

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

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

FOR THE YEAR ENDED DECEMBER 31, 2012

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 160 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 730 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**

For the Year Ended December 31, 2012



**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, 2012**

<u>Board of Directors</u>		<u>Board Position</u>	<u>Term Expires</u>
John Okeson		Commissioner/Secretary	January 1, 2013
Barry Nelson		Commissioner	January 1, 2013
Paul Joyce	1st District	Vice President	January 1, 2014
Mike Maloney	2nd District	Treasurer	January 1, 2015
Heath Peterson	3rd District	President	January 1, 2015
Chuck Jost	4th District	Board Member	January 1, 2016
Abby Anderson	5th District	Board Member	January 1, 2018
Jon Thomsen	Housing Director	Assistant Treasurer/Secretary	Indefinite
Shawn Olson	Financial Manager		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

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, as of and for the year ended December 31, 2012, 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 of 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, 2012, 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Becker County Economic Development Authority's basic financial statements. The supplementary information 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.

The supplementary 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 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other auditors previously audited, in accordance with auditing standards generally accepted in the United States of America, the Becker County Economic Development Authority's 2011 financial statements (not presented herein), and expressed unmodified audit opinions on those audited financial statements in their report dated August 9, 2012. In our opinion, the accompanying supplementary information identified as Exhibits B-2 through B-4 contains comparative information as of and for the year ended December 31, 2011, which is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2013, on our consideration of 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 Becker County Economic Development Authority's internal control over financial reporting and compliance.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 13, 2013

/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
(A COMPONENT UNIT OF BECKER COUNTY)
DETROIT LAKES, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012
(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 resources, (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, 2012, 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 15. Please note that the housing programs operated by the EDA implemented a change in the fiscal year end to allow those programs to align with the fiscal year end for the primary government. These housing programs now have a December 31 year-end and these transactions are reported in their entirety for the 12-month period beginning January 1 and ending December 31, 2012. It is important to note that the comparison to the previous year is a comparison between a 12-month period and the 18-month period which began on July 1, 2010, and ended on December 31, 2011. All amounts, unless otherwise indicated, are expressed in whole dollars.

FINANCIAL HIGHLIGHTS

- The EDA's total net position decreased \$219,083 in 2012, a decrease of 4.59 percent.
- At the close of 2012, the EDA's net position were \$4,558,177. Three components comprise this balance:
 - Net investment in capital assets of \$1,581,418, an increase of \$54,099 when compared to the prior year;
 - Restricted net position of \$1,789,128, a decrease of \$89,508 when compared with the prior year. Restricted net position is subject to external restrictions on how they may be used and may only be used for those specific purposes.
 - Unrestricted net position of \$1,187,631, a decrease of \$183,674 when compared to the prior year, is available for use in the operations of the ongoing housing programs and for meeting ongoing obligations.

- In 2012, 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 \$97,170 in rental revenue.
- In 2012, the EDA's ongoing federally funded housing programs received \$61,224 in rental revenue from tenants and \$359,917 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 2012, 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. At year end, one home is undergoing minor renovations prior to being offered for sale to a qualified homebuyer.
- In 2012, the EDA continued as MHFA's Rehab Loan program administrator for Becker County. 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 2012, the EDA received \$58,722 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. The EDA owns Industrial Park land in Frazee and continues to encourage economic development at these sites.
- 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 15 and 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 18. 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 Position and the Statement of Activities

Our analysis of the EDA as a whole begins on page 15. 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 are 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 do 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 18 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 that is 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 Housing 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 Housing Enterprise Fund is the same as the business-type activities, which we report in the government-wide statements but provide more detail and additional information, such as cash flows. In the Housing 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 which are included in the Housing 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 2012 and 2011

	Governmental Activities		Business-Type Activities		Total Becker County EDA	
	2012	2011	2012	2011	2012	2011
Assets						
Current and other assets	\$ 753,640	\$ 805,750	\$ 2,293,716	\$ 2,403,210	\$ 3,047,356	\$ 3,208,960
Capital assets	-	-	3,998,718	4,072,694	3,998,718	4,072,694
Total Assets	\$ 753,640	\$ 805,750	\$ 6,292,434	\$ 6,475,904	\$ 7,046,074	\$ 7,281,654
Liabilities						
Long-term debt outstanding	\$ -	\$ 10,500	\$ 2,417,300	\$ 2,417,300	\$ 2,417,300	\$ 2,427,800
Other liabilities	10,500	18,000	60,097	58,594	70,597	76,594
Total Liabilities	\$ 10,500	\$ 28,500	\$ 2,477,397	\$ 2,475,894	\$ 2,487,897	\$ 2,504,394

	Governmental Activities		Business-Type Activities		Total Becker County EDA	
	2012	2011	2012	2011	2012	2011
Net Position						
Net investment in capital assets	\$ -	\$ -	\$ 1,581,418	\$ 1,527,319	\$ 1,581,418	\$ 1,527,319
Restricted	-	158,806	1,789,128	1,719,830	1,789,128	1,878,636
Unrestricted	743,140	618,444	444,491	752,861	1,187,631	1,371,305
Total Net Position	\$ 743,140	\$ 777,250	\$ 3,815,037	\$ 4,000,010	\$ 4,558,177	\$ 4,777,260

The governmental activities revenues, which were lower than program expenses and debt service payments, resulted in a \$34,110 decrease in the governmental activities net position.

The business-type activities revenues, which were lower than program expenses and debt service payments, resulted in a \$184,973 decrease in the business-type activities net position.

It should be noted that the capital assets 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 for capital assets.

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 on 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 \$1,789,128 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:

Changes in Net Position - 2012 and 2011 Compared

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Program revenues						
Housing Rehabilitation	\$ -	\$ -	\$ -	\$ 393,468	\$ -	\$ 393,468
Fees, charges, fines and other	-	-	294,444	342,005	294,444	342,005
Operating grants and contributions	5,763	-	325,620	578,410	331,383	578,410
Capital grants and contributions	-	-	34,297	81,927	34,297	81,927
General revenues						
Property taxes	175,438	164,422	-	-	175,438	164,422
Market Value Credit - State	1,935	12,217	-	-	1,935	12,217
Interest income	2,258	3,750	1,005	-	3,263	3,750
Miscellaneous	-	2,929	-	-	-	2,929
Total Revenues	\$ 185,394	\$ 183,318	\$ 655,366	\$ 1,395,810	\$ 840,760	\$ 1,579,128
Program Expenses						
Economic development	\$ 219,219	\$ 193,819	\$ -	\$ -	\$ 219,219	\$ 193,819
Housing	-	-	840,339	1,496,430	840,339	1,496,430
Interest	285	-	-	-	285	-
Total Program Expenses	\$ 219,504	\$ 193,819	\$ 840,339	\$ 1,496,430	\$ 1,059,843	\$ 1,690,249
Increase (Decrease) in Net Position	\$ (34,110)	\$ (10,501)	\$ (184,973)	\$ (100,620)	\$ (219,083)	\$ (111,121)
Net Position - Beginning of Year	777,250	787,751	4,000,010	4,100,630	4,777,260	4,888,381
Net Position - Ending of Year	\$ 743,140	\$ 777,250	\$ 3,815,037	\$ 4,000,010	\$ 4,558,177	\$ 4,777,260

Due to the change in fiscal year-end, it is not practical to compare the business-type activities for 2011 and 2012.

Starting in 2004, HUD began enacting changes that attempted to better control the increasing costs of its 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.

In determining funding for 2012, HUD mandated an offset of operating subsidy eligibility against EDA excess operating reserves. The Unfunded Mandates Reform Act of 1995 does not protect the EDA from federally imposed program administrative burdens, and HUD did not consider the 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 took efforts at becoming more efficient and utilized net position for program administration purposes.

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 boards 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 on successful grants writing and good relationships with federal, state, and local agencies. Since this is dependent on 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 2012, the EDA did not amend the Governmental Fund (General Fund) budget.

The EDA's General Fund revenues came in \$16,641 more than budgeted. The EDA's General Fund expended \$31,101 less than budgeted. There was an increase in the administrative expenses allowable under the housing programs, which reduced the need for General Fund support of those housing activities.

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. While 100 percent of the administrative costs associated with Economic Development activities continue to be paid by the EDA's General Fund dollars, an additional \$31,455 in budgeted General Fund administrative costs associated with Housing activities was allowable under the EDA's housing programs and reduced the need for General Fund support of those housing 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.

A cost-sharing arrangement with the Lake Park Economic Development Authority has both EDAs pay one-half of the costs of the Lake Park South 10 Industrial Project that was partially funded by the Wild Rice Promissory Note. The full amount of the note is \$144,000, of which both EDAs are jointly and severally responsible to repay. Both EDAs have opened irrevocable letters of credit in the amount of \$72,000 to secure the note. The entire balance of the note payable (\$10,500) is reported on the Statement of Net Position of the EDA, along with a receivable for the Lake Park Economic Development Authority's share of the note payable. The Promissory Note is being paid from the proceeds of special assessments placed on the lots in the Industrial Park.

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

In 2012, the unemployment rate in Becker County fluctuated from a high of 8.1 percent in February, to a low of 4.6 percent in August. As of December 2012, the unemployment rate in Becker County is 6.1 percent, which is higher than the statewide average of 5.5 percent and lower than the national average of 7.8 percent.

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 (5) 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, 712 Minnesota Avenue, Detroit Lakes, Minnesota 56501.

ACKNOWLEDGMENTS

This report was prepared by the staff of the Becker County Economic Development Authority and is respectfully submitted by Jon Thomsen, EDA Housing Director, and Shawn Olson, EDA Financial Manager.

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, 2012**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Cash and pooled investments	\$ 550,461	\$ 466,471	\$ 1,016,932
Restricted cash	-	606,194	606,194
Taxes receivables			
Current	4,398	-	4,398
Prior	8,191	-	8,191
Accounts receivable	-	1,980	1,980
Loan receivable	35,000	-	35,000
Due from other governments	31,784	-	31,784
Notes, loans, and mortgages receivable	-	1,142,682	1,142,682
Property held for resale	123,806	73,689	197,495
Investment in joint venture	-	2,700	2,700
Capital assets			
Non-depreciable capital assets	-	326,354	326,354
Depreciable capital assets - net of accumulated depreciation	-	3,672,364	3,672,364
Total Assets	\$ 753,640	\$ 6,292,434	\$ 7,046,074
<u>Liabilities</u>			
Accounts payable	\$ -	\$ 3,728	\$ 3,728
Other liabilities	-	24,608	24,608
Due to other governments	-	17,098	17,098
Prepaid rent	-	1,207	1,207
Tenant security deposits	-	13,456	13,456
Long-term liabilities			
Due within one year	10,500	-	10,500
Due in more than one year	-	2,417,300	2,417,300
Total Liabilities	\$ 10,500	\$ 2,477,397	\$ 2,487,897
<u>Net Position</u>			
Net investment in capital assets	\$ -	\$ 1,581,418	\$ 1,581,418
Restricted for housing	-	1,789,128	1,789,128
Unrestricted	743,140	444,491	1,187,631
Total Net Position	\$ 743,140	\$ 3,815,037	\$ 4,558,177

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

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Primary government		
Governmental activities		
Economic development	\$ 219,219	\$ -
Interest	285	-
	\$ 219,504	\$ -
Total governmental activities		
Business-type activities		
Housing	840,339	294,444
	\$ 1,059,843	\$ 294,444
	\$ 1,059,843	\$ 294,444

General Revenues

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

Total general revenues

Change in net position

Net Position - Beginning

Net Position - Ending

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
		Governmental Activities	Business-Type Activities	Total
\$ 5,763	\$ -	\$ (213,456)	\$ -	\$ (213,456)
-	-	(285)	-	(285)
\$ 5,763	\$ -	\$ (213,741)	\$ -	\$ (213,741)
325,620	34,297	-	(185,978)	(185,978)
\$ 331,383	\$ 34,297	\$ (213,741)	\$ (185,978)	\$ (399,719)
		\$ 175,438	\$ -	\$ 175,438
		1,935	-	1,935
		2,258	1,005	3,263
		\$ 179,631	\$ 1,005	\$ 180,636
		\$ (34,110)	\$ (184,973)	\$ (219,083)
		777,250	4,000,010	4,777,260
		\$ 743,140	\$ 3,815,037	\$ 4,558,177

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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, 2012**

Assets

Cash and pooled investments	\$	550,461
Taxes receivable - current		4,398
Taxes receivable - prior		8,191
Loans receivable		35,000
Due from other governments		31,784
Property held for resale		123,806
		123,806
Total Assets	\$	753,640
		753,640

Liabilities and Fund Balance

Liabilities

Deferred revenue - unavailable	\$	39,975
		39,975

Fund Balance

Nonspendable		
Property held for resale	\$	123,806
Loans receivable		35,000
Restricted for		
Debt service		10,500
Committed to		
Budget shortfalls		40,000
Purchase of Maple Avenue Apartments		301,000
Unassigned		203,359
		203,359

Total Fund Balance	\$	713,665
		713,665

Total Liabilities and Fund Balance	\$	753,640
		753,640

**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, 2012**

Fund balance - General Fund (Exhibit 3)	\$ 713,665
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 deferred in the governmental funds.	39,975
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Notes Payable	<u>(10,500)</u>
Net Position of Governmental Activities (Exhibit 1)	<u><u>\$ 743,140</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, 2012**

Revenues	
Taxes	\$ 175,376
Intergovernmental	1,935
Gifts and contributions	23,825
Investment earnings	2,258
	<hr/>
Total Revenues	\$ 203,394
Expenditures	
Current	
Economic development	\$ 219,219
Debt service	
Principal	18,000
Administrative fee	285
	<hr/>
Total Expenditures	\$ 237,504
Excess of Revenues Over (Under) Expenditures	\$ (34,110)
Fund Balance - January 1	<hr/> 747,775
Fund Balance - December 31	<hr/> \$ 713,665

**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, 2012**

Net change in fund balance - General Fund (Exhibit 5)	\$	(34,110)
--	-----------	-----------------

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 deferred. 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 revenue deferred as unavailable.

Deferred revenue - December 31	\$ 39,975	
Deferred revenue - January 1	<u>(57,975)</u>	(18,000)

Payment of principal on long-term debt consumes current financial resources but does not affect net position.

Principal payments on notes payable		<u>18,000</u>
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Change in Net Position of Governmental Activities (Exhibit 2)	\$	<u><u>(34,110)</u></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, 2012**

Assets

Current assets

Cash and pooled investments	\$	466,471
Accounts receivable		1,980
Notes, loans, and mortgages receivable		42,009
Property held for resale		73,689
		73,689

Total current assets **\$ 584,149**

Restricted assets

Cash for modernization/development	\$	11,256
Cash for other purposes		581,482
Cash for security deposits		13,456
		13,456

Total restricted assets **\$ 606,194**

Noncurrent assets

Notes, loans, and mortgages receivable	\$	1,100,673
Investment in joint ventures		2,700
Capital assets		
Nondepreciable		326,354
Depreciable - net of accumulated depreciation		3,672,364
		3,672,364

Total noncurrent assets **\$ 5,102,091**

Total Assets **\$ 6,292,434**

Liabilities

Current liabilities

Accounts payable	\$	3,728
Other liabilities		24,608
Due to other governments		17,098
Prepaid rent		1,207
Tenant security deposits		13,456
		13,456

Total current liabilities **\$ 60,097**

Noncurrent liabilities

Loans payable		2,417,300
---------------	--	-----------

Total Liabilities **\$ 2,477,397**

Net Position

Net investment in capital assets	\$	1,581,418
Restricted for housing		1,789,128
Unrestricted		444,491
		444,491

Total Net Position **\$ 3,815,037**

**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, 2012**

Operating Revenues	
Tenant rental	\$ 244,764
Miscellaneous	49,680
	<hr/>
Total Operating Revenues	\$ 294,444
Operating Expenses	
Administrative salaries	\$ 81,596
Auditing fees	4,500
Bad debts	16,807
Employee benefits	33,963
Insurance	27,586
Maintenance and repairs	184,523
Office expenses	5,395
Property management fee	20,679
Real estate taxes	16,491
Travel	5,060
Utilities	54,374
Other general expenses	2,989
Depreciation	120,347
	<hr/>
Total Operating Expenses	\$ 574,310
Operating Income (Loss)	\$ (279,866)
Nonoperating Revenues (Expenses)	
Intergovernmental	\$ 359,917
Investment earnings	1,005
Housing assistance payments	(266,029)
	<hr/>
Total Nonoperating Revenues (Expenses)	\$ 94,893
Change in Net Position	\$ (184,973)
Net Position - January 1	4,000,010
	<hr/>
Net Position - December 31	\$ 3,815,037
	<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, 2012**

Cash Flows from Operating Activities	
Cash received from customers	\$ 335,414
Cash paid to suppliers	<u>(452,460)</u>
Net cash provided by (used in) operating activities	<u>\$ (117,046)</u>
Cash Flows from Noncapital Financing Activities	
Intergovernmental receipts	\$ 359,917
Housing assistance payments	<u>(266,029)</u>
Net cash provided by (used in) noncapital financing activities	<u>\$ 93,888</u>
Cash Flows from Capital and Related Financing Activities	
Acquisition of capital assets	<u>\$ (46,371)</u>
Cash Flows from Investing Activities	
Investment earnings received	<u>\$ 1,005</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (68,524)
Cash and Cash Equivalents - January 1	<u>1,141,189</u>
Cash and Cash Equivalents - December 31	<u><u>\$ 1,072,665</u></u>
Cash and Cash Equivalents - Exhibit 7	
Cash and pooled investments	\$ 466,471
Restricted cash	<u>606,194</u>
Total Cash and Cash Equivalents	<u><u>\$ 1,072,665</u></u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	<u>\$ (279,866)</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation	\$ 120,347
Changes in assets and liabilities	
(Increase) decrease in accounts receivable	12,666
(Increase) decrease in property held for resale	(73,689)
(Increase) decrease in Notes, loans, & mortgages receivable	101,993
Increase (decrease) in accounts payable	(315)
Increase (decrease) in due to other governments	(4,113)
Increase (decrease) in prepaid rent	825
Increase (decrease) in other liabilities	5,099
Increase (decrease) in tenant security deposits	<u>7</u>
Total adjustments	<u>\$ 162,820</u>
Net Cash Provided by (Used in) Operating Activities	<u><u>\$ (117,046)</u></u>

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**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012**

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, 2012. 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. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange 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. 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, 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

Activity 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 non-current 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, and Net Position or Equity (Continued)

4. 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:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	40
Furniture, equipment, and vehicles	3 - 7

5. Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues not considered to be available to liquidate liabilities of the current period. Governmental and proprietary funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

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

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, 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. Classification of Net Position

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

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

8. 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 funds. The classifications are as follows:

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

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

8. Classification of Fund Balances (Continued)

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.

Committed - amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of the Board. Those committed amounts cannot be used for any other purpose unless the 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 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.

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

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

8. Classification of Fund Balances (Continued)

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.

9. 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	\$ 550,461
Business-type activities	
Cash and pooled investments	466,471
Restricted cash	<u>606,194</u>
 Total Cash and Investments	 <u>\$ 1,623,126</u>

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

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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.

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, 2012, 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;

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

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (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, 2012, the EDA had no investments.

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

2. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

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

Loans Receivable--Governmental Activities

Loans receivable consist of an operating cash loan to Maple Avenue Apartments without interest. This loan is repayable in full on September 1, 2013. The EDA has a one percent ownership and manages Maple Avenue Apartments, with Wells Fargo Company owning 99 percent of the project. The following is a summary of changes in loans receivable for the year ended December 31, 2012:

<u>Loans Receivable</u>	<u>Balance January 1</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance December 31</u>
Maple Avenue Apartments	\$ 35,000	\$ -	\$ -	\$ 35,000

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, 2012.

Balance - January 1, 2012	\$ 1,244,675
New loans	-
Payments	(28,674)
Canceled contracts	<u>(73,319)</u>
Balance - December 31, 2012	\$ 1,142,682
Less: current portion	<u>(42,009)</u>
Long-Term Portion	<u>\$ 1,100,673</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					
Patty Sweeney	October 1, 1999	-	October 1, 2014	\$ 284	\$ 42,780
Kim Ward	February 1, 2000	-	January 1, 2015	195	53,305
Cynthia Burton	March 1, 2001	-	March 1, 2021	119	68,067
Michael Steffl	September 1, 2002	-	September 1, 2017	381	35,303
Katrina and Dennis Hoefs	May 1, 2003	-	May 1, 2028	127	72,237
Sean Grove and Amy Olson	June 1, 2004	-	June 1, 2024	140	64,940
Anthony and Angela Sieling	July 1, 2004	-	July 1, 2029	99	79,766
Robert Goodrich	August 1, 2004	-	August 1, 2022	390	57,661
Felicia Johnson	December 1, 2005	-	December 1, 2035	146	73,009
Melissa Pearson	February 1, 2006	-	February 1, 2033	227	76,399
Michelle Skramstad	February 1, 2007	-	February 1, 2032	239	109,269
Jamie Branden/James Endersby	May 1, 2010	-	May 1, 2026	124	67,789
Julie Bladow/Jon Anderson	November 1, 2009	-	November 1, 2029	558	129,388
Total Federal Home Funds					\$ 929,913
State Non-Home Funds					
Nicolas Savior/Rebecca Cartwright	May 1, 2009	-	May 1, 2039	315	\$ 67,388
Teresa Rojas	May 1, 2009	-	May 1, 2039	158	145,381
Total State Non-Home Funds					\$ 212,769
Total Contracts for Deed					\$ 1,142,682

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

2. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2012, was as follows:

Business-Type Activities

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated				
Land	\$ 326,354	\$ -	\$ -	\$ 326,354
Capital assets being depreciated				
Buildings	\$ 4,767,651	\$ 46,371	\$ -	\$ 4,814,022
Equipment	155,914	-	-	155,914
Total capital assets being depreciated	\$ 4,923,565	\$ 46,371	\$ -	\$ 4,969,936
Less: accumulated depreciation for				
Buildings	\$ 1,065,003	\$ 109,270	\$ -	\$ 1,174,273
Equipment	112,222	11,077	-	123,299
Total accumulated depreciation	\$ 1,177,225	\$ 120,347	\$ -	\$ 1,297,572
Total capital assets, depreciated, net	\$ 3,746,340	\$ (73,976)	\$ -	\$ 3,672,364
Capital Assets, Net	<u>\$ 4,072,694</u>	<u>\$ (73,976)</u>	<u>\$ -</u>	<u>\$ 3,998,718</u>

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

Business-Type Activities	
Housing	<u>\$ 120,347</u>

B. Related Party Accruals

Due To/From Becker County

Business-Type Activities

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>
Becker County - General Fund	EDA - Enterprise Fund	<u>\$ 31,887</u>

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

2. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2012, for governmental activities and business-type activities were as follows:

	Governmental Activities	Business-Type Activities
Accounts	\$ -	\$ 3,728
Other liabilities	-	24,608
Due to other governments	-	17,098
Prepaid rent	-	1,207
Tenant security deposits	-	13,456
Total Payables	\$ -	\$ 60,097

2. Long-Term Debt

Governmental Activities

The EDA and the Lake Park Economic Development Authority have a cost-sharing arrangement to each pay one-half the costs of the Lake Park South 10 Industrial Park Project which is to be partially funded by the Wild Rice Promissory Note. The full amount of the Note is \$144,000, of which the EDA and the Lake Park Economic Development Authority are both jointly and severally responsible to repay. The EDA and the Lake Park Economic Development Authority have each opened irrevocable letters of credit in the amount of \$72,000 to secure the note. The entire amount of the note payable is reported on the Statement of Net Position of the EDA, along with a receivable for the Lake Park Economic Development Authority's share of the note repayment.

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

2. Detailed Notes on All Funds

C. Liabilities

2. Long-Term Debt

Governmental Activities (Continued)

The following is a schedule of long-term debt for governmental activities at December 31, 2012.

<u>Types of Indebtedness</u>	<u>Final Maturity</u>	<u>Monthly Installment Amounts</u>	<u>Interest Rates (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2012</u>
Wild Rice Promissory Note	2013	\$ 1,500	0.00	\$ 144,000	\$ 10,500

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 the 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.

The EDA entered into a loan with the Greater Minnesota Housing Fund of \$217,300 on December 20, 2007, to start construction for a twelve-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 Minnesota Housing Finance Agency (Publicly Owned Housing Program), which will be forgiven in twenty 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.

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

2. Detailed Notes on All Funds

C. Liabilities

2. Long-Term Debt

Business-Type Activities (Continued)

The following is a schedule of long-term debt for business-type activities at December 31, 2012.

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amount</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance Dec. 31, 2012</u>
MHFA mortgage loan Greater Minnesota Housing Fund	N/A	N/A	0.00	\$ 800,000	\$ 800,000
Minnesota Housing Finance	2037	N/A	0.00	217,300	217,300
	2038	N/A	0.00	1,400,000	1,400,000
Total Long-Term Debt					<u>\$ 2,417,300</u>

3. Debt Service Requirements

Governmental Activities

Debt service requirements at December 31, 2012, were as follows:

<u>Year Ending December 31</u>	<u>Promissory Note</u>	
	<u>Principal</u>	<u>Interest</u>
2013	<u>\$ 10,500</u>	<u>\$ -</u>

4. Changes in Long-Term Liabilities

Governmental Activities

Long-term liability activity for the year ended December 31, 2012, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Wild Rice Promissory Note	<u>\$ 28,500</u>	<u>\$ -</u>	<u>\$ 18,000</u>	<u>\$ 10,500</u>	<u>\$ 10,500</u>

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

2. Detailed Notes on All Funds

C. Liabilities

4. Changes in Long-Term Liabilities (Continued)

Business-Type Activities

Long-term liability activity for the year ended December 31, 2012, 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	-
Business-Type Activity Long-Term Liabilities	<u>\$ 2,417,300</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,417,300</u>	<u>\$ -</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.

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.

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

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

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	\$ 7,179
Loan dated December 30, 1994, with a final maturity of December 30, 2024	34,763
Loan dated May 29, 2003, with a final maturity of May 29, 2033	28,995
Total	\$ 70,937

E. Minnesota Housing Revolving Fund Programs

The EDA received grants from the Minnesota Housing Finance Agency 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 Minnesota Housing Finance Agency. The amounts received and balances on hand at December 31, 2012, are as follows:

	Original Grant	Revolving Fund Cash	Contract for Deed Receivable
Federal Home Minnesota Urban and Rural Homestead Loan	\$ 1,810,100	\$ 193,313	\$ 929,913
State Home Minnesota Urban and Rural Homesteading Loan	196,185	11,256	212,769
Total	\$ 2,006,285	\$ 204,569	\$ 1,142,682

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

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

F. Operating Leases

Lakes Homes and Program Development, Inc., entered into a five-year operating lease with the EDA for property the EDA owns (carrying value of \$107,609 and accumulated depreciation of \$36,117) 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 2010. The lease automatically renews on a month-to-month basis after the five year agreement has expired and no new lease is signed.

Becker County entered into a five-year operating lease with the EDA for property the EDA owns (carrying value of \$254,191 and accumulated depreciation of \$39,963) to be used for the Becker County Workshop. According to the lease terms, the EDA began receiving monthly installments of \$1,750 beginning August 2005. The lease automatically renews on a month-to-month basis after the five year agreement has expired and no new lease is signed.

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. Conduit Debt Issuance

Public Facilities Lease - The Becker County Economic Development Authority issued \$6,395,000 Public Facilities Lease Revenue Bonds, Series 2007A, to finance construction of the Courthouse Expansion Project to be owned and operated by Becker County. The Becker County Economic Development Authority and Becker County entered into an irrevocable leveraged lease agreement for the facility whereby the bond principal and interest are payable solely from the revenues derived from the lease agreement. The rental payments of the County are absolute and unconditional obligations of the County payable from a direct ad valorem tax levied on all taxable property within the County for this purpose without limit as to rate or amount. The series 2007A Bonds are not a general obligation of the Becker County Economic Development Authority or a charge against its general credit or taxing powers. The lease agreement is for the life of the bond issue 2007A at which time the facility becomes the property of Becker County. The assets and related debt are reflected in the financial statements of Becker County. The Becker County Economic Development

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

3. Summary of Significant Contingencies and Other Items

H. Conduit Debt Issuance (Continued)

Authority is the administrator for the project during the construction phase. The related revenues and expenditures are accounted for within the capital projects fund within Becker County's financial activities. At December 31, 2012, the outstanding balance on the Public Facilities Lease Revenue Bonds, Series 2007A was \$5,010,000.

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, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 173,633	\$ 173,633	\$ 175,376	\$ 1,743
Intergovernmental	2,000	2,000	1,935	(65)
Gifts and contributions	11,050	11,050	23,825	12,775
Investment earnings	70	70	2,258	2,188
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Revenues	\$ 186,753	\$ 186,753	\$ 203,394	\$ 16,641
Expenditures				
Current				
Economic development				
Administration	\$ 246,728	\$ 246,728	\$ 215,273	\$ 31,455
Other economic development	3,232	3,232	3,946	(714)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total economic development	\$ 249,960	\$ 249,960	\$ 219,219	\$ 30,741
Debt service				
Principal	18,000	18,000	18,000	-
Administrative fee	645	645	285	360
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Expenditures	\$ 268,605	\$ 268,605	\$ 237,504	\$ 31,101
Excess of Revenues Over (Under) Expenditures	\$ (81,852)	\$ (81,852)	\$ (34,110)	\$ 47,742
Fund Balance - January 1	747,775	747,775	747,775	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Fund Balance - December 31	\$ 665,923	\$ 665,923	\$ 713,665	\$ 47,742
	<u> </u>	<u> </u>	<u> </u>	<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, 2012**

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 expenditure budget and amendments are approved at the fund level.

Encumbrance accounting is employed in the General Fund. Encumbrances (such as, purchase orders, 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, 2012.

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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, 2012**

Shared Revenue

State

Market value credit

\$ 1,935

Grants

Federal

Department of Housing and Urban Development

359,917

Total Intergovernmental Revenue

\$ 361,852

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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, 2012 AND 2011**

	2012	2011
<u>Assets</u>		
Current assets		
Operating cash - checking	\$ -	\$ 3,775
Operating cash - savings	-	13,972
Accounts receivable	252	-
Total current assets	\$ 252	\$ 17,747
Restricted assets		
Cash for other purposes	\$ 113,558	\$ 80,856
Cash for security deposits	2,500	2,601
Total restricted assets	\$ 116,058	\$ 83,457
Noncurrent assets		
Capital assets		
Nondepreciable	\$ 129,454	\$ 129,454
Depreciable - net of accumulated depreciation	1,470,819	1,521,452
Total noncurrent assets	\$ 1,600,273	\$ 1,650,906
Total Assets	\$ 1,716,583	\$ 1,752,110
<u>Liabilities</u>		
Current liabilities		
Accounts payable	\$ 1,280	\$ 495
Due to other governments	-	5,867
Other liabilities	6,892	-
Deferred revenue	-	208
Tenant security deposits	2,500	2,600
Total current liabilities	\$ 10,672	\$ 9,170
Noncurrent liabilities		
Loans payable	1,617,300	1,617,300
Total Liabilities	\$ 1,627,972	\$ 1,626,470
<u>Net Position</u>		
Net investment in capital assets	\$ (17,027)	\$ 33,606
Restricted for housing	105,638	80,856
Unrestricted	-	11,178
Total Net Position	\$ 88,611	\$ 125,640

**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, 2012 AND 2011**

	2012	2011
Operating Revenues		
Tenant rental	\$ 106,297	\$ 96,174
Miscellaneous	264	2,675
Total Operating Revenues	\$ 106,561	\$ 98,849
Operating Expenses		
Bad debts	\$ 3,958	\$ 9,053
Insurance	5,309	5,052
Maintenance and repairs	41,547	39,594
Property management fee	9,805	8,470
Real estate taxes	6,892	5,867
Utilities	25,918	24,101
Other general expenses	153	210
Depreciation	50,633	61,301
Total Operating Expenses	\$ 144,215	\$ 153,648
Operating Income (Loss)	\$ (37,654)	\$ (54,799)
Nonoperating Revenues (Expenses)		
Investment earnings	625	555
Change in Net Position	\$ (37,029)	\$ (54,244)
Net Position - January 1	125,640	179,884
Net Position - December 31	\$ 88,611	\$ 125,640

**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, 2012 AND 2011**

	2012	2011
Cash Flows from Operating Activities		
Cash received from customers	\$ 106,309	\$ 99,668
Cash paid to suppliers	(92,080)	(92,268)
Net cash provided by (used in) operating activities	\$ 14,229	\$ 7,400
Cash Flows from Investing Activities		
Investment earnings received	625	555
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 14,854	\$ 7,955
Cash and Cash Equivalents - January 1	101,204	93,249
Cash and Cash Equivalents - December 31	\$ 116,058	\$ 101,204
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Operating income (loss)	\$ (37,654)	\$ (54,799)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation	\$ 50,633	\$ 61,301
Changes in assets and liabilities		
(Increase) decrease in accounts receivable	(252)	819
Increase (decrease) in accounts payable	785	495
Increase (decrease) in due to other funds	-	(743)
Increase (decrease) in due to other governments	(5,867)	-
Increase (decrease) in prepaid rent	(208)	-
Increase (decrease) in deferred revenue	-	139
Increase (decrease) in other liabilities	6,892	-
Increase (decrease) in tenant security deposits	(100)	188
Total adjustments	\$ 51,883	\$ 62,199
Net Cash Provided by (Used in) Operating Activities	\$ 14,229	\$ 7,400

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

**SCHEDULE OF FINDINGS AND RECOMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2012**

**FINDING RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

08-1 Segregation of Duties

Criteria: Management is responsible for establishing and maintaining internal control. Adequate segregation of duties is a key internal control in preventing and detecting errors or irregularities. To protect the Becker County Economic Development Authority's assets, proper segregation of the record-keeping, custody, and authorization functions should be in place, and where management decides segregation of duties may not be cost effective, compensating controls should be in place.

Condition: Due to the limited number of personnel within the Becker County Economic Development Authority, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible.

Context: This is not unusual in operations the size of the Becker County Economic Development Authority; however, management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control point of view.

Effect: Inadequate segregation of duties could adversely affect the Becker County Economic Development Authority's ability to detect misstatements in a timely period in the normal course of performing assigned functions.

Cause: The size of the Becker County Economic Development Authority and its staffing limits the internal control that management can design and implement into the organization.

Recommendation: The Becker County Economic Development Authority's officials and management should be mindful that limited staffing increases the risks in safeguarding assets and the proper recording of its financial activity. We recommend, where possible, oversight procedures be implemented to ensure that internal control policies and procedures are being followed by staff.

Client's Response:

The Becker County EDA lacks the resources to staff the Agency at the level needed to eliminate this finding; the plan to correct this finding will be ongoing. The Becker County EDA will continue to review internal control functions and evaluate potential opportunities to improve internal control functions in an efficient and effective manner.



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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

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, as of and for the year ended December 31, 2012, 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, 2013.

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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Recommendations as item 08-1 that we consider to be a significant deficiency.

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 Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our audit considered all of the listed categories.

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 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

The Becker County Economic Development Authority's response to the internal control finding identified in our audit has been included in the Schedule of Findings and Recommendations. The EDA's response was not subject 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 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

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 13, 2013