,364. The Commission's contributions were equal to the required contributions as set by state statute.

Note 4. Defined Benefit Pension Plan Statewide (Continued)

Pension costs: At December 31, 2022, the Commission reported a liability of $2,376,010 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 $69,478. The net pension liability was measured as of June 30, 2022, 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 Commissions contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2021 through June 30, 2022, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2022, the Commission's proportionate share was 0.0300%, compared to the Commission's proportionate share of to 0.0312% measured as of June 30, 2021.

	Amount
Commission's proportionate share of net pension liability	$ 2,376,010
State of Minnesota's proportionate share of the net pension liability associated with the Commission	69,478
Total	$ 2,445,488

For the year ended December 31, 2022, the Commission recognized pension expense of $164,984 for its proportionate share of the General Employees Plan's pension expense. In addition, the Commission recognized an additional $10,382 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, 2022, the Commission reported its proportionate share of the General Employee 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	$ 19,846	$ 26,276
Changes in actuarial assumptions	558,591	9,535
Net difference between projected and actual earnings on pension plan investments	3,614	-
Changes in proportion	61,786	38,434
Contributions paid to PERA subsequent to the measurement date	92,167	-
Total	$ 736,004	$ 74,245

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, 2022. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	Pension Expense Amount
2023	$ 229,976
2024	225,379
2025	(100,635)
2026	214,872
	$ 569,592

Actuarial assumptions: The total pension liability in the June 30, 2022, 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 6.50%. This assumption is based on a review of inflation and investments 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 6.50% 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% after one year of service to 3.0% 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 2019. The assumption changes were adopted by the Board and became effective with the July 1, 2020, actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2022:

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.

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%
	100.0%	

Discount rate: The discount rate used to measure the total pension liability in 2022 was 6.5%. 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 (5.5%)	Discount Rate (6.5%)	1% Increase in Discount Rate (7.5%)
Proportionate share of the net pension liability	$ 3,753,032	$ 2,376,010	$ 1,246,639

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.

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 $10,320 to the deferred compensation plan for the year ended December 31, 2022.

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. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, will be effective for the Commission beginning with its year ending December 31, 2023. This statement improves financial reporting by addressing issues related to arrangements in which a government contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset, for a period of time in an exchange or exchange-like transaction.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, is effective for the Commission beginning with its year ending December 31, 2023. This statement establishes accounting and financial reporting standards for subscription-based information technology arrangements and government end users.

GASB Statement No. 99, *Omnibus 2022*, will be effective for the Commission beginning with its year ending December 31, 2023, for requirements related to leases, public-private and public-public partnerships, and subscription-based information technology arrangements; and December 31, 2024, for requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of GASB Statement No. 53. The objectives of this statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB statements and (2) accounting and financial reporting for financial guarantees.

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.

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 September 27, 2023, which is the date the financial statements were available to be issued.

Arrowhead Regional Development Commission

Required Supplementary Information (Unaudited)
Budgetary Comparison Schedule
Regional Intergovernmental Planning Fund
Year Ended December 31, 2022

	Original and Final Budget	Actual	Over (Under) Budget
Revenues:			
Property tax	$ 696,892	$ 698,898	$ 2,006
Intergovernmental	7,626,196	7,080,163	(546,033)
Charges for services	131,094	213,177	82,083
Interest earnings	-	67,952	67,952
Loan principal	550,000	778,736	228,736
Loan interest	-	200,789	200,789
Total revenues	9,004,182	9,039,715	35,533
Expenditures:			
Direct salaries	2,394,274	2,492,525	98,251
Fringe benefits	850,459	710,196	(140,263)
Computer supplies and maintenance	154,850	133,812	(21,038)
Consultants and contractual	1,046,706	603,148	(443,558)
Printing, internal and external	28,733	13,299	(15,434)
Rental	-	5,395	5,395
Postage and shipping	13,350	8,533	(4,817)
Telephone and internet	-	17,700	17,700
Meeting expenses	45,358	5,327	(40,031)
Dues and memberships	17,125	13,599	(3,526)
Maintenance, vehicles	-	3,056	3,056
Staff travel	41,675	69,902	28,227
Committee travel	9,300	2,311	(6,989)
Subgrantee request	3,181,499	3,157,061	(24,438)
Loans distributed	763,000	1,010,397	247,397
Depreciation	64,000	-	(64,000)
Other	393,853	206,674	(187,179)
Total expenditures	9,004,182	8,452,935	(551,247)
Change in fund balance	$ -	$ 586,780	$ 586,780

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, 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.

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, 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.

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

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%.
- 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.

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

- 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 morality 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 morality 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.

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.

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

- 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.

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, 2022

	General Programs	Economic Development	Grant Programs: Metropolitan Interstate Council	Grant Programs: Area Agency on Aging: Administration and PD&C	Grant Programs: Area Agency on Aging: Direct Service Grants	Grant Programs: Other Governmental Programs	Internal Programs	Eliminations	Total Regional Intergovernmental Planning Fund
Assets									
Cash and cash equivalents:									
Unrestricted	$ 1,869,144	$ 2,176,596	$ -	$ -	$ -	$ -	$ 410,446	$ -	$ 4,456,186
Restricted (Arrowhead Counties Association and North Shore Management Board)	35,070	-	-	-	-	-	-	-	35,070
Receivables:									
Taxes	15,086	-	-	-	-	-	-	-	15,086
Loans	-	5,746,632	-	-	-	-	-	-	5,746,632
Interest	9,962	15,773	-	-	-	-	-	-	25,735
Grants and contracts	-	-	262,343	133,565	1,264,561	158,899	-	-	1,819,368
Prepaid expenses	-	-	-	-	-	-	291	-	291
Due from other programs	597,900	-	-	-	-	-	-	(597,900)	-
Total assets	$ 2,527,162	$ 7,939,001	$ 262,343	$ 133,565	$ 1,264,561	$ 158,899	$ 410,737	$ (597,900)	$ 12,098,368
Liabilities, Deferred Inflow of Resources, and Fund Balances									
Accounts payable	$ 5,854	$ 2,386	$ 123,669	$ 512	$ 837,624	$ 18,737	$ 1,658	$ -	$ 990,440
Accrued payroll	3,915	3,962	5,030	7,386	36,647	6,422	-	-	63,362
Due to other programs	-	9,426	133,644	125,667	212,868	116,295	-	(597,900)	-
Deposits held for others	35,070	-	-	-	-	-	-	-	35,070
Unearned revenue	-	-	-	-	25,000	1,736	-	-	26,736
Total liabilities	44,839	15,774	262,343	133,565	1,112,139	143,190	1,658	(597,900)	1,115,608
Unavailable revenues:									
Loans receivable	-	5,746,632	-	-	-	-	-	-	5,746,632
Total deferred inflow of resources	-	5,746,632	-	-	-	-	-	-	5,746,632
Fund balances:									
Nonspendable, Prepaids	-	-	-	-	-	-	291	-	291
Restricted, Revolving loan fund	-	2,176,595	-	-	-	-	-	-	2,176,595
Committed, Technology	60,000	-	-	-	-	-	-	-	60,000
Assigned, Program Development	-	-	-	-	(1,533)	169,664	-	-	168,131
Unassigned	2,422,323	-	-	-	153,955	(153,955)	408,788	-	2,831,111
Total fund balances	2,482,323	2,176,595	-	-	152,422	15,709	409,079	-	5,236,128
Total liabilities, deferred inflow of resources, and fund balances	$ 2,527,162	$ 7,939,001	$ 262,343	$ 133,565	$ 1,264,561	$ 158,899	$ 410,737	$ (597,900)	$ 12,098,368

Arrowhead Regional Development Commission

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Regional Intergovernmental Planning Fund
Year Ended December 31, 2022

		Grant Programs							
				Area Agency on Aging					
	General Programs	Economic Development	Metropolitan Interstate Council	Administration and PD&C	Direct Service Grants	Other Governmental Programs	Internal Programs	Eliminations	Total Regional Intergovernmental Planning Fund
Revenues:									
Property tax	$ 698,898	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 698,898
Intergovernmental	104	569,633	735,970	306,570	4,947,374	520,512	-	-	7,080,163
Charges for services	4,036	17,838	-	-	53,551	132,235	5,517	-	213,177
Interest earnings	30,994	36,958	-	-	-	-	-	-	67,952
Loan principal	-	778,736	-	-	-	-	-	-	778,736
Loan interest	-	200,789	-	-	-	-	-	-	200,789
Total revenues	734,032	1,603,954	735,970	306,570	5,000,925	652,747	5,517	-	9,039,715
Expenditures:									
Direct salaries	56,252	246,000	378,920	254,342	1,141,195	307,987	107,829	-	2,492,525
Fringe benefits	(13,053)	69,822	114,592	81,351	339,592	85,282	32,610	-	710,196
Allocated indirect costs	10,229	28,438	46,543	33,105	138,205	34,906	(291,426)	-	-
Computer supplies and maintenance	17,760	1,274	7,575	4,099	33,650	1,711	67,743	-	133,812
Consultants and contractual	42,417	50,101	230,277	10,915	71,232	198,206	-	-	603,148
Printing, internal and external	454	99	250	586	4,861	4,001	3,048	-	13,299
Rental	-	-	-	-	-	-	5,395	-	5,395
Postage and shipping	494	120	22	742	4,655	419	2,081	-	8,533
Telephone and internet	1,730	1,169	803	1,268	11,092	-	1,638	-	17,700
Meeting expenses	568	233	2,586	407	1,377	156	-	-	5,327
Dues and memberships	3,133	3,000	1,751	4,816	-	125	774	-	13,599
Maintenance, vehicles	-	-	-	-	-	-	3,056	-	3,056
Staff travel	13,946	1,875	13,218	3,673	23,402	12,871	917	-	69,902
Committee travel	1,508	-	-	803	-	-	-	-	2,311
Subgrantee request	-	-	-	-	3,157,061	-	-	-	3,157,061
Loans distributed	-	1,010,397	-	-	-	-	-	-	1,010,397
Other	33,503	9,899	20,189	10,415	83,701	29,585	19,382	-	206,674
Total expenditures	168,941	1,422,427	816,726	406,522	5,010,023	675,249	(46,953)	-	8,452,935
Excess of revenues over (under) expenditures	565,091	181,527	(80,756)	(99,952)	(9,098)	(22,502)	52,470	-	586,780
Other financing sources (uses):									
Transfers, in	-	54,558	80,756	99,952	87,725	-	-	(322,991)	-
Transfers, out	(263,405)	(7,500)	-	-	-	(52,086)	-	322,991	-
Total other financing (uses) sources	(263,405)	47,058	80,756	99,952	87,725	(52,086)	-	-	-
Excess of revenues and other financing sources over (under) expenditures and other financing uses	301,686	228,585	-	-	78,627	(74,588)	52,470	-	586,780
Fund balances, January 1	2,180,637	1,948,010	-	-	73,795	90,297	356,609	-	4,649,348
Fund balances, December 31	$ 2,482,323	$ 2,176,595	$ -	$ -	$ 152,422	$ 15,709	$ 409,079	$ -	$ 5,236,128

Arrowhead Regional Development Commission

Schedule of Expenditures of Federal Awards
Year Ended December 31, 2022

Grantor Agency/Pass-through Agency/Program Titles	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Commerce:				
Direct programs:				
Economic Development Support for Planning Organizations	11.302		$ -	$ 41,907
Economic Development Cluster:				
Economic Adjustment Assistance:				
Revolving Loan Fund (Note 4)	11.307		-	2,433,095
COVID-19—CARES Revolving Loan Fund (Note 4)	11.307		-	4,111,966
COVID-19—CARES Economic Adjustment Assistance	11.307		-	158,877
Total ALN 11.307, Economic Development Cluster			-	6,703,938
Passed through Minnesota Department of Natural Resources:				
Coastal Zone Management Administration Awards	11.419	NA21NOS4190083	-	28,919
Total U.S. Department of Commerce			-	6,774,764
U.S. Department of Transportation:				
Passed through Minnesota Department of Transportation:				
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	20.505	MN-2017-009	-	23,652
Transit Services Programs Cluster:				
Enhanced Mobility of Seniors, Individuals with Disabilities	20.513	MN-2021-0043-00	-	55,408
Enhanced Mobility of Seniors, Individuals with Disabilities	20.513	MN-2021-0043-01	-	60,719
Total ALN 20.513, Transit Services Programs Cluster			-	116,127
Highway Planning and Construction Cluster:				
Highway Planning and Construction (Federal-Aid Highway Program)	20.205	DS22(079)	-	504,638
Passed through Wisconsin Department of Transportation:				
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	20.205	NWRPC	-	68,000
Total ALN 20.205, Highway Planning and Construction Cluster			-	572,638
Total U.S. Department of Transportation			-	712,417
Environmental Protection Agency:				
Direct:				
Brownfields Multipurpose, Assessment, Revolving Loan Fund, and Cleanup Cooperative Agreements	66.818		-	80,377
Total Environmental Protection Agency			-	80,377

(Continued)

Arrowhead Regional Development Commission

Schedule of Expenditures of Federal Awards (Continued)
Year Ended December 31, 2022

Grantor Agency/Pass-through Agency/Program Titles	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Health and Human Services:				
Passed through Minnesota Board on Aging:				
Special Programs for the Aging (Aging Cluster):				
Title III, Part B—Grants for Supportive Services and Senior Centers	93.044	316-22-003A	$ -	$ 191,385
Title III, Part B—Grants for Supportive Services and Senior Centers	93.044	316-222101MNOA55-00	369,645	434,634
COVID-19—Title III, Part B—Grants for Supportive and Senior Centers	93.044	316-222101MNOA55-00	231,092	231,092
COVID-19—Title III, Part B—Grants for Supportive Services and Senior Centers	93.044	303-2101MNSSC6-00	-	50,195
Total ALN 93.044			600,737	907,306
Title III, Part C—Nutrition Services	93.045	316-22-2101MNOACM-00	627,847	681,447
Title III, Part C—Nutrition Services	93.045	316-22-2101MNOAHD-00	761,649	761,649
Title III, Part C—Nutrition Services	93.045	303-2101MNHDC6-00	200,416	200,416
COVID-19—Title III, Part C—Nutrition Services	93.045	303-2101MNCMC6-00	89,315	89,315
Total ALN 93.045			1,679,227	1,732,827
Nutrition Services Incentive Program	93.053	316-22-2101MNOANS-00	184,748	185,018
Total Aging Cluster			2,464,712	2,825,151
Special Programs for the Aging:				
Title III, Part D—Disease Prevention and Health Promotion Services	93.043	316-22-2101MNOAPH-00	31,469	31,469
COVID-19—Title III, Part D—Disease Prevention and Health Promotion Services	93.043	303-21-2101MNOAPH-00	19,219	24,630
Total ALN 93.043			50,688	56,099
Title IV and Title II, Discretionary Projects	93.048	333-22-0SMP-038	-	7,158
Title IV and Title II, Discretionary Projects	93.048	333-23-0SMP-038	-	3,385
Total ALN 93.048			-	10,543
National Family Caregiver Support, Title III, Part E	93.052	316-22-2101MNOAFC-0	296,357	296,357
COVID-19—National Family Caregiver Support, Title III, Part E	93.052	303-2101MNFCC6-00	49,456	49,456
Total ALN 93.052			345,813	345,813
Medical Enrollment Assistance Program	93.071	333-22-MIPA-010	-	46,438
Medical Enrollment Assistance Program	93.071	333-23-MIPA-010	-	242
Total ALN 93.071			-	46,680
State Health Insurance Assistance Program	93.324	333-22-DSHP-031	-	14,135
State Health Insurance Assistance Program	93.324	333-23-DSHP-031	-	488
Total ALN 93.324			-	14,623
Medicaid Cluster:				
Medical Assistance Program	93.778	333-22-0PAS-032	-	104,024
Medical Assistance Program	93.778	333-23-0PAS-032	-	105,265
Total ALN 93.778, Medicaid Cluster			-	209,289
Passed through St. Louis County, Minnesota:				
COVID-19—Immunization Cooperative Agreements	93.268	6-NH23IP922628-02-04	-	97,887
Total U.S. Department of Health and Human Services			2,861,213	3,606,085
Total expenditures of federal awards			$ 2,861,213	$ 11,173,643

See notes to schedule of expenditures of federal awards.

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, 2022. 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 U.S. Department of Commerce Economic Adjustment Assistance grant and local matching contributions (ended July 21, 2022), and 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. July 21, 2022, the EDA agreed to release the federal interest in the Capital Base of EDA Financial Assistance Award Numbers 06-39-02257, 06-39-02257.01, 06-39-02257.02 and 06-79-05613. The Assistance Listing Number associated with the release of federal interest is 11.307. The amount of Federal expenditures for the year ended December 31, 2022, was determined as follows:

	RLF Grant 7/21/2022	CARES RLF Grant 12/31/2022
Loans outstanding	$ 2,000,053	$ 3,495,684
Cash balance	1,873,935	495,704
Administrative expenses paid out during fiscal year 2022	12,745	120,578
Unpaid principal of loans written off during 2022	-	-
	3,886,733	4,111,966
Federal portion	62.6%	100.0%
Federal expenditures reported	$ 2,433,095	$ 4,111,966

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, 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, 2022, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated September 27, 2023.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

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.*

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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
September 27, 2023

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, 2022. 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, 2022.

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.

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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.

Report on Internal Control Over Compliance
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.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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.

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
September 27, 2023

Arrowhead Regional Development Commission

Schedule of Findings and Questioned Costs
Year Ended December 31, 2022

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 X No
Significant deficiency(ies) identified?	____ Yes X None Reported
Noncompliance material to financial statements noted?	____ Yes X No

Federal Awards

Internal control over major federal programs:	
Material weakness(es) identified?	____ Yes X No
Significant deficiency(ies) identified?	____ Yes X 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 X No

Identification of major federal programs:

Assistance Listing Number(s) (ALN)	Name of Federal Program or Cluster
93.044	Aging Cluster, Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers
93.045	Aging Cluster, Special Programs for the Aging, Title III, Part C, Grants Nutrition Services
93.053	Aging Cluster, Nutrition Services Incentive Program

Dollar threshold used to distinguish between Type A and Type B programs	$750,000
Auditee qualifies as a low-risk auditee?	X Yes ____ No

II. FINANCIAL STATEMENT FINDINGS

No matters to report.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

No matters to report.

ARDC
Arrowhead Regional
Development Commission

Arrowhead Regional Development Commission

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended December 31, 2022

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.*

Lorna M. Morrisroe

Finance Director

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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, 2022, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated September 27, 2023.

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
September 27, 2023

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