

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, 2005

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.

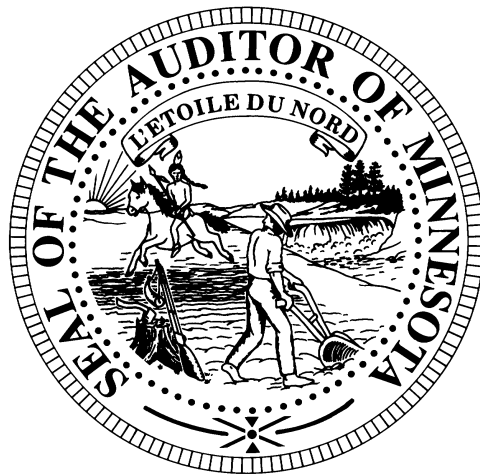
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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

Year Ended December 31, 2005



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

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

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DETROIT LAKES, MINNESOTA**

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

**ORGANIZATION
AS OF DECEMBER 31, 2005**

		<u>Term Expires</u>
Board Members		
Commissioner	Karen Mulari	January 2011
Commissioner	Harry Salminen	January 2007
1st District	Paul Joyce	January 2008
2nd District	Mike Metelak ¹	January 2009
3rd District	Gerald Schram	January 2009
4th District	Terry Johnson ²	January 2010
5th District	Dan Aune	January 2006
Housing Director	Jon Thomsen	Indefinite

¹President

²Vice President

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STATE AUDITOR

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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, 2005, including the Housing Department as of and for the year ended June 30, 2005, 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 EDA as of December 31, 2005, including the Housing Department as of June 30, 2005, 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 3, 2006, 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 that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* 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 3, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2005
(Unaudited)**

INTRODUCTION

It is a privilege to present for you the financial picture of the Becker County Housing and Economic Development Authority (EDA). The 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, 2005, 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 30 year-end reporting requirement, and these transactions are reported in their entirety for the 12-month period ending June 30, 2005.

FINANCIAL HIGHLIGHTS

- As a Class "B" member in the Minnesota Community Capital Fund (MCCF), the EDA was able to access national capital markets, and the EDA originated \$150,000 in property acquisition loans for two local businesses.
- In 2005, the ongoing housing programs received \$78,864 in rental revenue and \$833,360 in federal/state grants, which includes approximately:
 - \$367,793 from the U.S. Department of Housing and Urban Development (HUD) for the Low Rent Public Housing Program, the Low Rent Capital Fund Program, and the Section 8 Housing Choice Voucher Program; and
 - \$465,567 from the Minnesota Housing Finance Agency's (MHFA) Minnesota Urban and Rural Homesteading (MURL) Program and the MHFA's Community Revitalization Fund (CRV) Homeownership Programs. Participating homebuyers purchased 12 homes for over \$1.2 million. Ten homes were in various stages of construction at the end of the fiscal year.

- In 2005, over \$44,500 was received in connection with the administration of ongoing state and local housing programs, which includes:
 - MHFA's Rehab Loan Program: The EDA is the program administrator for Becker County. Under this program, the MHFA provides homeowners with rehabilitation funding, which is intended for basic repairs that make their existing homes more energy efficient, livable, or accessible. This is accomplished through the homeowner's acceptance of the MHFA's 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 the MHFA.
 - MHFA's HOME Rental Rehab Loan Program: The EDA is the program administrator for Becker County. Under this program, the MHFA provides owners of smaller rental properties with rehabilitation funding, which is intended to finance improvements on their existing investment properties, which are occupied by low to moderate income families. This is accomplished through the owners' acceptance of the MHFA's deferred loan, which provides financing to eligible owners who are able to provide matching funds towards the rehabilitation on the property. During the year, rehabilitation of a 12-plex apartment building in Lake Park was completed.
 - Greater Minnesota Housing Fund (GMHF) Homeowner Gap Financing Loan Program: The EDA is the processing agent for Becker County. Under this program, the 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 the GMHF's deferred loan. Two Becker County homeowners participated and received deferred loans from GMHF.
- The EDA acquired land 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.
- The EDA acquired a 5,850 square foot commercial building on 8th Street in Detroit Lakes. The facility was purchased to accommodate the expanding needs of the Workshop Program offered through the Becker County Department of Human Services. The building that previously housed the Becker County Workshop was leased, and it was not financially feasible to purchase and convert the building for the long-term needs of the Workshop. The EDA has continued a collaborative relationship with other County departments, and the facility now provides a suitable place for handicapped and disabled persons to work.

- The EDA acquired a single-family home on Highway 34 east of Detroit Lakes. The home was purchased to meet the needs of persons with serious and persistent mental illness and to provide suitable housing for those individuals. The 4 County Mental Health Initiative, which serves Becker, Clay, Otter Tail, and Wilkin Counties, provided a capital grant for the purchase of the home which will provide housing for mental health consumers through the 4 County Mental Health Initiative.
- The EDA awarded \$250,000 in the MHFA's MURL Program funds to be used to acquire and rehabilitate homes in Becker County and White Earth. These homes will then be sold on a zero-percent contract for deed to qualified homebuyers.
- The EDA awarded \$121,000 in the MHFA's Community Revitalization Fund (CRV) 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 qualified first-time homebuyers.
- The EDA completed the administration of the \$150,000 SCDP grant on behalf of the City of Callaway. Under this program, five new-construction homes were built and sold in Callaway.
- The EDA began 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 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.
- The EDA continues to support the MHFA's Minnesota City Participation Program (MCPP), a unique opportunity in which the 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, the MHFA allocated \$560,555 in MCPP funds for Becker County residents.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

There are two government-wide financial statements. The Statement of Net 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 accumulated depreciation and the outstanding balances of mortgages or other borrowings 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 proprietary--use different accounting methods.

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

between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental General Fund in a reconciliation that is found in a statement following the governmental fund financial statements.

- Proprietary Fund--When the EDA charges customers for the services it provides, these services are generally reported in the Proprietary Fund. The Enterprise Fund is reported using an accounting method called full accrual and is reported in the same way that all activities are reported in the Statement of Net 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 government-wide statements but provide more detail and additional information, such as cash flows. In the Enterprise Fund, the EDA distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The more significant programs which are included in the Enterprise Fund are:
 1. Public Housing: Under the Public Housing Program, the EDA rents units 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 on 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 on a formula allocation, which is based on 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 ACC with HUD. HUD provides funding to enable the EDA to structure a lease that requires the participants to pay rent based on a percentage of their adjusted gross household income, typically 30 percent, and the EDA subsidizes the balance.
 4. Community Revitalization Fund (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. Minnesota Urban and Rural Homesteading Program (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 the 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 are as follows:

Condensed Statements of Net Assets for 2004 and 2005

	Governmental Activities		Business-Type Activities		Total Becker County EDA	
	2005	2004	2005	2004	2005	2004
Assets						
Current and other assets	\$ 818,302	\$ 1,073,326	\$ 2,297,019	\$ 2,215,669	\$ 3,115,321	\$ 3,288,995
Capital assets	408,097	-	2,148,023	2,203,595	2,556,120	2,203,595
Total Assets	\$ 1,226,399	\$ 1,073,326	\$ 4,445,042	\$ 4,419,264	\$ 5,671,441	\$ 5,492,590
Liabilities						
Long-term debt outstanding	\$ 236,500	\$ 144,000	\$ 1,329,000	\$ 1,431,600	\$ 1,565,500	\$ 1,575,600
Other liabilities	10,442	4,893	109,103	121,684	119,545	126,577
Total Liabilities	\$ 246,942	\$ 148,893	\$ 1,438,103	\$ 1,553,284	\$ 1,685,045	\$ 1,702,177
Net Assets						
Invested in capital assets, net of related debt	\$ 308,097	\$ -	\$ 1,348,023	\$ 1,403,595	\$ 1,656,120	\$ 1,403,595
Restricted - MHFA	-	-	1,323,664	1,215,791	1,323,664	1,215,791
Unrestricted	671,360	924,433	335,252	246,594	1,006,612	1,171,027
Total Net Assets	\$ 979,457	\$ 924,433	\$ 3,006,939	\$ 2,865,980	\$ 3,986,396	\$ 3,790,413

The most significant changes in the governmental activities assets and liabilities fall within the categories of current and other assets, invested in capital assets, and long-term debt outstanding. The governmental activities revenues, which were higher than program expenses, were combined with unrestricted cash reserves and low-interest loan funds to purchase a 2.72 acre tract of undeveloped land on 11th Avenue in Detroit Lakes, a 5,850 square foot commercial building on 8th Street in Detroit Lakes, and a single-family home located on Highway 34 east of Detroit Lakes. The 2.72 acre tract of land was acquired as part of the permanent supportive housing project planned for 2006. The 5,850 square foot commercial building is leased to the Becker County Workshop. The single-family home will be leased to the 4 County Mental Health Initiative in 2006.

The most significant changes in the business-type activities assets and liabilities fall into the categories of current and other assets, invested in capital assets, and long-term debt outstanding. The increase in current and other assets is due mainly to a substantial increase in contract for deed receivables offset by a reduction in the property held for resale. The homeownership program offered by the EDA has been a tremendous success. Since 1998, a

combination of \$3,684,800 in grants and interim construction loans have provided the funding for 60 affordable, single-family homes being made available to lower-income homebuyers in Becker County. The business-type activities' current assets reflect the ten unsold homes that were in various stages of construction at year-end.

It should be noted that the 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. 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 net assets invested in capital assets, net of related debt.

The reduction in long-term debt outstanding is due to the annual principal payments on the long-term 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 of Minnesota (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 capital assets at cost less accumulated depreciation and related debt, within the applicable program's net assets.

The contractual obligations and limitations placed upon the EDA by the 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 the MHFA's contractual restriction of the MURL/CRV funds in the amount of \$1,323,664 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 2005 Compared

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues						
Program revenues						
Fees, fines, charges, and other	\$ 32,016	\$ 18,832	\$ 176,571	\$ 158,941	\$ 208,587	\$ 177,773
Operating grants and contributions	-	47,010	833,360	783,657	833,360	830,667
Capital grants and contributions	50,574	-	-	-	50,574	-
General revenues						
Property taxes	158,492	156,457	-	-	158,492	156,457
Gifts and contributions	18,834	-	-	-	18,834	-
Investment income	14,809	11,068	5,677	1,516	20,486	12,584
Total Revenues	\$ 274,725	\$ 233,367	\$ 1,015,608	\$ 944,114	\$ 1,290,333	\$ 1,177,481

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Program Expenses						
Economic development	\$ 214,629	\$ 177,391	\$ -	\$ -	\$ 214,629	\$ 177,391
Interest	4,472	4,241	-	-	4,472	4,241
Administrative charges	600	-	-	-	600	-
Public housing	-	-	188,498	231,387	188,498	231,387
Other housing	-	-	451,772	333,829	451,772	333,829
Housing choice vouchers	-	-	234,379	287,368	234,379	287,368
Total Program Expenses	\$ 219,701	\$ 181,632	\$ 874,649	\$ 852,584	\$ 1,094,350	\$ 1,034,216
Excess (Deficiency Before Special Items)	\$ 55,024	\$ 51,735	\$ 140,959	\$ 91,530	\$ 195,983	\$ 143,265
Special Items	-	-	-	(1,700)	-	(1,700)
Increase (Decrease) in Net Assets	\$ 55,024	\$ 51,735	\$ 140,959	\$ 89,830	\$ 195,983	\$ 141,565
Net Assets - Beginning of Year	924,433	872,698	2,865,980	2,776,150	3,790,413	3,648,848
Net Assets - Ending of Year	\$ 979,457	\$ 924,433	\$ 3,006,939	\$ 2,865,980	\$ 3,986,396	\$ 3,790,413

When comparing 2004 and 2005, major components of the increase in the governmental activities' revenues are an increase in fees and charges for economic development, a new capital grant, and receipt of gifts and contributions, offset by a decline in operating grants.

When comparing 2004 and 2005, the rental revenue earned by the business-type activities decreased; however, an increase in miscellaneous revenue more than offset the decline in rental revenue. Becker County started 2005 with an unemployment rate of 7.9 percent. This affected the incomes of low-income public housing residents and resulted in a lower amount of rental revenue. Operating grants and contributions increased due to an increase in intergovernmental revenue from the MHFA, offset by a reduction in the Section 8 Voucher Program. This is reflected in the increased expenses in other housing and reduced expenses in housing choice vouchers.

Analysis and Discussion of the General Fund Budget

Per state statutes, the EDA is obligated to adopt, by resolution, an annual budget for its General Fund. The EDA's Board can amend this budget at any time during the year; however, the EDA is not required to amend the budget for changes. During the course of the year, the EDA amended the General Fund budget to reflect the acquisition of property and the related revenues and expenses. The EDA also adopts budgets for the Enterprise Fund for administrative purposes only. It is not a legally mandated budget; therefore, budgetary comparisons for the Enterprise Fund have been omitted from this report.

Because it was not initially planned for, the EDA Board amended its budget to reflect the acquisition of capital assets and the related revenues and expenses. Proceeds from new debt provided 100 percent of the funds required for the acquisition of land, and a one-time capital grant provided 47 percent of the funds required for the acquisition of a home. Once fully developed, both will provide housing for an underserved population. The EDA also amended its

budget to reflect the use of unrestricted cash to purchase a commercial facility for lease to the Becker County Workshop. The amended budget also reflected the anticipated lease revenues and operating expenses for this facility. The EDA's General Fund revenues came in slightly more than expected, primarily due to an increase in property tax collections and dividend income. The EDA's General Fund expenses were higher than anticipated, primarily due to additional costs in mowing the undeveloped land and the payment of the special assessment on property held for resale.

CAPITAL ASSETS AND DEBT

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

A cost-sharing arrangement with the Lake Park Economic Development Authority has both EDAs pay one-half of the costs of the Lake Park South 10 Industrial Project that was partially funded by the Wild Rice Promissory Note. The full amount of the note is \$144,000, of which both EDAs are jointly and severally responsible to repay. Both EDAs have opened irrevocable letters of credit in the amount of \$72,000 to secure the note. The entire balance of the note payable (\$136,500) 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 payable. The Promissory Note is being paid from the proceeds of special assessments placed on the lots in the Industrial Park.

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

The EDA has two loan agreements with the MHFA, totaling \$529,000, 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 homebuyers. The loans are to be paid from the proceeds on the sale of the homes.

FUTURE EVENTS

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.

The EDA has been chosen by the City of Callaway to write and administer its Small Cities Development Program 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 the MHFA for both the EDA's MURL and CRV programs.

CONTACTING THE EDA

This MD&A is designed to provide a general overview. If you have any questions about this report, or need additional financial information, write the Becker County Housing and Economic Development Authority, P. O. Box 787, Detroit Lakes, Minnesota 56502.

ACKNOWLEDGMENTS

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

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2005
AND JUNE 30, 2005, FOR BUSINESS-TYPE ACTIVITIES**

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Cash and pooled investments	\$ 366,627	\$ 705,020	\$ 1,071,647
Taxes receivable			
Current - net	3,604	-	3,604
Prior - net	3,079	-	3,079
Accrued interest receivable	22	-	22
Due from other governments	107,975	35,071	143,046
Internal balances	38,989	-	38,989
Loans receivable	39,116	-	39,116
Contract for deed receivable	-	44,282	44,282
Property held for resale	208,890	590,254	799,144
Advance to other agencies	50,000	-	50,000
Contract for deed receivable	-	919,692	919,692
Investment in joint ventures	-	2,700	2,700
Capital assets			
Non-depreciable	129,474	178,000	307,474
Depreciable - net of accumulated depreciation	278,623	1,970,023	2,248,646
Total Assets	\$ 1,226,399	\$ 4,445,042	\$ 5,671,441
<u>Liabilities</u>			
Accounts payable	\$ 2,970	\$ 1,644	\$ 4,614
Due to other governments	3,000	-	3,000
Due to Becker County	-	1,119	1,119
Accrued interest payable	4,472	11,322	15,794
Unearned revenue	-	83,690	83,690
Security deposits	-	8,546	8,546
Other current liabilities	-	2,782	2,782
Long-term liabilities			
Due within one year	118,000	309,000	427,000
Due in more than one year	118,500	1,020,000	1,138,500
Total Liabilities	\$ 246,942	\$ 1,438,103	\$ 1,685,045
<u>Net Assets</u>			
Invested in capital assets - net of related debt	\$ 308,097	\$ 1,348,023	\$ 1,656,120
Restricted for Minnesota housing revolving loan fund	-	1,323,664	1,323,664
Unrestricted	671,360	335,252	1,006,612
Total Net Assets	\$ 979,457	\$ 3,006,939	\$ 3,986,396

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

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005
AND JUNE 30, 2005, FOR BUSINESS-TYPE ACTIVITIES**

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Governmental activities		
Economic development	\$ 214,629	\$ 32,016
Interest	4,472	-
Administrative charges	600	-
Total governmental activities	\$ 219,701	\$ 32,016
Business-type activities		
Public housing	\$ 188,498	\$ 46,259
Other housing	451,772	130,312
Housing choice vouchers	234,379	-
Total business-type activities	\$ 874,649	\$ 176,571
Total	\$ 1,094,350	\$ 208,587

General Revenues

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

Total general revenues

Change in net assets

Net Assets - January 1/July 1

Net Assets - December 31/June 30

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
\$ -	\$ 50,574	\$ (132,039)	\$ -	\$ (132,039)
-	-	(4,472)	-	(4,472)
-	-	(600)	-	(600)
\$ -	\$ 50,574	\$ (137,111)	\$ -	\$ (137,111)
\$ 129,046	\$ -	\$ -	\$ (13,193)	\$ (13,193)
465,567	-	-	144,107	144,107
238,747	-	-	4,368	4,368
\$ 833,360	\$ -	\$ -	\$ 135,282	\$ 135,282
\$ 833,360	\$ 50,574	\$ (137,111)	\$ 135,282	\$ (1,829)
		\$ 158,492	\$ -	\$ 158,492
		18,834	-	18,834
		14,809	5,677	20,486
		\$ 192,135	\$ 5,677	\$ 197,812
		\$ 55,024	\$ 140,959	\$ 195,983
		924,433	2,865,980	3,790,413
		\$ 979,457	\$ 3,006,939	\$ 3,986,396

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FUND FINANCIAL STATEMENTS

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GENERAL FUND

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

EXHIBIT 3

**BALANCE SHEET
GENERAL FUND
DECEMBER 31, 2005**

<u>Assets</u>	
Cash and pooled investments	\$ 366,627
Taxes receivable	
Current	3,604
Prior	3,079
Accrued interest receivable	22
Due from other funds	80,789
Due from other governments	107,975
Loans receivable	39,116
Property held for resale	208,890
Advances to other agencies	50,000
	\$ 860,102
Total Assets	\$ 860,102
 <u>Liabilities and Fund Balance</u>	
Liabilities	
Accounts payable	\$ 2,970
Due to other funds	41,800
Due to other governments	3,000
Deferred revenue - unavailable	110,752
	\$ 158,522
Total Liabilities	\$ 158,522
Fund Balance	
Reserved for	
Loans receivable	\$ 39,116
Property held for resale	208,890
Advances to other agencies	50,000
Unreserved	
Undesignated	403,574
	\$ 701,580
Total Fund Balance	\$ 701,580
Total Liabilities and Fund Balance	\$ 860,102

**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, 2005**

Fund balance - General Fund (Exhibit 3)	\$	701,580
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		408,097
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		110,752
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	\$ (236,500)	
Accrued interest payable	(4,472)	(240,972)
Net assets of governmental activities (Exhibit 1)	\$	<u>979,457</u>

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

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

Revenues	
Taxes	\$ 159,703
Intergovernmental	18,834
Gifts and contributions	50,574
Interest on investments	14,809
Sale of property held for resale	11,502
Miscellaneous	41,871
	41,871
Total Revenues	\$ 297,293
Expenditures	
Current	
Economic development	\$ 217,621
Capital outlay	
Economic development	415,241
Debt service	
Principal retirement	7,500
Administrative charges	600
	600
Total Expenditures	\$ 640,962
Excess of Revenues Over (Under) Expenditures	\$ (343,669)
Other Financing Sources (Uses)	
Loans issued	100,000
	100,000
Net Change in Fund Balance	\$ (243,669)
Fund Balance - January 1	945,249
	945,249
Fund Balance - December 31	\$ 701,580
	701,580

**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 THE GENERAL FUND TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005**

Net change in fund balance - General Fund (Exhibit 5) \$ (243,669)

Amounts reported for governmental activities in the statement of activities are different because:

In the fund, under the modified accrual basis, receivables not available for expenditures are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenues between the fund statements and the statement of activities is the increase (decrease) in revenues deferred as unavailable.

Deferred revenue - December 31	\$ 110,752	
Deferred revenue - January 1	(123,184)	(12,432)

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for general capital assets	\$ 415,241	
Current year depreciation	(7,144)	408,097

Loan proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.

Net proceeds for debt issuance		(100,000)
--------------------------------	--	-----------

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		7,500

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		(4,472)

Change in net assets of governmental activities (Exhibit 2) \$ 55,024

ENTERPRISE FUND

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

EXHIBIT 7

**STATEMENT OF NET ASSETS
ENTERPRISE FUND
JUNE 30, 2005**

Assets

Current assets

Cash and pooled investments	\$ 705,020
Due from other governments	35,071
Contract for deed receivable	44,282
Property held for resale	590,254

Total current assets **\$ 1,374,627**

Noncurrent assets

Contract for deed receivable	\$ 919,692
Investment in joint venture	2,700
Capital assets	
Nondepreciable	178,000
Depreciable - net	1,970,023

Total noncurrent assets **\$ 3,070,415**

Total Assets **\$ 4,445,042**

Liabilities

Current liabilities

Accounts payable	\$ 1,644
Due to Becker County	1,119
Accrued interest payable	11,322
Deferred revenue	83,690
Security deposits	8,546
Loans payable - current	309,000
Other current liabilities	2,782

Total current liabilities **\$ 418,103**

Noncurrent liabilities

Loans payable - long-term	\$ 220,000
Mortgage loan - long-term	800,000

Total noncurrent liabilities **\$ 1,020,000**

Total Liabilities **\$ 1,438,103**

Net Assets

Invested in capital assets - net of related debt	\$ 1,348,023
Restricted for Minnesota housing revolving fund	1,323,664
Unrestricted	335,252

Total Net Assets **\$ 3,006,939**

**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, 2005**

Operating Revenues	
Tenant revenue	\$ 81,060
Miscellaneous	95,511
	\$ 176,571
Operating Expenses	
Administrative salaries	\$ 85,530
Auditing fees	12,100
Employee benefit contributions	33,095
Other operating	19,273
Water	8,237
Electricity	2,541
Gas	1,861
Other utilities	1,703
Ordinary maintenance and operations	117,558
Insurance premiums	11,519
Other general	229,645
Payments in lieu of taxes	5,045
Bad debt - tenant rent	23
Bad debt - other	2,228
Housing assistance payments	204,646
Depreciation	55,571
Loss on sale of property held for resale	83,932
	\$ 874,507
Operating Income (Loss)	\$ (697,936)
Nonoperating Revenues (Expenses)	
Intergovernmental	\$ 833,360
Interest income	5,677
Interest expense	(142)
	\$ 838,895
Change in net assets	\$ 140,959
Net Assets - January 1	2,865,980
Net Assets - December 31	\$ 3,006,939

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

EXHIBIT 9

**STATEMENT OF CASH FLOWS
ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2005
Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows From Operating Activities	
Receipts from customers and users	\$ 174,422
Payments to suppliers	(206,929)
Payments to employees	(118,625)
Housing assistance	(204,646)
Payments to subrecipients	(223,500)
Buy/construct property for resale	(1,119,983)
Sale of property held for resale	890,999
Contract for deed payments received	39,253
	\$ (769,009)
Cash Flows From Noncapital Financing Activities	
Proceeds from construction loan	\$ 220,000
Principal paid on construction loan	(322,600)
Interest paid	(142)
Intergovernmental	846,273
	\$ 743,531
Cash Flows From Investing Activities	
Investment earnings received	\$ 5,677
	\$ (19,801)
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (19,801)
Cash and Cash Equivalents at July 1	724,821
	\$ 705,020
Noncash Investing, Capital, and Financing Activities	
Contracts for deed receivable for sale of property held for resale	\$ 336,779
Contracts for deed receivable for sale of property held for resale voided	73,342

**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, 2005
Increase (Decrease) in Cash and Cash Equivalents**

Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	\$ (697,936)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	\$ 55,571
(Increase) decrease in accounts receivable	73
(Increase) decrease in rent receivable	250
(Increase) decrease in due from other governments	(1,682)
(Increase) decrease in property held for resale	137,063
(Increase) decrease in contract for deed receivable	(254,184)
Increase (decrease) in accounts payable	(19,561)
Increase (decrease) in due to Becker County	(596)
Increase (decrease) in accrued interest payable	11,322
Increase (decrease) in deferred revenue	1,759
Increase (decrease) in security deposits	(297)
Increase (decrease) in other current liabilities	(791)
Total adjustments	\$ (71,073)
Net Cash Provided by (Used in) Operating Activities	\$ (769,009)

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

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2005**

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, 2005, and include the financial statements of the Housing Department for the year ended June 30, 2005. 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 Fund, 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 activities are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues, including all taxes, are presented as general revenues.

2. Fund Financial Statements

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

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

**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 30 days after the end of the current period. Property and other taxes and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

**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. Receivables and Payables

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

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

Advances between funds, as reported in the fund financial statements, are offset by a fund balance 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.

3. Property Held for Resale

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

**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)

4. Capital Assets

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

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

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

5. Deferred Revenue

All funds and the government-wide financial statements report deferred revenue for resources that have been received, but not yet earned. Governmental funds also report deferred revenue in connection with receivables for revenues not considered to be available to liquidate liabilities of the current period.

**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)

6. Long-Term Obligations

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

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

7. 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.

8. 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.

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

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	\$ 366,627
Business-type activities	<u>705,020</u>
Total Cash and Investments	<u>\$ 1,071,647</u>

Deposits

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

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

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a financial institution failure, the EDA's deposits may not be returned to it. The EDA does not have a deposit policy for custodial credit risk. As of December 31, 2005, the EDA's deposits were not exposed to custodial credit risk.

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

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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.

During the year ended December 31, 2005, the EDA had no investments.

2. Receivables

No allowance for uncollectible 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, 2005.

Loans Receivable	Balance January 1	Additions	Payments	Balance December 31
Marine Innovations	\$ 4,451	\$ -	\$ 1,742	\$ 2,709
EZ Roll Lakes Equipment	44,042	-	7,635	36,407
Total	<u>\$ 48,493</u>	<u>\$ -</u>	<u>\$ 9,377</u>	<u>\$ 39,116</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, 2005.

Balance - July 1, 2004	\$ 709,790
New loans	366,778
Payments	(39,253)
Canceled contracts	<u>(73,341)</u>
Balance - June 30, 2005	\$ 963,974
Less: current portion	<u>(44,282)</u>
Long-Term Portion	<u>\$ 919,692</u>

Contract for Deed	Date	Interest Rate (%)	Due Date	Monthly Payment	Balance June 30
Patty Sweeney	October 1, 1999	-	October 1, 2014	\$ 297	\$ 69,392
Lee Ward	February 1, 2000	-	January 1, 2015	107	64,069
Cynthia Burton	March 1, 2001	-	March 1, 2021	282	81,573
Andrew Yorgason	September 1, 2001	-	September 1, 2019	252	62,211
Michael Steffl	September 1, 2002	-	September 1, 2017	437	63,138
Katrina Albrecht	May 1, 2003	-	May 1, 2028	370	89,531
Joseph Stringfield	October 1, 2002	-	October 1, 2018	434	94,976
Sean Grove and Amy Olson	June 1, 2004	-	June 1, 2024	356	83,340
Anthony and Angela Sieling	July 1, 2004	-	July 1, 2029	329	95,929
Kim Steward and Randy Heinen	September 1, 2004	-	September 1, 2020	569	96,863
Robert Goodrich	August 1, 2004	-	August 1, 2022	270	77,952
Jamie Johnson and Ryan Evans	June 1, 2005	-	May 31, 2020	457	85,000
Total					<u>\$ 963,974</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 December 31, 2005, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ -	\$ 129,474	\$ -	\$ 129,474
Capital assets depreciated				
Buildings	\$ -	\$ 285,767	\$ -	\$ 285,767
Less: accumulated depreciation for Buildings	-	7,144	-	7,144
Total capital assets depreciated, net	\$ -	\$ 278,623	\$ -	\$ 278,623
Governmental Activities Capital Assets, Net	<u>\$ -</u>	<u>\$ 408,097</u>	<u>\$ -</u>	<u>\$ 408,097</u>

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 178,000	\$ -	\$ -	\$ 178,000
Capital assets depreciated				
Buildings	\$ 2,549,876	\$ -	\$ 1	\$ 2,549,875
Machinery, furniture, and equipment	101,216	-	-	101,216
Total capital assets depreciated	\$ 2,651,092	\$ -	\$ 1	\$ 2,651,091
Less: accumulated depreciation for				
Buildings	\$ 534,758	\$ 53,409	\$ -	\$ 588,167
Machinery, furniture, and equipment	90,739	2,162	-	92,901
Total accumulated depreciation	\$ 625,497	\$ 55,571	\$ -	\$ 681,068
Total capital assets depreciated, net	\$ 2,025,595	\$ (55,571)	\$ 1	\$ 1,970,023
Business-Type Activities Capital Assets, Net	<u>\$ 2,203,595</u>	<u>\$ (55,571)</u>	<u>\$ 1</u>	<u>\$ 2,148,023</u>

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

2. Detailed Notes on All Funds

A. Assets

5. Capital Assets (Continued)

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

Governmental Activities	
Economic development	\$ 7,144
Business-Type Activities	
Public housing	\$ 47,491
Other housing	8,080
Total Depreciation Expense - Business-Type Activities	\$ 55,571

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances:

1. Due To/From Other Funds

	Interfund Receivable	Interfund Payable
General Fund	\$ 80,789	\$ 41,800
Enterprise Fund	-	-
Total Due To and From	\$ 80,789	\$ 41,800
Change in Enterprise Fund amounts from June 30 to December 31, 2005	41,800	80,789
Total Due To/From Other Funds	\$ 122,589	\$ 122,589

The amount due to the Enterprise Fund represents Enterprise Fund program revenue received into the General Fund, and the amount due from the General Fund represents an interfund loan to the Enterprise 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

Business-Type Activities

Receivable Entity	Payable Entity	Amount
Becker County - General Fund	EDA - Enterprise Fund	\$ 1,119

C. Liabilities

1. Payables

Payables at December 31, 2005, for governmental activities and at June 30, 2005, for business-type activities were as follows:

	Governmental Activities	Business-Type Activities
Accounts	\$ 2,970	\$ 1,644
Due to other governments	3,000	-
Accrued interest payable	4,472	11,322
Total Payables	\$ 10,442	\$ 12,966

2. Long-Term Debt

Governmental Activities

The EDA and the Lake Park Economic Development Authority have a cost-sharing arrangement to each pay one-half the costs of the Lake Park South 10 Industrial Park Project, which is to be partially funded by the Wild Rice Promissory Note. The full amount of the Note is \$144,000, of which the EDA and the Lake Park Economic Development Authority are both jointly and severally responsible to repay. The EDA and the Lake Park Economic Development Authority have each opened irrevocable letters of credit in the amount of \$72,000 to secure the note. The entire balance 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

2. Long-Term Debt

Governmental Activities (Continued)

The EDA entered into a loan with the Corporation for Supportive Housing in the amount of \$100,000 on January 31, 2005, to purchase land for a 12-unit supportive housing project. The loan will end on the earlier of the date of take-out financing for the project or December 31, 2006.

The following is a schedule of long-term debt for governmental activities at December 31, 2005.

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Monthly Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2005</u>
Wild Rice Promissory Note	2013	\$ 1,500	-	\$ 144,000	\$ 136,500
Loan payable	2006	N/A	5.00	100,000	<u>100,000</u>
Total					<u>\$ 236,500</u>

Business-Type Activities

The EDA entered into an \$800,000 mortgage loan agreement with the Minnesota Housing Finance Agency (MHFA) in 2004 for the modernization of rental units of low-income persons. The principal sum is due and payable on December 1, 2032. However, the MHFA 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 as 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 \$220,000 with the MHFA 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.

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

2. Detailed Notes on All Funds

C. Liabilities

2. Long-Term Debt

Business-Type Activities (Continued)

The following is a schedule of long-term debt for business-type activities at June 30, 2005.

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amount</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance June 30, 2005</u>
Loans payable	N/A	N/A	2.00	\$ 529,000	\$ 529,000
Mortgage loan	N/A	N/A	-	800,000	800,000
Total Long-Term Debt					<u>\$ 1,329,000</u>

3. Debt Service Requirements

Governmental Activities

Debt service requirements at December 31, 2005, were as follows:

<u>Year Ending December 31</u>	<u>Promissory Note</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 18,000	\$ -
2007	18,000	-
2008	18,000	-
2009	18,000	-
2010	18,000	-
2011 - 2013	46,500	-
Total	<u>\$ 136,500</u>	<u>\$ -</u>

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

2. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Changes in Long-Term Liabilities

Governmental Activities

Long-term liability activity for the year ended December 31, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Wild Rice Promissory Note	\$ 144,000	\$ -	\$ 7,500	\$ 136,500	\$ 18,000
Loan payable	-	100,000	-	100,000	100,000
Governmental Activity Long-Term Liabilities	<u>\$ 144,000</u>	<u>\$ 100,000</u>	<u>\$ 7,500</u>	<u>\$ 236,500</u>	<u>\$ 118,000</u>

Business-Type Activities

Long-term liability activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Loans payable	\$ 631,600	\$ 220,000	\$ 322,600	\$ 529,000	\$ 309,000
Mortgage loan	800,000	-	-	800,000	-
Business-Type Activity Long-Term Liabilities	<u>\$ 1,431,600</u>	<u>\$ 220,000</u>	<u>\$ 322,600</u>	<u>\$ 1,329,000</u>	<u>\$ 309,000</u>

3. Summary of Significant Contingencies and Other Items

A. Risk Management

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

**BECKER COUNTY 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 MHFA 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>

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

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

E. Minnesota Housing Revolving Fund Programs

The EDA received grants from the MHFA to be used to construct homes for low-income residents of Becker County. When the houses are sold, the grant amounts become revolving funds to build additional housing. Should the EDA discontinue these programs, the revolving fund will be returned to the MHFA. The amounts received and balances on hand at June 30, 2005, are:

	Original Grant	Revolving Fund Cash	Contract for Deed Receivable	Property Held for Resale
Community Revitalization Fund	\$ 313,401	\$ 87,770	\$ -	\$ 372,459
Minnesota Urban and Rural Homesteading Loan	1,810,100	73,369	963,974	217,795

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 \$19,709) 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 \$54,870) 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).

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REQUIRED SUPPLEMENTARY INFORMATION

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

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 156,799	\$ 156,799	\$ 159,703	\$ 2,904
Intergovernmental	18,834	18,834	18,834	-
Gifts and contributions	-	50,000	50,574	574
Investment earnings	14,000	14,700	14,809	109
Sale of property held for resale	7,230	11,510	11,502	(8)
Miscellaneous	2,320	41,840	41,871	31
Total Revenues	\$ 199,183	\$ 293,683	\$ 297,293	\$ 3,610
Expenditures				
Current				
Economic development				
Community development	\$ 177,507	\$ 201,738	\$ 217,621	\$ (15,883)
Capital outlay				
Economic development	-	419,820	415,241	4,579
Debt service				
Principal retirement	-	7,500	7,500	-
Administrative charges	-	5,600	600	5,000
Total Expenditures	\$ 177,507	\$ 634,658	\$ 640,962	\$ (6,304)
Excess of Revenues Over (Under) Expenditures	\$ 21,676	\$ (340,975)	\$ (343,669)	\$ (2,694)
Other Financing Sources (Uses)				
Loans issued	-	100,000	100,000	-
Net Change in Fund Balance	\$ 21,676	\$ (240,975)	\$ (243,669)	\$ (2,694)
Fund Balance - January 1	945,249	945,249	945,249	-
Fund Balance - December 31	\$ 966,925	\$ 704,274	\$ 701,580	\$ (2,694)

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**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, 2005**

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.

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SUPPLEMENTARY INFORMATION

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

Schedule 2

**FINANCIAL DATA SCHEDULE
YEAR ENDED JUNE 30, 2005**

Line Item #	Account Description	Low Rent	Housing Choice Vouchers	Capital Fund	Other Housing	Total
<u>Assets</u>						
Current Assets						
Cash						
111	Cash - unrestricted	101,592	56,764	-	537,501	695,857
114	Cash - tenant security deposits	7,663	-	-	1,500	9,163
100	Total cash	109,255	56,764	-	539,001	705,020
Accounts and notes receivable						
124	Accounts receivable - other governments	-	-	-	35,071	35,071
127	Notes, loans, and mortgages receivable - current	-	-	-	44,282	44,282
120	Total receivables, net of allowances for uncollectibles	-	-	-	79,353	79,353
144	Inter-program due from	372	-	-	233,876	234,248
145	Assets held for sale	-	-	-	590,254	590,254
150	Total current assets	109,627	56,764	-	1,442,484	1,608,875
Noncurrent Assets						
Fixed assets						
161	Land	153,000	-	-	25,000	178,000
162	Buildings	2,221,340	-	-	328,537	2,549,877
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	(526,776)	(738)	-	(153,556)	(681,070)
160	Total fixed assets, net of accumulated depreciation	1,891,499	-	-	256,524	2,148,023
171	Notes, loans, and mortgages receivable - noncurrent	-	-	-	919,692	919,692
176	Investment in joint ventures	-	-	-	2,700	2,700
180	Total noncurrent assets	1,891,499	-	-	1,178,916	3,070,415
190	Total Assets	2,001,126	56,764	-	2,621,400	4,679,290

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

*Schedule 2
(Continued)*

**FINANCIAL DATA SCHEDULE
YEAR ENDED JUNE 30, 2005**

Line Item #	Account Description	Low Rent	Housing Choice Vouchers	Capital Fund	Other Housing	Total
<u>Liabilities and Equity/Net Assets</u>						
Liabilities and Equity						
Current liabilities						
312	Accounts payable < = 90 days	1,644	-	-	-	1,644
325	Accrued interest payable	-	-	-	11,322	11,322
333	Accounts payable - other governments	1,054	-	-	65	1,119
341	Tenant security deposits	7,046	-	-	1,500	8,546
342	Deferred revenues	748	47,709	-	35,233	83,690
345	Other current liabilities	-	-	-	2,782	2,782
347	Inter-program - due to	72	-	-	234,176	234,248
348	Loan liability - current	-	-	-	309,000	309,000
310	Total current liabilities	10,564	47,709	-	594,078	652,351
Noncurrent liabilities						
351	Long-term debt, net of current - capital projects	800,000	-	-	-	800,000
355	Loan liability - noncurrent	-	-	-	220,000	220,000
350	Total noncurrent liabilities	800,000	-	-	220,000	1,020,000
300	Total Liabilities	810,564	47,709	-	814,078	1,672,351
Net Assets						
508.1	Investment in capital assets, net of related debt	1,091,499	-	-	256,524	1,348,023
511.1	Restricted net assets	-	-	-	1,323,664	1,323,664
512.1	Unrestricted net assets	99,063	9,055	-	227,134	335,252
513	Total Equity/Net Assets	1,190,562	9,055	-	1,807,322	3,006,939
600	Total Liabilities and Equity/Net Assets	2,001,126	56,764	-	2,621,400	4,679,290

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

*Schedule 2
(Continued)*

**FINANCIAL DATA SCHEDULE
YEAR ENDED JUNE 30, 2005**

Line Item #	Account Description	Low Rent	Housing Choice Vouchers	Capital Fund	Other Housing	Total
Revenue						
703	Net tenant rental revenue	40,379	-	-	38,485	78,864
704	Tenant revenue - other	2,105	-	-	91	2,196
705	Total tenant revenue	42,484	-	-	38,576	81,060
706	HUD PHA operating grants	80,818	238,747	48,228	-	367,793
708	Other government grants	-	-	-	465,567	465,567
711	Investment income - unrestricted	748	25	-	4,904	5,677
713	Proceeds from disposition of assets held for sale	-	-	-	1,257,778	1,257,778
713.1	Cost of sale of assets	-	-	-	(1,341,710)	(1,341,710)
715	Other revenue	3,775	-	-	91,736	95,511
700	Total Revenue	127,825	238,772	48,228	516,851	931,676
Expenses						
Administrative						
911	Administrative salaries	19,461	13,137	-	52,932	85,530
912	Auditing fees	5,600	6,500	-	-	12,100
915	Employee benefit contributions - administrative	7,407	5,078	-	20,610	33,095
916	Other operating - administrative	4,515	3,701	-	11,057	19,273
Utilities						
931	Water	7,579	-	-	658	8,237
932	Electricity	1,629	-	-	912	2,541
933	Gas	1,121	-	-	740	1,861
938	Other utilities expense	1,703	-	-	-	1,703
Ordinary maintenance and operation						
943	Ordinary maintenance and operation - contract costs	78,560	-	-	38,998	117,558
General expenses						
961	Insurance premiums	9,846	-	-	1,673	11,519
962	Other general expenses	-	1,317	-	228,328	229,645
963	Payments in lieu of taxes	3,421	-	-	1,624	5,045
964	Bad debt - tenant rents	23	-	-	-	23
966	Bad debt - other	-	-	-	2,228	2,228
967	Interest expense	142	-	-	-	142
969	Total Operating Expenses	141,007	29,733	-	359,760	530,500
970	Excess of Operating Revenue Over (Under) Operating Expenses	(13,182)	209,039	48,228	157,091	401,176

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

Schedule 2
(Continued)

**FINANCIAL DATA SCHEDULE
YEAR ENDED JUNE 30, 2005**

Line Item #	Account Description	Low Rent	Housing Choice Vouchers	Capital Fund	Other Housing	Total
973	Housing assistance payments	-	204,646	-	-	204,646
974	Depreciation expense	47,491	-	-	8,080	55,571
900	Total Expenses	188,498	234,379	-	367,840	790,717
	Other Financing Sources (Uses)					
1001	Operating transfers in	48,228	-	-	15,527	63,755
1002	Operating transfers out	-	-	(48,228)	(15,527)	(63,755)
1010	Total Other Financing Sources (Uses)	48,228	-	(48,228)	-	-
1000	Excess (Deficiency) of Operating Revenues Over (Under) Expenses	(12,445)	4,393	-	149,011	140,959
	Memo account information					
1103	Beginning equity	1,203,007	4,662	-	1,658,311	2,865,980
1113	Maximum annual contributions commitment (per ACC)	-	289,112	-	-	289,112
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	258	783	-	72	1,113
	Equity Roll-Forward Check	1,190,562	9,055	-	1,807,322	3,006,939

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

Schedule 3

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2005**

**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.



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PATRICIA ANDERSON
STATE AUDITOR

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

Board of Directors
Becker County Housing and Economic Development Authority

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the Becker County Housing and Economic Development Authority (EDA) as of and for the year ended December 31, 2005, including the Housing Department as of and for the year ended June 30, 2005, and have issued our report thereon dated February 3, 2006. 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 an opinion 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 3, 2006