

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

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

YEAR ENDED DECEMBER 31, 2004

Description of the Office of the State Auditor

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits for 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 over 700 public pension funds; and

Tax Increment Financing, Investment and Finance - 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 Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@state.mn.us
www.auditor.state.mn.us

This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the State Auditor's web site: www.auditor.state.mn.us.

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

Year Ended December 31, 2004



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

This page was left blank intentionally.

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

TABLE OF CONTENTS

	<u>Reference</u>	<u>Page</u>
<u>Introductory Section</u>		
Organization		1
<u>Financial Section</u>		
Independent Auditor’s Report		2
Management’s Discussion and Analysis		
Basic Financial Statements		4
Government-Wide Financial Statements		
Statement of Net Assets	Exhibit 1	15
Statement of Activities	Exhibit 2	16
Fund Financial Statements		
General Fund		
Balance Sheet	Exhibit 3	17
Reconciliation of General Fund Balance Sheet to the Government-Wide Statement of Net Assets-- Governmental Activities	Exhibit 4	18
Statement of Revenues, Expenditures, and Changes in Fund Balances	Exhibit 5	19
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of General Fund to the Government-Wide Statement of Activities--Governmental Activities	Exhibit 6	20
Enterprise Fund		
Statement of Net Assets	Exhibit 7	21
Statement of Revenues, Expenses, and Changes in Fund Net Assets	Exhibit 8	22
Statement of Cash Flows	Exhibit 9	23
Notes to the Financial Statements		25

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

TABLE OF CONTENTS

	<u>Reference</u>	<u>Page</u>
<u>Financial Section (Continued)</u>		
Required Supplementary Information		
Budgetary Comparison Schedule		
General Fund	Schedule 1	43
Notes to the Required Supplementary Information		44
Supplementary Information		
Financial Data Schedule	Schedule 2	45
<u>Management and Compliance Section</u>		
Schedule of Findings and Recommendations	Schedule 3	49
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		51

This page was left blank intentionally.

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

**ORGANIZATION
AS OF DECEMBER 31, 2004**

		<u>Term Expires</u>
Board Members		
Commissioner	Bob Bristlin ¹	January 2005
Commissioner	Harry Salminen	January 2007
1st District	Paul Joyce	January 2008
2nd District	Mike Metelak ²	January 2009
3rd District	Gerald Schram	January 2009
4th District	Terry Johnson	January 2010
5th District	Dan Aune	January 2006
Housing Director	Jon Thomsen	Indefinite

¹President

²Vice President

This page was left blank intentionally.

This page was left blank intentionally.



STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

PATRICIA ANDERSON
STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Becker County Housing and Economic Development Authority

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Becker County Housing and Economic Development Authority (EDA) (a component unit of Becker County) as of and for the year ended December 31, 2004, including the Housing Department as of and for the year ended June 30, 2004, which collectively comprise the EDA's basic financial statements. These financial statements are the responsibility of the EDA's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, and each major fund of the Becker County Housing and Economic Development Authority as of December 31, 2004, including the Housing Department as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and other required supplementary information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the EDA's basic financial statements. The financial data schedule, 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. This supplementary schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2005, on our consideration of the EDA'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 reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: February 7, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

This page was left blank intentionally.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2004
(Unaudited)**

Introduction

It is a privilege to present for you the financial picture of the Becker County Housing and Economic Development Authority (EDA). The Becker County EDA's 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 EDA's financial activity, (c) identify changes in the EDA's 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, 2004, 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 Exhibit 1. Please note that the housing programs operated by the EDA have a June 30th year-end reporting requirement, and these transactions are reported in their entirety for the 12-month period ending June 30, 2004.

2004 Financial Highlights - The Year in Review

- Completed the development of the 20-acre Industrial Park that is located south of Highway 10 in Lake Park and jointly owned by the Becker County EDA and the City of Lake Park EDA. The infrastructure construction began in 2003. Since inception, over \$450,000 in federal and local funds have been used to finance the purchase of the land and the development of five industrial/commercial lots.
- In 2004, the ongoing housing programs received over \$96,000 in rental revenue and over \$783,000 in federal/state grants, which included approximately:
 - \$378,000 from the U.S. Department of Housing and Urban Development for the Low Rent Public Housing Program, the Low Rent Capital Fund Program, and the Section 8 Housing Choice Voucher Program.
 - \$364,000 from Minnesota Housing Finance Agency's (MHFA), Minnesota Urban and Rural Homesteading Program (MURL), and MHFA's Community Revitalization Fund (CRV).
 - \$41,000 in federal assistance under the Public Assistance (Infrastructure) Program (FEMA).

- In 2004, over \$60,000 was received in connection with the administration of ongoing state and local housing programs, which included:
 - MHFA Rehab Loan Program: The EDA is the program administrator for Becker County. Under this program, MHFA provides homeowners with rehabilitation funding intended for basic repairs to make their existing homes more energy efficient, livable, or accessible. This is accomplished through the homeowner's acceptance of MHFA's 30-year deferred loan, which provides financing for homeowners who are unable to obtain conventional financing to undertake necessary improvements to their properties. Four Becker County homeowners participated and received deferred loans from MHFA.
 - MHFA's HOME Rental Rehab Loan Program: The EDA is the program administrator for Becker County. Under this program, MHFA provides owners of smaller rental properties with rehabilitation funding intended to finance improvements on their existing investment properties occupied by low to moderate income families. This is accomplished through the owners' acceptance of MHFA's deferred loan, which provides financing to eligible owners who are able to provide matching funds towards the rehabilitation on the property. A 12-plex apartment building in Lake Park received deferred loan funding from MHFA.
 - Greater Minnesota Housing Fund (GMHF) Homeowner Gap Financing Loan Program: The EDA is the processing agent for Becker County. Under this program, GMHF provides funding for families who are unable to afford the full sales price of a new construction home. This is accomplished through the homeowner's acceptance of GMHF's deferred loan. Two Becker County homeowners participated and received deferred loans from MHFA.
- Awarded \$108,000 from the Federal Home Loan Bank as part of the \$1.5 million permanent supportive housing project planned for 2006. This project consists of the construction of a 12-unit town home to be located in Detroit Lakes. The EDA has continued a collaborative relationship with Mahube Community Council, Inc., for the purpose of increasing the number of rental units for low-income vulnerable populations.
- Awarded \$400,000 in MHFA's MURL Program funds to be used to acquire and rehabilitate homes in Becker County. These homes will then be sold on a zero percent contract for deed to eligible first-time homebuyers.
- Awarded \$253,800 in MHFA's Community Revitalization Fund (CRF) Program funds to be used for the construction of two new construction homes using the Department of Corrections (ICWC) inmate work crews. Upon completion, these homes will be sold to eligible first-time homebuyers.

- Substantially completed the administration of the \$150,000 Small Cities Development Program (SCDP) grant on behalf of the City of Callaway. Under this program, five new construction homes were built in Callaway. Four of the five homes have been sold, and the fifth home is still under construction.
- Awarded the administration of the \$1.2 million Small Cities Development Program (SCDP) grant on behalf of the City of Ogema. The project includes the design and development of the municipal water system, existing housing rehabilitation, and single-family housing development. The total project will require over \$2.5 million in funds and require collaboration between the City of Ogema and the Becker County EDA, along with the Federal Home Loan Bank, USDA Rural Development, Mahube, Becker County Soil and Water, and the Minnesota Department of Transportation. The project should be completed in 2007.
- Continues to support MHFA's Minnesota City Participation Program (MCP), a unique opportunity in which MHFA provides below-market interest rate home mortgage loans for low and moderate income first-time homebuyers. The EDA continues to apply for funds administered by participating lenders who originate home mortgage loans. During the past year, MHFA allocated \$443,585 in MCP funds for Becker County residents.

Overview of Financial Statements

Becker County Housing and EDA's basic financial statements consists of three components:

1. *Government-wide financial statements* that 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). The EDA distinguishes operating revenues and expenses from non-operating 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 non-operating revenues and expenses.
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* which 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 certain budgetary comparison schedules 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 Assets and the Statement of Activities (Exhibits 1 and 2, 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 Exhibit 3. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending.

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

Our analysis of the EDA as a whole begins on Exhibit 1. The Statement of Net Assets 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 assets.

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 assets and changes in them. You can think of the EDA's net assets--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 assets are one indicator of whether its financial health is improving or deteriorating. Net Assets are reported in three broad categories:

1. Net Assets, Invested in Capital Assets, Net of Related Debt: This component of Net Assets consists of all Capital Assets, reduced by the outstanding balances of mortgages or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted Net Assets: This component of Net Assets consists of restricted assets. Restrictions occur when constraints are placed on the asset by creditors, grantors, contributors, laws, and regulations.
3. Unrestricted Net Assets: This consists of Net Assets that do not meet the definition of "Net Assets Invested in Capital Assets, Net of Related Debt," or "Restricted Net Assets."

In the Statement of Net Assets 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 Exhibit 3 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 the 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 to 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 Assets and the Statement of Activities) and governmental general fund in a reconciliation that is found in a statement following each governmental fund financial statement.
- Proprietary Fund--When the EDA charges customers for the services it provides, these services are generally reported in the Proprietary Fund. The Enterprise Fund is reported using an accounting method called full accrual and is reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the EDA's Enterprise Fund is the same as the business-type activities, which we report in the governmental-wide statements but provides more detail and additional information, such as cash flows. The more significant programs which are included in the Enterprise Fund include:
 1. Public Housing: Under the Public Housing Program, the EDA rents units that it owns to low-income households. This program is operated under an Annual Contributions Contract (ACC) with the U.S. Department of Housing and Urban Development (HUD). HUD provides an Operating Subsidy to enable the EDA to provide rental housing at a rental rate that is typically based upon a percentage of the household's adjusted gross household income.

2. **Capital Fund Program:** This is the current primary funding source for the EDA's physical and management improvements for the Public Housing units. The funds are provided by HUD based upon a formula allocation, which is based upon the size and age of the units.
3. **Housing Choice Voucher Program:** Under the Housing Choice Voucher Program, the EDA subsidizes rents to independent landlords that own the property. The EDA subsidizes the family's rent through a Housing Assistance Payment (HAP) made to the landlord. The program is administered under an Annual Contributions Contract (ACC) with HUD. HUD provides funding to enable the EDA to structure a lease that requires the participant to pay a rent based on a percentage of their adjusted gross household income, typically 30 percent, and the EDA subsidizes the balance.
4. **CRV:** This is the current primary funding source for the EDA's new housing development. The intent of this program is to maintain and/or increase the supply of affordable, owner-occupied, single-family housing. Funds are provided from the MHFA in the form of a grant, interest free or two percent interim construction/rehabilitation loan, deferred loan, or a combination of the three. Funds can be used for the acquisition of land and the development of single-family housing, financing to fill a funding gap (affordability/value), and innovative approaches to housing construction.
5. **MURL:** This is the current primary funding source for the EDA's zero-percent contract for deed homeownership program. The intent of this program is to provide homeownership opportunities to homebuyers who will assist in preserving the existing housing stock. Funds are provided from MHFA in the form of a grant. Funds can be used for the purchase and rehabilitation of existing single-family homes, which are then sold on a zero percent contract for deed 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.

Condensed Financial Information

The results of operations is as follows:

Condensed Statements of Net Assets 2004 and 2003

	Governmental Activities		Business-Type Activities		Total Becker County EDA	
	2004	2003	2004	2003	2004	2003
Assets						
Current and other assets	\$ 1,073,326	\$ 1,340,496	\$ 2,215,669	\$ 1,430,797	\$ 3,288,995	\$ 2,771,293
Capital assets	-	-	2,203,595	1,997,254	2,203,595	1,997,254
Total Assets	\$ 1,073,326	\$ 1,340,496	\$ 4,419,264	\$ 3,428,051	\$ 5,492,590	\$ 4,768,547

(Unaudited)

Page 9

	Governmental Activities		Business-Type Activities		Total Becker County EDA	
	2004	2003	2004	2003	2004	2003
Liabilities						
Long-term debt outstanding	\$ 144,000	\$ 453,814	\$ 1,431,600	\$ 514,570	\$ 1,575,600	\$ 968,384
Other liabilities	4,893	13,984	121,684	137,331	126,577	151,315
Total Liabilities	\$ 148,893	\$ 467,798	\$ 1,553,284	\$ 651,901	\$ 1,702,177	\$ 1,119,699
Net Assets						
Invested in capital assets, net of related debt	\$ -	\$ -	\$ 1,403,595	\$ 1,997,254	\$ 1,403,595	\$ 1,997,254
Restricted - MHFA	-	-	1,215,791	-	1,215,791	-
Unrestricted	924,433	872,698	246,594	778,896	1,171,027	1,651,594
Total Net Assets	\$ 924,433	\$ 872,698	\$ 2,865,980	\$ 2,776,150	\$ 3,790,413	\$ 3,648,848

The most significant change in governmental activities current assets and liabilities falls within the category of *loans receivable and debt outstanding*. The early payoff of a long-term loan receivable provided the money to retire the related long-term debt outstanding. The governmental activities revenues, which were higher than program expenses, when combined with the increase in cash from the early loan payoff and sale of property, resulted in a \$51,735 increase in the governmental activities unrestricted net assets.

The most significant change in business-type activities current assets and liabilities falls with the categories of *assets held for resale, capital assets and long-term debt outstanding*. The homeownership program offered by the EDA has been a tremendous success. Since 1998, a combination of \$3,031,000 in grants and interim construction loans have provided the funding for 31 affordable, single-family homes being made available by the EDA to lower-income homebuyers in Becker County. The business-type activities current assets reflect the unsold homes that were in various stages of construction at year-end.

It should be noted that the business-type activities capital assets decrease each year due to depreciation. Depreciation is treated as an expense and reduces the results of operations but does not have an impact on unrestricted net assets for the business-type activities. 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 assets either. Any increase/decrease is reported in the business-type activities *Net assets invested in capital assets, net of related debt*.

Capital assets for the EDA's Public Housing Program, one of the business-type activities, were initially acquired with funding provided by the federal government (HUD). The State MHFA provided subsequent modernization funding for these federally funded public housing units. 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 assets at cost less accumulated depreciation and related debt, within the applicable program's net assets.

While the EDA has a preventative maintenance program to preserve the value and extend the life of its housing assets, the EDA entered into a loan with MHFA that provided the money required to undertake the major modernization of the public housing units. MHFA's Preservation Affordable Rental Investment Fund (PARIF) (\$800,000, 30-year, zero percent interest loan) was used to pay off the outstanding line of credit. MHFA further agreed to an indefinite extension of the due date of the loan so that the repayment of the loan principal is deferred until the expiration of the EDA's Annual Contributions Contract (ACC) with HUD. Excluding the one time, multi-year public housing modernization project would significantly narrow the change between the current and prior year.

The contractual obligations and limitations placed upon the EDA by MHFA for the MURL and CRV programs can significantly affect the availability of these resources for future use. Therefore, the Statement of Net Assets recognizes MHFA's contractual restriction of the MURL/CRV funds in the amount of \$1,215,791 in the Business-Type Activities net assets.

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

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

**Changes in Net Assets
2004 and 2003
Compared**

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenues						
Program revenues						
Fees, fines, charges, and other	\$ 18,832	\$ 29,649	\$ 158,941	\$ 263,499	\$ 177,773	\$ 293,148
Operating grants and contributions	47,010	-	783,657	761,979	830,667	761,979
Capital grants and contributions	-	264,810	-	22,931	-	287,741
General revenues						
Property taxes and special assessments	156,457	261,552	-	-	156,457	261,552
Investment income	11,068	7,544	1,516	985	12,584	8,529
Total Revenues	\$ 233,367	\$ 563,555	\$ 944,114	\$ 1,049,394	\$ 1,177,481	\$ 1,612,949
Program Expenses						
Economic development	\$ 177,391	\$ 425,189	\$ -	\$ -	\$ 177,391	\$ 425,189
Interest	4,241	23,369	-	-	4,241	23,369
Public housing	-	-	231,387	167,881	231,387	167,881
Other housing	-	-	333,829	230,376	333,829	230,376
Housing choice vouchers	-	-	287,368	269,959	287,368	269,959
Total Program Expenses	\$ 181,632	\$ 448,558	\$ 852,584	\$ 668,216	\$ 1,034,216	\$ 1,116,774
Excess (Deficiency Before Transfers and Special Items)	\$ 51,735	\$ 114,997	\$ 91,530	\$ 381,178	\$ 143,265	\$ 496,175
Transfers	-	(141,000)	-	-	-	(141,000)
Special items	-	-	(1,700)	-	(1,700)	-
Increase (Decrease) in Net Assets	\$ 51,735	\$ (26,003)	\$ 89,830	\$ 381,178	\$ 141,565	\$ 355,175
Net Assets - Beginning of Year	872,698	898,701	2,776,150	2,394,972	3,648,848	3,293,673
Net Assets - End of Year	\$ 924,433	\$ 872,698	\$ 2,865,980	\$ 2,776,150	\$ 3,790,413	\$ 3,648,848

(Unaudited)

Page 11

When comparing 2003 and 2004, a major component in the decrease in the governmental activities revenues is the result of the Department of Commerce grant closeout and the completion of the 20-acre industrial park project in Lake Park. While this comparative amount appears significant, there were significant shifts in the General Fund expenditures in 2004. Excluding the one time, multi-year industrial park project would significantly narrow the change between the current and prior year.

When comparing 2003 and 2004, the administrative fees earned by the business-type activities decreased as the grant management contracts neared completion. The administrative fee earned by the business-type activities is dependent upon successful grants writing and good relationships with federal, state, and local agencies. Since this is largely out of our control, this has been, and continues to be, an area where good planning for the future is essential. In addition, a major component in program expenses is the result of the additional costs incurred during the public housing modernization program. Excluding the expenses related to this one-time multi-year public housing modernization project would significantly narrow the change between the current and prior year.

Analysis and Discussion of the General Fund Budget

Per state statute, the EDA is obligated to adopt, by resolution, an annual budget for its General Fund. The EDA's governing board can amend this budget at any time during the year; however, the EDA is not required to amend the budget for changes. The EDA has not made any changes/amendments in the General Fund budget adopted for 2004. The EDA also adopts budgets for the enterprise funds for administrative purposes only. These are not legally mandated budgets; therefore, budgetary comparisons for the enterprise funds have been omitted from this report.

The EDA's General Fund revenues came in \$3,679 more than budgeted. This was primarily from miscellaneous income and the sale of property. The EDA was able to retire its long-term debt early and the 2004 budget reflects the anticipated debt service principal retirement. It was anticipated that there would be a decrease in net assets in 2004, with the actual decrease in net assets less than what was budgeted for, primarily due to the 20-acre industrial park coming in under budget.

Capital Assets and Debt

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

The EDA has a cost-sharing arrangement with the Lake Park EDA in which both EDA's paid 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 EDA's are jointly and severally responsible to repay. Both EDA's have 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 Assets of the EDA, along with a receivable for the Lake Park EDA's share of the note payable. The promissory note will be paid from the proceeds of the special assessments placed on the lots in the Industrial Park.

The EDA entered into an \$800,000 mortgage loan agreement with MHFA which funded the modernization of the public housing units. The principal sum is due and payable on December 1, 2032. However, 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 so long as HUD allows renewals of the ACC.

The EDA has two loan agreements with MHFA, totaling \$631,600, to be used for interim financing for the Homeownership Program offered by the EDA. Under the EDA's Homeownership Program, new homes are constructed and sold at an affordable price to qualified first-time homebuyers. The loans are to be paid from the proceeds on the sale of the homes.

Future Events

The federal and state governments are experiencing budgetary cuts which have already impacted the EDA. For the 2005 budget year, we have evaluated and implemented strategies that achieve a balance for providing services and maintaining fiscally sound budgets. 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) inflationary pressure on utility rates, supplies, and other costs; and (3) local labor supply and demand, which can affect the wage rates and the cost of labor for local contractors.

Becker County EDA has been chosen by the City of Callaway to write and administer its Small Cities Development Program (SCDP) grant. The City of Callaway is planning for an upgrade of its municipal water system, housing rehabilitation, and new home construction.

In addition to the administration of the ongoing programs offered by the EDA, applications are pending for additional funding from MHFA for both the EDA's MURL and CRV programs.

The repayment of the debt issuance, which partially funded infrastructure improvements in the 20-acre industrial park in Lake Park, begins in August 2005. This debt is to be paid from the proceeds of the special assessments levied upon the industrial park lots by the City of Lake Park.

Contacting the Becker County EDA

This discussion is designed to provide a general overview. If you have any questions about this report or need additional financial information, write the Becker County EDA, P. O. Box 787, Detroit Lakes, Minnesota 56502.

Acknowledgments

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

This page was left blank intentionally.

BASIC FINANCIAL STATEMENTS

This page was left blank intentionally.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

This page was left blank intentionally.

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

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2004
AND JUNE 30, 2004, FOR BUSINESS-TYPE ACTIVITIES**

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Cash and pooled investments	\$ 645,026	\$ 724,821	\$ 1,369,847
Taxes receivable			
Current - net	3,725	-	3,725
Prior - net	4,169	-	4,169
Accounts receivable - net	-	73	73
Due from other governments	134,215	50,718	184,933
Rent receivable (net)	-	250	250
Internal balances	(40,121)	-	(40,121)
Loans receivable	48,493	-	48,493
Contract for deed receivable	-	33,776	33,776
Property held for resale	227,819	727,317	955,136
Advance to other agencies	50,000	-	50,000
Contract for deed receivable	-	676,014	676,014
Investment in joint ventures	-	2,700	2,700
Capital assets			
Non-depreciable	-	178,000	178,000
Depreciable - net of accumulated depreciation	-	2,025,595	2,025,595
Total Assets	\$ 1,073,326	\$ 4,419,264	\$ 5,492,590
<u>Liabilities</u>			
Accounts payable	\$ -	\$ 21,205	\$ 21,205
Due to other governments	3,000	-	3,000
Due to Becker County	1,893	1,715	3,608
Unearned revenue	-	86,348	86,348
Security deposits	-	8,843	8,843
Other current liabilities	-	3,573	3,573
Long-term liabilities			
Due within one year	7,500	631,600	639,100
Due in more than one year	136,500	800,000	936,500
Total Liabilities	\$ 148,893	\$ 1,553,284	\$ 1,702,177
<u>Net Assets</u>			
Invested in capital assets, net of related debt	\$ -	\$ 1,403,595	\$ 1,403,595
Restricted for Minnesota housing revolving loan fund	-	1,215,791	1,215,791
Unrestricted	924,433	246,594	1,171,027
Total Net Assets	\$ 924,433	\$ 2,865,980	\$ 3,790,413

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

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004
AND JUNE 30, 2004, FOR BUSINESS-TYPE ACTIVITIES**

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Fees, Charges, Fines, and Other	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Functions/Programs						
Governmental activities						
Economic development	\$ 177,391	\$ 18,832	\$ 47,010	\$ (111,549)	\$ -	\$ (111,549)
Interest	4,241	-	-	(4,241)	-	(4,241)
Total governmental activities	\$ 181,632	\$ 18,832	\$ 47,010	\$ (115,790)	\$ -	\$ (115,790)
Business-type activities						
Public housing	\$ 231,387	\$ 51,177	\$ 100,203	\$ -	\$ (80,007)	\$ (80,007)
Other housing	333,829	107,764	405,738	-	179,673	179,673
Housing choice vouchers	287,368	-	277,716	-	(9,652)	(9,652)
Total business-type activities	\$ 852,584	\$ 158,941	\$ 783,657	\$ -	\$ 90,014	\$ 90,014
Total	\$ 1,034,216	\$ 177,773	\$ 830,667	\$ (115,790)	\$ 90,014	\$ (25,776)
General revenues						
Property taxes				\$ 156,457	\$ -	\$ 156,457
Investment income				11,068	1,516	12,584
Special items				-	(1,700)	(1,700)
Total general revenues and special items				\$ 167,525	\$ (184)	\$ 167,341
Change in Net Assets				\$ 51,735	\$ 89,830	\$ 141,565
Net assets - January 1/July 1				872,698	2,776,150	3,648,848
Net assets - December 31/June 30				\$ 924,433	\$ 2,865,980	\$ 3,790,413

FUND FINANCIAL STATEMENTS

This page was left blank intentionally.

GENERAL FUND

This page was left blank intentionally.

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

EXHIBIT 3

**BALANCE SHEET
GENERAL FUND
DECEMBER 31, 2004**

<u>Assets</u>	
Cash and pooled investments	\$ 645,026
Taxes receivable	
Current	3,725
Prior	4,169
Loans receivable	48,493
Property held for resale	227,819
Due from other governments	134,215
Advances to other agencies	50,000
	\$ 1,113,447
Total Assets	\$ 1,113,447
<u>Liabilities and Fund Balance</u>	
Liabilities	
Due to other funds	\$ 40,121
Due to other governments	3,000
Due to primary government	1,893
Deferred revenue - unavailable	123,184
	\$ 168,198
Total Liabilities	\$ 168,198
Fund Balance	
Reserved for	
Loans receivable	\$ 48,493
Property held for resale	227,819
Advances to other organizations	50,000
Unreserved	
Undesignated	618,937
	\$ 945,249
Total Fund Balance	\$ 945,249
Total Liabilities and Fund Balance	\$ 1,113,447

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

EXHIBIT 4

**RECONCILIATION OF GENERAL FUND BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2004**

Fund balance - general fund (Exhibit 3)	\$ 945,249
Amounts reported for governmental activities in the statement of net assets are different because:	
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.	123,184
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Loans payable	<u>(144,000)</u>
Net assets of governmental activities (Exhibit 1)	<u>\$ 924,433</u>

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

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

Revenues	
Taxes	\$ 157,567
Intergovernmental	9,741
Interest on investments	11,068
Sale of property held for resale	16,502
Miscellaneous	28,653
	<hr/>
Total Revenues	\$ 223,531
Expenditures	
Current	
Economic development	\$ 192,114
Debt service	
Principal retirement	309,814
Interest	5,726
	<hr/>
Total Expenditures	\$ 507,654
Excess of Revenues Over (Under) Expenditures	\$ (284,123)
Fund Balance - January 1	1,229,372
	<hr/>
Fund Balance - December 31	\$ 945,249
	<hr/> <hr/>

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

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GENERAL FUND TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004**

Net change in fund balance - general fund (Exhibit 5)	\$	(284,123)
Amounts reported for governmental activities in the statement of activities are different because:		
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		47,015
Revenues reported in the fund statement in the current year, but reported in the government-wide statement of activities in prior years.		(22,456)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Principal repayments		
Loans payable		309,814
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Change in accrued interest payable		1,485
Change in net assets of governmental activities (Exhibit 2)	\$	51,735

ENTERPRISE FUND

This page was left blank intentionally.

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

EXHIBIT 7

**STATEMENT OF NET ASSETS
ENTERPRISE FUND
JUNE 30, 2004**

Assets

Current assets

Cash and pooled investments	\$	724,821
Accounts receivable (net)		73
Contract for deed receivable		33,776
Property held for resale		727,317
Due from other governments		50,718
Rent receivable		250
		250

Total current assets **\$ 1,536,955**

Noncurrent assets

Contract for deed receivable	\$	676,014
Investment in joint venture		2,700
Capital assets		
Nondepreciable		178,000
Depreciable (net)		2,025,595
		2,025,595

Total noncurrent assets **\$ 2,882,309**

Total Assets **\$ 4,419,264**

Liabilities

Current liabilities

Accounts payable	\$	21,205
Due to Becker County		1,715
Deferred revenue		86,348
Security deposits		8,843
Loans payable - current		631,600
Other current liabilities		3,573
		3,573

Total current liabilities **\$ 753,284**

Noncurrent liabilities

Mortgage loan - long-term		800,000
		800,000

Total Liabilities **\$ 1,553,284**

Net Assets

Invested in capital assets, net of related debt	\$	1,403,595
Restricted for Minnesota housing revolving fund		1,215,791
Unrestricted		246,594
		246,594

Total Net Assets **\$ 2,865,980**

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

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2004**

Operating Revenues	
Tenant revenue	\$ 96,987
Interest on loan repayment	1,043
Miscellaneous	60,911
	<hr/>
Total Operating Revenues	\$ 158,941
Operating Expenses	
Administrative salaries	\$ 122,460
Auditing fees	12,100
Employee benefit contributions	48,256
Other operating	29,106
Water	7,014
Electricity	3,290
Gas	2,452
Other utilities	1,866
Ordinary maintenance and operations	61,903
Insurance premiums	10,401
Other general	4,920
Payments in lieu of taxes	39,105
Bad debt - tenant rent	102
Bad debt - other	30,345
Casualty losses - non-capitalized	52,871
Housing assistance payments	237,966
Depreciation	56,629
Loss on sale of property held for resale	131,798
	<hr/>
Total Operating Expenses	\$ 852,584
Operating income (loss)	\$ (693,643)
Nonoperating revenues (expenses)	
Intergovernmental	\$ 783,657
Interest income	1,516
	<hr/>
Total Nonoperating revenues (expenses)	\$ 785,173
Income before special items	\$ 91,530
Special items	(1,700)
	<hr/>
Change in Net Assets	\$ 89,830
Net Assets - January 1	2,776,150
	<hr/>
Net Assets - December 31	\$ 2,865,980

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

EXHIBIT 9

**STATEMENT OF CASH FLOWS
ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2004
Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows From Operating Activities	
Receipts from customers and users	\$ 178,563
Payments to suppliers	(238,546)
Payments to employees	(170,716)
Housing assistance	(237,966)
Buy/construct property for resale	(1,053,960)
Sale of property held for resale	396,000
Interest on loan repayments	1,043
Contract for deed payments received	32,586
	\$ (1,092,996)
Cash Flows From Noncapital Financing Activities	
Advance from other funds	\$ (35,154)
Proceeds from construction loan	631,600
Intergovernmental	828,931
	\$ 1,425,377
Cash Flows From Capital and Related Financing Activities	
Proceeds from line of credit	\$ 230,965
Proceeds from mortgage loan commitment	800,000
Principal paid on long-term debt	(745,535)
Purchases of capital assets	(262,970)
	\$ 22,460
Cash Flows From Investing Activities	
Investment earnings received	\$ 1,516
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 356,357
Cash and Cash Equivalents at July 1	368,464
Cash and Cash Equivalents at June 30	\$ 724,821
Noncash Investing, Capital, and Financing Activities	
Contracts for deed receivable for sale of property held for resale	\$ 161,400

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

***EXHIBIT 9
(Continued)***

**STATEMENT OF CASH FLOWS
ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2004
Increase (Decrease) in Cash and Cash Equivalents**

Reconciliation of operating income to net cash provided by (used in) operating activities	
Operating income	<u>\$ (693,643)</u>
Adjustments to reconcile operating income to net cash provided by (used in) operating activities	
Depreciation expense	\$ 56,629
Payments for special item	(1,700)
(Increase) decrease in accounts receivable	46,153
(Increase) decrease in rent receivable	(232)
(Increase) decrease in property held for resale	(363,062)
(Increase) decrease in contract for deed receivable	(128,814)
(Increase) decrease in other assets	3,000
Increase (decrease) in accounts payable	14,112
Increase (decrease) in due to Becker County	(31,203)
Increase (decrease) in security deposits	2,191
Increase (decrease) in other current liabilities	<u>3,573</u>
Total adjustments	<u>\$ (399,353)</u>
Net Cash Provided by (used in) Operating Activities	<u><u>\$ (1,092,996)</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004

1. Summary of Significant Accounting Policies

The Becker County Housing and Economic Development Authority's (EDA) financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2004, and include the financial statements of the Housing Department for the year ended June 30, 2004. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the EDA has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the EDA has chosen not to do so. 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 assets 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

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

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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.

In the government-wide statement of net assets, 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 assets are reported in three parts: (1) invested in capital assets, net of related debt; (2) restricted net assets; and (3) unrestricted net assets. 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 activity 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.

**BECKER COUNTY HOUSING AND 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 governmental fund:

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

The EDA reports the following major enterprise fund:

The Enterprise Fund is used to account for the operations of the EDA's housing department.

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 60 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.

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

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

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

2. Deposits and Investments

Minn. Stat. §§ 118A.04 and 118A.05 generally authorize the following types of investments as available to the EDA:

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

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

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity (Continued)

3. 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 reserve account in applicable governmental funds to indicate that 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.

4. 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 reserve account in the General Fund.

5. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the EDA as

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

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

5. Capital Assets (Continued)

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 market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend 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 capitalized interest in the amount of \$17,663.

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

6. Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are 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.

7. 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 assets.

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

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

7. Long-Term Obligations (Continued)

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.

8. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts not available for appropriation or legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans subject to change.

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	\$ 645,026
Business-type activities	724,821
	<hr/>
Total Cash and Investments	\$ 1,369,847

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

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Minn. Stat. §§ 118A.02 and 118A.04 authorize the EDA to deposit its cash and to invest in certificates of deposit in financial institutions designated by the Board. At December 31, 2004, for the General Fund and at June 30, 2004, for the Enterprise Fund, the carrying amount of the EDA's deposits totaled \$1,369,847. The bank balance deposit amount was \$1,515,894. Minnesota statutes require that all EDA deposits be covered by insurance, surety bond, or collateral.

Following is a summary of the deposits covered by insurance or collateral at December 31, 2004, for the General Fund and at June 30, 2004, for the Enterprise Fund.

	General Fund	Enterprise Fund	Total
Covered Deposits			
Insured, or collateralized with securities held by the EDA or its agent in the EDA's name	\$ 643,149	\$ 200,000	\$ 843,149
Collateralized with securities held by the pledging financial institution's agent in the EDA's name	-	672,745	672,745
Total covered deposits	\$ 643,149	\$ 872,745	\$ 1,515,894
Uncollateralized	-	-	-
Total	\$ 643,149	\$ 872,745	\$ 1,515,894

2. Receivables

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

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

2. Detailed Notes on All Funds

A. Assets (Continued)

3. Loans Receivable--Governmental Activities

Loans receivable consist of cash loans to private enterprises or nonprofit organizations. The following is a summary of changes in loans receivable for the year ended December 31, 2004.

Loans Receivable	Balance January 1	Additions	Payments	Balance December 31
Midwest Minnesota Community Development Corporation	\$ 321,416	\$ -	\$ 321,416	\$ -
Marine Innovations	6,113	-	1,662	4,451
EZ Roll Lakes Equipment	50,000	-	5,958	44,042
Total	<u>\$ 377,529</u>	<u>\$ -</u>	<u>\$ 329,036</u>	<u>\$ 48,493</u>

4. 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 June 30, 2004.

Balance - July 1, 2003	\$ 580,976
New loans	161,400
Payments	<u>(32,586)</u>
Balance - June 30, 2004	\$ 709,790
Less: current portion	<u>(33,776)</u>
Long-Term Portion	<u>\$ 676,014</u>

Contract for Deed	Date	Interest Rate (%)	Due Date	Monthly Payment	Balance June 30
Patty Sweeney	October 1, 1999	-	October 1, 2014	\$ 297	\$ 72,528
Lee Ward	February 1, 2000	-	January 1, 2015	107	65,018
Cynthia Burton	March 1, 2001	-	March 1, 2021	282	84,888
Andrew Yorgason	September 1, 2001	-	September 1, 2019	252	65,156
Michael Steffl	September 1, 2002	-	September 1, 2017	437	68,072
Katrina Albrecht	May 1, 2003	-	May 1, 2028	370	94,367
Joseph Stringfield	October 1, 2002	-	October 1, 2018	434	98,719
Sean Grove and Amy Olson	June 1, 2004	-	June 1, 2024	356	86,042
Christopher Bromeling	June 1, 2004	-	June 1, 2024	280	75,000
					<u>\$ 709,790</u>

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

2. Detailed Notes on All Funds

A. Assets (Continued)

5. Capital Assets

Capital asset activity for the year ended June 30, 2004, for business-type activities was as follows:

Business-Type Activities

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not depreciated				
Land	\$ 178,000	\$ -	\$ -	\$ 178,000
Capital assets depreciated				
Buildings	\$ 2,291,396	\$ 258,480	\$ -	\$ 2,549,876
Machinery, furniture, and equipment	96,726	4,490	-	101,216
Total capital assets depreciated	<u>\$ 2,388,122</u>	<u>\$ 262,970</u>	<u>\$ -</u>	<u>\$ 2,651,092</u>
Less: accumulated depreciation for				
Buildings	\$ 481,348	\$ 53,410	\$ -	\$ 534,758
Machinery, furniture, and equipment	87,520	3,219	-	90,739
Total accumulated depreciation	<u>\$ 568,868</u>	<u>\$ 56,629</u>	<u>\$ -</u>	<u>\$ 625,497</u>
Total capital assets, depreciated, net	<u>\$ 1,819,254</u>	<u>\$ 206,341</u>	<u>\$ -</u>	<u>\$ 2,025,595</u>
Business-Type Activities Capital Assets, Net	<u>\$ 1,997,254</u>	<u>\$ 206,341</u>	<u>\$ -</u>	<u>\$ 2,203,595</u>

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

2. Detailed Notes on All Funds

A. Assets

5. Capital Assets

Business-Type Activities (Continued)

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

Business-Type Activities		
Public housing	\$	48,736
Other housing		7,893
Total Depreciation Expense - Business-Type Activities	\$	56,629

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances:

1. Due To/From Other Funds

	Interfund Receivable	Interfund Payable
General Fund	\$ -	\$ 40,121
Enterprise Fund	-	-
Total Due To and From	\$ -	\$ 40,121
Change in amounts owed to the Enterprise Fund from June 30 to December 31, 2004	40,121	-
Total	\$ 40,121	\$ 40,121

The amount due to the Enterprise Fund represents Enterprise Fund program revenue receipted into the General Fund.

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

2. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers (Continued)

2. Due To/From Becker County

Governmental Activities

Receivable Entity	Payable Entity	Amount
Becker County - General Fund	EDA - General Fund	\$ 1,893

Business-Type Activities

Receivable Entity	Payable Entity	Amount
Becker County - General Fund	EDA - Enterprise Fund	\$ 1,715

C. Liabilities

1. Payables

Payables at December 31, 2004, for governmental activities and at June 30, 2004, for business-type activities were as follows:

	Governmental Activities	Business-Type Activities
Accounts	\$ -	\$ 21,205
Due to other governments	3,000	-
Total Payables	\$ 3,000	\$ 21,205

2. Construction Commitments

The EDA has an active construction project for business-type activities as of June 30, 2004. The project is as follows:

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

2. Detailed Notes on All Funds

C. Liabilities

2. Construction Commitments (Continued)

	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Business-Type Activities		
Housing construction projects	\$ 195,374	\$ 333,954

3. Short-Term Debt

The EDA's business-type activities issued a line of credit to provide interim financing until it received the proceeds from the Minnesota Housing Financing Agency for a Preservation Affordable Rental Investment Fund Program. Additional line of credit was obtained during the year ending June 30, 2004. All was paid off at June 30, 2004. Changes in the line of credit are:

Balance - July 1, 2003	\$ 514,570
Additions	230,965
Payments	(745,535)
Balance - June 30, 2004	\$ -

4. 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 Assets of the EDA, along with a receivable for the Lake Park Economic Development Authority's share of the note repayment.

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

2. Detailed Notes on All Funds

C. Liabilities

4. Long-Term Debt

Governmental Activities (Continued)

The following is a schedule of long-term debt for governmental activities at December 31, 2004.

<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, 2004</u>
Wild Rice Promissory Note	2013	\$ 1,500	0.00	\$ 144,000	<u>\$ 144,000</u>

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 two loan agreements in the amounts of \$309,000 and \$322,600 with the Minnesota Housing Finance Agency to be used for the Community Revitalization Fund Program. The loans are to be paid from the proceeds on the sale of homes that are projects in the program.

The following is a schedule of long-term debt for business-type activities at June 30, 2004.

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

2. Detailed Notes on All Funds

C. Liabilities

4. Long-Term Debt

Business-Type Activities (Continued)

Type of Indebtedness	Final Maturity	Installment Amount	Interest Rate (%)	Original Issue Amount	Outstanding Balance June 30, 2004
Loans payable	2004	N/A	2.00	\$ 631,600	\$ 631,600
Mortgage loan	N/A	N/A	0.00	800,000	800,000
Total Long-Term Debt					<u>\$ 1,431,600</u>

5. Debt Service Requirements

Governmental Activities

Debt service requirements at December 31, 2004, were as follows:

Year Ending December 31	Promissory Note	
	Principal	Interest
2005	\$ 7,500	\$ -
2006	18,000	-
2007	18,000	-
2008	18,000	-
2009	18,000	-
2010-2013	64,500	-
Total	<u>\$ 144,000</u>	<u>\$ -</u>

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

2. Detailed Notes on All Funds

C. Liabilities (Continued)

6. Changes in Long-Term Liabilities

Governmental Activities

Long-term liability activity for the year ended December 31, 2004, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Loans payable Midwest Bank	\$ 309,814	\$ -	\$ 309,814	\$ -	\$ -
Wild Rice Promissory Note	<u>144,000</u>	<u>-</u>	<u>-</u>	<u>144,000</u>	<u>7,500</u>
Governmental Activity Long-Term Liabilities	<u>\$ 453,814</u>	<u>\$ -</u>	<u>\$ 309,814</u>	<u>\$ 144,000</u>	<u>\$ 7,500</u>

Business-Type Activities

Long-term liability activity for the year ended June 30, 2004, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Loans payable Mortgage loan	\$ -	\$ 631,600	\$ -	\$ 631,600	\$ 631,600
	<u>-</u>	<u>800,000</u>	<u>-</u>	<u>800,000</u>	<u>-</u>
Business-Type Activity Long-Term Liabilities	<u>\$ -</u>	<u>\$ 1,431,600</u>	<u>\$ -</u>	<u>\$ 1,431,600</u>	<u>\$ 631,600</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; injuries to employees; or natural disasters. The EDA is covered under Becker County's membership in the Minnesota Counties Insurance Trust and through the purchase of commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

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

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

B. Contingent Liabilities

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

C. Liens Receivable

Community Development Block Grant programs provided funds for economic development and rehabilitation of residences of qualifying low-income individuals. Provisions of the rehabilitation contracts resulted in loans to the homeowners secured by liens against the property. Those not requiring repayment until the property is sold or the owner dies are not recorded in the financial statements.

D. Minnesota Housing Trust Fund Loans

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

Loan dated July 1, 1992, with a final maturity of July 1, 2022	\$ 12,485
Loan dated December 30, 1994, with a final maturity of December 30, 2024	51,500
Loan dated May 29, 2003, with a final maturity of May 29, 2033	<u>28,995</u>
Total	<u>\$ 92,980</u>

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. Should the EDA discontinue these programs, the revolving fund will be returned to the Minnesota Housing Finance Agency. The amounts received and balances on hand at June 30, 2004, are:

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

3. Summary of Significant Contingencies and Other Items

E. Minnesota Housing Revolving Fund Programs (Continued)

	Original Grant	Revolving Fund Cash	Contract for Deed Receivable	Property Held for Resale
Community Revitalization Fund	\$ 59,000	\$ 68,092	\$ -	\$ -
Minnesota Urban and Rural Homesteading Loan	1,410,100	40,120	709,791	397,789

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 \$17,456) 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 in January 2005 (aggregate payments of \$30,000 during the lease term).

Lutheran Social Services of Minnesota entered into a five-year operating lease with the EDA for the property the EDA owns (carrying value of \$158,589 and accumulated depreciation of \$51,183) to be used for the operation of Springhill Group Home. According to the lease terms, the EDA began receiving monthly installments of \$800 beginning in August 2004 (aggregate payments of \$48,000 during the lease term).

G. Housing Program

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

REQUIRED SUPPLEMENTARY INFORMATION

This page was left blank intentionally.

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

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 162,810	\$ 162,810	\$ 157,567	\$ (5,243)
Intergovernmental	29,210	29,210	9,741	(19,469)
Investments earnings	8,985	8,985	11,068	2,083
Sale of property held for resale	5,000	5,000	16,502	11,502
Miscellaneous	13,847	13,847	28,653	14,806
Total Revenues	\$ 219,852	\$ 219,852	\$ 223,531	\$ 3,679
Expenditures				
Current				
Economic development				
Community development	\$ 208,770	\$ 208,770	\$ 192,114	\$ 16,656
Debt service				
Principal	309,892	309,892	309,814	78
Interest	5,648	5,648	5,726	(78)
Total Expenditures	\$ 524,310	\$ 524,310	\$ 507,654	\$ 16,656
Excess of Revenues Over (Under) Expenditures	\$ (304,458)	\$ (304,458)	\$ (284,123)	\$ 20,335
Fund Balance - January 1	1,229,372	1,229,372	1,229,372	-
Fund Balance - December 31	\$ 924,914	\$ 924,914	\$ 945,249	\$ 20,335

This page was left blank intentionally.

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

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004

1. Budgetary Information

The Board of Directors adopts an estimated revenue and expenditure budget for the General Fund. The budget may be amended or modified at any time by the Board of Directors. 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.

This page was left blank intentionally.

SUPPLEMENTARY INFORMATION

This page was left blank intentionally.

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

Schedule 2

**FINANCIAL DATA SCHEDULE
YEAR ENDED JUNE 30, 2004**

Line Item #	Account Description	Low Rent	Housing Choice Vouchers	Capital Fund	Other Housing	Public Assistance Grants	Total
<u>Assets</u>							
Current Assets							
Cash							
111	Cash - unrestricted	30,864	8,727	-	676,386	-	715,977
114	Cash - tenant security deposits	7,344	-	-	1,500	-	8,844
100	Total cash	38,208	8,727	-	677,886	-	724,821
Accounts and notes receivables							
124	Accounts receivable - other governments	39,292	-	-	11,426	-	50,718
125	Accounts receivable - miscellaneous	-	-	-	73	-	73
126	Accounts receivable - tenants - dwelling rents	250	-	-	-	-	250
127	Notes, loans, and mortgages receivable - current	-	-	-	33,776	-	33,776
120	Total receivables, net of allowances for uncollectibles	39,542	-	-	45,275	-	84,817
144	Inter-program due from	-	-	-	170,979	-	170,979
145	Assets held for sale	-	-	-	727,317	-	727,317
150	Total current assets	77,750	8,727	-	1,621,457	-	1,707,934
Noncurrent Assets							
Fixed assets							
161	Land	153,000	-	-	25,000	-	178,000
162	Buildings	2,221,340	-	-	328,536	-	2,549,876
163	Furniture, equipment, and machinery - dwellings	29,456	-	-	3,542	-	32,998
164	Furniture, equipment, and machinery - administration	14,479	738	-	53,001	-	68,218
166	Accumulated depreciation	(479,285)	(738)	-	(145,474)	-	(625,497)
160	Total fixed assets, net of accumulated depreciation	1,938,990	-	-	264,605	-	2,203,595
171	Notes, loans, and mortgages receivable - noncurrent	-	-	-	676,014	-	676,014
176	Investment in joint ventures	-	-	-	2,700	-	2,700
180	Total noncurrent assets	1,938,990	-	-	943,319	-	2,882,309
190	Total Assets	2,016,740	8,727	-	2,564,776	-	4,590,243

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

*Schedule 2
(Continued)*

**FINANCIAL DATA SCHEDULE
YEAR ENDED JUNE 30, 2004**

Line Item #	Account Description	Low Rent	Housing Choice Vouchers	Capital Fund	Other Housing	Public Assistance Grants	Total
<u>Liabilities and Equity/Net Assets</u>							
Liabilities							
Current liabilities							
312	Accounts payable < = 90 days	-	-	-	21,205	-	21,205
333	Accounts payable - other governments	1,715	-	-	-	-	1,715
341	Tenant security deposits	7,343	-	-	1,500	-	8,843
342	Deferred revenues	54	4,032	-	82,262	-	86,348
345	Other current liabilities	-	-	-	3,573	-	3,573
347	Inter-program (due to)	4,621	33	-	166,325	-	170,979
348	Loan liability - current	-	-	-	631,600	-	631,600
310	Total current liabilities	13,733	4,065	-	906,465	-	924,263
Noncurrent liabilities							
351	Long-term debt, net of current - capital projects	800,000	-	-	-	-	800,000
350	Total noncurrent liabilities	800,000	-	-	-	-	800,000
300	Total Liabilities	813,733	4,065	-	906,465	-	1,724,263
Net Assets							
508.1	Investment in capital assets, net of related debt	1,138,990	-	-	264,605	-	1,403,595
511.1	Restricted net assets	-	-	-	1,215,791	-	1,215,791
512.1	Unrestricted net assets	64,017	4,662	-	177,915	-	246,594
513	Total Equity/Net Assets	1,203,007	4,662	-	1,658,311	-	2,865,980
600	Total Liabilities and Equity/Net Assets	2,016,740	8,727	-	2,564,776	-	4,590,243

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

Schedule 2
(Continued)

**FINANCIAL DATA SCHEDULE
YEAR ENDED JUNE 30, 2004**

Line Item #	Account Description	Low Rent	Housing Choice Vouchers	Capital Fund	Other Housing	Public Assistance Grants	Total
Revenue							
703	Net tenant rental revenue	48,337	-	-	45,660	-	93,997
704	Tenant revenue - other	2,840	-	-	150	-	2,990
705	Total tenant revenue	51,177	-	-	45,810	-	96,987
706	HUD PHA operating grants	50,283	277,716	49,920	-	-	377,919
708	Other government grants	-	-	-	365,079	40,659	405,738
711	Investment income - unrestricted	178	5	-	1,333	-	1,516
712	Mortgage interest income	-	-	-	1,043	-	1,043
713	Proceeds from disposition of assets held for sale	-	-	-	557,400	-	557,400
713.1	Cost of sale of assets	-	-	-	(689,198)	-	(689,198)
715	Other revenue	-	-	-	60,911	-	60,911
700	Total Revenue	101,638	277,721	49,920	342,378	40,659	812,316
Expenses							
Administrative							
911	Administrative salaries	25,327	20,272	-	76,861	-	122,460
912	Auditing fees	5,600	6,500	-	-	-	12,100
915	Employee benefit contributions - administrative	9,946	8,152	-	30,158	-	48,256
916	Other operating - administrative	5,493	7,140	-	16,473	-	29,106
Utilities							
931	Water	6,331	-	-	683	-	7,014
932	Electricity	2,048	-	-	1,242	-	3,290
933	Gas	1,746	-	-	706	-	2,452
938	Other utilities expense	1,866	-	-	-	-	1,866
Ordinary maintenance and operation							
943	Ordinary maintenance and operations - contract costs	56,921	-	-	4,982	-	61,903
General expenses							
961	Insurance premiums	9,102	-	-	1,299	-	10,401
962	Other general expenses	196	-	-	4,724	-	4,920
963	Payments in lieu of taxes	35,706	-	-	3,399	-	39,105
964	Bad debt - tenant rents	102	-	-	-	-	102
966	Bad debt - other	22,267	7,338	-	740	-	30,345
969	Total Operating Expenses	182,651	49,402	-	141,267	-	373,320
970	Excess Operating Revenues Over (Under) Operating Expenses	(81,013)	228,319	49,920	201,111	40,659	438,996

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

Schedule 2
(Continued)

**FINANCIAL DATA SCHEDULE
YEAR ENDED JUNE 30, 2004**

Line Item #	Account Description	Low Rent	Housing Choice Vouchers	Capital Fund	Other Housing	Public Assistance Grants	Total
972	Casualty losses - noncapitalized	-	-	-	12,212	40,659	52,871
973	Housing assistance payments	-	237,966	-	-	-	237,966
974	Depreciation expense	48,736	-	-	7,893	-	56,629
900	Total Expenses	231,387	287,368	-	161,372	40,659	720,786
	Other Financing Sources (Uses)						
1001	Operating transfers in	49,920	-	-	106,971	-	156,891
1002	Operating transfers out	(68,500)	-	(49,920)	(38,471)	-	(156,891)
1008	Special Items (net gain/loss)	-	-	-	(1,700)	-	(1,700)
1010	Total Other Financing Sources (Uses)	(18,580)	-	(49,920)	66,800	-	(1,700)
1000	Excess (Deficiency) of Operating Revenues Over (Under) Expenses	(148,329)	(9,647)	-	247,806	-	89,830
	Memo account information						
1103	Beginning equity	1,304,135	14,309	47,201	1,410,505	-	2,776,150
1104	Prior period adjustments, equity transfers and correction of errors	47,201	-	(47,201)	-	-	-
1113	Maximum annual contributions commitment (per ACC)	-	289,112	-	-	-	289,112
1114	Pro rata maximum annual contributions applicable to a period of less than 12 months	-	-	-	-	-	-
1115	Contingency reserve, ACC program reserve	-	30,055	-	-	-	30,055
1116	Total annual contributions available	-	319,167	-	-	-	319,167
1120	Unit months available	300	888	-	72	-	1,260
1121	Number of unit months leased	253	843	-	72	-	1,168
	Equity Roll-Forward Check	1,203,007	4,662	-	1,658,311	-	2,865,980

This page was left blank intentionally.

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

Schedule 3

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2004**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

98-1 Departmental Segregation of Duties

Due to the limited number of office personnel within the Becker County Housing and Economic Development Authority (EDA), segregation of accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of the EDA; however, the EDA's Board members 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 accounting control point of view.

Examples of incompatible duties which should be performed by separate individuals are:

- receipting collections, posting collections to registers, and making bank deposits;
- signing checks and reconciling bank accounts;
- receipting collections and posting collections to the accounts receivable records;
- approving receivable write-offs/write-downs and posting adjustments to the accounts receivable records; and
- entering data, adjusting accounting codes, and reviewing the monthly detailed report of receipts and disbursements for accuracy.

We recommend that the Board continue to be aware of the problem and develop oversight procedures to ensure adequate controls over cash, receivables, and other items.

Client's Response:

A system of internal controls has been designed to provide a reasonable assurance that the EDA has sufficiently segregated duties among the limited office personnel. The continuous review and revision of internal controls and an ethical climate is vital to the delivery of quality programs and services. It should be recognized that there are inherent limitations in the effectiveness of any system of internal control. Further, because of changes in conditions, internal control system effectiveness may vary over time. Self-assessment on an ongoing basis, along with annual updates of policies and procedures, is vital to identify and act upon gaps in internal control. We realize the auditor's obligation to make the "Departmental Segregation of Duties" finding and the value of having it presented to the Board members as part of the audit process.

PREVIOUSLY REPORTED ITEM RESOLVED

General Ledger Entries (03-1)

Supporting documentation for journal entries is randomly filed in monthly folders and does not contain detailed descriptions needed to easily correlate the supporting documentation to specific entries.

Resolution

Policies and procedures have been drafted to be submitted to the Board for approval. The organization and referencing of supporting documentation improved, providing a better audit trail for internal reviews and the external audit.



STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

PATRICIA ANDERSON
STATE AUDITOR

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

Board of Directors
Becker County Housing and Economic Development Authority

We have audited the financial statements of the Becker County Housing and Economic Development Authority (EDA) as of and for the year ended December 31, 2004, including the Housing Department as of and for the year ended June 30, 2004, and have issued our report thereon dated February 7, 2005. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the EDA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the EDA's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Recommendations as item 98-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the

internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition indicated above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the EDA's financial statements are free of 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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains five categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, and claims and disbursements. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, the EDA complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: February 7, 2005