



Financial Statements
September 30, 2016

Minnesota Chippewa Tribe

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Independent Auditor's Report

To the Tribal Executive Committee
Minnesota Chippewa Tribe
Cass Lake, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Minnesota Chippewa Tribe, Cass Lake, Minnesota, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Tribe's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the Tribe as of September 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted a management's discussion and analysis and budgetary comparison schedules that U.S. generally accepted accounting principles requires 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 place the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Tribe's basic financial statements. The combining and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis 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*, and is also not a required part of the basic financial statements.

The combining and individual fund financial statements and the schedule of expenditures of federal awards are 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. Such 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 auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and the schedule of expenditures of federal awards are 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 November 13, 2018, on our considerations of the Tribe'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 Tribe'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 Tribe's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota
November 13, 2018

Minnesota Chippewa Tribe
Statement of Net Position
September 30, 2016

| | Governmental Activities | Business-Type Activities | Total |
|--|----------------------------|-----------------------------|----------------------|
| Assets | | | |
| Cash and cash equivalents | \$ 887,166 | \$ 1,701,610 | \$ 2,588,776 |
| Investments | 443,238 | 14,454,788 | 14,898,026 |
| Internal balances | 13,820 | (13,820) | - |
| Account receivable, net | 85,169 | 87,235 | 172,404 |
| Loans receivable, net | - | 28,863,654 | 28,863,654 |
| Grants receivable | 601,002 | - | 601,002 |
| Other receivables and accrued interest | 39,387 | 94,946 | 134,333 |
| Prepaid items | 12,884 | - | 12,884 |
| Other assets, net | - | 3,302,174 | 3,302,174 |
| Capital assets | | | |
| Not being depreciated | 1,193,542 | - | 1,193,542 |
| Being depreciated, net of depreciation | 706,864 | 1,025,602 | 1,732,466 |
| Total assets | <u>3,983,072</u> | <u>49,516,189</u> | <u>53,499,261</u> |
| Liabilities | | | |
| Accounts payable | 432,015 | 308,770 | 740,785 |
| Accrued liabilities | 12,241 | 13,931 | 26,172 |
| Unearned revenue | 556,952 | - | 556,952 |
| Escrowed liabilities | - | 391,166 | 391,166 |
| Noncurrent liabilities | | | |
| Due within one year | 99,038 | - | 99,038 |
| Due in more than one year | - | 34,981,245 | 34,981,245 |
| Total liabilities | <u>1,100,246</u> | <u>35,695,112</u> | <u>36,795,358</u> |
| Net Position | | | |
| Investment in capital assets | 1,900,406 | 1,025,602 | 2,926,008 |
| Unrestricted | 982,420 | 12,795,475 | 13,777,895 |
| Total net position | <u>\$ 2,882,826</u> | <u>\$ 13,821,077</u> | <u>\$ 16,703,903</u> |

Minnesota Chippewa Tribe
Statement of Activities
Year Ended September 30, 2016

| Functions/Programs | Expenses | Program Revenues | | Net (Expense) Revenue and Changes in Net Position | | |
|--------------------------------------|---------------------|-------------------------|--|--|-----------------------------|----------------------|
| | | Charges for Services | Operating Grants and Contributions | Primary Government | | |
| | | | | Governmental Activities | Business-Type Activities | Total |
| Primary government | | | | | | |
| Governmental activities: | | | | | | |
| General government | \$ 1,849,310 | \$ 181,847 | \$ 1,524,736 | \$ (142,727) | \$ - | \$ (142,727) |
| Education | 285,879 | - | 285,879 | - | - | - |
| Human services | 2,782,190 | - | 2,780,704 | (1,486) | - | (1,486) |
| Conservation of natural resources | 230,215 | - | 89,179 | (141,036) | - | (141,036) |
| Economic development | 120,879 | - | 120,879 | - | - | - |
| Other | 360,035 | - | 420,430 | 60,395 | - | 60,395 |
| Total governmental activities | <u>5,628,508</u> | <u>181,847</u> | <u>5,221,807</u> | <u>(224,854)</u> | <u>-</u> | <u>(224,854)</u> |
| Business-type activities: | | | | | | |
| Finance Corporation | <u>1,317,383</u> | <u>1,452,239</u> | <u>-</u> | <u>-</u> | <u>134,856</u> | <u>134,856</u> |
| Total primary government | <u>\$ 6,945,891</u> | <u>\$ 1,634,086</u> | <u>\$ 5,221,807</u> | <u>(224,854)</u> | <u>134,856</u> | <u>(89,998)</u> |
| Change in net position | | | | (224,854) | 134,856 | (89,998) |
| Net position - beginning | | | | <u>3,107,680</u> | <u>13,686,221</u> | <u>16,793,901</u> |
| Net position - ending | | | | <u>\$ 2,882,826</u> | <u>\$ 13,821,077</u> | <u>\$ 16,703,903</u> |

The accompanying Notes to Financial Statements are an integral part of these statements

Minnesota Chippewa Tribe
Balance Sheet – Governmental Funds
September 30, 2016

| | General Fund | Department of Interior | Department of Health and Human Services | Food Stamp Nutrition Education | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|------------------------------|--|--------------------------------------|--------------------------------|--------------------------------|
| Assets | | | | | | |
| Cash and cash equivalents | \$ 296,147 | \$ 297,871 | \$ 66,713 | \$ 24,715 | \$ 201,720 | \$ 887,166 |
| Investments | 443,238 | - | - | - | - | 443,238 |
| Accounts receivable, net | 927 | - | 1,129 | - | 68,604 | 70,660 |
| Grants receivable | - | 22,745 | 326,703 | 183,005 | 68,549 | 601,002 |
| Due from other funds | 539,330 | - | - | - | - | 539,330 |
| Other receivables | - | - | - | - | 39,387 | 39,387 |
| Prepaid items | - | 3,215 | 1,533 | - | 2,569 | 7,317 |
| Total assets | \$ 1,279,642 | \$ 323,831 | \$ 396,078 | \$ 207,720 | \$ 380,829 | \$ 2,588,100 |
| Liabilities and Fund Balance | | | | | | |
| Liabilities | | | | | | |
| Due to other funds | \$ - | \$ 22,745 | \$ 228,793 | \$ - | \$ 235,607 | \$ 487,145 |
| Accounts payable | 50,302 | 3,953 | 113,657 | 204,586 | 2,020 | 374,518 |
| Accrued liabilities | - | - | - | 3,134 | 3,887 | 7,021 |
| Unearned revenue | 203,719 | 297,133 | 56,100 | - | - | 556,952 |
| Total liabilities | 254,021 | 323,831 | 398,550 | 207,720 | 241,514 | 1,425,636 |
| Fund Balance (Deficit) | | | | | | |
| Nonspendable | | | | | | |
| For prepaid items | - | 3,215 | 1,533 | - | 2,569 | 7,317 |
| Restricted | | | | | | |
| For employee loans | - | - | - | - | 74,593 | 74,593 |
| For wisdom steps | - | - | - | - | 51,672 | 51,672 |
| For timber appraisal | - | - | - | - | 60,000 | 60,000 |
| For Cobell probate | - | - | - | - | 50,781 | 50,781 |
| For enterprises | - | - | - | - | 117 | 117 |
| For adult day services | - | - | - | - | 9,508 | 9,508 |
| Unassigned | 1,025,621 | (3,215) | (4,005) | - | (109,925) | 908,476 |
| Total fund balance (deficit) | 1,025,621 | - | (2,472) | - | 139,315 | 1,162,464 |
| Total liabilities and fund balance | \$ 1,279,642 | \$ 323,831 | \$ 396,078 | \$ 207,720 | \$ 380,829 | \$ 2,588,100 |

Minnesota Chippewa Tribe
Reconciliation of the Governmental Funds
Balance Sheet to the Statement of Net Position
September 30, 2016

| | |
|---|----------------------------|
| Total Funds Balances - Governmental Funds | \$ 1,162,464 |
| 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 funds. | 1,890,245 |
| Internal service funds are used by the Tribe to charge costs of certain activities. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. | <u>(169,883)</u> |
| Total Net Position - Governmental Activities | <u><u>\$ 2,882,826</u></u> |

Minnesota Chippewa Tribe
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
Year Ended September 30, 2016

| | General Fund | Department of Interior | Department of Health and Human Services | Food Stamp Nutrition Education | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|------------------------------|--|--------------------------------------|--------------------------------|--------------------------------|
| Revenues | | | | | | |
| Intergovernmental - federal | \$ - | \$ 520,818 | \$ 1,228,169 | \$ 664,320 | \$ 395,764 | \$ 2,809,071 |
| Intergovernmental - state | - | - | 178,685 | - | 702,204 | 880,889 |
| Program income | - | - | - | - | 247,117 | 247,117 |
| Settlement income | 150,000 | - | - | - | - | 150,000 |
| Investment income | 31,037 | - | - | - | - | 31,037 |
| Liquor permits | 26,367 | - | - | - | - | 26,367 |
| Contract | - | 73,733 | - | - | - | 73,733 |
| Other | 426 | - | 1,000 | - | 146,144 | 147,570 |
| Total revenues | <u>207,830</u> | <u>594,551</u> | <u>1,407,854</u> | <u>664,320</u> | <u>1,491,229</u> | <u>4,365,784</u> |
| Expenditures | | | | | | |
| Personnel | 48,975 | 262,809 | 392,532 | 58,542 | 553,054 | 1,315,912 |
| Fringe benefits | 8,630 | 76,116 | 107,877 | 26,625 | 174,187 | 393,435 |
| Travel/training | 74,353 | 29,847 | 50,758 | 14,578 | 74,414 | 243,950 |
| Office expense | 69,558 | 32,230 | 102,515 | 3,185 | 53,188 | 260,676 |
| Pass-through funds | - | - | 383,961 | 528,337 | 142,295 | 1,054,593 |
| Office and equipment rental | 4,747 | 26,757 | 8,367 | 11,952 | 11,069 | 62,892 |
| Other contracts | - | 2,255 | - | - | - | 2,255 |
| Other expenditures | 60,134 | 68,918 | 221,296 | 37 | 320,460 | 670,845 |
| Capital outlay | - | - | - | - | 11,000 | 11,000 |
| Total direct expenditures | 266,397 | 498,932 | 1,267,306 | 643,256 | 1,339,667 | 4,015,558 |
| Indirect costs | 34,081 | 95,619 | 135,225 | 21,064 | 131,894 | 417,883 |
| Total expenditures | <u>300,478</u> | <u>594,551</u> | <u>1,402,531</u> | <u>664,320</u> | <u>1,471,561</u> | <u>4,433,441</u> |
| Net Change in Fund Balance | (92,648) | - | 5,323 | - | 19,668 | (67,657) |
| Fund Balance (Deficit), Beginning of Year | <u>1,118,269</u> | <u>-</u> | <u>(7,795)</u> | <u>-</u> | <u>119,647</u> | <u>1,230,121</u> |
| Fund Balance (Deficit), End of Year | <u>\$ 1,025,621</u> | <u>\$ -</u> | <u>\$ (2,472)</u> | <u>\$ -</u> | <u>\$ 139,315</u> | <u>\$ 1,162,464</u> |

Minnesota Chippewa Tribe
Reconciliation of the Changes in Funds Balances of
Governmental Funds to the Statement of Activities
Year Ended September 30, 2016

| | |
|--|----------------------------|
| Net Change in Funds Balances - Total Governmental Funds | \$ (67,657) |
| Amounts reported for governmental activities in the statement of activities are different because: | |
| Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities the cost of capital assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense has exceeded additions | (44,882) |
| The net effect of the disposal of capital assets is to decrease net position | (7,826) |
| Internal service funds are used by the Tribe to charge the costs of certain activities. The net expenditures of the internal service funds is reported in governmental activities. | <u>(104,489)</u> |
| Change in Net Position of Governmental Activities | <u><u>\$ (224,854)</u></u> |

Minnesota Chippewa Tribe
Statement of Net Position –
Proprietary Funds
September 30, 2016

| | Business-Type Activity - Enterprise Fund Finance Corporation | Governmental Activities - Internal Service Funds |
|---|---|---|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 1,701,610 | \$ - |
| Investments, current portion | 2,793,768 | - |
| Accounts receivable | 87,235 | 14,509 |
| Due from other funds | - | 203,309 |
| Prepaid expenses and other assets | - | 5,567 |
| Accrued interest receivable | 94,946 | - |
| Mortgage loans receivable, current portion | 1,601,358 | - |
| Business loans receivable, current portion | 104,763 | - |
| Installment loans receivable, current portion | 22,530 | - |
| Total current assets | 6,406,210 | 223,385 |
| Non-Current Assets | | |
| Investments, net of current portion | 11,661,020 | - |
| Mortgage loans receivable, net of current portion and allowance | 26,063,937 | - |
| Business loans receivable, net of current portion and allowance | 211,596 | - |
| Installment loans receivable, net of current portion | 859,470 | - |
| Capital assets, net of accumulated depreciation | | |
| Building and equipment | 1,025,602 | 10,161 |
| Real estate acquired by foreclosures | 3,302,174 | - |
| Total non-current assets | 43,123,799 | 10,161 |
| Total assets | 49,530,009 | 233,546 |
| Liabilities and Net Position | | |
| Current Liabilities | | |
| Accounts payable | 308,770 | 57,497 |
| Accrued liabilities | 13,931 | 5,220 |
| Escrowed liabilities | 391,166 | - |
| Due to other funds | 13,820 | 241,674 |
| Noncurrent liabilities | | |
| Due within one year | - | 99,038 |
| Due in more than one year | 34,981,245 | - |
| Total liabilities | 35,708,932 | 403,429 |
| Net Position (Deficit) | | |
| Investment in capital assets | 1,025,602 | 10,161 |
| Unrestricted | 12,795,475 | (180,044) |
| Total net position (deficit) | \$ 13,821,077 | \$ (169,883) |

Minnesota Chippewa Tribe
Statement of Revenues, Expenses, and Changes in Net Position –
Proprietary Funds
Year Ended September 30, 2016

| | Business-Type Activity - Enterprise Fund Finance Corporation | Governmental Activities - Internal Service Funds |
|---|---|---|
| Revenue | | |
| Housing revenue | \$ 1,699,883 | \$ - |
| Indirect revenue | - | 599,733 |
| Rental revenue | - | 47,028 |
| Sales of business support services | - | 29,367 |
| Other revenue | - | 369,168 |
| | | |
| Total operating revenue | 1,699,883 | 1,045,296 |
| Less direct costs of revenue | 470,701 | - |
| Net revenue | 1,229,182 | 1,045,296 |
| Expenses | | |
| Current | | |
| Personnel | 685,350 | 383,804 |
| Fringe benefits | 194,420 | 133,481 |
| Depreciation | 96,375 | 6,188 |
| Travel/training | 47,415 | 19,591 |
| Office expenses | 58,987 | 41,465 |
| Office and equipment rent | - | 30,802 |
| Maintenance | - | 62,131 |
| Other expenditures | 52,988 | 472,323 |
| | | |
| Total direct expenses | 1,135,535 | 1,149,785 |
| Indirect costs | 181,848 | - |
| Total expenses | 1,317,383 | 1,149,785 |
| Loss before nonoperating activity | (88,201) | (104,489) |
| Nonoperating Activity | | |
| Investment income | 223,057 | - |
| Change in Net Position | 134,856 | (104,489) |
| Net Position (Deficit), Beginning of Year | 13,686,221 | (65,394) |
| Net Position (Deficit), End of Year | \$ 13,821,077 | \$ (169,883) |

Minnesota Chippewa Tribe
Statement of Cash Flows –
Proprietary Funds
Year Ended September 30, 2016

| | Business-Type Activity - Enterprise Fund <u>Finance Corporation</u> | Governmental Activities - Internal <u>Service Funds</u> |
|--|---|--|
| Operating Activities | | |
| Cash received from customers | \$ 1,961,331 | \$ 1,231,948 |
| Cash paid for wages and benefits | (900,843) | (524,620) |
| Cash paid to suppliers | (826,549) | (747,144) |
| Net Cash from (used for) Operating Activities | <u>233,939</u> | <u>(39,816)</u> |
| Non-Capital Financing Activities | | |
| Proceeds from other funds | - | 241,674 |
| Payments to other funds | - | (203,309) |
| Net Cash from Non-Capital Financing Activities | <u>-</u> | <u>38,365</u> |
| Capital and Related Financing Activities | | |
| Cash paid for repairs on repossed property | (156,216) | - |
| Cash received from sale of repossed property | 253,288 | - |
| Cash received from sale of capital assets | 35,089 | - |
| Cash paid for purchase of capital assets | (6,399) | - |
| Net Cash used from Capital and Related Financing Activities | <u>125,762</u> | <u>-</u> |
| Investing Activities | | |
| Purchase of investments | (4,014,972) | - |
| Proceeds from investments | 2,892,825 | - |
| Investment income | 215,239 | - |
| Disbursement for loans | (2,510,500) | - |
| Proceeds from loan payments | 3,059,616 | - |
| Net Cash used for Investing Activities | <u>(357,792)</u> | <u>-</u> |
| Net Change in Cash and Cash Equivalents | 1,909 | (1,451) |
| Cash and Cash Equivalents at Beginning of Year | <u>1,699,701</u> | <u>1,451</u> |
| Cash and Cash Equivalents at End of Year | <u>\$ 1,701,610</u> | <u>\$ -</u> |

Minnesota Chippewa Tribe
Statement of Cash Flows –
Proprietary Funds
Year Ended September 30, 2016

| | Business-Type Activity - Enterprise Fund Finance Corporation | Governmental Activities - Internal Service Funds |
|---|---|---|
| Reconciliation of Operating Loss to | | |
| Net Cash from (used for) Operating Activities | | |
| Operating Loss | \$ (88,201) | \$ (104,489) |
| Adjustments to reconcile increase in operating loss to cash from (used for) operating activities | | |
| Depreciation | 96,375 | 6,188 |
| Provision for loan losses | 106,103 | - |
| Unrealized loss on investments | 7,818 | - |
| Gain on sale of capital assets | (29,379) | - |
| Loss on sale of foreclosed assets | 31,823 | - |
| Changes in assets and liabilities | | |
| Accounts receivables | 72,551 | 186,652 |
| Installment loans receivable | 72,532 | - |
| Prepaid expenses and other assets | 500 | 4,515 |
| Accounts payables | (37,362) | (125,347) |
| Accrued liabilities | (21,073) | (7,335) |
| Escrowed liabilities | 22,252 | - |
| | <u>\$ 233,939</u> | <u>\$ (39,816)</u> |
| Net Cash from (used for) Operating Activities | <u>\$ 233,939</u> | <u>\$ (39,816)</u> |

Note 1 - Summary of Significant Accounting Policies

The various bands of Chippewa Indians residing within the Fond du Lac, Grand Portage, Bois Forte (Nett Lake), Leech Lake, Mille Lacs and White Earth Reservations comprise the Minnesota Chippewa Tribe (the "Tribe"). The Tribe is federally recognized Indian Tribe whose constitution was formally adopted by its members on January 24, 1936.

The Tribe provides general government, public health and welfare, public safety, education, public works, culture and recreation, economic development and social and health services for the benefit of the members.

Reporting Entity

In evaluating how to define the government for financial reporting purposes, management evaluated the involved entities based on a number of criteria. It was determined that the Tribe is a primary government based upon the fact that it is legally separate, its governing body is separately elected, and it is fiscally independent of other governments.

Potential component units of Tribe are evaluated on various criteria, the main one being the degree of accountability the primary government has over the potential component units. The most significant factor in the accountability assessment is the potential component unit's financial accountability to the primary government, measured through the degree to which the primary government can appoint a voting majority of the governing body, impose its will, ascertain a potential financial benefit, or face a potential financial burden with regard to the potential component unit.

Potential component units of the Tribe include the Minnesota Chippewa Tribe Finance Corporation. Based upon an evaluation of the potential component units using the criteria detailed above, the following conclusions were reached.

The Minnesota Chippewa Tribe Finance Corporation should be included in the reporting entity of the Tribe. This is based on the fact that it is financially accountable to the primary government, and the Executive Committee appoints all board members of the Finance Corporation. This component unit is blended within the financial statements of the Tribe. Separately issued financial statements may be obtained by contacting the Finance Corporation office.

Basis of Presentation

Tribe-Wide Financial Statements

The goal of Tribe-wide financial statements is to present a broad overview of Tribe's finances. The basic statements that form the Tribe-wide financial statements are the statement of net position and the statement of activities. These two statements report information on all of the non-fiduciary activities of the Tribe. The effect of interfund activity has been removed from these statements, except those between government-type activities and business-type activities. Governmental activities, which are normally financed through intergovernmental revenues, are reported separately from business-type activities, which are normally financed through user fees and charges for goods or services.

The statement of activities reports gross direct expenses by function reduced by program revenues. This results in a measurement of net revenue or expense for each of the Tribe's activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues are directly associated with the function or business-type activity and include 1) charges for services and 2) operating or capital grants and contributions that are restricted to a particular function.

Fund Financial Statements

The fund financial statements provide information about the Tribe's funds. Separate statements for each fund category – governmental and proprietary– are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

The Tribe reports the following major governmental funds:

- General Fund – This fund is the general operating fund of the Tribe. All financial resources of the general government that are not required to be reported in another fund are accounted for in the general fund.
- Department of Interior Fund – This fund is used to account for the revenues and expenditures relating to federal awards received from the Department of Interior.
- Department of Health and Human Fund – This fund is used to account for the revenues and expenditures relating to federal awards received from the Department of Health and Human Services.
- Food Stamp Nutrition Education Fund – This fund is used to account for the revenues and expenditures relating to the grant.

The Tribe reports the following major proprietary fund:

- Finance Corporation – This fund accounts for low interest loans to Native Americans for the purchase, construction or rehabilitation of housing.

Additionally, the Tribe reports the following fund type:

- Internal Service Funds – These funds account for the following activities provided to other departments of the Tribe on a cost-reimbursement basis: indirect costs, insurance, computer/copier services, revolving funds, and office supplies.

Basis of Accounting

The Tribe-wide, proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Tribe considers revenues to be available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Intergovernmental revenue, permits, charges for services and investment income associated with the current fiscal period are the major revenues that are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period to the extent they are collected in one year. All other revenue items are considered to be measurable and available only when the Tribe receives cash.

Amounts reported as program revenues include the following: amounts received from those who purchase, use or directly benefit from a program; amounts received from parties outside the Tribe that are restricted to one or more specific programs; and earnings on investments that are legally restricted for a specific program.

Proprietary funds report operating revenues and expenses separately from nonoperating items. Operating revenues and expenses generally result from providing services or producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Tribe's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Tribe considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Tribe considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless Council has provided otherwise in its commitment or assignment actions.

Other Significant Accounting Policies

Cash and Cash Equivalents

The Tribe considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments

Investments are recorded at fair market value.

Receivable and Credit Policy

Trade receivables are uncollateralized customer obligations due under normal trade terms requiring payment within 30 days from the invoice date. The receivables are non-interest bearing. Payments on trade receivables are applied to the earliest unpaid invoices. The carrying amount of trade receivables is reduced by a valuation allowance that reflects management's best estimate of the amounts that will not be collected. At September 30, 2016, the allowance for doubtful accounts was \$7,874 in the governmental activities as well as the General fund.

Grants Receivable

Grants receivable consists of amounts due for reimbursement of approved expenditures on grants entered into with various government agencies. Receivables of this nature are considered fully collectible.

Prepaid Items

Certain cash payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

Interfund Transactions

During the course of operations, transactions occurred between individual funds for good provider and services rendered. These receivables and payables are properly classified as “due from other funds” or “due to other funds” in the fund financial statements, and are eliminated in the government-wide statement of net position, except those between government-type activities and business-type activities. Repayment terms for interfund balances have not been established. Quasi-external transactions are account for as revenues and expenditures. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as a reduction of expenditures in the fund that is reimbursed.

Loans

Loans are reported at their outstanding unpaid principal balance net of the allowance for loan losses.

Interest income on loans is accrued at the specific rate on the unpaid principal balance. The accrual of interest on loans is discontinued at the time the loan is 90 to 120 days delinquent unless the credit is well secured and in the process of collection. All current year interest accrued but not collected for loans that are charged off is reversed against interest income. All prior year interest accrued but not collected is charged off against the allowance for loan losses.

The Finance Corporation has determined that the accounting for nonrefundable fees and costs associated with originating loans does not have a material effect on the financial statements. As such, these fees and costs have been recognized during the period they are collected and incurred, respectively.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against allowance when management believes the uncollectibility of a loan is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated by management and is based upon management’s review of the collectability of the loans in light of historical experience, nature and volume of loan portfolio, adverse situations that may affect the borrower’s ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

Capital Assets

Capital assets are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend lives are not capitalized. Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

| | |
|----------------------------|-----------|
| Buildings and improvements | 20 years |
| Machinery and equipment | 3-5 years |

Advances from Grants

The government reports advances from grants on its balance sheet. Advances from grants arises when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Advances from grants also arises when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to the incurring of the qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has legal claim to the resources, the liability for advances from grants is removed from the combined balance sheet and the revenue is recognized.

Compensated Absences

Unused vacation and personal leave is accrued at year-end for each employee as established under the personnel policies of the Minnesota Chippewa Tribe. The amount of vacation and personal leave that can be accrued is unlimited and may be carried over from year-to-year. Upon termination, an employee will be paid for both unused vacation and personal leave, up to 240 hours.

Escrowed Liabilities

Escrowed liabilities consist of amounts collected from borrowers for the payment of taxes and insurances.

Revolving Fund

Under terms of the agreement between the Finance Corporation and the Minnesota Housing Finance Agency, an initial contribution was made and revolving funds are provided from interest earned on loans and investments and rental income.

Indirect Costs

Indirect costs represent recoverable overhead costs charged by the Tribe to federal, state, and tribal programs in connection with administering and accounting for programs funded by federal, state and tribal resources. The latest indirect cost rate approved by the cognizant federal agency (Department of Interior, Office of Inspector General) was 18.33% for all programs. Certain programs were limited to lesser amounts as prescribed in the grant/contract award and a number of programs were not funded for the full amount of indirect costs based on the approved rate. These overhead costs have been reflected in the accompanying combined financial statements as expenditures of the governmental funds and as revenue to reimburse the expenditures of the indirect cost fund.

Federal and State Income Taxes

The Tribe, as a federally recognized Sovereign Government, is exempt from Federal and State income taxes. As such, no income taxes have been provided for in the accompanying financial statements.

Real Estate Acquired by Foreclosure

The inventory of real estate obtained through foreclosure or deed transfer in lieu of foreclosure is recorded at the outstanding mortgage principal remaining less any unused escrow remaining when title to the real estate is obtained. Additional expenses such as property insurance, foreclosure expense and building repairs are expensed during the year as incurred.

The Finance Corporation adjusts the inventory of real estate to market value when the facts indicate that the market value of the foreclosed real estate is less than the originally recorded carrying value.

Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the balance sheet and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. A material estimate that is particularly susceptible to significant change in the near-term relates to the determination of the allowance for loan losses.

Fund Balance

The following classifications describe the relative strength of the spending constraints:

- Nonspendable fund balance – amounts that are not in nonspendable form (such as inventory) or are required to be maintained intact.
- Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance – amounts constrained to specific purposes by the Tribe itself, using its highest level of decision-making authority (i.e., Tribal Council). To be reported as committed, amounts cannot be used for any other purpose unless the Tribe takes the same highest level action to remove or change the constraint.
- Assigned fund balance – amounts the Tribe intends to use for a specific purpose. Intent can be expressed by the Tribal Council or by an official or body to which the Tribal Council delegates the authority.
- Unassigned fund balance – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for acquisition, construction, or improvements of those assets and adding back any unspent proceeds.

When both restricted and unrestricted resources are available for us, it is the Tribe's policy to use restricted resources first then unrestricted resources as they are needed.

When committed, assigned or unassigned resources are available for use, it is the Tribe's policy to use resources in the following order; 1) committed, 2) assigned, 3) unassigned

Note 2 - Deposits and Investments

Deposits

In accordance with the Tribe's investment policy, the Tribe maintains deposits at those depository banks authorized by the Board. All such depositories are members of the Federal Reserve System.

Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Tribe will not be able to recover the value of its collateral securities that are in the possession of an outside party. In accordance with Tribal investment policy, the Tribe maintains deposits at those depository banks authorized by the tribal council, all of which are members of the Federal Reserve System. As of September 30, 2016, the Tribe's deposits were adequately insured or properly collateralized by pledged securities.

Investments

The Tribe and Finance Corporation maintain separate investment policies. The Tribe may invest funds as authorized by the board as follows:

1. United States Government and Agency Securities (US Treasury bills, notes and bonds);
2. Government money market funds;
3. Collateralized certificates of deposit; and
4. Corporate bonds rated "A" or better

The Finance Corporation may invest funds as authorized by the Board as follows:

1. United States Treasury notes and bills issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States.
2. Debentures issued by any federal government agency or instrumentality, including but not limited to the federal national mortgage association, federal home loan bank, farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal securities shall be direct issuances of federal government agencies and instrumentalities.
3. Money market funds and certificates of deposits in federal institutions.

Custodial Credit Risk

The custodial credit risk for investments is the risk that in an event of failure of counterparty, the Tribe will not be able to recover the value of the investment of the collateral securities in the possession of the outside party. The Tribe has no custodial risk for investments for September 30, 2016. The Tribe does not have a formal policy that limits custodial credit.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of the investment. The Tribe does not have a formal policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

The Tribe manages exposure to fair value of loss arising from changing interest rates by having fixed income investments with varying maturity dates.

The Minnesota Chippewa Tribe's investments as of September 30, 2016, consist of the following:

| | Fair Value | Maturities in Years | |
|--------------------------------|----------------------|---------------------|----------------------|
| | | Less than 1 | 1 to 5 |
| Governmental activities | | | |
| US Government Sponsored Issues | \$ 443,238 | \$ 443,238 | \$ - |
| Business-type activities | | | |
| US Government Sponsored Issues | 1,575,706 | 501,410 | 1,074,296 |
| Certificate of deposit | 9,332,676 | 1,919,260 | 7,413,416 |
| Municipal bonds | 3,546,406 | 373,098 | 3,173,308 |
| Total business-type | <u>14,454,788</u> | <u>2,793,768</u> | <u>11,661,020</u> |
| Total investments | <u>\$ 14,898,026</u> | <u>\$ 3,237,006</u> | <u>\$ 11,661,020</u> |

The Tribe carries its investments at market value and adjusts for the change in market values through current earnings. Money market mutual funds are unrated as of September 30, 2016.

The Tribe categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Tribe has fair value measurements of \$5,565,350 valued using quoted market prices (Level 1 inputs) as of September 30, 2016.

Concentration Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of investments in a single issuer. The Tribe places no limits on the amount which may be invested with a single issuer. There are no investments in anyone issuer that is in excess of 5% of total investments.

Note 3 - Mortgage Loans, Business Loans, and Installment Loans Receivable

Mortgage Loans Receivable

As of September 30, 2016, the Finance Corporation had 528 outstanding mortgage loans. Loans are to be repaid in thirty (30) years or less, except for renovation loans, which are to be repaid in fifteen (15) years or less. Housing loans are secured by liens on the property to the extent such liens may validly be granted, and in accordance with standard mortgage procedures appropriate to the nature of the ownership of the land. Housing loans for dwellings on Tribal or Band land are made only if such land is leased (which lease shall be approved by the Tribe or Band) under terms insuring the availability of the land for a period equal to the term of the housing loan and 20 years thereafter. The Bureau of Indian Affairs must approve housing loans for dwellings on allotted lands in writing.

Under terms of the agreement with MHFA, the Finance Corporation must use these funds in a manner approved by MHFA and must revolve repaid principal.

The mortgage loans receivable consisted of the following at September 30, 2016:

| | |
|---|---------------|
| Mortgage loans receivable | \$ 23,409,176 |
| Duluth renovating loan receivable | 74,494 |
| Mortgage receivable - FHA | 10,987,445 |
| Rental development loans | 2,407,653 |
| Revolving loan fund | (8,859,111) |
| Allowance for doubtful accounts | (354,362) |
| Total loans, net of allowance | 27,665,295 |
| Less current portion or loan receivable | (1,601,358) |
| | \$ 26,063,937 |

Business Loans Receivable

On May 11, 2005, the Finance Corporation was awarded a grant from the Community Development Financial Institution for \$949,783 for the purpose of making business loans.

As of September 30, 2016, the Finance Corporation had 17 outstanding business loans. These loans are secured by equipment and real estate.

The business loan receivable consisted of the following as of September 30, 2016:

| | |
|---|------------|
| Business loan receivable | \$ 396,740 |
| Allowance for doubtful accounts | (80,381) |
| Total loans, net of allowance | 316,359 |
| Less current portion or loan receivable | (104,763) |
| Total loans, net of allowance | \$ 211,596 |

Installment Loans Receivable

As of September 30, 2016, the Finance Corporation had outstanding installment loans with a total receivable balance of \$882,000. The loans are to be repaid in five years or less with a balloon payment in the final year. The installment loans are for repossessed properties that have been sold to the borrower on a contract for deed.

Note 4 - Advances

The Finance Corporation has advances due to other organizations at September 30, 2016, as follows:

| | |
|----------------------------------|---------------|
| Minnesota Housing Finance Agency | \$ 34,981,245 |
|----------------------------------|---------------|

Minnesota Housing Finance Agency

The Finance Corporation, through a 1976 agreement with the Minnesota Housing Finance Agency, is administering housing assistance funds for Native Americans. The funds advanced are not required to be repaid to the Minnesota Housing Finance Agency as long as the Housing Corporation follows the guidelines enacted in the agreement. Funds appropriated by the Minnesota Housing Finance Agency to the Minnesota Chippewa Tribal Housing Corporation is as follows:

| Fiscal Year | American Indian Housing Funds | Duluth Urban Indian Housing Funds |
|--|-------------------------------------|---|
| 1977-1996 | \$ 25,490,677 | \$ 265,500 |
| 1997 | 1,048,509 | - |
| 1998 | 1,048,509 | - |
| 1999 | 1,048,509 | - |
| 2000 | 1,048,509 | - |
| 2001 | 1,048,509 | - |
| 2002 | 1,134,342 | - |
| 2003 | 1,134,342 | - |
| 2004 | 744,770 | - |
| 2005 | 744,770 | - |
| Plus re-allocation funds from off-reservation Chippewa Equity participation loan | 172,252 14,648 | - - |
| Total MHFA funds originally appropriated | 34,678,346 | 265,500 |
| Less Duluth Urban Indian Housing Fund terminated | - | (36,664) |
| Total MHFA funds appropriated | \$ 34,678,346 | \$ 228,836 |

The advances from Minnesota Housing Finance Agency are calculated as follows:

| | American Indian Housing Funds | Other Indian Housing Funds | Total |
|--|-------------------------------------|----------------------------------|---------------|
| Total MHFA funds appropriated | | | |
| Regular | \$ 34,678,346 | \$ - | \$ 34,678,346 |
| Duluth down payment and assistance program | | 228,836 | 228,836 |
| Plus: | | | |
| Duluth equity participation program | - | 92,250 | 92,250 |
| Off-reservation demonstration program | - | 23,513 | 23,513 |
| Less: | | | |
| MHFA payments returned | - | (41,700) | (41,700) |
| Advances from MHFA as of September 30, 2014 | \$ 34,678,346 | \$ 302,899 | \$ 34,981,245 |

Note 5 - Operating Lease

The Finance Corporation rents 22 single family real estate properties to individuals on a month to month basis. Real estate property under operating leases was valued at \$3,104,900 at September 30, 2016, and is included in Real Estate Acquired by Foreclosure at the lower rate of cost or market value. Total rental income received on leased real estate property was \$198,801 for the year ended September 30, 2016.

Note 6 - Capital Assets

Capital asset activity for the year ended September 30, 2016 is as follows:

| | Balance October 1, 2015 | Additions | Deletions | Balance September 30, 2016 |
|--|----------------------------|--------------------|-------------------|-------------------------------|
| Governmental activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 1,193,542 | \$ - | \$ - | \$ 1,193,542 |
| Capital assets, being depreciated: | | | | |
| Buildings | 1,113,941 | 11,000 | (10,920) | 1,114,021 |
| Equipment | 406,657 | - | - | 406,657 |
| Vehicles | 1,500 | - | - | 1,500 |
| Total capital assets being depreciated | <u>1,522,098</u> | <u>11,000</u> | <u>(10,920)</u> | <u>1,522,178</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | 363,091 | 55,882 | (3,094) | 415,879 |
| Equipment | 391,747 | 6,188 | - | 397,935 |
| Vehicles | 1,500 | - | - | 1,500 |
| Total accumulated depreciation | <u>756,338</u> | <u>62,070</u> | <u>(3,094)</u> | <u>815,314</u> |
| Total capital assets being depreciated, net | <u>765,760</u> | <u>(51,070)</u> | <u>(7,826)</u> | <u>706,864</u> |
| Governmental activities capital assets, net | <u>\$ 1,959,302</u> | <u>\$ (51,070)</u> | <u>\$ (7,826)</u> | <u>\$ 1,900,406</u> |
| Business-type activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 5,710 | \$ - | \$ (5,710) | \$ - |
| Capital assets, being depreciated: | | | | |
| Equipment | 66,234 | 6,399 | (5,563) | 67,070 |
| MCT buildings | 1,600,000 | - | - | 1,600,000 |
| Other buildings and improvements | 400,830 | - | - | 400,830 |
| Total capital assets being depreciated | <u>2,067,064</u> | <u>6,399</u> | <u>(5,563)</u> | <u>2,067,900</u> |
| Less accumulated depreciation for: | | | | |
| Equipment | 42,975 | 3,946 | (5,563) | 41,358 |
| MCT buildings | 700,000 | 80,000 | - | 780,000 |
| Other buildings and improvements | 208,511 | 12,429 | - | 220,940 |
| Total accumulated depreciation | <u>951,486</u> | <u>96,375</u> | <u>(5,563)</u> | <u>1,042,298</u> |
| Total capital assets being depreciated, net | <u>1,115,578</u> | <u>(89,976)</u> | <u>-</u> | <u>1,025,602</u> |
| Business-type activities capital assets, net | <u>\$ 1,121,288</u> | <u>\$ (89,976)</u> | <u>\$ (5,710)</u> | <u>\$ 1,025,602</u> |

Depreciation expense for the year ended September 30, 2016 was charged to the following functions/programs:

| | |
|--|------------------|
| Governmental activities: | |
| General government | \$ 55,882 |
| Internal Service | 6,188 |
| Total depreciation expense - governmental activities | <u>\$ 62,070</u> |
| Business-type activities: | |
| Finance Corporation | <u>\$ 96,375</u> |

Note 7 - Interfund Balances

A summary of the Tribe's interfund balances as of September 30, 2016 is as follows:

| | Due from other funds | Due to other funds |
|--|-------------------------|-----------------------|
| Department of Health and Human Services | \$ - | \$ 228,793 |
| Department of Interior | - | 22,745 |
| Nonmajor Governmental Funds | - | 235,607 |
| General Fund | 539,330 | - |
| Business-Type Activities - Finance Corporation | - | 13,820 |
| Internal Service Funds | 203,309 | 241,674 |
| | <u>\$ 742,639</u> | <u>\$ 742,639</u> |

The interfund balances are related to reimbursement of borrowed funds.

Note 8 - Long-Term Liabilities

Changes in long-term liabilities during the year ended September 30, 2016 are as follows:

| | Balance October 1, 2015 | Additions | Retirements | Balance September 30, 2016 | Due Within One Year |
|-------------------------|----------------------------|-------------------|-------------------|-------------------------------|------------------------|
| Governmental activities | | | | | |
| Compensated absences | <u>\$ 90,569</u> | <u>\$ 180,328</u> | <u>\$ 171,859</u> | <u>\$ 99,038</u> | <u>\$ 99,038</u> |

The compensated absences are paid out of the general fund.

Note 9 - Short-Term Note Payable

The Tribe has a revolving line of credit where they may borrow up to \$1,000,000, at prime rate plus 2.75 percent (3.25% at September 30, 2016). There was no outstanding balance on this line as of September 30, 2016. The line of credit is due on demand and expires on October 31, 2016.

Note 10 - Retirement Plan

As of an effective date of February 1, 1997, the Tribe adopted a 401(k) Profit Sharing Plan and Trust for all employees who have attained the age of 18. The Tribe contributes 5% of each covered employee's gross annual wages to the plan. The employee can make additional contributions, not to exceed \$18,000 per year, with certain stipulations. Plan participants are immediately vested 100% in all employer contributions. Contributions made by the Tribe were \$108,407 for the fiscal year ended September 30, 2016.

Note 11 - Insurance

The Tribe has established a self-funded insurance company for their employee dental insurance. Employee's dependents can participate for a reasonable rate. All claims are processed by the Meritain Health which then bills the Tribe for the amount of the claim. The following is the activity for the year ended September 30, 2016:

The Tribe is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; environmental damage; and natural disasters. With the exception of environmental damage, 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 12 - Deficit Fund Balance

The following funds were in a deficit position as of September 30, 2016:

| | | |
|---|----|-----------|
| Governmental Funds | | |
| Major Fund | | |
| Department of Health and Human Services | \$ | (2,472) |
| Nonmajor Fund | | |
| Wild Rice Fund | | (58,838) |
| Eldercare Development Project | | (31,350) |
| Business Development | | (17,060) |
| Energy Conservation | | (108) |
| Internal Service Funds | | |
| Office Space | | (170,116) |
| Administrative Pool | | (170,080) |
| Revolving Fund | | (16,016) |

Management intends to restore the deficit fund balances. The funds will be restored through general fund transfers or additional funding for federal and state agencies.

Note 13 - Concentration of Credit

The Finance Corporation receives a majority of its funding from the State of Minnesota. Also, the Finance Corporation lends money only to Native Americans for the purchase, construction, or rehabilitation of housing within the State of Minnesota.

Note 14 - Dental Self Insurance

The Tribe is self-insured with respect to dental insurance costs. The terms of the plan do not include a stop-loss provision which would limit the Tribe's liability. The following is the activity for the year ended September 30, 2016:

| | | |
|-----------------|----|--------|
| Claims incurred | \$ | 13,267 |
| Claims paid | | 13,267 |



Supplementary Information
September 30, 2016

Minnesota Chippewa Tribe

Minnesota Chippewa Tribe
Combining Balance Sheet –
Nonmajor Governmental Funds
September 30, 2016

| | Employee Loan Fund 103 | Wisdom Steps 113 | MIAAA Workshops 115 | Wild Rice Sales 116 | Timber Sale 119 | Business Development 127 | Survey Blood Degree 129 | Wisdom Steps Board 132 | Cobell Probate 134 | Economic Development 602 |
|---|---------------------------------|------------------------|---------------------------|---------------------------|-----------------------|--------------------------------|-------------------------------|---------------------------------|--------------------------|--------------------------------|
| Assets | | | | | | | | | | |
| Cash and cash equivalents | \$ 35,206 | \$ 724 | \$ 3,868 | \$ - | \$ 60,000 | \$ - | \$ - | \$ 51,024 | \$ 50,781 | \$ - |
| Accounts receivable | - | - | - | - | - | - | - | - | - | 23,388 |
| Grants receivable | - | - | - | - | - | - | - | - | - | - |
| Other receivables | 39,387 | - | - | - | - | - | - | - | - | - |
| Prepaid items | - | - | - | - | - | 270 | - | - | - | 222 |
| Total assets | \$ 74,593 | \$ 724 | \$ 3,868 | \$ - | \$ 60,000 | \$ 270 | \$ - | \$ 51,024 | \$ 50,781 | \$ 23,610 |
| Liabilities and Fund Balance | | | | | | | | | | |
| Liabilities | | | | | | | | | | |
| Due to other funds | \$ - | \$ - | \$ - | \$ 58,838 | \$ - | \$ 17,330 | \$ - | \$ - | \$ - | \$ 23,610 |
| Accounts payable | - | 16 | 932 | - | - | - | - | 60 | - | - |
| Accrued liabilities | - | - | 2,936 | - | - | - | - | - | - | - |
| Total liabilities | - | 16 | 3,868 | 58,838 | - | 17,330 | - | 60 | - | 23,610 |
| Fund Balance (Deficit) | | | | | | | | | | |
| Nonspendable | | | | | | | | | | |
| For prepaid items | - | - | - | - | - | 270 | - | - | - | 222 |
| Restricted | | | | | | | | | | |
| For employee loans | 74,593 | - | - | - | - | - | - | - | - | - |
| For wisdom steps | - | 708 | - | - | - | - | - | 50,964 | - | - |
| For timber appraisal | - | - | - | - | 60,000 | - | - | - | - | - |
| For Cobell probate | - | - | - | - | - | - | - | - | 50,781 | - |
| For enterprises | - | - | - | - | - | - | - | - | - | - |
| For adult day services | - | - | - | - | - | - | - | - | - | - |
| Unassigned | - | - | - | (58,838) | - | (17,330) | - | - | - | (222) |
| Total fund balance (deficit) | 74,593 | 708 | - | (58,838) | 60,000 | (17,060) | - | 50,964 | 50,781 | - |
| Total liabilities and fund balance | \$ 74,593 | \$ 724 | \$ 3,868 | \$ - | \$ 60,000 | \$ 270 | \$ - | \$ 51,024 | \$ 50,781 | \$ 23,610 |

Minnesota Chippewa Tribe
Combining Balance Sheet –
Nonmajor Governmental Funds
September 30, 2016

| | Rural Business Enterprise 661 | Federal Flow Through 701 | Energy Conservation 740 | General Assistance 755 | EPA Great Lakes Habitat Protection 757 | Senior Comm Srvc Employ (SCEP) 810 | Saint Louis County Racial Disparity 817 | LWAH 839 | CSSD - Adult Day Services 842 | Eldercare Development Project 843 | Total Nonmajor Governmental Funds |
|---|--|--------------------------------|-------------------------------|------------------------------|---|---|--|-----------------|--|--|--|
| Assets | | | | | | | | | | | |
| Cash and cash equivalents | \$ 117 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 201,720 |
| Accounts receivable | - | - | - | 14,450 | 1,437 | 10,166 | - | 9,468 | 9,695 | - | 68,604 |
| Grants receivable | - | - | - | - | - | - | 68,549 | - | - | - | 68,549 |
| Other receivables | - | - | - | - | - | - | - | - | - | - | 39,387 |
| Prepaid items | - | - | - | 875 | - | - | 400 | - | - | 802 | 2,569 |
| Total assets | \$ 117 | \$ - | \$ - | \$ 15,325 | \$ 1,437 | \$ 10,166 | \$ 68,949 | \$ 9,468 | \$ 9,695 | \$ 802 | \$ 380,829 |
| Liabilities and Fund Balance | | | | | | | | | | | |
| Liabilities | | | | | | | | | | | |
| Due to other funds | \$ - | \$ - | \$ 108 | \$ 14,374 | \$ 1,437 | \$ 10,166 | \$ 68,537 | \$ 9,468 | \$ 187 | \$ 31,552 | \$ 235,607 |
| Accounts payable | - | - | - | - | - | - | 412 | - | - | 600 | 2,020 |
| Accrued liabilities | - | - | - | 951 | - | - | - | - | - | - | 3,887 |
| Total liabilities | - | - | 108 | 15,325 | 1,437 | 10,166 | 68,949 | 9,468 | 187 | 32,152 | 241,514 |
| Fund Balance (Deficit) | | | | | | | | | | | |
| Nonspendable | | | | | | | | | | | |
| For prepaid items | - | - | - | 875 | - | - | 400 | - | - | 802 | 2,569 |
| Restricted | | | | | | | | | | | |
| For employee loans | - | - | - | - | - | - | - | - | - | - | 74,593 |
| For wisdom steps | - | - | - | - | - | - | - | - | - | - | 51,672 |
| For timber appraisal | - | - | - | - | - | - | - | - | - | - | 60,000 |
| For Cobell probate | - | - | - | - | - | - | - | - | - | - | 50,781 |
| For enterprises | 117 | - | - | - | - | - | - | - | - | - | 117 |
| For adult day services | - | - | - | - | - | - | - | 9,508 | - | - | 9,508 |
| Unassigned | - | - | (108) | (875) | - | - | (400) | - | - | (32,152) | (109,925) |
| Total fund balance (deficit) | 117 | - | (108) | - | - | - | - | 9,508 | - | (31,350) | 139,315 |
| Total liabilities and fund balance | \$ 117 | \$ - | \$ - | \$ 15,325 | \$ 1,437 | \$ 10,166 | \$ 68,949 | \$ 9,468 | \$ 9,695 | \$ 802 | \$ 380,829 |

Minnesota Chippewa Tribe
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balance –
Nonmajor Governmental Funds
Year Ended September 30, 2016

| | Employee Loan Fund 103 | Wisdom Steps 113 | MIAAA Workshops 115 | Wild Rice Sales 116 | Timber Sale 119 | Business Development 127 | Survey Blood Degree 129 | Wisdom Steps Board 132 | Cobell Probate 134 | Economic Development 602 |
|--|---------------------------------|------------------------|---------------------------|---------------------------|-----------------------|--------------------------------|-------------------------------|---------------------------------|--------------------------|--------------------------------|
| Revenue | | | | | | | | | | |
| Intergovernmental - federal | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | - | \$ 120,879 |
| Intergovernmental - state | - | - | - | - | - | 40,079 | - | - | - | - |
| Program income | 5,445 | 25 | - | - | - | - | - | - | 241,647 | - |
| Other | 12 | 692 | - | 30,403 | - | - | 28,535 | 38,637 | 47,700 | - |
| Total revenue | 5,457 | 717 | - | 30,403 | - | 40,079 | 28,535 | 38,637 | 289,347 | 120,879 |
| Expenditures | | | | | | | | | | |
| Personnel | - | - | - | - | - | 13,502 | - | - | 184,970 | 35,041 |
| Fringe benefits | - | - | - | - | - | 6,702 | - | - | 69,721 | 7,730 |
| Travel/training | - | - | - | - | - | - | - | 28,910 | 1,048 | 8,268 |
| Office expenses | - | 73 | 212 | - | - | 1,108 | - | 1,729 | 80 | 1,120 |
| Capital outlay | - | - | - | - | - | - | - | - | - | - |
| Pass-through funds | - | - | - | - | - | - | - | 1,260 | - | - |
| Office and equipment rental | - | - | - | - | - | - | - | - | - | 4,759 |
| Other expenditures | 112 | 400 | - | 44,133 | - | - | - | 15,536 | - | 48,701 |
| Total direct expenditures | 112 | 473 | 212 | 44,133 | - | 21,312 | - | 47,435 | 255,819 | 105,619 |
| Indirect costs | - | - | - | - | - | - | - | - | 31,924 | 15,260 |
| Total expenditures | 112 | 473 | 212 | 44,133 | - | 21,312 | - | 47,435 | 287,743 | 120,879 |
| Net Change in Fund Balance | 5,345 | 244 | (212) | (13,730) | - | 18,767 | 28,535 | (8,798) | 1,604 | - |
| Fund Balance (Deficit), Beginning of Year | 69,248 | 464 | 212 | (45,108) | 60,000 | (35,827) | (28,535) | 59,762 | 49,177 | - |
| Fund Balance (Deficit), End of Year | \$ 74,593 | \$ 708 | \$ - | \$ (58,838) | \$ 60,000 | \$ (17,060) | \$ - | \$ 50,964 | \$ 50,781 | \$ - |

Minnesota Chippewa Tribe
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balance –
Nonmajor Governmental Funds
Year Ended September 30, 2016

| | Rural Business Enterprise 661 | Federal Flow Through 701 | Energy Conservation 740 | EPA General Assistance 755 | EPA Great Lakes Habitat Protection 757 | Senior Comm Srvc Employ (SCEP) 810 | Saint Louis County Racial Disparity 817 | LWAH 839 | CSSD - Adult Day Services 842 | Eldercare Development Project 843 | Total Nonmajor Governmental Funds |
|--|--|--------------------------------|-------------------------------|-------------------------------------|---|---|--|--------------|--|--|--|
| Revenue | | | | | | | | | | | |
| Intergovernmental - federal | \$ - | \$ 139,301 | \$ - | \$ 86,333 | \$ 2,846 | \$ 46,405 | \$ - | \$ - | \$ - | \$ - | \$ 395,764 |
| Intergovernmental - state | - | - | - | - | - | - | 433,215 | 9,468 | 82,174 | 137,268 | 702,204 |
| Program income | - | - | - | - | - | - | - | - | - | - | 247,117 |
| Other | 165 | - | - | - | - | - | - | - | - | - | 146,144 |
| Total revenue | <u>165</u> | <u>139,301</u> | <u>-</u> | <u>86,333</u> | <u>2,846</u> | <u>46,405</u> | <u>433,215</u> | <u>9,468</u> | <u>82,174</u> | <u>137,268</u> | <u>1,491,229</u> |
| Expenditures | | | | | | | | | | | |
| Personnel | - | - | - | 42,691 | 1,094 | 37,307 | 103,804 | 6,917 | 37,171 | 90,557 | 553,054 |
| Fringe benefits | - | - | - | 10,669 | 315 | 3,145 | 33,679 | 1,449 | 7,666 | 33,111 | 174,187 |
| Travel/training | - | - | - | 8,018 | 1,066 | - | 10,629 | - | 1,027 | 15,448 | 74,414 |
| Office expenses | - | - | - | 801 | - | - | 28,123 | 100 | 2,316 | 17,526 | 53,188 |
| Capital outlay | - | - | - | - | - | - | - | - | 11,000 | - | 11,000 |
| Pass-through funds | - | 141,035 | - | - | - | - | - | - | - | - | 142,295 |
| Office and equipment rental | - | - | - | 4,861 | - | - | - | 1,000 | 449 | - | 11,069 |
| Other expenditures | - | - | - | 6,249 | - | 2,195 | 193,680 | 2 | 9,452 | - | 320,460 |
| Total direct expenditures | <u>-</u> | <u>141,035</u> | <u>-</u> | <u>73,289</u> | <u>2,475</u> | <u>42,647</u> | <u>369,915</u> | <u>9,468</u> | <u>69,081</u> | <u>156,642</u> | <u>1,339,667</u> |
| Indirect costs | <u>-</u> | <u>-</u> | <u>-</u> | <u>13,044</u> | <u>371</u> | <u>4,410</u> | <u>63,300</u> | <u>-</u> | <u>3,585</u> | <u>-</u> | <u>131,894</u> |
| Total expenditures | <u>-</u> | <u>141,035</u> | <u>-</u> | <u>86,333</u> | <u>2,846</u> | <u>47,057</u> | <u>433,215</u> | <u>9,468</u> | <u>72,666</u> | <u>156,642</u> | <u>1,471,561</u> |
| Net Change in Fund Balance | <u>165</u> | <u>(1,734)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(652)</u> | <u>-</u> | <u>-</u> | <u>9,508</u> | <u>(19,374)</u> | <u>19,668</u> |
| Fund Balance (Deficit), Beginning of Year | <u>(48)</u> | <u>1,734</u> | <u>(108)</u> | <u>-</u> | <u>-</u> | <u>652</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(11,976)</u> | <u>119,647</u> |
| Fund Balance (Deficit), End of Year | <u>\$ 117</u> | <u>\$ -</u> | <u>\$ (108)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 9,508</u> | <u>\$ (31,350)</u> | <u>\$ 139,315</u> |

Minnesota Chippewa Tribe
Combining Schedule of Net Position –
Internal Service Funds
September 30, 2016

| | Office Space | Revolving Fund | Computer/ Copy Services | Admin Pool | MCT Insurance | Total |
|-------------------------------------|---------------------|--------------------|-------------------------------|---------------------|-------------------|---------------------|
| Assets | | | | | | |
| Current Assets | | | | | | |
| Accounts receivable | \$ 14,509 | \$ - | \$ - | \$ - | \$ - | \$ 14,509 |
| Due from other funds | - | - | 56,932 | 13,820 | 132,557 | 203,309 |
| Prepaid expenses and other assets | - | - | - | 5,567 | - | 5,567 |
| Equipment | - | 26,790 | 72,223 | - | - | 99,013 |
| Accumulated Depreciation | - | (26,790) | (62,062) | - | - | (88,852) |
| Total assets | 14,509 | - | 67,093 | 19,387 | 132,557 | 233,546 |
| Liabilities and Net Position | | | | | | |
| Current Liabilities | | | | | | |
| Due to other funds | 184,625 | 8,540 | - | 48,509 | - | 241,674 |
| Accounts payable | - | 7,476 | - | 36,700 | 13,321 | 57,497 |
| Accrued liabilities | - | - | - | 5,220 | - | 5,220 |
| Noncurrent liabilities | | | | | | |
| Due within one year | - | - | - | 99,038 | - | 99,038 |
| Total liabilities | 184,625 | 16,016 | - | 189,467 | 13,321 | 403,429 |
| Net Position (Deficit) | | | | | | |
| Investment in capital assets | - | - | 10,161 | - | - | 10,161 |
| Unrestricted | (170,116) | (16,016) | 56,932 | (170,080) | 119,236 | (180,044) |
| Total net position (deficit) | \$ (170,116) | \$ (16,016) | \$ 67,093 | \$ (170,080) | \$ 119,236 | \$ (169,883) |

Minnesota Chippewa Tribe
Combining Schedule of Revenues, Expenses, and Changes in Net Position –
Internal Service Funds
Year Ended September 30, 2016

| | Office Space | Revolving Fund | Computer/ Copy Services | Admin Pool | MCT Insurance | Total |
|---|---------------------|--------------------|-------------------------------|---------------------|-------------------|---------------------|
| Revenue | | | | | | |
| Sales of business support revenues | \$ - | \$ - | 29,367 | \$ - | \$ - | \$ 29,367 |
| Indirect revenue | - | - | - | 599,733 | - | 599,733 |
| Rental revenue | 47,028 | - | - | - | - | 47,028 |
| Insurance revenue | - | - | - | - | 369,168 | 369,168 |
| | <u>47,028</u> | <u>-</u> | <u>29,367</u> | <u>599,733</u> | <u>369,168</u> | <u>1,045,296</u> |
| Expenses | | | | | | |
| Current | | | | | | |
| Personnel | 8,551 | - | - | 375,253 | - | 383,804 |
| Fringe benefits | 1,176 | - | - | 132,305 | - | 133,481 |
| Travel/training | - | - | - | 19,591 | - | 19,591 |
| Office expenses | 11,695 | - | 4,074 | 25,486 | 210 | 41,465 |
| Office and equipment rent | - | - | 3,179 | 27,623 | - | 30,802 |
| Maintenance | 62,131 | - | - | - | - | 62,131 |
| Depreciation | - | - | 6,188 | - | - | 6,188 |
| Other expenditures | - | - | 4,903 | 99,633 | 367,787 | 472,323 |
| | <u>83,553</u> | <u>-</u> | <u>18,344</u> | <u>679,891</u> | <u>367,997</u> | <u>1,149,785</u> |
| Change in Net Position | (36,525) | - | 11,023 | (80,158) | 1,171 | (104,489) |
| Net Position (Deficit), Beginning of Year | <u>(133,591)</u> | <u>(16,016)</u> | <u>56,070</u> | <u>(89,922)</u> | <u>118,065</u> | <u>(65,394)</u> |
| Net Position (Deficit), End of Year | <u>\$ (170,116)</u> | <u>\$ (16,016)</u> | <u>\$ 67,093</u> | <u>\$ (170,080)</u> | <u>\$ 119,236</u> | <u>\$ (169,883)</u> |

Minnesota Chippewa Tribe
Combining Schedule of Cash Flows –
Internal Service Funds
Year Ended September 30, 2016

| | Office Space | Revolving Fund | Computer/ Copy Services | Admin Pool | MCT Insurance | Total |
|---|---------------------|-------------------|-------------------------------|--------------------|-------------------|--------------------|
| Operating Activities | | | | | | |
| Cash received from customers | \$ 42,400 | \$ 1,250 | \$ 67,637 | \$ 619,767 | \$ 500,894 | \$ 1,231,948 |
| Cash paid for wages and benefits | (9,727) | - | - | (514,893) | - | (524,620) |
| Cash paid to suppliers | (217,298) | (9,790) | (12,156) | (139,563) | (368,337) | (747,144) |
| Net Cash from (used for) Operating Activities | <u>(184,625)</u> | <u>(8,540)</u> | <u>55,481</u> | <u>(34,689)</u> | <u>132,557</u> | <u>(39,816)</u> |
| Non-Capital Financing Activities | | | | | | |
| Proceeds from other funds | 184,625 | 8,540 | - | 48,509 | - | 241,674 |
| Payments to other funds | - | - | (56,932) | (13,820) | (132,557) | (203,309) |
| Net Cash from (used for) Non-Capital Financing Activities | <u>184,625</u> | <u>8,540</u> | <u>(56,932)</u> | <u>34,689</u> | <u>(132,557)</u> | <u>38,365</u> |
| Net Change in Cash and Cash Equivalents | - | - | (1,451) | - | - | (1,451) |
| Cash and Cash Equivalents at Beginning of Year | - | - | 1,451 | - | - | 1,451 |
| Cash and Cash Equivalents at End of Year | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Reconciliation of Operating Income (Loss) to Net Cash from (used for) Operating Activities | | | | | | |
| Change in net position | \$ (36,525) | \$ - | \$ 11,023 | \$ (80,158) | \$ 1,171 | \$ (104,489) |
| Adjustments to reconcile operating income (loss) to cash from (used for) operating activities | | | | | | |
| Depreciation | - | - | 6,188 | - | - | 6,188 |
| Changes in assets and liabilities | | | | | | |
| Accounts receivables | (4,628) | 1,250 | 38,270 | 20,034 | 131,726 | 186,652 |
| Prepaid expenses and other assets | - | - | - | 4,515 | - | 4,515 |
| Accounts payables | (143,472) | (9,790) | - | 28,255 | (340) | (125,347) |
| Accrued liabilities | - | - | - | (7,335) | - | (7,335) |
| Net Cash from (used for) Operating Activities | <u>\$ (184,625)</u> | <u>\$ (8,540)</u> | <u>\$ 55,481</u> | <u>\$ (34,689)</u> | <u>\$ 132,557</u> | <u>\$ (39,816)</u> |

Minnesota Chippewa Tribe
Combining Balance Sheet –
U.S Department of Interior Programs
September 30, 2016

| | Tribal Operations 503 | Natural Resources 510 | Scanning Project 515 | Title Reconciliation Project 516 | Johnson O'Malley (Various) | Total |
|---|-----------------------------|-----------------------------|----------------------------|---|----------------------------------|-------------------|
| Assets | | | | | | |
| Cash and cash equivalents | \$ 163,587 | \$ 3,953 | \$ - | \$ - | \$ 130,331 | \$ 297,871 |
| Grants receivable | - | - | 7,160 | 15,585 | - | 22,745 |
| Prepaid items | 2,501 | - | - | - | 714 | 3,215 |
| Total assets | \$ 166,088 | \$ 3,953 | \$ 7,160 | \$ 15,585 | \$ 131,045 | \$ 323,831 |
| Liabilities and Fund Balance | | | | | | |
| Liabilities | | | | | | |
| Due to other funds | \$ - | \$ - | \$ 7,160 | \$ 15,585 | \$ - | \$ 22,745 |
| Accounts payable | - | 3,953 | - | - | - | 3,953 |
| Deferred revenue | 166,088 | - | - | - | 131,045 | 297,133 |
| Total liabilities | 166,088 | 3,953 | 7,160 | 15,585 | 131,045 | 323,831 |
| Fund Balance | | | | | | |
| Nonspendable | | | | | | |
| Prepaid items | 2,501 | - | - | - | 714 | 3,215 |
| Unassigned | (2,501) | - | - | - | (714) | (3,215) |
| Total fund balance | - | - | - | - | - | - |
| Total liabilities and fund balance | \$ 166,088 | \$ 3,953 | \$ 7,160 | \$ 15,585 | \$ 131,045 | \$ 323,831 |

Minnesota Chippewa Tribe
Combining Schedule of Revenue, Expenditures and Change in Fund Balance –
U.S Department of Interior Programs
Year Ended September 30, 2016

| | Tribal Operations 503 | Natural Resources 510 | Scanning Project 515 | Title Reconciliation Project 516 | Johnson O'Malley (Various) | Total |
|---------------------------------|-----------------------------|-----------------------------|----------------------------|---|----------------------------------|----------------|
| Revenue | | | | | | |
| Intergovernmental - federal | \$ 257,684 | \$ - | \$ - | \$ - | \$ 263,134 | \$ 520,818 |
| Contract | 50,988 | - | 7,160 | 15,585 | - | 73,733 |
| Total revenue | <u>308,672</u> | <u>-</u> | <u>7,160</u> | <u>15,585</u> | <u>263,134</u> | <u>594,551</u> |
| Expenditures | | | | | | |
| Current | | | | | | |
| Personnel | 164,201 | - | 5,392 | 9,637 | 83,579 | 262,809 |
| Fringe benefits | 50,003 | - | 659 | 3,534 | 21,920 | 76,116 |
| Travel/training | 10,733 | - | - | - | 19,114 | 29,847 |
| Office expenses | 16,115 | - | - | - | 16,115 | 32,230 |
| Office and equipment rental | 19,754 | - | - | - | 7,003 | 26,757 |
| Other contracts | - | - | - | - | 2,255 | 2,255 |
| Other expenditures | 54 | - | - | - | 68,864 | 68,918 |
| Total direct expenditures | <u>260,860</u> | <u>-</u> | <u>6,051</u> | <u>13,171</u> | <u>218,850</u> | <u>498,932</u> |
| Indirect costs | <u>47,812</u> | <u>-</u> | <u>1,109</u> | <u>2,414</u> | <u>44,284</u> | <u>95,619</u> |
| Total expenditures | <u>308,672</u> | <u>-</u> | <u>7,160</u> | <u>15,585</u> | <u>263,134</u> | <u>594,551</u> |
| Net Change in Fund Balance | - | - | - | - | - | - |
| Fund Balance, Beginning of Year | - | - | - | - | - | - |
| Fund Balance, End of Year | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

Minnesota Chippewa Tribe
Combining Balance Sheet –
U.S. Department of Health and Human Services Programs
September 30, 2016

| | Title VI Nutrition Grant 620 | NEW/ STRIDE Program 621 | Caregiver Support 622 | MFIP 808 | Title III 830 | MIAAA 831 | Nutrition Support Services 832 |
|---|---------------------------------------|----------------------------------|-----------------------------|-------------------|------------------|-------------------|---|
| Assets | | | | | | | |
| Cash and cash equivalents | \$ 125 | \$ - | \$ 70 | \$ - | \$ 59,747 | \$ - | \$ - |
| Accounts receivable | - | - | - | - | - | - | - |
| Grants receivable | - | 39,477 | - | 130,932 | - | 134,711 | 7,956 |
| Prepaid items | - | - | - | 1,146 | 387 | - | - |
| Total assets | \$ 125 | \$ 39,477 | \$ 70 | \$ 132,078 | \$ 60,134 | \$ 134,711 | \$ 7,956 |
| Liabilities and Fund Balance | | | | | | | |
| Liabilities | | | | | | | |
| Due to other funds | \$ - | \$ 39,477 | \$ - | \$ 120,688 | \$ - | \$ 43,629 | \$ 9,464 |
| Accounts payable | - | - | - | 11,390 | 11,000 | 91,082 | - |
| Deferred revenue | 125 | - | 70 | - | 49,134 | - | - |
| Total liabilities | 125 | 39,477 | 70 | 132,078 | 60,134 | 134,711 | 9,464 |
| Fund Balance (Deficit) | | | | | | | |
| Nonspendable | | | | | | | |
| For prepaid items | - | - | - | 1,146 | 387 | - | - |
| Unassigned | - | - | - | (1,146) | (387) | - | (1,508) |
| Total fund balance (deficit) | - | - | - | - | - | - | (1,508) |
| Total liabilities and fund balance (deficit) | \$ 125 | \$ 39,477 | \$ 70 | \$ 132,078 | \$ 60,134 | \$ 134,711 | \$ 7,956 |

Minnesota Chippewa Tribe
Combining Balance Sheet –
U.S. Department of Health and Human Services Programs
September 30, 2016

| | Caregiver 835 | Grandkin 838 | Title III-D 840 | Integrated System Development 841 | MNSURE 851 | Wisdom Steps Integrated Systems 133 | Total |
|---|------------------|-----------------|--------------------|--|---------------|--|-------------------|
| Assets | | | | | | | |
| Cash and cash equivalents | \$ - | \$ 4,162 | \$ - | \$ 2,609 | \$ - | \$ - | \$ 66,713 |
| Accounts receivable | - | - | - | - | 262 | 867 | 1,129 |
| Grants receivable | 6,505 | - | 7,122 | - | - | - | 326,703 |
| Prepaid items | - | - | - | - | - | - | 1,533 |
| Total assets | \$ 6,505 | \$ 4,162 | \$ 7,122 | \$ 2,609 | \$ 262 | \$ 867 | \$ 396,078 |
| Liabilities and Fund Balance | | | | | | | |
| Liabilities | | | | | | | |
| Due to other funds | \$ 6,505 | \$ - | \$ 7,122 | \$ - | \$ 262 | \$ 1,646 | \$ 228,793 |
| Accounts payable | - | - | - | - | - | 185 | 113,657 |
| Deferred revenue | - | 4,162 | - | 2,609 | - | - | 56,100 |
| Total liabilities | 6,505 | 4,162 | 7,122 | 2,609 | 262 | 1,831 | 398,550 |
| Fund Balance (Deficit) | | | | | | | |
| Nonspendable | | | | | | | |
| For prepaid items | - | - | - | - | - | - | 1,533 |
| Unassigned | - | - | - | - | - | (964) | (4,005) |
| Total fund balance (deficit) | - | - | - | - | - | (964) | (2,472) |
| Total liabilities and fund balance (deficit) | \$ 6,505 | \$ 4,162 | \$ 7,122 | \$ 2,609 | \$ 262 | \$ 867 | \$ 396,078 |

Minnesota Chippewa Tribe
Combining Schedule of Revenue, Expenditures, and Changes in Fund Balance –
U.S. Department of Health and Human Services Programs
Year Ended September 30, 2016

| | Title VI Nutrition Grant 620 | NEW/ STRIDE Program 621 | Caregiver Support 622 | MFIP 808 | Title III 830 | MIAAA 831 | Nutrition Support Services 832 |
|--|---------------------------------------|----------------------------------|-----------------------------|----------------|------------------|----------------|---|
| Revenue | | | | | | | |
| Intergovernmental - federal | \$ - | \$ 336,476 | \$ - | \$ 532,980 | \$ - | 332,116 | \$ - |
| Intergovernmental - state | - | - | - | - | 78,404 | 100,281 | - |
| Other | - | - | - | - | 1,000 | - | - |
| Total revenue | - | 336,476 | - | 532,980 | 79,404 | 432,397 | - |
| Expenditures | | | | | | | |
| Personnel | - | 120,469 | - | 197,827 | 28,305 | 38,870 | - |
| Fringe benefits | - | 29,991 | - | 49,712 | 9,626 | 15,439 | - |
| Travel/training | - | 11,563 | - | 18,086 | 19,411 | - | - |
| Office expenses | - | 32,236 | - | 60,671 | 7,222 | 750 | - |
| Pass through funds | - | - | - | - | 11,000 | 372,961 | - |
| Office and equipment rent | - | - | - | - | 3,822 | - | - |
| Other expenditures | - | 90,512 | - | 127,799 | 18 | - | - |
| Total direct expenditures | - | 284,771 | - | 454,095 | 79,404 | 428,020 | - |
| Indirect costs | - | 51,705 | - | 78,885 | - | 4,377 | - |
| Total expenditures | - | 336,476 | - | 532,980 | 79,404 | 432,397 | - |
| Net Change in Fund Balance | - | - | - | - | - | - | - |
| Fund Balance (Deficit), Beginning of Year | - | - | - | - | - | - | (1,508) |
| Fund Balance (Deficit), End of Year | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (1,508) |

Minnesota Chippewa Tribe
Combining Schedule of Revenue, Expenditures, and Changes in Fund Balance –
U.S. Department of Health and Human Services Programs
Year Ended September 30, 2016

| | Caregiver 835 | Grandkin 838 | Title III-D 840 | Integrated System Development 841 | MNSURE 851 | Wisdom Steps Integrated Systems 133 | Total |
|--|------------------|-----------------|--------------------|--|---------------|--|-------------------|
| Revenue | | | | | | | |
| Intergovernmental - federal | \$ 16,712 | \$ - | \$ 1,014 | \$ - | \$ - | \$ 8,871 | \$ 1,228,169 |
| Intergovernmental - state | - | - | - | - | - | - | 178,685 |
| Other | - | - | - | - | - | - | 1,000 |
| Total revenue | 16,712 | - | 1,014 | - | - | 8,871 | 1,407,854 |
| Expenditures | | | | | | | |
| Personnel | 7,061 | - | - | - | - | - | 392,532 |
| Fringe benefits | 3,109 | - | - | - | - | - | 107,877 |
| Travel/training | 1,290 | - | - | - | - | 408 | 50,758 |
| Office expenses | 691 | - | - | - | - | 945 | 102,515 |
| Pass through funds | - | - | - | - | - | - | 383,961 |
| Office and equipment rent | 4,545 | - | - | - | - | - | 8,367 |
| Other expenditures | 16 | - | 1,014 | - | - | 1,937 | 221,296 |
| Total direct expenditures | 16,712 | - | 1,014 | - | - | 3,290 | 1,267,306 |
| Indirect costs | - | - | - | - | - | 258 | 135,225 |
| Total expenditures | 16,712 | - | 1,014 | - | - | 3,548 | 1,402,531 |
| Net Change in Fund Balance | - | - | - | - | - | 5,323 | 5,323 |
| Fund Balance (Deficit), Beginning of Year | - | - | - | - | - | (6,287) | (7,795) |
| Fund Balance (Deficit), End of Year | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (964) | \$ (2,472) |

Minnesota Chippewa Tribe
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2016

| Federal Grantor/Pass Through Grantor/Program | Contract or Pass Through Number | CFDA Number | Expenditures | Amounts Passed- Through to Subrecipients |
|---|------------------------------------|----------------|----------------|--|
| U.S. Department of Interior | | | | |
| Passed-through the Bureau of Indian Affairs | | | | |
| Tribal operations | | 15.021 | \$ 308,672 | |
| Scanning Project | A16AC00030 | 15.022 | \$ 7,160 | |
| Reconciliation Project | A16AC00025 | 15.022 | <u>15,585</u> | |
| Total CFDA #15.022 | | | 22,745 | |
| Johnson O'Malley | | 15.130 | <u>263,134</u> | |
| Total U.S. Department of Interior | | | | \$ 594,551 |
| U.S. Department of Health and Human Services | | | | |
| Direct programs | | | | |
| NEW Program, 10/15 - 12/15 | | 93.594 | 271,257 | |
| NEW Program, 07/15 - 9/15 | | 93.594 | <u>65,220</u> | |
| Total CFDA #93.594 | | | | 336,477 |
| Disease Prevention/Health Promotion, 1/16 - 9/16 | 16AAMNT3PH | 93.043 | | 1,014 |
| Caregiver Support, 10/15 - 12/15 | 15AAMNTFC | 93.052 | 2,009 | |
| Caregiver Support, 01/16 - 09/16 | 16AAMNT3PH | 93.052 | <u>14,704</u> | |
| Total CFDA #93.052 | | | | 16,713 |
| Special Programs passed through for the MN Board of Aging | | | | |
| Title III, Part B Grants for Supportive Services and Senior Centers, 10/15 - 12/15 | 15AAMNT3SS | 93.044 | 23,649 | |
| Title III, Part B Grants for Supportive Services and Senior Centers, 01/16 - 09/16 | 15AAMNT3SS | 93.044 | 55,754 | |
| AAA Administration, 10/15 - 12/15 | 15AAMNT3 | 93.044 | 12,525 | |
| AAA Administration, 01/16 - 09/16 | 16AAMNT3 | 93.044 | <u>46,913</u> | 11,000 |
| Total CFDA #93.044 | | | <u>138,841</u> | |
| Home Delivered/Congregate Meals, 10/15 - 12/15 | 15AAMNT3HD/15AAMNT3CM | 93.045 | 28,597 | |
| Home Delivered/Congregate Meals, 1/16 - 9/16 | 15AAMNT3HD/15AAMNT3CM | 93.045 | <u>165,188</u> | |
| Total CFDA #93.045 | | | <u>193,785</u> | 193,785 |
| Special Program for the Aging | 333-12-ISPA-037-002 | 93.048 | <u>3,546</u> | |
| NSIP - Home Delivered/Congregate Meals, 10/15 - 12/15 | 15AAMNNSIP | 93.053 | 35,892 | |
| NSIP - Home Delivered/Congregate Meals, 1/16 - 9/16 | 16AAMNNSIP | 93.053 | <u>43,003</u> | |
| Total CFDA #93.053 | | | <u>78,895</u> | 78,895 |
| Total Special Programs passed through the MN Board of Aging Cluster CFDA #93.044, 93.045, 93.053 | | | | 415,067 |
| Minnesota Family Investment Program, 10/15 - 12/15 | 1502MNTANF | 93.558 | 180,161 | |
| Minnesota Family Investment Program, 1/16 - 9/16 | 1602MNTANF | 93.558 | <u>352,822</u> | |
| Total CFDA #93.558 | | | <u>532,983</u> | |
| Total U.S. Department of Health and Human Services | | | | \$ 1,302,254 |

Minnesota Chippewa Tribe
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2016

| Federal Grantor/Pass Through Grantor/Program | Contract or Pass Through Number | CFDA Number | Expenditures | Amounts Passed- Through to Subrecipients |
|---|------------------------------------|----------------|---------------------|--|
| U.S. Department of Commerce | | | | |
| Direct Programs | | | | |
| Economic Development Planning, 10/15 - 12/15 | | 11.302 | 95,525 | |
| Economic Development Planning, 1/16 - 9/16 | | 11.302 | <u>25,353</u> | |
| Total CFDA #11.302 | | | <u>120,878</u> | |
| Total U.S. Department of Commerce | | | | 120,878 |
| Environmental Protection Agency | | | | |
| Direct Programs | | | | |
| Great Lakes Program | | 66.469 | 2,846 | |
| General Assistance Program | | 66.926 | <u>86,332</u> | |
| Total Environmental Protection Agency | | | | 89,178 |
| U.S. Department of Agriculture | | | | |
| Passed-through State of Minnesota | | | | |
| Department of Human Services | | | | |
| Food Stamp Nutrition Education | 201616Q390342 | 10.561 | <u>664,320</u> | 528,337 |
| Total U.S. Department of Agriculture | | | | 664,320 |
| U.S. Department of Justice | | | | |
| Direct Programs | | | | |
| Justice Assistance Grant | | 16.738 | | 21,075 |
| U.S. Department of Labor | | | | |
| Passed-through State of Minnesota Economic Security | | | | |
| Senior Community Service Employment, 10/15 - 6/16 | AD-28755-16-55-A-27 | 17.235 | 36,156 | |
| Senior Community Service Employment, 7/16 - 9/16 | AD-28755-16-55-A-27 | 17.235 | <u>10,901</u> | |
| Total CFDA #17.235 | | | <u>47,057</u> | |
| Total U.S. Department of Labor | | | | 47,057 |
| U.S. Institute of Museum & Library Services | | | | |
| Direct Program | | | | |
| Native American Library Services | | 45.311 | <u>119,960</u> | <u>119,960</u> |
| Total Federal Financial Assistance | | | <u>\$ 2,959,273</u> | <u>\$ 931,977</u> |

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Minnesota Chippewa Tribe. 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 on a selected portion of the operations of the Minnesota Chippewa Tribe, it is not intended to and does not present the financial positions, changes in net position or fund balance of the Minnesota Chippewa Tribe.

Note B – Significant Accounting Policies

Expenditures reported in 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.

Note C – Significant Accounting Policies

The organization has not elected to use the 10% de minimis cost rate.



Independent Auditor's 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

To the Tribal Executive Committee
Minnesota Chippewa Tribe
Cass Lake, Minnesota

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, business-type activities, each major fund, and the aggregate remaining fund information of Minnesota Chippewa Tribe, Cass Lake, Minnesota, (the Tribe) as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the Tribe's basic financial statements and have issued our report thereon dated November 13, 2018.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Tribe's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Tribe's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Tribe's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of audit findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We consider deficiencies 2016-A, 2016-B, 2016-C, and 2016-D, described in the accompanying schedule of findings and questioned costs to be material weaknesses.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Tribe'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 determination of financial statement amounts. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings and questioned costs as items 2016-001 and 2016-002.

Tribe's Response to Findings

The Tribe's responses to the findings identified in our audit is described in the Tribe's corrective action plan. The Tribe's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota
November 13, 2018



Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance Required by Uniform Guidance

To the Tribal Executive Committee
Minnesota Chippewa Tribe
Cass Lake, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Minnesota Chippewa Tribe's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Minnesota Chippewa Tribe's major federal programs for the year ended September 30, 2016. Minnesota Chippewa Tribe's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on the compliance for each of Minnesota Chippewa Tribe's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Minnesota Chippewa Tribe's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Minnesota Chippewa Tribe's compliance.

Basis for Qualified Opinion on Certain Major Federal Programs

As described in the accompanying schedule of findings and questions costs, the Minnesota Chippewa Tribe did not comply with the requirements regarding the following major federal programs.

| <u>Finding Number</u> | <u>CFDA</u> | <u>Program</u> | <u>Compliance Requirement</u> |
|-----------------------|-------------|-------------------------------------|--|
| 2016-001 | 93.558 | Minnesota Family Investment Program | Allowable Activities/ Allowable Costs |

Compliance with such requirements is necessary, in our opinion, for the Minnesota Chippewa Tribe to comply with the requirements applicable to this program.

Qualified Opinion on Certain Major Federal Programs

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Minnesota Chippewa Tribe complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on for the year ended September 30, 2016.

Opinion on Each of the Other Major Federal Programs

In our opinion, the Tribe complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its other major Federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended September 30, 2016.

Report on Internal Control over Compliance

Management of the Minnesota Chippewa Tribe is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered Minnesota Chippewa Tribe's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Minnesota Chippewa Tribe's 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 compliance requirement 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 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 and significant deficiencies may exist that have not been identified. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2016-001 and 2016-002 to be material weaknesses.

Tribe's Response to Finding

The Tribe's responses to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Tribe's response was not subjected to the 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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Eide Bailly LLP". The signature is written in black ink and is positioned above the typed name and date.

Fargo, North Dakota
November 13, 2018

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

| | |
|--|---------------|
| Type of Auditor's Report Issued | Unmodified: |
| Internal Control over Financial Reporting | |
| Material weaknesses identified | Yes |
| Significant deficiencies identified not considered to be material weaknesses | None reported |
| Noncompliance Material to Financial Statements Noted? | Yes |

FEDERAL AWARDS

| | |
|--|-----------------------------------|
| Internal Control over Major Programs | |
| Material weaknesses identified | Yes |
| Significant deficiencies identified not considered to be material weaknesses | None reported |
| Type of Auditor's Report Issued on Compliance for Major Programs | Qualified, Unmodified (see below) |
| Any Audit Findings Disclosed That Are Required to be Reported in Accordance with Uniform Guidance 2 CFR 200.516: | Yes |

Identification of Major Programs

| <u>Name of Federal Program or Cluster</u> | <u>CFDA Number</u> | <u>Opinion</u> |
|---|--------------------|----------------|
| Food Stamp Nutrition Education | 10.561 | Unmodified |
| Tribal Operations | 15.021 | Unmodified |
| Minnesota Family Investment Program | 93.558 | Qualified |

| | |
|---|------------|
| Dollar Threshold used to Distinguish Between Type A and Type B Programs | \$ 750,000 |
| Auditee Qualified as Low-Risk Auditee? | No |

Section II – Financial Statement Findings

**2016-A Significant Journal Entries
Material Weakness**

Condition – During the course of our engagement, we proposed material audit adjustments that would not have been identified as a result of the Tribe’s existing internal controls, and therefore could have resulted in a material misstatement of the Tribe’s financial statements.

Criteria – A good system of internal accounting control contemplates an adequate system for recording and processing entries material to the financial statements.

Cause – The Tribe does not have an internal control system designed to identify all necessary adjustments.

Effect – This control deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

Recommendation – A thorough review and reconciliation of accounts in each fund should take place prior to the beginning of the audit. This review should be done at both the accounting staff and accounting supervisor levels.

Management’s Response – The Tribe is developing a fiscal year-end review process and checklist that will be implemented at the end of the fiscal year September 30, 2014 to ensure that future audit adjustments will be minimal.

**2016-B Preparation of Financial Statements
Material Weakness**

Condition – The Tribe does not have an internal control system designed to provide for the preparation of the financial statements being audited. The auditors were requested to, and did, draft the Tribe’s financial statements and accompanying notes to the financial statements.

Criteria – A good system of internal accounting control contemplates an adequate system for the ability to internally prepare their financial statements.

Cause - Tribal personnel do not have adequate training to apply accounting principles generally accepted in the United States of America internally.

Effect – The financial disclosures in the financial statements could be incomplete.

Recommendation – This circumstance is not unusual in a Tribe of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Management’s Response – Due to cost constraints, the Tribe will continue to have the auditors draft the financial statements and accompanying notes to the financial statements.

2016-C Segregation of Duties
Material Weakness

Condition – The Tribe has a lack of segregation of duties in certain areas due to a limited staff.

Criteria – A good system of internal control contemplates an adequate segregation of duties so that no one individual has incompatible responsibilities. No one person should have more than one duty relating to the authorization (approval), custody of assets (check depositing), record keeping and reconciliation functions.

Cause – There are a limited amount of finance employees.

Effect – Inadequate segregation of duties could adversely affect the Tribe's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Recommendation – While we recognize that your staff may not be large enough to permit complete segregation of duties in all respects for an effective system of internal control, the functions should be reviewed to determine if additional segregation of duties is feasible and to improve efficiency and effectiveness of financial management and financial statement accuracy for the Tribe. Segregation of authorization, custody of assets, record keeping and reconciliation functions would assist in mitigating the risk of fraud or misstatements to the financial statements.

Management's Response – Due to cost constraints, there will be no further administrative employees added. The Tribe will continue to look for further opportunities to segregate duties.

2016-D Reporting
Material Weakness and Material Noncompliance

Condition – The September 30, 2016 audited financial statements were not filed with the Federal Audit Clearinghouse by the required due date.

Criteria – Requirements contained in Uniform Guidance requires audited financial statements to be filed with the Federal Audit Clearinghouse within nine months of the Tribe's year end, as required for compliance with reporting requirements.

Cause – The Tribe's financial statements were not available to be audited until after the nine month deadline had passed.

Effect – Non-compliance with Uniform Guidance reporting requirements.

Recommendation – We recommend that the Tribe implement and communicate a timeline within the finance department to ensure that the Tribe financial information and files are prepared, reconciled, and audited timely. This will allow for timely submission of its audited financial statements to the Federal Audit Clearinghouse within the nine month deadline as required by Uniform Guidance.

Management's Response – The Tribe is currently trying to get their audit status to current with the Federal Government. Unfortunately, the FY 2016 financial statements were unavailable to be audited in a timely manner.

Section III – Federal Award Findings and Questioned Costs

**2016-001 Allowable Activities/Allowable Costs
 Material Weakness in Internal Control over Compliance and Material Noncompliance**

Federal program Information:

| Federal Agency | Passed-through | CFDA Number | Program Title | Contract Number | Award Year |
|--|--------------------------------------|----------------|--|--------------------------|---------------|
| U.S. Dept. of Health and Human Services | Minnesota Dept. of Human Services | 93.558 | Minnesota Family Investment Program | 1502MNTANF 1602MNTANF | 2016 |

Criteria - Requirements contained in 2 CFR Part 900 require that only allowable costs and activities defined by 2 CFR 200 should be made with federal awards.

Condition - The Tribe had payments for unallowable expenditures and failed to maintain required supporting documentation verifying allowable cost details.

Cause - The Tribe also did not adequately require recipients seeking services paid for by this DHS grant to submit all required supporting documentation to verify that these were allowable costs under the grant’s requirements.

Effect - These expenditures were questioned costs.

Questioned Costs - \$23,257

Context/Sampling - A nonstatistical sample of 60 transactions out of greater than 250 total transactions were selected for testing, which accounted for \$79,439 of \$532,983 of federal program expenditures.

Repeat Finding from Prior year(s) - Yes

Recommendation - The Tribe should ensure that only allowable costs are being paid for with federal funds.

Views of Responsible Officials: Management of the Tribe is in agreement with the finding.

**2016-002 Allowable Activities/Allowable Costs
 Material Weakness in Internal Control over Compliance**

Federal program Information:

| Federal Agency | Passed-through | CFDA Number | Program Title | Contract Number | Award Year |
|-----------------------------|-----------------------------|----------------|-------------------|--------------------|---------------|
| U.S. Department of Interior | Bureau of Indian Affairs | 15.021 | Tribal Operations | N/A | 2016 |

Criteria - Requirements contained in 2 CFR Part 900 require that only allowable costs and activities defined by 2 CFR 200 should be made with federal awards.

Condition – It was noted that one expenditure tested included federal funds that were used for a late fee on a credit card bill, which is an unallowable activity.

Cause - Procedures are not in place to ensure that the Tribe is only using federal funds for allowable costs and activities.

Effect - These expenditures were questioned costs.

Questioned Costs – None reported

Context/Sampling - A nonstatistical sample of 60 transactions out of more than 250 total transactions were selected for testing, which accounted for \$18,375 of \$308,672 of federal program expenditures.

Recommendation - The Tribe should ensure that only allowable costs are being paid for with federal funds.

Repeat Finding from Prior year(s) - Yes

Recommendation - The Tribe should ensure that only allowable costs are being paid for with federal funds.

Views of Responsible Officials: Management of the Tribe is in agreement with the finding.