

**JOB DEVELOPMENT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA
BEULAH, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

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INDEPENDENT AUDITOR'S REPORT

To the Job Development Board
Job Development Authority
Beulah, North Dakota

We have audited the accompanying modified cash basis financial statements of the governmental activities and the major fund of the Job Development Authority, a component unit of the City of Beulah, North Dakota, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 2; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities and the major fund of the Job Development Authority, as of December 31, 2019, and the respective changes in modified cash basis financial position for the year then ended in accordance with the modified cash basis of accounting described in Note 2.

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 1, 2020, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal controls over financial reporting and compliance.



**BRADY, MARTZ & ASSOCIATES, P.C.
BISMARCK, NORTH DAKOTA**

June 1, 2020

**JOB DEVELOPMENT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA**
STATEMENT OF NET POSITION – MODIFIED CASH BASIS
DECEMBER 31, 2019

ASSETS

Current assets:	
Cash and cash equivalents	\$ 238,484
Non-current assets:	
Capital assets, net of accumulated depreciation	<u>1,066,275</u>
Total assets	<u>1,304,759</u>

LIABILITIES

Current liabilities:	
Current portion of long-term debt	15,128
Non-current liabilities:	
Non-current portion of long-term debt	<u>119,040</u>
Total liabilities	<u>134,168</u>

NET POSITION

Net investment in capital assets	932,107
Unrestricted	<u>238,484</u>
Total net position	<u><u>\$ 1,170,591</u></u>

See Notes to the Financial Statements

**JOB DEVELOPMENT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA**
STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2019

EXPENSES

Economic development:	
Contracts and projects	\$ 2,758
Maintenance and supplies	27,794
Depreciation	17,954
Utilities	8,507
Grants	20,170
Real estate taxes	5,492
Insurance	1,372
Advertising	7,064
Miscellaneous	5,672
Interest on long-term debt	7,258
Loss on sale of building	107,526
Total expenses	<u>211,567</u>

REVENUES

Program revenues:	
Charges for services	68,821
Operating grants and contributions	14,421
Total program revenue	<u>83,242</u>
Net program (expense) revenue	<u>(128,325)</u>
General revenues:	
Investment earnings	466
Miscellaneous	3,208
Property taxes	38,601
Total general revenues	<u>42,275</u>
Change in net position	(86,050)
Net position - beginning	<u>1,256,641</u>
Net position - ending	<u>\$ 1,170,591</u>

See Notes to the Financial Statements

**JOB DEVELOPMENT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA
BALANCE SHEET – MODIFIED CASH BASIS
DECEMBER 31, 2019**

ASSETS

Cash and cash equivalents	<u>\$ 238,484</u>
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FUND BALANCE

Unassigned	<u>\$ 238,484</u>
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See Notes to the Financial Statements

**JOB DEVELOPMENT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA**
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION –
MODIFIED CASH BASIS
DECEMBER 31, 2019

Total governmental funds balance	\$	238,484
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Amounts reported for governmental activities in the Statement of Net Position are different because

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities in the Statement of Net Position.

Cost	\$	1,312,221	
Accumulated depreciation		(245,946)	
Capital assets, net		1,066,275	1,066,275

Some liabilities, (notes payable and bonds payable), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position.

Long-term debt		(134,168)
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Net position of governmental activities	\$	1,170,591
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See Notes to the Financial Statements

**JOB DEVELOPMENT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA**
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES – MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2019

REVENUES

Charges for services	\$ 68,820
Property taxes	38,601
Donations	14,421
Interest	466
Miscellaneous	3,208
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Total revenues	125,516
	<hr/>

EXPENDITURES

Economic development:

Current:

Contracts and projects	2,758
Maintenance and supplies	27,794
Utilities	8,507
Grants	20,170
Real estate taxes	5,492
Insurance	1,372
Advertising	7,064
Miscellaneous	5,672
	<hr/>
Total current expenditures	78,829
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Debt service:

Principal retirement	125,224
Interest	7,258
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Total debt service	132,482
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Total expenditures	211,311
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Excess (deficiency) of revenues over expenditures	(85,795)
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OTHER FINANCING SOURCES (USES)

Sale of capital assets	95,000
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Net change in fund balance	9,205
Fund balance - beginning	229,279
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Fund balance - ending	\$ 238,484
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See Notes to the Financial Statements

**JOB DEVELOPMENT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA**
RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES -
MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2019

Net change in fund balance - total governmental funds	\$	9,205
Amounts reported for governmental activities in the Statement of Activities are different because:		
<p>Governmental funds report outlays for capital assets as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.</p>		
Depreciation expense		(17,954)
Various capital asset transactions effecting net position:		
Sale of capital asset		(202,525)
<p>Governmental funds report bond/note proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond/note principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount by which repayments exceeded proceeds.</p>		
Long-term debt principal payments		<u>125,224</u>
Change in net position - governmental activities	\$	<u><u>(86,050)</u></u>

See Notes to the Financial Statements

**JOB DEVELOPMENT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA**
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 1 DESCRIPTION OF THE JOB DEVELOPMENT AUTHORITY (COMPONENT UNIT)

The City of Beulah operates under a city council form of government. The Job Development Board of Directors is appointed by the City Council. The Job Development Authority is accounted for as a special purpose government engaged in a governmental activity.

As discussed in Note 2, these financial statements are presented on a modified cash basis of accounting. This modified basis of accounting differs from accounting principles generally accepted in the United States of America (U.S. GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. The Job Development Authority's significant accounting policies are as described below in Note 2.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Job Development Authority's basic financial statements consist of government-wide statements, including Statements of Net Position and Statements of Activities, and fund financial statements, which provide a more detailed level of financial information.

Financial Reporting Entity

Component units are legally separate organizations for which a government is financially accountable. The Job Development Authority is included as a component unit in a separate report of the City of Beulah (the primary government) because of the significance of the operational and financial relationship with the City.

The Government Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the government to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the government. Component units may also include organizations that are fiscally dependent on the government.

The members of the governing board of the Job Development Authority are appointed by the City Council. Although the City does not have the authority to approve or modify the Job Development Authority's operational and capital budgets, the tax rates established by the Job Development Authority and bonded debt must be approved by the City Council.

Based on the above criteria, the Job Development Authority has no component units included in its report.

**JOB DEVELOPMENT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA**
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

Government-Wide Financial Statements

The Statements of Net Position and Statements of Activities display information about the Job Development Authority as a whole. These statements include the financial activities of the reporting entity. The statements include governmental activities, which are normally financed through taxes and intergovernmental revenues. The Statement of Net Position presents the financial condition of the governmental activities of the Job Development Authority at year-end. The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the Job Development Authority's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, operating grants and contributions, and capital grants and contributions, including special assessments that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the Job Development Authority. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Job Development Authority.

Fund Financial Statements

Fund financial statements are designated to present financial information of the Job Development Authority at this more detailed level.

Each major fund is presented in a separate column in the fund financial statements.

Fund Accounting

The Job Development Authority uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. The fund of the financial entity is described below:

General fund

The general fund is the general operating fund of the Job Development Authority. It is used to account for all financial resources except those required to be accounted for in another fund.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

**JOB DEVELOPMENT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA**
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

Measurement Focus

Government-wide financial statements

In the government-wide financial statements, the governmental activities are prepared using the economic resources measurement focus within the limitations of the modified cash basis of accounting.

Fund financial statements

In the fund financial statements, the current financial resources measurement focus as applied to the modified cash basis of accounting is used as appropriate.

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the Balance Sheets. The Statements of Revenues, Expenditures and Changes in Fund Balances report on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

Basis of Accounting

In the government-wide Statements of Net Position and Statements of Activities and the fund financial statements, governmental activities are presented using the modified cash basis of accounting. This basis recognizes assets, liabilities, net position/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected), deferred outflows, certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities), and deferred inflows are not recorded in these financial statements. Under the modified cash basis of accounting, economic development loans are recorded as expenditures when advanced and collections on the note receivables are recorded as income when received.

If the Job Development Authority utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

Budgets and Budgetary Accounting

The City Council follows the procedures established by North Dakota law for the budgetary process. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data for the preceding year. Formal budgetary integration is employed as a management control device during the year.

**JOB DEVELOPMENT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA**
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

The governing board reviews the preliminary budget, may make revisions, and approves it on or before September 10. On or about October 7, a public hearing is held for taxpayers to discuss any budgeted items. The governing body reviews the preliminary budget at the hearing, and may make revisions that do not increase the total budget and prepares the final budget. The governing board adopts an ordinance approving the tax levy requested in the final budget. The final budget must be filed with the county auditor by October 10.

The budget may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared, except no amendment changing the taxes levied can be made after October 10.

Except as provided by North Dakota Century Code, the balance of each appropriation becomes a part of the unappropriated fund balance at year-end.

The Authority prepares its budget and reports its governmental funds on the same basis of accounting.

Cash and Cash Equivalents

The Job Development Authority considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents, except for certificates of deposit which are considered cash equivalents regardless of their term since there is no loss of principal for early withdrawal.

Capital Assets

The Job Development Authority's modified cash basis of accounting reports capital assets resulting from cash transactions and reports depreciation where appropriate. The accounting treatment over property, plant and equipment (capital assets) depends on whether they are reported in the government-wide or fund financial statements.

Government-wide financial statements

In the government-wide financial statements, capital assets arising from cash transactions are accounted for as assets in the Statements of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable. Donated capital assets are recorded at acquisition value at the date of donation.

Depreciation of all exhaustible capital assets arising from cash transactions is recorded as an allocated expense in the Statements of Activities, with accumulated depreciation reflected in the Statements of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. A capitalization threshold of \$5,000 is used to report capital assets. The range of estimated useful lives by type of asset is as follows:

<u>Asset</u>	<u>Estimated life</u>
Buildings and improvements	25 – 75 years

**JOB DEVELOPMENT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA**
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

Fund financial statements

In the fund financial statements, capital assets arising from cash transactions acquired for use in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

Long-term Debt

The accounting treatment of long-term debt depends on whether they are reported in the government-wide or fund financial statements.

All long-term debt arising from cash basis transactions to be repaid from governmental resources is reported as liabilities in the government-wide statements.

Long-term debt arising from cash basis transactions of governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures.

Equity Classifications

Government-wide financial statements

Equity is classified as net position and displayed in two components:

- 1) Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- 2) Unrestricted net position - All other net position that does not meet the definition of net investment in capital assets or restricted net position.

It is the Job Development Authority's policy to first use restricted net position prior to the use of unrestricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Fund Financial Statements

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – inventories and prepaid expenses; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

**JOB DEVELOPMENT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA**
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

Restricted – This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed – These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the board of directors - the Authority's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the board of directors removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – This classification reflects the amounts constrained by the Authority's "intent" to be used for specific purposes, but are neither restricted nor committed. The board of directors and management of the Authority has the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as non-spendable and are neither restricted nor committed.

Unassigned – This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, the Authority's preference is to first use restricted resources, then unrestricted resources—committed, assigned, and unassigned—in order as needed.

Program Revenues

In the Statements of Activities, modified cash basis revenues that are derived directly from each activity or from parties outside the Job Development Authority's taxpayers are reported as program revenues. All other governmental revenues are reported as general. All taxes are classified as general revenue even if restricted for a specific purpose.

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting used by the Job Development Authority requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

**JOB DEVELOPMENT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA**
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

NOTE 3 DEPOSITS

In accordance with North Dakota statutes, the Job Development Authority maintains deposits at depository banks designated by the governing board. All depositories are members of the Federal Reserve System.

Deposits must either be deposited with the Bank of North Dakota or in other financial institutions situated and doing business within the state. Deposits other than with the Bank of North Dakota must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 110% of the deposits not covered by insurance or bonds.

Credit Risk:

The Job Development Authority may invest idle funds as authorized by North Dakota statutes, as follows:

- (a) Bonds, treasury bills and notes, or other securities that are a direct obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress
- (b) Securities sold under agreement to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are the type above
- (c) Certificates of deposits fully insured by the federal deposit insurance corporation
- (d) Obligations of the state
- (e) Commercial paper issued by a United States corporation rated in the highest quality category by at least two nationally recognized rating agencies and matures in two hundred seventy days or less

The Job Development Authority has no investments as of the year ended December 31, 2019. All funds are held in demand checking accounts.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event a financial institution fails, a government is unable to recover the value of its deposits, investments, or collateralized securities in the possession of the institution.

The Job Development Authority maintains cash on deposit at various financial institutions. The amounts on deposit were insured by the FDIC up to \$250,000. At December 31, 2019, none of the Job Development Authority's deposits were exposed to custodial credit risk, as all deposits were covered by FDIC coverage.

NOTE 4 CONCENTRATIONS OF CREDIT RISK

The Job Development Authority encourages and assists in development of employment within the City and in this capacity grants credit to business enterprises.

**JOB DEVELOPMENT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA**
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

NOTE 5 RELATED PARTY TRANSACTIONS

The Job Development Authority purchases a portion of its services and supplies from various entities that are controlled by the City Council members. It was not reasonably possible to determine the dollar amount of these transactions for the fiscal year ended December 31, 2019.

NOTE 6 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2019 was as follows:

	<u>Balance 1/1/19</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/19</u>
Capital asset not being depreciated:				
Land	\$ 10,000	\$ -	\$ -	\$ 10,000
Capital assets being depreciated:				
Buildings	1,538,069	-	(235,848)	1,302,221
Less accumulated depreciation:				
Buildings	<u>261,824</u>	<u>17,954</u>	<u>(33,832)</u>	<u>245,946</u>
Total capital assets being depreciated, net	<u>1,276,245</u>	<u>(17,954)</u>	<u>(202,016)</u>	<u>1,056,275</u>
Total capital assets, net	<u>\$ 1,286,245</u>	<u>\$ (17,954)</u>	<u>\$ (202,016)</u>	<u>\$ 1,066,275</u>

Depreciation expense of \$17,954 was charged to Economic Development in the Statement of Activities.

All of the Authority's capital assets are leased and held for lease. See Note 9 for more information regarding the leases of capital assets.

NOTE 7 LONG-TERM DEBT

The following is a summary of long-term debt transactions of the Job Development Authority for the year ended December 31, 2019:

	<u>1/1/2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/2019</u>	<u>One Year</u>
Notes Payable	<u>\$ 258,883</u>	<u>\$ -</u>	<u>\$ 124,715</u>	<u>\$ 134,168</u>	<u>\$ 15,128</u>

The Authority sold a building with associated outstanding debt of \$110,159 in February 2019. As part of the sale, the buyer assumed the Authority's debt on the property.

**JOB DEVELOPMENT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA**
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

Long-term debt payable at December 31, 2019 consists of the following individual issues:

Loan for renovation of Greystone Hotel dated May 2007 for \$111,300, refinanced in 2017. Payable at a rate of 5.75% interest, in monthly installments of \$787, due June 2027. Secured by separate mortgage dated September 18, 2006.	\$ 57,865
Loan for B'Dolce's Bakery dated July 2018. Payable at a rate of 3.5% in monthly installments of \$950, including interest with a final payment of approximately \$67,500 due May 2021. Secured by assignment of contract for deed dated July 17, 2018.	<u>76,303</u>
Total Notes Payable - Governmental Funds	<u><u>\$ 134,168</u></u>

The future expected requirements to amortize long-term debt including interest, are as follows:

Year Ending December 31	Principal	Interest	Total
2020	\$ 15,128	\$ 5,695	\$ 20,823
2021	74,131	3,754	77,885
2022	7,045	2,399	9,444
2023	7,463	1,983	9,446
2024	7,901	1,542	9,443
2025-2029	<u>22,500</u>	<u>1,754</u>	<u>24,254</u>
Total	<u><u>\$ 134,168</u></u>	<u><u>\$ 17,127</u></u>	<u><u>\$ 151,295</u></u>

NOTE 8 RISK MANAGEMENT

The Job Development Authority is exposed to various risks of loss related torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In 1986, the state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The Job Development Authority is covered under the City of Beulah NDIRF insurance policies. The City pays an annual premium to NDIRF for its general liability, auto, and inland marine insurance coverage. The coverage by NDIRF is limited to losses of \$2,000,000 per occurrence.

Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years.

**JOB DEVELOPMENT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA**
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

NOTE 9 TENANT LEASE

The Job Development Authority leases office space to tenants under non-cancelable operating leases with terms of one to five years through fiscal year 2019. The following is a schedule by years of future minimum rental payments to be received under the leases as of December 31, 2019:

2020	\$	44,865
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Total rental receipts of \$68,821 is included in charges for services for the year ended December 31, 2019.

NOTE 10 PACE PROGRAMS

The Job Development Authority participates in Flex PACE program of the PACE Fund, which is administered by the Bank of North Dakota.

The Flex PACE program is designed to provide an interest buy down opportunity to non-PACE qualifying businesses in which the community determines eligibility and accountability standards. Flex PACE targets essential community businesses without the job creation requirement. The maximum amount from the fund in interest buydown may not exceed \$500,000 per borrower in any biennium.

The Job Development Authority has entered into Flex PACE agreements for the community share of the buydown on the borrower's loan. As of December 31, 2019, the Authority's share of future payments on these loans is as follows:

2020	\$	16,212
2021		5,201
2022		3,072
2023		2,816
2024		2,545
2025-2028		6,955
	<u>\$</u>	<u>36,801</u>

NOTE 11 NEW ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 84, *Fiduciary Activities*, provides guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists.

Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

GASB Statement No. 87, *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources

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NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
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based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

GASB Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement clarifies the existing definition of a conduit debt obligation; establishes that a conduit debt obligation is not a liability of the issuer; establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improves required note disclosures. This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.

GASB Statement No. 92, *Omnibus 2020*, provides additional guidance to improve consistency of authoritative literature by addressing practice issues identified during the application of certain GASB statements. This statement provides accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activity of public entity risk pools, fair value measurements and derivative instruments. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*, provides guidance to address accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR), most notable, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. This statement provides exceptions and clarifications regarding hedging derivative instruments for such transactions that result from the replacement of IBOR. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs) and also provides guidance for accounting and

**JOB DEVELOPMENT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA**
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

financial reporting for availability payment arrangements (APAs). The statement provides definitions of PPPs and APAs and provides uniform guidance on accounting and financial reporting for transactions that meet those definitions. A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

Management has not yet determined what effect these statements will have on the Authority's financial statements.

NOTE 12 COMMITMENTS

In December 2017, the Authority entered into a contract for deed agreement for the sale of a building for \$225,000. Payments, which began in June 2018, are to be received over 36 months and include interest of 3.5%.

NOTE 13 SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. Federal state and local governments have since implemented various restrictions on travel, public gatherings, and business operations. Restrictions and government social distancing recommendations have significantly impacted the activities of the Authority. While the Authority expects this matter to negatively impact its results of operations and financial condition, the extent of the impact is uncertain.

On April 15, 2020, the Authority entered into a rental agreement with the United States Department of Agriculture ("USDA"). The rental agreement is for a term of 10 years with annual rental payments to be made to the Authority of approximately \$65,700.

Subsequent events have been evaluated through June 1, 2020, which is the date these financial statements were available to be issued.

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

To the Job Development Board
Job Development Authority
Beulah, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the modified cash basis financial statements of the governmental activities and major fund of the Job Development Authority, a component unit of the City of Beulah, North Dakota, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated June 1, 2020.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency 2019-001 as described in the accompanying schedule of findings and responses to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency 2019-002 as described in the accompanying schedule of findings and responses to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Job Development Authority's Responses to Findings

Job Development Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



BRADY, MARTZ & ASSOCIATES, P.C.
BISMARCK, NORTH DAKOTA

June 1, 2020

**JOB DEVELOPMENT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2019**

2019-001: Material Weakness – Preparation of Financial Statements

Criteria

An appropriate system of internal controls requires that the Authority make a determination that financial statements and the underlying general ledger accounts are properly stated in compliance with GAAP. This requires the Authority's personnel to maintain a working knowledge of current accounting principles and required financial statement disclosures.

Condition

The Authority has engaged its auditors to prepare the financial statements including all disclosures.

Cause

The Authority has elected to not allocate resources for the preparation of the financial statements.

Effect

There is an increased risk of material misstatement to the Authority's financial statements.

Recommendation

We recommend the Authority consider the additional risk of having the auditors assist in the preparation of the financial statements and note disclosures and consider preparing them in the future. As a compensating control the Authority should establish an internal control policy to document the annual review of the financial statements and schedules and to review a financial statement disclosure checklist.

Views of Responsible Officials and Planned Corrective Action

We requested the auditors draft the accompanying notes to the financial statements. We believe this circumstance is not unusual in an organization of our size. Management and those charged with governance accept the responsibility to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

2019-002: Material Weakness – Proposition of Journal Entries

Criteria

The Authority is required to maintain controls at a level where support for general ledger accounts can be developed and a determination can be made that the general ledger accounts are properly reflected in accordance with the modified cash basis of accounting.

Condition

During our audit, a material adjustment was posted to properly reflect the financial statements in accordance with the modified cash basis of accounting.

Cause

The Authority did not record transactions relating to the sale of a building correctly.

Effect

The Authority's financial statements were materially misstated prior to the adjustment proposed by the its auditors.

**JOB DEVELOPMENT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA**
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

Recommendation

The Authority will need to determine the proper balance in each general ledger account prior to the audit and ensure all transactions are appropriately recorded.

Views of Responsible Officials and Planned Corrective Action

Due to the small size of the Authority, it is currently not cost effective for the Authority personnel to obtain the level of training necessary to completely eliminate this internal control finding. The Authority will review training options and determine what level of training can be obtained on a cost effective basis.

2019-002: Significant Deficiency – Lack of Segregation of Duties

Criteria

Generally, a system of internal control has the proper separation of duties between authorization, custody, record keeping and reconciliation.

Condition

The Authority has one staff person performing most of the accounting functions including recording, reconciling and this person also is one of the check signors authorizing payments.

Cause

Size and budget constraints limiting the number of personnel within the Authority.

Effect

The design of the internal control over financial reporting could adversely affect the ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Recommendation

The areas should be reviewed periodically and consideration given to improving the segregation of duties. Compensating controls over the underlying financial information may be obtained through oversight by management and the board.

Views of Responsible Officials and Planned Corrective Action

The Authority will review duties of employees and determine if it is cost effective to obtain this expertise.