

**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, 2017

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements:	
Statement of Net Position - Modified Cash Basis	3
Statement of Activities - Modified Cash Basis	4
Governmental Fund Financial Statements:	
Balance Sheet - Modified Cash Basis	5
Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position - Modified Cash Basis	6
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds - Modified Cash Basis	7
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances with the Government-Wide Statement of Activities - Modified Cash Basis	8
Notes to the Financial Statements	9
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 <i>GOVERNMENT AUDITING STANDARDS</i>	21
Schedule of Findings and Responses	23



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

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, 2017, 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, 2017, and the respective changes in modified cash basis financial position for the year 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 Matters

As described in Note 11 to the financial statements, a prior period adjustment has been made to properly dispose of land as of December 31, 2016. Our opinion is 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 28, 2018, 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 28, 2018

**JOB DEVELOPMENT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA**
STATEMENT OF NET POSITION – MODIFIED CASH BASIS
DECEMBER 31, 2017

ASSETS

Current assets:

Cash and cash equivalents \$ 332,625

Non-current assets:

Capital assets, net of accumulated depreciation 1,119,151

Total assets 1,451,776

LIABILITIES

Current liabilities:

Current portion of long-term debt 13,485

Non-current liabilities:

Non-current portion of long-term debt 173,615

Total liabilities 187,100

NET POSITION

Net investment in capital assets 932,051

Unrestricted 332,625

Total net position \$ 1,264,676

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, 2017

EXPENSES

Economic development:

Contracts and projects	\$	803
Maintenance and supplies		26,084
Depreciation		16,751
Utilities		15,201
Grants		34,097
Real estate taxes		4,784
Insurance		1,651
Salaries		9,646
Advertising		3,825
Miscellaneous		2,787
Interest on long-term debt		10,594
		126,223
Total expenses		126,223

REVENUES

Program revenues:

Charges for services		80,939
		80,939
Net program (expense) revenue		(45,284)

General revenues:

Investment earnings		102
Miscellaneous		4,149
Property taxes		40,351
		44,602
Total general revenues		44,602

Change in net position		(682)
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Net position - beginning, originally stated		1,272,858
Prior period adjustment		(7,500)
		1,265,358
Net position - beginning, restated		1,265,358
Net position - ending		\$ 1,264,676

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, 2017

ASSETS

Cash and cash equivalents	\$ 332,625
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FUND BALANCE

Unassigned	\$ 332,625
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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, 2017

Total governmental funds balance	\$	332,625
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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	\$	1,361,971	
Accumulated depreciation		<u>(242,820)</u>	
Capital assets, net			1,119,151

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		<u>(187,100)</u>
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Net position of governmental activities	\$	<u><u>1,264,676</u></u>
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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, 2017

REVENUES

Charges for services	\$ 80,939
Property taxes	40,351
Interest	102
Miscellaneous	4,149
Total revenues	<u>125,541</u>

EXPENDITURES

Economic development:

Current:

Contracts and projects	803
Maintenance and supplies	26,084
Utilities	15,201
Grants	34,097
Real estate taxes	4,784
Insurance	1,651
Salaries	9,646
Advertising	3,825
Miscellaneous	2,787

Total current expenditures	<u>98,878</u>
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Capital outlay	<u>114,392</u>
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Debt service:

Principal retirement	13,621
Interest	10,594

Total debt service	<u>24,215</u>
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Total expenditures	<u>237,485</u>
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Net change in fund balance	(111,944)
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Fund balance - beginning	<u>444,569</u>
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Fund balance - ending	<u><u>\$ 332,625</u></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 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, 2017

Net change in fund balance - total governmental funds \$ (111,944)

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

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.

Capital assets purchased	\$	114,392	
Depreciation expense		<u>(16,751)</u>	
			97,641

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.

Long-term debt principal payments			13,621
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Change in net position - governmental activities			<u>\$ (682)</u>
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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, 2017

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. Complete financial statements of the primary government can be obtained from the City of Beulah auditor.

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, 2017

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 Statements of Net Position present the financial condition of the governmental activities of the Job Development Authority at year-end. The Statements of Activities present 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, 2017

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, 2017

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, 2017

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, 2017

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 College'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.

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.

**JOB DEVELOPMENT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA**
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017

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, 2017. 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, 2017, 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.

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, 2017.

**JOB DEVELOPMENT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA**
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017

NOTE 6 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017 was as follows:

	Balance 1/1/17	Additions	Deletions	Balance 12/31/17
Capital asset not being depreciated:				
Land	\$ 10,000	\$ -	\$ -	\$ 10,000
Construction in progress	-	99,392	-	99,392
	<u>10,000</u>	<u>99,392</u>	<u>-</u>	<u>109,392</u>
Capital assets being depreciated:				
Buildings	1,237,579	15,000	-	1,252,579
Less accumulated depreciation:				
Buildings	<u>226,069</u>	<u>16,751</u>	<u>-</u>	<u>242,820</u>
Total capital assets being depreciated, net	<u>1,011,510</u>	<u>(1,751)</u>	<u>-</u>	<u>1,009,759</u>
Total capital assets, net	<u>\$ 1,021,510</u>	<u>\$ 97,641</u>	<u>\$ -</u>	<u>\$ 1,119,151</u>

Depreciation expense of \$16,751 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, 2017:

	Balance 1/1/2017	Additions	Reductions	Balance 12/31/2017	Due Within One Year
Notes Payable	<u>\$ 200,721</u>	<u>\$ -</u>	<u>\$ (13,621)</u>	<u>\$ 187,100</u>	<u>\$ 13,485</u>

Long-term debt payable at December 31, 2017 consists of the following individual issues:

Loan for renovation of Greystone Hotel dated May 2007 for \$111,300, \$ 69,007
refinanced in 2017. Payable at a rate of 5.75% interest, in monthly
installments of \$787, due June 2027.

Construction loan for renovation of Main Street building dated January
of 2008 for \$187,000, refinanced in 2018. Under the terms of the
refinanced agreement, loan is payable at a rate of 5.75% interest in
monthly installments of \$1,257 due June 2028.

Total Notes Payable - Governmental Funds \$ 187,100

**JOB DEVELOPMENT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA**
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017

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

<u>Year Ending December 31</u>	<u>Debt</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 13,485	\$ 9,790	\$ 23,275
2019	14,940	9,592	24,532
2020	15,806	8,727	24,533
2021	16,755	7,777	24,532
2022	17,745	6,788	24,533
2023 - 2027	100,949	16,999	117,948
2028	7,420	125	7,545
Total	<u>\$ 187,100</u>	<u>\$ 59,798</u>	<u>\$ 246,898</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.

The City also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The City pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a 12-month period. The State Bonding Fund currently provides the City with blanket fidelity bond coverage in the amount of \$2,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

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

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 2018. The following is a schedule by years of future minimum rental payments to be received under the leases as of December 31, 2017:

2018 \$ 54,837

Total rental receipts of \$80,939 is included in charges for services for the year ended December 31, 2017.

**JOB DEVELOPMENT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA**
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017

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, 2017, the Authority's share of future payments on these loans is as follows:

2018	\$ 18,775
2019	17,312
2020	12,823
2021	5,529
2022	3,072
2023-2027	10,995
2028	1,321
	<u>\$ 69,827</u>

NOTE 11 PRIOR PERIOD ADJUSTMENT

A prior period adjustment was posted to the December 31, 2016 financial statements to properly dispose of land which the Authority no longer owned as of December 31, 2016. This adjustment resulted in a decrease to capital assets and net position, net investment in capital assets, of \$7,500 in the statement of net position. This adjustment had no effect on opening fund balance.

NOTE 12 NEW ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). This Statement establishes criteria for determining the timing and pattern of recognition of a liability and corresponding deferred outflow of resources for AROs. It also establishes disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

**JOB DEVELOPMENT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA**
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017

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, 2018. Earlier application is encouraged.

GASB Statement No. 85, *Omnibus 2017*, addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, provides guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irrevocable trust for the purpose of extinguishing that debt were acquired. This Statement requires that any remaining prepaid insurance related to the extinguished debt be included in the net carrying amount of that debt for the purpose of calculating the difference between the reacquisition price and the net carrying amount of the debt. In addition, this Statement will enhance the decision-usefulness of information in notes to financial statements regarding debt that has been defeased in substance. This Statement is effective for reporting periods beginning after June 15, 2017. 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 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 December 15, 2019. Earlier application is encouraged.

GASB Statement No. 88, *Certain Disclosures Related to Debt*, including Direct Borrowings and Direct Placements, improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This Statement is effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

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

**JOB DEVELOPMENT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA**
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017

NOTE 13 COMMITMENTS

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

The Authority has a building renovation project in progress as of December 31, 2017 which has an expected total cost of approximately \$300,000. As of December 31, 2017, the Authority has paid \$99,392. The project is expected to be completed during 2018.

The Authority's other commitments include a pledge to provide gap financing to Lutheran Social Services of \$27,225 for an affordable housing project in Beulah. No payments were made during the year ended December 31, 2017. The balance of \$27,225 is expected to be advanced in installments during 2018 and 2019.

NOTE 14 SUBSEQUENT EVENTS

No significant events occurred subsequent to the Authority's year end. Subsequent events have been evaluated through June 28, 2018, which is the date these financial statements were available to be issued.



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

**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 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, 2017, 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 28, 2018.

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 opinion 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 significant deficiencies.

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 2017-001 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 deficiencies 2017-002 and 2017-003 as described in the accompanying schedule of findings and responses to be significant deficiencies.

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 28, 2018

**JOB DEVELOPMENT AUTHORITY, A COMPONENT UNIT
OF THE CITY OF BEULAH, NORTH DAKOTA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2017**

2017-001: Adjusting Journal Entries - Material Weakness

Criteria

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

Condition

During our audit, current year adjusting entries to the financial statements were proposed in order to properly reflect the financial statements in accordance with the modified cash basis of accounting.

Cause

The Authority's internal controls have not been designed to address the specific training needs required of its personnel to identify the adjustments necessary to properly reflect the financial statements in accordance with the modified cash basis of accounting.

Effect

An appropriate system of internal controls is not present to make a determination that the general ledger accounts are properly adjusted in compliance with the modified cash basis of accounting.

Recommendation

We recommend that the Authority review its current training system for its accounting personnel and determine if it is cost effective for the Authority to obtain this knowledge internally.

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.

**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, 2017

2017-002: 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.

**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, 2017

2017-003: Auditor Preparation of Financial Statements

Criteria

An appropriate system of internal controls requires the Authority to determine that the financial statements are properly stated in compliance with the modified cash basis of accounting. This requires the Authority's personnel to maintain knowledge of current accounting principles and required financial statement disclosures.

Condition

The Authority does not have the internal resources to prepare full-disclosure financial statements for external reporting.

Cause

The Authority's internal controls have not been designed to address the specific training needs that are required of its personnel to obtain and maintain knowledge of current accounting principles and required financial statement disclosures.

Effect

An appropriate system of internal controls is not present to make a determination that financial statements are properly stated in compliance with the modified cash basis of accounting. However, the Authority is aware of the deficiency and addresses it by reviewing and approving the completed statements prior to distribution to end users.

Recommendation

We recommend that the Authority review its current training system for its accounting personnel and determine if it is cost effective for the Authority to obtain this knowledge internally. The Authority also could begin to address this significant deficiency through the use of current disclosure checklists by accounting staff prior to the finalization of the Authority's year-end or consider outsourcing of the financial statement preparation and review functions.

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.