

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

**BECKER COUNTY ECONOMIC
DEVELOPMENT AUTHORITY
DETROIT LAKES, MINNESOTA
(A COMPONENT UNIT OF BECKER COUNTY)**

YEAR ENDED DECEMBER 31, 2015

Description of the Office of the State Auditor

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 150 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for approximately 700 public pension funds; and

Tax Increment Financing - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**BECKER COUNTY ECONOMIC
DEVELOPMENT AUTHORITY
DETROIT LAKES, MINNESOTA
(A COMPONENT UNIT OF BECKER COUNTY)**

Year Ended December 31, 2015



**Audit Practice Division
Office of the State Auditor
State of Minnesota**

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**BECKER COUNTY ECONOMIC DEVELOPMENT AUTHORITY
DETROIT LAKES, MINNESOTA**

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DETROIT LAKES, MINNESOTA**

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**BECKER COUNTY ECONOMIC DEVELOPMENT AUTHORITY
DETROIT LAKES, MINNESOTA**

**ORGANIZATION SCHEDULE
DECEMBER 31, 2015**

<u>Board of Directors</u>		<u>Board Position</u>	<u>Term Expires</u>
Larry Knutson		Commissioner/Vice President	January 1, 2018
Barry Nelson		Commissioner/President	January 1, 2019
Paul Joyce	1st District	Board Member	January 1, 2020
Chris Sherman	2nd District	Board Member	January 1, 2021
Hank Ludtke	3rd District	Board Member	January 1, 2016
Chuck Jost	4th District	Board Member	January 1, 2016
Abby Anderson	5th District	Treasurer/Secretary	January 1, 2018
Guy Fischer		EDA Coordinator	Indefinite

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Becker County Economic Development Authority
Detroit Lakes, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Becker County Economic Development Authority (EDA), a component unit of Becker County, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the EDA'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 EDA'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 EDA'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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Becker County Economic Development Authority as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit for the year ended December 31, 2015, was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Becker County Economic Development Authority's basic financial statements. The supplementary information for the year ended December 31, 2015, as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements for the year ended December 31, 2015, 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements for the year ended December 31, 2015.

We also previously audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of the Becker County Economic Development Authority as of and for the year ended December 31, 2014 (not presented herein), and have issued our report thereon dated April 29, 2015, which contained unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, and each major fund. The West River Townhomes Activity on Exhibits B-2 through B-4 for the year ended December 31, 2014, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2014 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 2014 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those financial statements or to those financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the West River Townhomes Activity is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole for the year ended December 31, 2014.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2016, on our consideration of the Becker County Economic Development Authority'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 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 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 Becker County Economic Development Authority's internal control over financial reporting and compliance.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 13, 2016

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**BECKER COUNTY ECONOMIC DEVELOPMENT AUTHORITY
DETROIT LAKES, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015
(Unaudited)**

INTRODUCTION

It is a privilege to present for you the financial picture of the Becker County Economic Development Authority (EDA). The Management's Discussion and Analysis (MD&A) is designed to (a) assist the reader in focusing on significant financial information, (b) provide an overview of the financial activity, (c) identify changes in the financial position (its ability to address the next and subsequent year challenges), and (d) identify individual fund issues or concerns. Since the MD&A for the fiscal year ended December 31, 2015, is designed to focus on the current year's activities, resulting changes, and currently known facts, please read it in conjunction with the EDA's financial statements, which begin on page 14. All amounts, unless otherwise indicated, are expressed in whole dollars.

FINANCIAL HIGHLIGHTS

- The EDA's total net position increased \$78,089 in 2015, an increase of 1.817 percent.
- At the close of 2015, the EDA's net position was \$4,375,791. There are three components that comprise this balance:
 - Net investment in capital assets of \$1,286,837, a decrease of \$54,089 when compared to the prior year.
 - Restricted net position of \$1,769,681, an increase of \$20,245 when compared with the prior year. Restricted net position is subject to external restrictions on how it may be used and may only be used for those specific purposes.
 - Unrestricted net position of \$1,319,273, an increase of \$111,933 when compared to the prior year is available for use in the operations of the ongoing housing programs and for meeting ongoing EDA obligations.
- In 2015, West River Townhomes, the EDA's ongoing small-scale housing development that provides permanent housing for families with minor children who have experienced homelessness, received \$101,907 in rental revenue.

- In 2015, the EDA's ongoing federally funded housing programs received \$73,267 in rental revenue from tenants and \$383,821 in grants from the U.S. Department of Housing and Urban Development (HUD) for the Low Rent Public Housing Program, the Low Rent Capital Fund Program, and the Housing Choice Voucher Program. These programs are operated under an Annual Contributions Contract with HUD. HUD provides federal funding to the EDA so that the EDA can own and operate rental housing for low-income families at rents they can afford. The Housing Choice Voucher Program is the federal government's major program for assisting low-income families, the elderly, and the disabled to afford decent, safe, and sanitary rental housing in the private market. The housing assistance is provided on behalf of the participant and paid directly to the landlord. The participants find their own housing and pay a percentage of their adjusted household income, typically 30 percent, towards rent and utilities.
- In 2015, the EDA continued to administer Minnesota Housing Finance Agency's (MHFA) federally and state funded Minnesota Urban and Rural Homesteading (MURL) Homeownership Program. The intent of both programs is to maintain and/or increase the supply of affordable, owner-occupied, single family housing by providing the EDA with financing to assist in the acquisition, construction, and/or rehabilitation of single family residential properties to be owned by a low- to moderate-income owner-occupant. This program has been the funding source for the EDA's zero-percent contract for deed homeownership program. Under the MURL program, homes are sold to homebuyers who are considered to be "at-risk" and are willing to strengthen the neighborhood by adhering to the EDA's good neighbor policy.
- In 2015, the EDA began referring homeowners interested in MHFA's Rehab Loan Program to the Headwaters Regional Development Commission located in Bemidji, Minnesota, in recognition of the desire to reduce operational redundancy in the region. Under this program, the MHFA provides homeowners with rehabilitation funding, which is intended for basic repairs that make their existing homes more energy efficient, livable, or accessible. This is accomplished through the homeowner's acceptance of the MHFA's 20-year zero-percent interest-deferred loan, which provides financing for homeowners who are unable to obtain conventional financing to undertake necessary improvements to their properties.
- In 2015, the EDA received \$60,404 in rental revenue from four properties. The EDA has continued a collaborative relationship with Becker County to provide a suitable place for handicapped and disabled persons to work. In addition, the EDA has continued a collaborative relationship with local agencies and provides suitable places for mentally or developmentally disabled adults to live.
- The EDA has a management agreement with the Lake Park EDA on land jointly owned and known as the South 10 Business Park, which sold the last remaining lot for business development in 2015. The EDA owns Industrial Park land in Frazee and continues to encourage economic development at this site.
- On behalf of Becker County, the EDA provided \$6,000 in funding to support the programs and services offered through the West Central Initiative Endowment.

OVERVIEW OF FINANCIAL STATEMENTS

Becker County Housing and Economic Development Authority's basic financial statements consist of three components:

1. Government-wide financial statements provide both long-term and short-term financial information. These statements distinguish functions of the EDA that are mainly supported by intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).
2. Fund financial statements focus on individual parts in more detail. The EDA uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives.
3. Notes to the financial statements provide even greater detail for some of the information in the government-wide and fund financial statements. This information is essential for a full understanding of the data provided in the government-wide and fund financial statements.

The financial section also contains supplementary information. The MD&A (this section) and the budgetary comparison schedule are required to accompany the basic financial statements and, therefore, are included as required supplementary information.

There are two government-wide financial statements. The Statement of Net Position and the Statement of Activities (pages 14 and 15 through 16, respectively) provide information about the activities of the EDA as a whole and present a longer-term view of the EDA's finances. Fund financial statements start on page 17. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending.

Government-Wide Financial Statements--The Statement of Net Assets and the Statement of Activities

Our analysis of the EDA as a whole begins on page 14. The Statement of Net Position and the Statement of Activities report information about the EDA as a whole and about its activities in a way that helps the reader determine whether the EDA's financial condition has improved or declined as a result of the year's activities. These statements include all assets and liabilities, with the difference between the two reported as net position.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. That means that some of the revenues and expenses reported in this statement will result in cash flows only in a future year. An example of this is uncollected tax revenues and accounts receivable/payable.

These two statements report the EDA's net position and changes in them. You can think of the EDA's net position--the difference between assets and liabilities--as one way to measure the EDA's financial health, or financial position. Over time, increases or decreases in the EDA's net position is one indicator of whether its financial health is improving or deteriorating. Net position is reported in three broad categories:

1. Net investment in capital assets: This component of net position consists of all capital assets, reduced by accumulated depreciation and the outstanding balances of mortgages or other borrowings attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net position: This component of net position consists of restricted assets. Restrictions occur when creditors, grantors, contributors, laws, and regulations place constraints on the asset.
3. Unrestricted net position: This consists of net position that does not meet the definition of "net investment in capital assets" or "restricted net position."

In the Statement of Net Position and the Statement of Activities, we divide the EDA into two kinds of activities:

- Governmental activities--The EDA's economic development services are reported here. Property taxes finance most of these activities.
- Business-type activities--The EDA's rental assistance, public housing, and other housing activities are reported here. Federal and state grants and subsidies finance most of these activities.

Fund Financial Statements

The fund financial statements begin on page 17 and provide detailed information about the significant funds--not the EDA as a whole. Using separate funds is a way to maintain control over resources that have been segregated for specific activities or objectives. The EDA's two kinds of funds--governmental and proprietary--use different accounting methods.

- Governmental Fund--The EDA's economic development services are reported in the General Fund. The focus is on how money flows into and out of the fund and the balance left at year-end that is available for spending. The General Fund is reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the EDA's economic development operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the

EDA's economic development programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental General Fund in a reconciliation found in a statement following each of the governmental fund financial statements.

- Proprietary Fund--When the EDA charges customers for the services it provides, these services are generally reported in the Proprietary Fund. The Enterprise Fund is reported using an accounting method called full accrual and is reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the EDA's Enterprise Fund is the same as the business-type activities, which we report in the government-wide statements, but provides more detail and additional information, such as cash flows. In the Enterprise Fund, the EDA distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The more significant programs included in the Enterprise Fund are the Public Housing and Capital Fund Program, Housing Choice Voucher Program, and the Minnesota Urban and Rural Homesteading Program.

CONDENSED FINANCIAL INFORMATION

The results of operations are as follows:

Condensed Statements of Net Position for 2015 and 2014

	Governmental Activities		Business-Type Activities		Total Becker County EDA	
	2015	2014	2015	2014	2015	2014
Assets						
Current and other assets	\$ 723,794	\$ 774,950	\$ 2,283,505	\$ 2,238,328	\$ 3,007,299	\$ 3,013,278
Capital assets	-	-	3,858,145	3,758,226	3,858,145	3,758,226
Total Assets	\$ 723,794	\$ 774,950	\$ 6,141,650	\$ 5,996,554	\$ 6,865,444	\$ 6,771,504
Liabilities						
Long-term debt outstanding	\$ -	\$ -	\$ 2,417,300	\$ 2,417,300	\$ 2,417,300	\$ 2,417,300
Other liabilities	-	-	72,353	56,502	72,353	56,502
Total Liabilities	\$ -	\$ -	\$ 2,489,653	\$ 2,473,802	\$ 2,489,653	\$ 2,473,802
Net Position						
Net investment in capital assets	\$ -	\$ -	\$ 1,286,837	\$ 1,340,926	\$ 1,286,837	\$ 1,340,926
Restricted	-	-	1,769,681	1,749,436	1,769,681	1,749,436
Unrestricted	723,794	774,950	595,479	432,390	1,319,273	1,207,340
Total Net Position	\$ 723,794	\$ 774,950	\$ 3,651,997	\$ 3,522,752	\$ 4,375,791	\$ 4,297,702

The governmental activities revenues, which were lower than program expenses and debt service payments, resulted in a \$51,156 decrease in the governmental activities net position.

The business-type activities revenues, which were greater than program expenses and debt service payments, resulted in a \$36,510 increase in the business-type activities net position. The business-type activities net position increased an additional \$92,785 due to the transfer of the Maple Avenue Apartment operations.

It should be noted that the capital assets generally decrease each year is due to depreciation. Depreciation is treated as an expense and reduces the results of operations but does not have an impact on unrestricted net position. Capital expenditures represent outflows of cash; however, the capital expenditures are not treated as an expense, and any increase in capital expenditures does not have an impact on unrestricted net position either. Any increase/decrease is reported in the net investment in capital assets. In 2015, capital assets increased \$99,919 due to the transfer of \$239,120 for the net book value of assets associated with the Maple Avenue Apartments offset by depreciation expense of \$139,201.

The capital assets for the EDA's Public Housing Program were initially acquired with funding provided by the federal government (HUD). The State of Minnesota (MHFA) provided subsequent modernization funding for these federally funded public housing units. West River Townhomes was built in large part with the proceeds of the State of Minnesota general obligation bonds provided through a MHFA Publicly Owned Housing Program (POHP) deferred loan. It is bond-financed property within the meaning of Minn. Stat. § 16A.695 and subject to the encumbrances imposed by that statute. Depending on the terms of the agreements involved, the federal and state governments could be deemed to retain an interest in these assets. However, the EDA has sufficient legal interest to accomplish the purposes for which the assets were acquired and modernized and has included such capital assets at cost less accumulated depreciation and related debt, within the applicable program's net position.

The contractual obligations and limitations placed upon the EDA by HUD and MHFA for the various housing programs can significantly affect the availability of these resources for future use. Therefore, the Statement of Net Position recognizes HUD and MHFA's contractual restriction of funds in the amount of \$1,769,681 in the business-type activities' net position.

While the results of operations are a significant measure of the EDA's activities, the analysis of the changes in net position provide a clearer picture of the change in financial well-being.

The following schedule provides a comparison of changes in net position:

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues						
Program revenues						
Fees, charges, fines, and other	\$ -	\$ -	\$ 325,424	\$ 306,360	\$ 325,424	\$ 306,360
Operating grants and contributions	7,397	12,885	383,821	321,511	391,218	334,396
General revenues						
Property taxes	159,424	160,423	-	-	159,424	160,423
Market value credit - state	2,621	1,668	-	-	2,621	1,668
Interest earnings	8,324	1,433	4,288	3,718	12,612	5,151
Total Revenues	<u>\$ 177,766</u>	<u>\$ 176,409</u>	<u>\$ 713,533</u>	<u>\$ 631,589</u>	<u>\$ 891,299</u>	<u>\$ 807,998</u>

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Program Expenses						
Economic development	\$ 228,922	\$ 146,368	\$ -	\$ -	\$ 228,922	\$ 146,368
Other housing/interest	-	-	677,023	805,113	677,023	805,113
Total Program Expenses	\$ 228,922	\$ 146,638	\$ 677,023	\$ 805,113	\$ 905,945	\$ 951,481
Increase (Decrease) in Net Position	\$ (51,156)	\$ 30,041	\$ 36,510	\$ (173,524)	\$ (14,646)	\$ (143,483)
Transfer of Maple Avenue Operation	-	-	92,735	-	92,735	-
Net Position - Beginning of Year	774,950	744,909	3,522,752	3,696,276	4,297,702	4,441,185
Net Position - Ending of Year	\$ 723,794	\$ 774,950	\$ 3,651,997	\$ 3,522,752	\$ 4,375,791	\$ 4,297,702

Starting in 2004, HUD began enacting changes that attempted to better control the increasing costs of their federally funded housing programs. The EDA is heavily financed from HUD, and these funds provide the revenue for general program administration, capital needs, and housing subsidies.

The Unfunded Mandates Reform Act of 1995 does not protect the EDA from federally imposed program administrative burdens, and HUD does not consider our reduction in operating subsidy to be a hardship.

While it is becoming increasingly difficult to manage HUD's programs as they are currently authorized and funded, the EDA joined forces with a local non-profit, Midwest Minnesota Community Development Corporation (MMCDC) to administer its Housing Programs by signing a one-year management contract in May 2015.

At a time when the need for housing assistance is increasing, members of the House Financial Services Committee have been looking at ways to ease the administrative burdens of the HUD programs, including giving small agencies encouragement to join together in consortia. A consortium could allow two or more agencies to achieve economies of scale in many aspects of program operations, while maintaining their own local board of directors.

The management's analysis of the EDA's overall financial position and results of operations is that the decrease reflects favorably upon the EDA's flexibility and willingness to become more effective and efficient when under economic pressures.

The funding for the business-type activities is dependent upon successful grants writing and good relationships with federal, state, and local agencies. Since this is dependent upon variables largely outside of our control, this has been, and continues to be, an increasingly important function of the EDA. Good planning for the future is important to the EDA.

Analysis and Discussion of the General Fund Budget

Per state statutes, the EDA is obligated to adopt, by resolution, an annual budget for its Governmental Fund (General Fund). The EDA's Board can amend this budget at any time during the year; however, the EDA is not required to amend the budget for changes. During the course of 2015, the EDA did not amend the Governmental Fund (General Fund) budget.

The EDA's General Fund revenues came in \$5,591 greater than budgeted. The EDA's General Fund expended \$64,424 greater than budgeted. The majority of the budget overage is attributed to administrative costs due to transition, which included severance payouts per the retirement of two staff members and costs associated with training that the EDA provided to MMCDC.

The funding for the administration for EDA's housing programs is largely outside of the EDA's control. Several factors made the budget process difficult for the determination of the need for General Fund dollars to support the administration of the EDA's housing programs. These factors include, but are not limited to, the availability of housing grant funds, delays in congressional housing appropriations, and multi-year housing projects. EDA General Fund dollars continue to pay 100 percent of the administrative costs associated with Economic Development activities.

The EDA also adopts budgets for its Proprietary Fund (Enterprise Fund) for administrative and program purposes. These are not legally mandated per state statute; therefore, budgetary comparisons for the Proprietary Fund (Enterprise Fund) have been omitted from this report.

CAPITAL ASSETS AND DEBT

Per Minnesota state statutes, the EDA may acquire by lease, purchase, gift, devise, or condemnation proceedings, the needed right, title, and interest in property for housing and economic development purposes. The funding for such acquisitions may be in the form of loans or related agreements, from the issuance of general obligation or revenue bonds, or from a County tax levy.

The EDA entered into an \$800,000 mortgage loan agreement with the MHFA, which funded the modernization of the public housing units. The principal sum is due and payable on December 1, 2032. However, the MHFA passed a resolution that the maturity date of the loan shall be co-terminus with the Public Housing Annual Contribution Contract (ACC) with the U.S. Department of Housing and Urban Development (HUD), with payments deferred until maturity, and with annual renewals thereafter for as long as HUD allows renewals of the ACC.

The EDA entered into a \$1,400,000 deferred loan agreement with MHFA, which in large part funded the development of West River Townhomes. The State of Minnesota general obligation bonds were provided through MHFA's Publicly Owned Housing Program (POHP) in the form of a deferred loan. This is bond-financed property within the meaning of Minn. Stat. § 16A.695 and subject to the encumbrances imposed by that statute. The loan is forgivable under the following terms: If no Event of Default has occurred within twenty years from the date of the Agreement (dated 12-20-2007), then upon commencement of the twenty-first year after the date of the Agreement (1-1-2028), the POHP deferred loan shall be deemed to be forgiven.

The EDA continues to carry out its responsibilities to the residents of Becker County by taking advantage of opportunities to provide the County with additional affordable housing choices. Economic development activities include setting strategies in place that include attracting tourists to Becker County.

FUTURE EVENTS

The EDA depends on financial resources flowing from, or associated with, both the Federal Government and State of Minnesota. Because of this dependency, the EDA is subject to changes in federal and state laws and federal and state appropriations.

According to the Minnesota Department of Employment and Economic Development (MN DEED), the unemployment rate in Becker County in December 2015 was 4.1 percent, statewide 3.7 percent, and nationally 5.3 percent. MN DEED also noted that, while the unemployment rate dropped in Minnesota, wages and salaries declined.

Significant economic factors that could affect the EDA include: (1) local inflationary, recessionary, and employment trends, which can affect the incomes of low-income public housing residents and, therefore, the amount of rental income; (2) federal funding provided by Congress to the U.S. Department of Housing and Urban Development; (3) state funding provided by the Legislature to the Minnesota Housing Finance Agency; (4) inflationary pressure on utility rates, supplies, and other costs; and (4) local labor supply and demand, which can affect salary and wage rates.

CONTACTING THE EDA

This MD&A is designed to provide a general overview. If you have any questions about this report, or need additional financial information, write the Becker County Economic Development Authority, 915 Lake Avenue, Detroit Lakes, Minnesota 56501.

ACKNOWLEDGMENTS

This report was prepared by the staff of the Becker County Economic Development Authority and the Midwest Minnesota Community Development Corporation and is respectfully submitted by Guy Fischer, EDA Coordinator, and Laura McKnight, MMCDC Housing Director.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**BECKER COUNTY ECONOMIC DEVELOPMENT AUTHORITY
DETROIT LAKES, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2015**

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Cash and pooled investments	\$ 419,146	\$ 527,575	\$ 946,721
Restricted cash	-	819,110	819,110
Taxes receivable			
Current	3,025	-	3,025
Prior	5,122	-	5,122
Accounts receivable	-	107,976	107,976
Contract for deed receivable - current	-	36,037	36,037
Internal balances	165,549	(165,549)	-
Due from other governments	31,784	-	31,784
Property held for resale	99,168	63,458	162,626
Contract for deed receivable - long-term	-	894,898	894,898
Capital assets			
Non-depreciable capital assets	-	357,532	357,532
Depreciable capital assets - net of accumulated depreciation	-	3,500,613	3,500,613
Total Assets	\$ 723,794	\$ 6,141,650	\$ 6,865,444
<u>Liabilities</u>			
Accounts payable	\$ -	\$ 2,049	\$ 2,049
Other liabilities	-	29,207	29,207
Due to other governments	-	19,158	19,158
Prepaid rent	-	2,425	2,425
Tenant security deposits	-	19,514	19,514
Long-term liabilities			
Due in more than one year	-	2,417,300	2,417,300
Total Liabilities	\$ -	\$ 2,489,653	\$ 2,489,653
<u>Net Position</u>			
Net investment in capital assets	\$ -	\$ 1,286,837	\$ 1,286,837
Restricted for housing	-	1,769,681	1,769,681
Unrestricted	723,794	595,479	1,319,273
Total Net Position	\$ 723,794	\$ 3,651,997	\$ 4,375,791

The notes to the financial statements are an integral part of this statement.

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**BECKER COUNTY ECONOMIC DEVELOPMENT AUTHORITY
DETROIT LAKES, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Expenses	Program Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Governmental activities		
Economic development	\$ 228,922	\$ -
Business-type activities		
Housing	677,023	325,424
Total	\$ 905,945	\$ 325,424

General Revenues

Property taxes
Grants and contributions not restricted to specific programs
Investment earnings

Special Item

Transfer in of Maple Avenue Apartments operations

Total general revenues

Change in net position

Net Position - Beginning

Net Position - Ending

EXHIBIT 2

<u>Revenues</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>		
<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ 7,397	\$ (221,525)	\$ -	\$ (221,525)
<u>383,821</u>	<u>-</u>	<u>32,222</u>	<u>32,222</u>
<u>\$ 391,218</u>	<u>\$ (221,525)</u>	<u>\$ 32,222</u>	<u>\$ (189,303)</u>
	\$ 159,424	\$ -	\$ 159,424
	2,621	-	2,621
	8,324	4,288	12,612
	<u>-</u>	<u>92,735</u>	<u>92,735</u>
	<u>\$ 170,369</u>	<u>\$ 97,023</u>	<u>\$ 267,392</u>
	\$ (51,156)	\$ 129,245	\$ 78,089
	<u>774,950</u>	<u>3,522,752</u>	<u>4,297,702</u>
	<u>\$ 723,794</u>	<u>\$ 3,651,997</u>	<u>\$ 4,375,791</u>

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FUND FINANCIAL STATEMENTS

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GENERAL FUND

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**BECKER COUNTY ECONOMIC DEVELOPMENT AUTHORITY
DETROIT LAKES, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GENERAL FUND
DECEMBER 31, 2015**

<u>Assets</u>	
Cash and pooled investments	\$ 419,146
Taxes receivable - current	3,025
Taxes receivable - prior	5,122
Loans receivable	154,011
Due from other funds	11,538
Due from other governments	31,784
Property held for resale	99,168
	<hr/>
Total Assets	\$ 723,794
	<hr/> <hr/>
 <u>Deferred Inflows of Resources and Fund Balance</u> 	
Deferred Inflows of Resources	
Unavailable revenue	\$ 36,906
	<hr/>
Fund Balance	
Nonspendable	
Property held for resale	\$ 99,168
Loans receivable	154,011
Unassigned	433,709
	<hr/>
Total Fund Balance	\$ 686,888
	<hr/> <hr/>
Total Deferred Inflows of Resources and Fund Balance	\$ 723,794
	<hr/> <hr/>

**BECKER COUNTY ECONOMIC DEVELOPMENT AUTHORITY
DETROIT LAKES, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GENERAL FUND BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2015**

Fund balance - General Fund (Exhibit 3)	\$ 686,888
Amounts reported for governmental activities in the statement of net position are different because:	
Certain long-term assets are not available to pay for current period expenditures and, therefore, are unavailable in the governmental funds.	<u>36,906</u>
Net Position of Governmental Activities (Exhibit 1)	<u><u>\$ 723,794</u></u>

**BECKER COUNTY ECONOMIC DEVELOPMENT AUTHORITY
DETROIT LAKES, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

Revenues	
Taxes	\$ 161,261
Intergovernmental	2,621
Gifts and contributions	7,397
Investment earnings	<u>8,324</u>
Total Revenues	\$ 179,603
Expenditures	
Current	
Economic development	<u>228,922</u>
Excess of Revenues Over (Under) Expenditures	\$ (49,319)
Fund Balance - January 1	<u>736,207</u>
Fund Balance - December 31	<u><u>\$ 686,888</u></u>

**BECKER COUNTY ECONOMIC DEVELOPMENT AUTHORITY
DETROIT LAKES, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF THE GENERAL FUND TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015**

Net change in fund balance - General Fund (Exhibit 5)	\$	(49,319)
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Amounts reported for governmental activities in the statement of activities are different because:

In the funds, under the modified accrual basis, receivables not available for expenditure are unavailable. In the statement of activities, those revenues are recognized when earned. The adjustment to revenue between the fund statements and the statement of activities is the increase or decrease in unavailable revenues.

Unavailable revenues - December 31	\$ 36,906	
Unavailable revenues - January 1	<u>(38,743)</u>	<u>(1,837)</u>

Change in Net Position of Governmental Activities (Exhibit 2)	\$	<u>(51,156)</u>
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ENTERPRISE FUND

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**BECKER COUNTY ECONOMIC DEVELOPMENT AUTHORITY
DETROIT LAKES, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FUND NET POSITION
HOUSING ENTERPRISE FUND
DECEMBER 31, 2015**

Assets

Current assets

Cash and pooled investments	\$ 527,575
Accounts receivable	107,976
Contract for deed receivable	36,037
Property held for resale	63,458
	63,458

Total current assets **\$ 735,046**

Restricted assets

Cash for modernization/development	\$ 268,163
Cash for other purposes	531,433
Cash for security deposits	19,514
	19,514

Total restricted assets **\$ 819,110**

Noncurrent assets

Contract for deed receivable	\$ 894,898
Capital assets	
Nondepreciable	357,532
Depreciable - net of accumulated depreciation	3,500,613
	3,500,613

Total noncurrent assets **\$ 4,753,043**

Total Assets **\$ 6,307,199**

Liabilities

Current liabilities

Accounts payable	\$ 2,049
Other liabilities	29,207
Due to other funds	11,538
Due to other governments	19,158
Prepaid rent	2,425
Tenant security deposits	19,514
Loans payable - current	33,772
	33,772

Total current liabilities **\$ 117,663**

Noncurrent liabilities

Loans payable - long-term	2,537,539
	2,537,539

Total Liabilities **\$ 2,655,202**

Net Position

Net investment in capital assets	\$ 1,286,837
Restricted for housing	1,769,681
Unrestricted	595,479
	595,479

Total Net Position **\$ 3,651,997**

**BECKER COUNTY ECONOMIC DEVELOPMENT AUTHORITY
DETROIT LAKES, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
HOUSING ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

Operating Revenues	
Tenant rental	\$ 303,735
Miscellaneous	21,689
	<hr/>
Total Operating Revenues	\$ 325,424
Operating Expenses	
Administrative salaries	\$ 30,909
Auditing fees	22,950
Employee benefits	8,222
Insurance	37,692
Maintenance and repairs	102,139
Office expenses	7,666
Property management fee	12,311
Real estate taxes	22,563
Travel	866
Utilities	63,606
Other general expenses	3,204
Depreciation	139,201
	<hr/>
Total Operating Expenses	\$ 451,329
Operating Income (Loss)	\$ (125,905)
Nonoperating Revenues (Expenses)	
Intergovernmental	\$ 383,821
Investment earnings	4,288
Interest expense	(7,265)
Housing assistance payments	(218,429)
	<hr/>
Total Nonoperating Revenues (Expenses)	\$ 162,415
Income (Loss) Before Special Item	\$ 36,510
Special Item	
Transfer in of Maple Avenue Apartments operations	92,735
	<hr/>
Change in Net Position	\$ 129,245
Net Position - January 1	3,522,752
	<hr/>
Net Position - December 31	\$ 3,651,997
	<hr/> <hr/>

**BECKER COUNTY ECONOMIC DEVELOPMENT AUTHORITY
DETROIT LAKES, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
HOUSING ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

Cash Flows from Operating Activities	
Cash received from customers	\$ 244,196
Cash paid to suppliers	<u>(151,217)</u>
Net cash provided by (used in) operating activities	<u>\$ 92,979</u>
Cash Flows from Noncapital Financing Activities	
Intergovernmental receipts	\$ 383,821
Housing assistance payments	<u>(218,429)</u>
Net cash provided by (used in) noncapital financing activities	<u>\$ 165,392</u>
Cash Flows from Capital and Related Financing Activities	
Interest paid on long-term debt	\$ (7,265)
Transfer in of Maple Avenue Apartments operations	<u>23,242</u>
Net cash provided by (used in) capital and related financing activities	<u>\$ 15,977</u>
Cash Flows from Investing Activities	
Investment earnings received	<u>\$ 4,288</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 278,636
Cash and Cash Equivalents - January 1	<u>1,068,049</u>
Cash and Cash Equivalents - December 31	<u>\$ 1,346,685</u>
Cash and Cash Equivalents - Exhibit 7	
Cash and pooled investments	\$ 527,575
Restricted cash	<u>819,110</u>
	<u>\$ 1,346,685</u>

**BECKER COUNTY ECONOMIC DEVELOPMENT AUTHORITY
DETROIT LAKES, MINNESOTA**

**EXHIBIT 9
(Continued)**

**STATEMENT OF CASH FLOWS
HOUSING ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	<u>\$ (125,905)</u>
 Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation	\$ 139,201
Changes in assets and liabilities	
(Increase) decrease in accounts receivable	(98,792)
(Increase) decrease in due from other governments	17,564
(Increase) decrease in investment in joint venture	2,700
(Increase) decrease in contract for deed receivable	210,352
(Increase) decrease in property held for resale	(63,458)
Increase (decrease) in accounts payable	(918)
Increase (decrease) in due to other funds	11,538
Increase (decrease) in due to other governments	7,257
Increase (decrease) in prepaid rent	(310)
Increase (decrease) in other liabilities	1,616
Increase (decrease) in tenant security deposits	640
Increase (decrease) in loans payable	33,772
Increase (decrease) in long-term debt	<u>(42,278)</u>
 Total adjustments	 <u>\$ 218,884</u>
 Net Cash Provided by (Used in) Operating Activities	 <u><u>\$ 92,979</u></u>
 Noncash Investing, Capital, and Financing Activities	
Carrying value of capital assets acquired in transfer of Maple Avenue Apartments operations	\$ 239,120

**BECKER COUNTY ECONOMIC DEVELOPMENT AUTHORITY
DETROIT LAKES, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2015**

1. Summary of Significant Accounting Policies

The Becker County Economic Development Authority's (EDA) financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2015. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the EDA are discussed below.

A. Financial Reporting Entity

The EDA was established May 27, 1997, having all of the powers and duties of an economic development authority under Minn. Stat. §§ 469.090 to 469.1081. The Housing Department was added May 1, 1999, and has all of the powers and duties of a housing and redevelopment authority under Minn. Stat. §§ 469.001 to 469.047. The EDA is governed by a seven-member Board appointed by the Becker County Board of Commissioners.

The EDA is a component unit of Becker County because Becker County is financially accountable for the EDA. The EDA's financial statements are discretely presented in the Becker County financial statements.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net position and the statement of activities) display information about financial activities of the overall EDA. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support.

**BECKER COUNTY ECONOMIC DEVELOPMENT AUTHORITY
DETROIT LAKES, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

In the government-wide statement of net position, both the governmental and business-type activities columns: (a) are presented on a consolidated basis by column; and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The EDA's net position is reported in three parts: (1) net investment in capital assets; (2) restricted net position; and (3) unrestricted net position. The EDA first utilizes restricted resources to finance qualifying activities.

The statement of activities demonstrates the degree to which the direct expenses of each function of the EDA's governmental activities and different business-type activities are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues, including all taxes, are presented as general revenues.

2. Fund Financial Statements

The fund financial statements provide information about the EDA's funds. Separate statements for each fund category--governmental and proprietary--are presented.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities.

The EDA reports the following major governmental fund:

The General Fund is the EDA's primary operating fund. It accounts for all financial resources of the EDA, except those accounted for in another fund.

**BECKER COUNTY ECONOMIC DEVELOPMENT AUTHORITY
DETROIT LAKES, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The EDA reports the following major enterprise fund:

The Housing Enterprise Fund is used to account for the operations of the EDA's Housing Department and the operations of buildings the EDA is leasing out.

C. Measurement Focus and Basis of Accounting

The government-wide and 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 related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. The EDA considers all revenues to be available if they are collected within 30 days after the end of the current period. Property and other taxes and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

The EDA has no employees; it purchases employee services from Becker County and contracts for services from Midwest Minnesota Community Development Corporation. These expenses are broken down and reported as salaries and employee benefits in the Housing Enterprise Fund.

**BECKER COUNTY ECONOMIC DEVELOPMENT AUTHORITY
DETROIT LAKES, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

1. Cash and Cash Equivalents

The EDA has defined cash and cash equivalents to include cash on hand and demand deposits.

2. Receivables and Payables

Activities between funds representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (the current portion of interfund loans) or “advances to/from other funds” (the noncurrent portion of interfund loans).

All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Advances between funds, as reported in the fund financial statements, are offset by a fund balance nonspendable account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed in March with the first half payment due on May 15 and the second half payment due October 15. Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as taxes receivable.

3. Property Held for Resale

Real property acquired for subsequent resale for redevelopment purposes and not as an investment program is recorded at the lesser of cost or net realizable value. Property held for resale is offset by a fund balance nonspendable account in the General Fund.

**BECKER COUNTY ECONOMIC DEVELOPMENT AUTHORITY
DETROIT LAKES, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

4. Restricted Assets

Certain funds of the EDA are classified as restricted assets on the statement of net assets because the restriction is either imposed by law through constitutional provisions or enabling legislation or imposed externally by creditors, grantors, contributors, or laws or regulations of other governments. Therefore, their use is limited by applicable laws and regulations.

5. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the EDA as assets with an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair 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 assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current period, the EDA did not have any capitalized interest.

Property, plant, and equipment of the EDA is depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	40
Building improvements	40
Furniture, equipment, and vehicles	3 - 7

**BECKER COUNTY ECONOMIC DEVELOPMENT AUTHORITY
DETROIT LAKES, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

6. Long-Term Obligations

In the government-wide financial statements and in proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable statement of net position.

In the governmental fund financial statements, the face amount of the debt issued is reported as an other financing source. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. Currently, the EDA has no items that qualify for reporting in this category.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. These items, various unavailable revenues, are reported only in the governmental funds balance sheet. They are recognized as an inflow of resources in the period the amount becomes available.

**BECKER COUNTY ECONOMIC DEVELOPMENT AUTHORITY
DETROIT LAKES, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

8. Classification of Net Position

Net position in the government-wide and proprietary fund financial statements is classified in the following categories:

Net investment in capital assets - net position representing capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

Restricted net position - net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position - net position that does not meet the definition of restricted or net investment in capital assets.

9. Classification of Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which the EDA is bound to observe constraints imposed on the use of the resources in the governmental fund. The classifications are as follows:

Nonspendable - amounts that cannot be spent because they are not in spendable form or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted - amounts for which constraints have been placed on the use of resources either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or by law through constitutional provisions or enabling legislation.

**BECKER COUNTY ECONOMIC DEVELOPMENT AUTHORITY
DETROIT LAKES, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

9. Classification of Fund Balances (Continued)

Committed - amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of the EDA Board. Those committed amounts cannot be used for any other purpose unless the EDA Board removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts.

Assigned - amounts the EDA intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. The EDA Board has delegated the authority to assign and remove assignments of fund balance amounts for specific purposes to the Housing Director.

Unassigned - the residual classification for the General Fund; it includes all spendable amounts not contained in the other fund balance classifications.

The EDA's unassigned fund balance in the General Fund will be maintained to provide the EDA with sufficient working capital and a margin of safety to address emergencies, revenue shortfalls, and other anticipated expenditures without borrowing.

The EDA shall strive to maintain a yearly unassigned fund balance in the General Fund of 35 to 50 percent of the prior year's total expenditures of the General Fund. In the event that amount falls above or below the desired range, these amounts shall be reported as soon as practical after the end of the fiscal year. Should amounts fall below the desired range, a plan to restore fund balance to an appropriate level will be provided for EDA Board action.

The EDA applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**BECKER COUNTY ECONOMIC DEVELOPMENT AUTHORITY
DETROIT LAKES, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

10. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

The EDA's total cash and investments are reported as follows:

Governmental activities	
Cash and pooled investments	\$ 419,146
Business-type activities	
Cash and pooled investments	527,575
Restricted cash	<u>819,110</u>
 Total Cash and Investments	 <u>\$ 1,765,831</u>

a. Deposits

The EDA is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. The EDA is required by Minn. Stat. § 118A.03 to protect deposits with insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit at the close of the financial institution's banking day, not covered by insurance or bonds.

**BECKER COUNTY ECONOMIC DEVELOPMENT AUTHORITY
DETROIT LAKES, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated “A” or better and revenue obligations rated “AA” or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the EDA’s deposits may not be returned to it. The EDA does not have a deposit policy for custodial credit risk. As of December 31, 2015, the EDA’s deposits were not exposed to custodial credit risk.

b. Investments

The EDA may invest in the following types of investments as authorized by Minn. Stat. §§ 118A.04 and 118A.05:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

**BECKER COUNTY ECONOMIC DEVELOPMENT AUTHORITY
DETROIT LAKES, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

During the year ended December 31, 2015, the EDA had no investments.

2. Receivables

No allowance for uncollectable accounts has been made for the EDA's governmental activities or for its business-type activities.

**BECKER COUNTY ECONOMIC DEVELOPMENT AUTHORITY
DETROIT LAKES, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

2. Receivables (Continued)

Loans Receivable--Governmental Activities

Loans receivable consist of an operating cash loan to Maple Avenue Apartments without interest. This loan was to be repaid in full on September 1, 2013; however, payment date was extended to an unidentified date. The EDA now has full ownership and manages Maple Avenue Apartments, after buying out Wells Fargo Company's 99 percent ownership of the project on January 1, 2015. The following is a summary of changes in loans receivable for the year ended December 31, 2015:

<u>Loans Receivable</u>	<u>Balance January 1</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance December 31</u>
Maple Avenue Apartments	\$ 162,517	\$ -	\$ 8,506	\$ 154,011

This amount was part of intrafund eliminations and is shown as part of the internal balances on the government-wide statement of net position.

Contract for Deed--Business-Type Activities

The following is a summary of contracts for deed receivable resulting from the sale of Minnesota Urban and Rural Homesteading (MURL) homes to individuals for the year ended December 31, 2015.

Balance - January 1, 2015	\$ 1,140,831
Payments	(146,468)
Cancelled contracts	<u>(63,428)</u>
Balance - December 31, 2015	\$ 930,935
Less: current portion	<u>(36,037)</u>
Long-Term Portion	<u>\$ 894,898</u>

**BECKER COUNTY ECONOMIC DEVELOPMENT AUTHORITY
DETROIT LAKES, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

2. Receivables

Contract for Deed--Business-Type Activities (Continued)

Contract for Deed	Date	Interest Rate (%)	Due Date	Monthly Payment	Balance December 31
Federal Home Funds					
MURL #02	October 1, 1999	-	October 1, 2029	\$ 303	\$ 34,684
MURL #03	March 1, 2001	-	March 1, 2021	300	61,071
MURL #05	September 1, 2002	-	September 1, 2017	609	20,755
MURL #10	May 1, 2003	-	May 1, 2028	491	63,961
MURL #12	July 1, 2004	-	July 1, 2029	465	74,494
MURL #14	December 1, 2005	-	December 1, 2035	417	68,814
MURL #09	February 1, 2006	-	February 1, 2033	626	64,881
MURL #06	February 1, 2007	-	February 1, 2032	277	105,739
MURL #08	May 1, 2010	-	May 1, 2026	385	60,608
MURL #15	November 1, 2009	-	November 1, 2029	641	112,616
MURL #11	October 1, 2013	-	October 1, 2034	564	71,653
Total Federal Home Funds					\$ 739,276
State Non-Home Funds					
MURL #16	May 1, 2009	-	May 1, 2039	\$ 537	\$ 57,323
MURL #17	May 1, 2009	-	May 1, 2039	488	134,336
Total State Non-Home Funds					\$ 191,659
Total Contracts for Deed					\$ 930,935

3. Capital Assets

Capital asset activity for the year ended December 31, 2015, was as follows:

Business-Type Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not depreciated				
Land	\$ 326,354	\$ 31,178	\$ -	\$ 357,532
Capital assets depreciated				
Buildings	\$ 4,814,022	\$ 204,703	\$ -	\$ 5,018,725
Equipment	155,914	3,239	-	159,153
Total capital assets depreciated	\$ 4,969,936	\$ 207,942	\$ -	\$ 5,177,878

**BECKER COUNTY ECONOMIC DEVELOPMENT AUTHORITY
DETROIT LAKES, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

3. Capital Assets

Business-Type Activities (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Less: accumulated depreciation for				
Buildings	\$ 1,392,816	\$ 126,860	\$ -	\$ 1,519,676
Equipment	145,248	12,341	-	157,589
Total accumulated depreciation	\$ 1,538,064	\$ 139,201	\$ -	\$ 1,677,265
Total capital assets depreciated, net	\$ 3,431,872	\$ 68,741	\$ -	\$ 3,500,613
Capital Assets, Net	\$ 3,758,226	\$ 99,919	\$ -	\$ 3,858,145

Depreciation expense was charged to functions/programs of the EDA as follows:

Business-Type Activities	
Housing	\$ 139,201

B. Related-Party Accruals

Due To/From Becker County

Business-Type Activities

Receivable Entity	Payable Entity	Amount
Becker County - General Fund	EDA - Enterprise Fund	\$ 33,072

**BECKER COUNTY ECONOMIC DEVELOPMENT AUTHORITY
DETROIT LAKES, MINNESOTA**

2. Detailed Notes on All Funds (Continued)

C. Liabilities and Deferred Inflows of Resources

1. Intrafund Eliminations - Business Type Activities

Each project is accounted for as a separate fund but all are combined into one fund for financial statement reporting purposes. When combining the projects, \$158,400 in due to and due from other funds were eliminated as well as \$33,812 in transfers in and out.

2. Payables

Payables at December 31, 2015, for governmental activities and business-type activities were as follows:

	Governmental Activities	Business-Type Activities
Accounts	\$ -	\$ 2,048
Other liabilities	-	29,207
Due to other governments	-	19,158
Prepaid rent	-	2,425
Tenant security deposits	-	19,514
	\$ -	\$ 72,352
Total Payables		

3. Long-Term Debt

Business-Type Activities

The EDA entered into an \$800,000 mortgage loan agreement with the Minnesota Housing Finance Agency in 2004 for the modernization of rental units of low-income persons. The principal sum is due and payable on December 1, 2032. However, the Minnesota Housing Finance Agency has passed a resolution that the maturity date of the loan shall be co-terminus with the Annual Contribution Contract (ACC), with payments deferred until maturity, and with annual renewals thereafter for so long as the U.S. Department of Housing and Urban Development allows renewals of the ACC.

**BECKER COUNTY ECONOMIC DEVELOPMENT AUTHORITY
DETROIT LAKES, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

3. Long-Term Debt

Business-Type Activities (Continued)

The EDA entered into a loan with the Greater Minnesota Housing Fund of \$217,300 on December 20, 2007, to start construction for a 12-unit supportive housing project. This loan is payable in full on December 20, 2037.

In 2008, the EDA received a deferred loan of \$1,400,000 from the Minnesota Housing Finance Agency (Publicly Owned Housing Program), which will be forgiven in 20 years if the EDA is in compliance with all covenants. This loan will remain a liability until January 1, 2028, at which time it will be recorded as revenue or repaid.

On January 1, 2015, the EDA purchased Wells Fargo Company's 99 percent share of ownership of the Maple Avenue Apartments. This resulted in loans payable at December 31, 2015, of \$154,011. This amount was part of intrafund eliminations and is shown as part of the internal balances on the government-wide statement of net position.

The following is a schedule of long-term debt for business-type activities at December 31, 2015.

Type of Indebtedness	Final Maturity	Installment Amount	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2015
MHFA mortgage loan	N/A	N/A	0.00	\$ 800,000	\$ 800,000
Greater Minnesota Housing Fund	2037	N/A	0.00	217,300	217,300
Minnesota Housing Finance	2038	N/A	0.00	1,400,000	1,400,000
Maple Avenue Apartments	N/A	N/A	0.00	162,517	154,011
Total Long-Term Debt					<u>\$ 2,571,311</u>

**BECKER COUNTY ECONOMIC DEVELOPMENT AUTHORITY
DETROIT LAKES, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

4. Changes in Long-Term Liabilities

Business-Type Activities

Long-term liability activity for the year ended December 31, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
MHFA mortgage loan	\$ 800,000	\$ -	\$ -	\$ 800,000	\$ -
Greater Minnesota Housing Fund	217,300	-	-	217,300	-
Minnesota Housing Finance	1,400,000	-	-	1,400,000	-
Loans payable	-	162,517	8,506	154,011	33,772
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Business-Type Activity Long-Term Liabilities	<u>\$ 2,417,300</u>	<u>\$ 162,517</u>	<u>\$ 8,506</u>	<u>\$ 2,571,311</u>	<u>\$ 33,772</u>

5. Deferred Inflows of Resources

Deferred inflows of resources - unavailable revenue consists of taxes and other receivables not collected soon enough after year-end to pay liabilities of the current period.

	Taxes	Other	Total
General Fund	<u>\$ 5,122</u>	<u>\$ 31,784</u>	<u>\$ 36,906</u>

3. Summary of Significant Contingencies and Other Items

A. Risk Management

The EDA is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; or natural disasters. The EDA is covered under Becker County's membership in the Minnesota Counties Insurance Trust and through the purchase of commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

**BECKER COUNTY ECONOMIC DEVELOPMENT AUTHORITY
DETROIT LAKES, MINNESOTA**

3. Summary of Significant Contingencies and Other Items (Continued)

B. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of the expenditures that may be disallowed by the grantor cannot be determined at this time, although the EDA expects such amounts, if any, to be immaterial.

C. Liens Receivable

Community Development Block Grant programs provided funds for economic development and rehabilitation of residences of qualifying low-income individuals.

Provisions of the rehabilitation contracts resulted in loans to the homeowners secured by liens against the property. Those not requiring repayment until the property is sold or the owner dies are not recorded in the financial statements.

D. Minnesota Housing Trust Fund Loans

The EDA received loans from the Minnesota Housing Finance Agency Housing Trust Fund Program, the proceeds of which are for rental units for low-income persons. After ten years, these loans are forgiven by the state at a rate of five percent annually. The loans are for 30 years at zero percent interest. A summary of these loans, which are not shown on the balance sheet, are as follows:

Loan dated July 1, 1992, with a final maturity of July 1, 2022	\$ 5,307
Loan dated December 30, 1994, with a final maturity of December 30, 2024	27,038
Loan dated May 29, 2003, with a final maturity of May 29, 2033	<u>26,095</u>
Total	<u>\$ 58,440</u>

**BECKER COUNTY ECONOMIC DEVELOPMENT AUTHORITY
DETROIT LAKES, MINNESOTA**

3. Summary of Significant Contingencies and Other Items (Continued)

E. Minnesota Housing Revolving Fund Programs

The EDA received grants from the Minnesota Housing Finance Agency (MHFA) to be used to construct homes for low-income residents of Becker County. When the houses are sold, the grant amounts become revolving funds to build additional housing. The EDA chose to discontinue these programs, and the revolving funds were returned to the MHFA. The amounts received and balances on hand at December 31, 2015, are as follows:

	Original Grant	Revolving Fund Cash	Contract for Deed Receivable
Federal Home Minnesota Urban and Rural Homestead Loan	\$ 1,810,100	\$ 365,724	\$ 739,276
State Home Minnesota Urban and Rural Homesteading Loan	196,185	34,437	191,659
Total	\$ 2,006,285	\$ 400,161	\$ 930,935

F. Operating Leases

Lakes Homes and Program Development, Inc., entered into a 5-year operating lease with the EDA for property the EDA owns (carrying value of \$107,609 and accumulated depreciation of \$42,510) to be used for the operation of Hidden Hills Group Home. According to the lease terms, the EDA began receiving monthly installments of \$500 beginning January 2015. The lease shall be renewed at an agreeable rental rate and agreeable term after December 2019. Either party may give a written notice of termination to the other at least six months prior to the end of the term.

Becker County entered into a 36-month operating lease with the EDA for property the EDA owns (carrying value of \$254,191 and accumulated depreciation of \$57,992) to be used for the Becker County Workshop. According to the lease terms, the EDA began receiving monthly installments of \$1,440 beginning January 2013. The lease shall be reviewed annually. Becker County also entered into a 5-year operating lease with the EDA for the front 1,050 square feet of the same property to be used for the Becker County Extension. According to the lease terms, the EDA began receiving monthly installments of \$310 beginning January 2013. The lease shall be reviewed in December 2018, and an agreeable rent amount established at that time. Both leases state that,

**BECKER COUNTY ECONOMIC DEVELOPMENT AUTHORITY
DETROIT LAKES, MINNESOTA**

3. Summary of Significant Contingencies and Other Items

F. Operating Leases (Continued)

in the event that the cost for utilities increases and the lessor is paying more for utilities than the lease allows for, the lessee agrees to reimburse the lessor the amount needed to make up the difference. Either party may give a written notice of termination to the other at least six months prior to the end of the term.

G. Housing Program

The EDA has 74 units of Section 8 existing housing assistance payments (C-4101E). The EDA also has a contract with the U.S. Department of Housing and Urban Development to operate 25 dwelling units for lower-income housing (C-4161).

H. Special Item

Effective January 1, 2015, the EDA obtained full control of the Maple Avenue Apartments by paying Wells Fargo Bank, National Association, \$100 for Wells Fargo's share. All assets and liabilities associated with Maple Avenue Apartments operations as of January 1, 2015, were transferred to the EDA. The net position of the operations transferred was \$92,735 and is reported in the financial statements as a special item.

	<u>Carrying Values</u>
Transferred Assets (Net)	
Cash	\$ 23,242
Land	31,178
Buildings and equipment	207,942
Amortized costs - loan	456
Total Transferred Assets (Net)	\$ 262,818
Transferred Liabilities	
Accounts payable	\$ 489
Security deposits	5,390
Loans payable	162,517
Prepaid rents	1,687
Total Transferred Liabilities	\$ 170,083
Net Position of Transferred Operations	\$ 92,735

REQUIRED SUPPLEMENTARY INFORMATION

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**BECKER COUNTY ECONOMIC DEVELOPMENT AUTHORITY
DETROIT LAKES, MINNESOTA**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 160,748	\$ 160,748	\$ 161,261	\$ 513
Intergovernmental	2,000	2,000	2,621	621
Gifts and contributions	1,500	1,500	7,397	5,897
Investment earnings	9,764	9,764	8,324	(1,440)
	<u>9,764</u>	<u>9,764</u>	<u>8,324</u>	<u>(1,440)</u>
Total Revenues	<u>\$ 174,012</u>	<u>\$ 174,012</u>	<u>\$ 179,603</u>	<u>\$ 5,591</u>
Expenditures				
Current				
Economic development				
Administration	\$ 160,748	\$ 160,748	\$ 217,491	\$ (56,743)
Other economic development	3,750	3,750	11,431	(7,681)
	<u>3,750</u>	<u>3,750</u>	<u>11,431</u>	<u>(7,681)</u>
Total economic development	<u>\$ 164,498</u>	<u>\$ 164,498</u>	<u>\$ 228,922</u>	<u>\$ (64,424)</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ 9,514</u>	<u>\$ 9,514</u>	<u>\$ (49,319)</u>	<u>\$ (58,833)</u>
Fund Balance - January 1	<u>736,207</u>	<u>736,207</u>	<u>736,207</u>	<u>-</u>
Fund Balance - December 31	<u><u>\$ 745,721</u></u>	<u><u>\$ 745,721</u></u>	<u><u>\$ 686,888</u></u>	<u><u>\$ (58,833)</u></u>

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**BECKER COUNTY ECONOMIC DEVELOPMENT AUTHORITY
DETROIT LAKES, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2015**

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year-end.

The Board adopts an estimated revenue and expenditure budget for the General Fund. The budget may be amended or modified at any time by the Board. Comparisons of estimated revenues and budgeted expenditures to actual are presented in the required supplementary information for the General Fund. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the fund level. The expenditure budget and amendments are approved at the fund level.

Encumbrance accounting is employed in the General Fund. Encumbrances (such as purchase orders and contracts) outstanding at year-end are reported as restrictions of fund balance and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year.

2. Budget Amendments

The General Fund had no budget amendments for the year ended December 31, 2015.

3. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

The General Fund had no budget amendments for the year ended December 31, 2015.

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General Fund	\$ 228,922	\$ 164,498	\$ 64,424

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SUPPLEMENTARY INFORMATION

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**BECKER COUNTY ECONOMIC DEVELOPMENT AUTHORITY
DETROIT LAKES, MINNESOTA**

EXHIBIT B-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2015**

Shared Revenue

State

Market value credit \$ 2,621

Grants

Federal

Department of Housing and Urban Development 383,821

Total Intergovernmental Revenue \$ 386,442

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**BECKER COUNTY ECONOMIC DEVELOPMENT AUTHORITY
DETROIT LAKES, MINNESOTA**

WEST RIVER TOWNHOMES ACTIVITY

West River Townhomes is a small-scale housing development that provides permanent housing for families with minor children who have experienced homelessness. Activity of the West River Townhomes is reported in the Housing Enterprise Fund.

West River Townhomes was built in large part with the proceeds of the State of Minnesota general obligation bonds provided through a Minnesota Housing Finance Agency (MHFA) Publicly Owned Housing Program deferred loan. As part of the agreement with MHFA, the EDA's financial statements include comparative financial activity for the West River Townhomes.

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**BECKER COUNTY ECONOMIC DEVELOPMENT AUTHORITY
DETROIT LAKES, MINNESOTA**

EXHIBIT B-2

**COMPARATIVE STATEMENT OF ACTIVITY NET POSITION
WEST RIVER TOWNHOMES ACTIVITY
DECEMBER 31, 2015 AND 2014**

	2015	2014
<u>Assets</u>		
Current assets		
Accounts receivable	\$ 5,839	\$ 396
Due from other governments	-	17,564
	\$ 5,839	\$ 17,960
Restricted assets		
Cash for other purposes	\$ 119,673	\$ 91,839
Cash for security deposits	3,400	2,600
	\$ 123,073	\$ 94,439
Noncurrent assets		
Capital assets		
Nondepreciable	\$ 129,454	\$ 129,454
Depreciable - net of accumulated depreciation	1,318,918	1,369,552
	\$ 1,448,372	\$ 1,499,006
Total noncurrent assets	\$ 1,448,372	\$ 1,499,006
Total Assets	\$ 1,577,284	\$ 1,611,405
<u>Liabilities</u>		
Current liabilities		
Accounts payable	\$ 69	\$ 313
Other liabilities	5,972	5,810
Prepaid rent	98	98
Tenant security deposits	3,400	2,600
	\$ 9,539	\$ 8,821
Total current liabilities	\$ 9,539	\$ 8,821
Noncurrent liabilities		
Loans payable	1,617,300	1,617,300
	\$ 1,626,839	\$ 1,626,121
Total Liabilities	\$ 1,626,839	\$ 1,626,121
<u>Net Position</u>		
Net investment in capital assets	\$ (168,927)	\$ (118,294)
Restricted for housing	119,372	103,578
	\$ (49,555)	\$ (14,716)
Total Net Position	\$ (49,555)	\$ (14,716)

**BECKER COUNTY ECONOMIC DEVELOPMENT AUTHORITY
DETROIT LAKES, MINNESOTA**

EXHIBIT B-3

**COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN ACTIVITY NET POSITION
WEST RIVER TOWNHOMES ACTIVITY
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015	2014
Operating Revenues		
Tenant rental	\$ 101,907	\$ 103,377
Miscellaneous	-	9,685
	\$ 101,907	\$ 113,062
Operating Expenses		
Bad debts	\$ -	\$ 12,777
Insurance	6,864	6,729
Maintenance and repairs	39,680	73,282
Office expense	717	826
Property management fee	3,220	9,030
Real estate taxes	6,272	5,810
Utilities	29,997	27,783
Depreciation	50,634	50,634
	\$ 137,384	\$ 186,871
Operating Income (Loss)	\$ (35,477)	\$ (73,809)
Nonoperating Revenues (Expenses)		
Investment earnings	638	833
	\$ (34,839)	\$ (72,976)
Change in Net Position		
Net Position - January 1	(14,716)	58,260
Net Position - December 31	\$ (49,555)	\$ (14,716)

**BECKER COUNTY ECONOMIC DEVELOPMENT AUTHORITY
DETROIT LAKES, MINNESOTA**

EXHIBIT B-4

**COMPARATIVE STATEMENT OF CASH FLOWS
WEST RIVER TOWNHOMES ACTIVITY
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015	2014
Cash Flows from Operating Activities		
Cash received from customers	\$ 114,029	\$ 96,340
Cash paid to suppliers	(86,033)	(138,926)
Net cash provided by (used in) operating activities	\$ 27,996	\$ (42,586)
Cash Flows from Investing Activities		
Investment earnings received	638	833
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 28,634	\$ (41,753)
Cash and Cash Equivalents - January 1	94,439	136,192
Cash and Cash Equivalents - December 31	\$ 123,073	\$ 94,439
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Operating income (loss)	\$ (35,477)	\$ (73,809)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation	\$ 50,634	\$ 50,634
Changes in assets and liabilities		
(Increase) decrease in accounts receivable	(5,443)	842
(Increase) decrease in due from other governments	17,564	(17,564)
Increase (decrease) in accounts payable	(244)	(1,191)
Increase (decrease) in prepaid rent	-	48
Increase (decrease) in other liabilities	162	(1,446)
Increase (decrease) in tenant security deposits	800	(100)
Total adjustments	\$ 63,473	\$ 31,223
Net Cash Provided by (Used in) Operating Activities	\$ 27,996	\$ (42,586)

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**BECKER COUNTY ECONOMIC DEVELOPMENT AUTHORITY
DETROIT LAKES, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2015**

I. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM RESOLVED

Segregation of Duties (2008-001)

Due to the limited number of personnel within the Becker County Economic Development Authority (EDA), segregation of the accounting functions necessary to ensure adequate internal control was not possible.

Resolution

The EDA now contracts with the Midwest Minnesota Community Development Corporation to handle its accounting functions. There is adequate segregation of duties between the staff handling these functions.

II. OTHER FINDINGS AND RECOMMENDATIONS

MANAGEMENT PRACTICES

ITEM ARISING THIS YEAR

Finding 2015-001

Criteria: Management is responsible for timely preparation of their financial statements, related notes, supporting documentation, and for the required reporting to the U.S. Department of Housing and Urban Development Real Estate Assessment Center (REAC).

Condition: The financial statements, related notes, supporting documentation, and REAC reporting were not prepared in a timely manner.

Context: In 2015, the Becker County Economic Development Authority contracted with Midwest Minnesota Community Development Corporation (MMCDC) to manage the housing operations. Becker County employees retained their responsibility for the economic development operations. As a part of the agreement with MMCDC, the EDA would provide training and technical assistance to MMCDC using Becker County staff for a period of six months or as needed. The Director and staff with experience in the accounting for the EDA retired, so training and assistance was not provided as identified in the agreement.

Effect: Because the financial statements, related notes, supporting documentation, and REAC reporting were not prepared in a timely manner, additional audit hours were necessary to ensure that amounts reported in the financial statements were fairly stated and to meet the REAC reporting requirements.

Cause: Since the experienced staff were not available to provide training and assistance, preparation of the financial statements and submission of the REAC reporting fell to the MMCDC, who was not familiar with the process.

Recommendation: We recommend County management provide ongoing training and assistance to the MMCDC regarding financial and REAC reporting as needed.

Client's Response:

We agree with the recommendation. The Becker County Economic Development Authority (EDA) has experienced changes due to retirement of experienced staff. The EDA did assist by providing financing for training for the Lindsey Software System in June and December of 2015. However, those retirements resulted in a transition period of new staff who assumed the EDA financial duties as well as the contracting of services for Housing with Midwest Minnesota Community Development Corporation (MMCDC). Both EDA and MMCDC staff are now more familiar with the financial processes, including the annual audit, and expect next year to be much smoother and timelier.



REBECCA OTTO
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Independent Auditor's Report

Board of Directors
Becker County Economic Development Authority
Detroit Lakes, 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, the business-type activities, and each major fund of the Becker County Economic Development Authority (EDA), a component unit of Becker County, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the EDA's basic financial statements, and have issued our report thereon dated September 13, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Becker County Economic Development Authority's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the EDA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the EDA's internal control over financial reporting.

A deficiency in internal control over financial reporting 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 combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the EDA's financial statements will not be prevented, or detected and corrected, on a timely basis. A

significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Becker County Economic Development Authority'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested in connection with the audit of the Becker County Economic Development Authority's financial statements: contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because the Becker County Economic Development Authority had no tax increment financing.

In connection with our audit, nothing came to our attention that caused us to believe that the Becker County Economic Development Authority failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the EDA's noncompliance with the above referenced provisions.

Other Matters

Included in the Schedule of Findings and Recommendations is a management practices comment. We believe this recommendation to be of benefit to the EDA, and it is reported for that purpose.

Becker County Economic Development Authority's Response to Finding

Becker County Economic Development Authority's response to the management practices finding identified in our audit has been included in the Schedule of Findings and Recommendations. The EDA's response was 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 over financial reporting, compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions* and the results of that testing, and not to provide an opinion on the effectiveness of the EDA's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the EDA's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 13, 2016

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR