

**KANDIYOHI COUNTY AND CITY OF WILLMAR ECONOMIC DEVELOPMENT COMMISSION (EDC)
JOINT OPERATIONS BOARD OF DIRECTORS (OB) MEETING
MINUTES
September 8, 2016
EDC Office, Willmar**

Present: Rollie Boll, Donna Boonstra, Robert Carlson and Linda Kacher

Ex Officio: Bruce Peterson and Doug Reese

Excused: Art Benson, Gary Gilman and Kelly TerWisscha

Guests: Dean Lindquist, Steve Maher and John Schnobrich

Staff: Aaron Backman, Executive Director and Connie Schmoll, Business Development Specialist

Secretarial: Nancy Birkeland, Legal & Administrative Assistants, Inc. (LAA)

President Robert Carlson called the meeting to order at approximately 11:00 a.m. and added to the Consent Agenda, item 5, under Approve: Payment of bill from James M. Ruff, Inc. in the amount of \$2,538.00.

IT WAS MOVED BY Linda Kacher, SECONDED BY Rollie Boll, to approve the Agenda and revised Consent Agenda. MOTION CARRIED.

CONSENT AGENDA—

- Approve:
1. Minutes of July 14, 2016 meeting
 2. Financial reports as of July 30 and August 31, 2016
 3. Adding Ashley Queenan to the Marketing and Public Relations Committee
 4. Payment of \$21,500.00 to Kandiyohi County Auditor/Treasurer per the Partnership Agreement Memorandum of Understanding from the Blandin Foundation Broadband Feasibility Study Grant funds
 5. Payment of bill from James M. Ruff, Inc. in the amount of \$2,538.00
- Accept:
1. Committee/Subcommittee Minutes
 - a. Agriculture and Renewable Energy Development 6/16 and 7/21/2016
 - b. Ag Producer's Survey Planning Subcommittee 6/6, 8/1 and 9/9/2016
 2. Broadband and Advanced Technology 7/11 and 8/1/2016
 3. BRE/R Vision 2040 Workforce Subcommittee 7/19/2016
 4. Marketing and Public Relations 6/27 and 7/25/2016
 5. Leisure Travel 6/6/2016

PROGRESS REPORTS

Willmar/Willmar Industrial Park. Aaron Backman reported construction continues for Dooley's Petroleum, Inc.'s corporate office. Backes Technology Services, Inc. purchased the smallest lot in the Willmar Industrial Park Fourth Addition, which was approved by the Willmar City Council.

BNSF Railway Wye Project. Backman reported a public open house on the Wye project was held October 2nd at the Willmar Public Library.

[Bruce Peterson joined the meeting.]

Bruce Peterson reported all permits have been completed for Hobby Lobby and construction will begin soon; Dooley's Petroleum, Inc. has started construction and Backes Technology Services, Inc. also will begin construction soon. Backman reported a new schedule for environmental review on the Wye project is expected Monday and discussion is being held on First Avenue. Peterson stated the at-grade crossing is the local preference for First Avenue; however, BNSF determined there is no substantial benefit for any of the three options and because there is no clear-cut benefit, the Federal Highway Administration reverts to policy, which is to not have at-grade crossings. Thus, the partners are looking at other options. Peterson stated the City of Willmar is making contacts with state and federal representatives to voice the local opinion. It will be some time before an agreement is reached. The at-grade crossing was included in the TIGER grant application. Backman stated soil borings will start in October.

UNFINISHED BUSINESS

2017 Budget Update. Backman reported the Joint Powers Board changed the TIGER grant amount in the 2017 budget to its original amount of \$35,000. As a result, other line items were decreased to accommodate the \$2,000 increase. Backman reported the Kandiyohi County Board of Commissioners approved the EDC's 2017 levy and budget. Backman will present the budget to the Willmar City Council on Monday.

[The agenda was taken out of order and Dean Lindquist, Steve Maher and John Schnobrich joined the meeting.]

NEW BUSINESS

Glacial Ridge Hospitality Presentation. Backman introduced guests Steve Maher, who represents Glacial Ridge Hospitality, and Dean Lindquist and John Schnobrich of Little Crow Country Club, in regard to a request for a tax abatement. Backman provided information on the Glacial Ridge Hospitality project, which is anticipated to cost \$7.8 million with \$5.6 million being related to construction. The project will have three funding sources. Construction will include a 51 room Grand Stay Hotel and event center with seating for 300. United Prairie Bank will provide some funding plus \$1.3 million developer equity and approximately \$1 million in tax abatement over 10 years. Initial discussions on the abatement request have been held with Kandiyohi County and the New London-Spicer School District. At their meeting this week, the Kandiyohi County Board of

Commissioners unanimously approved setting an October 4, 2016 public hearing on the tax abatement request.

Dean Lindquist thanked the EDC for funding approximately one-half of the expense to conduct the feasibility study for this project. Lindquist provided background information on the proposed project. Approximately 2.5 acres will be transferred from the Little Crow Country Club to Glacial Ridge Hospitality. The golf course will benefit from a new restaurant and pro shop. The area will benefit from the proposed hotel and event center. Approximately 35 additional people will be employed. The New London-Spicer School District is in favor of the hotel as it does not have a local place for tournament attendees to stay or for students to hold prom. Little Crow Country Club is including student programs in future planning. Steve Maher noted his involvement started with the New London Economic Development Association (EDA). This will be the first development of its type for Grand Stay Hospitality and Dan Harchenko intends to be an investor in the project. Blue Sky Hospitality is the company's manager. Golf simulators are being planned for winter use. Backman stated the abatement request is for 10 years with 8 years at 100% and 2 years at 80% and gave the dollar amounts for the county and school district. John Schnobrich stated it is hoped the new golf club will be open by Mother's Day 2017.

IT WAS MOVED BY Rollie Boll, SECONDED BY Linda Kacher, that the Kandiyohi County and City of Willmar Economic Development Commission Joint Operations Board recommends the taxing jurisdictions support the 10-year tax abatement request by Glacial Ridge Hospitality at a level to be determined by each jurisdiction. MOTION CARRIED.

[Lindquist, Maher and Schnobrich were excused from the meeting.]

Connie Schmoll noted the feasibility study indicated the business community showed a need for a hotel. Grand Stay Hotel intends to do joint marketing with the New London business community.

Kandi Mall Rehabilitation Project. Backman reported the Willmar Community Development Committee, Willmar City Council and Kandiyohi County Board of Commissioners voted unanimously to approve the Kandi Mall tax abatement as requested. The Willmar School Board will hear the abatement request on Monday. Peterson noted the Willmar City Council appreciates hearing this board's recommendations on projects.

[Jim Ruff joined the meeting.]

County Broadband Project. Schmoll reported the state broadband grant application is in process. The location for the project area is not yet final, but the preliminary area identified is in the northwest lakes area of Kandiyohi County. Schmoll stated incumbent telecommunication providers had to be notified of the county broadband project and Frontier Communications and TDS both indicated they plan to do projects in the county. Schmoll will be meeting with Rep. Dave Baker on the project tomorrow. More than 30 letters of support for the county project have been received. An informational presentation was made to the County Board of Commissioners. Another presentation will be made later this month relative to funding for the project.

NEW BUSINESS CONTINUED

2015 Audit. Jim Ruff distributed and presented the 2015 Annual Financial Report (see attached), a draft of which he noted was presented to the Joint Powers Board at its July meeting. Ruff stated this board is responsible for internal control of the EDC's financials and has more responsibility than the Joint Powers Board as to the financials. Ruff noted there were no significant findings found during the audit. It was a good audit process and a very favorable mark for the EDC. Ruff stated the EDC's internal control operates properly. Ruff highlighted corrective actions that have been done over the years, including more accuracy and detail as to the annual budget. Ruff informed the board that the auditor makes significant adjustments to the EDC's financials after the audit is completed. Ruff reported it was a clean audit. Ruff noted that at the end of 2015, the General Fund Balance Sheet shows approximately \$584,000 in cash on hand and reserved or restricted funds of \$273,634. The largest amount of restricted funds are from the funds received from Kandiyohi County for the Revolving Loan Fund. Ruff noted each year the EDC has deferred revenues from delinquent real estate taxes. Most furniture is written off after five or seven years. Noted as deferred grants were the Hack₂0 and WiFi grants where the funds were received in 2015, but not fully spent within the timeline given. Ruff informed the Joint Powers Board that it would be good to find a use for the tourism development funds that have been in a Certificate of Deposit for several years. Ruff indicated the 50% reserve for the Entrepreneurs' Loan Guarantee Program is higher than needed or recommended. The Statement of General Fund Revenues, Expenditures and Changes in Fund Balances shows reserves of approximately \$8,800 were used in 2015 and expenses were \$8,482 less than expected. Ruff stated the EDC now has its monies in several financial institutions and are now FDIC insured. Ruff recommended the board begin establishing a reserve fund for uncollected loans under the Kandiyohi County Creating Entrepreneurial Opportunities program. Ruff indicated the state does not mandate reserves for a governmental agency, but the rule of thumb is that most organizations have 6 to 12 months of operational funds available.

[Peterson was excused from the meeting.]

IT WAS MOVED BY Donna Boonstra, SECONDED BY Rollie Boll, to recommend the Joint Powers Board approve the 2015 Annual Financial Report for the Kandiyohi County and City of Willmar Economic Development Commission as presented. MOTION CARRIED.

Job Creation Fund Application. Backman presented information on a Job Creation Fund application by ERC Holdings, LLC, a Florida company that intends to lease the former Kandiyohi Power Cooperative building. ERC Holdings, LLC intends to spend over \$2 million to renovate and repurpose the property. The project plans to hire 238 employees within three years.

IT WAS MOVED BY Linda Kacher, SECONDED BY Rollie Boll, to approve the following:

RESOLUTION NO. 2016-1

RESOLUTION IN SUPPORT OF A JOB CREATION FUND APPLICATION
IN CONNECTION WITH ERC HOLDINGS, LLC

WHEREAS, the Joint Operations Board of Directors of the Kandiyohi County and City of Willmar Economic Development Commission (EDC) desires to assist ERC Holdings, LLC (ERC), a Florida business operation, to expand its national operations to Willmar, Minnesota; and

WHEREAS, ERC is proposing to lease the former Kandiyohi Power Cooperative headquarters (also known as the Northland Group building) on Business Highway 71, to spend \$2.9 million on various interior and exterior improvements, and to establish an accounts receivable management operation; and

WHEREAS, ERC intends to hire 238 employees at an average wage of \$16.10 per hour within three years of operational startup, and the company would like to make a site selection in the next 90 days; and

WHEREAS, the EDC understands that ERC Holdings, LLC, through and with the support of the EDC, intends to submit an application to the Minnesota Department of Employment and Economic Development for an award and/or rebate from the Job Creation Fund Program; and

WHEREAS, the EDC considered this matter at its meeting on September 8, 2016, and determined that it is in the best interests of the citizens of the City of Willmar, Kandiyohi County and the EDC to support this proposed application by ERC Holdings, LLC.

NOW, THEREFORE, BE IT RESOLVED, by the Joint Operations Board of Directors of the Kandiyohi County and City of Willmar Economic Development Commission, State of Minnesota, as follows:

1. After due consideration, the EDC expresses its approval of the project proposed by ERC Holdings, LLC and supports the application by ERC for an award and/or rebate from the Job Creation Fund Program.

MOTION CARRIED.

Certificate of Deposit. Backman presented four responses to a Request for Proposal sent to all Kandiyohi County banks. The highest interest rate quoted was by Concorde Bank. Backman recommends a 12 month Certificate of Deposit with Concorde Bank.

IT WAS MOVED BY Rollie Boll, SECONDED BY Linda Kacher, to cash in the Certificate of Deposit at Citizens Alliance Bank and redeposit it into a 12-month certificate at Concorde Bank, dependent upon Concorde Bank being able to insure all of the Kandiyohi County and City of Willmar Economic Development Commission's funds on deposit. MOTION CARRIED.

Backman will contact Concorde Bank as to the EDC's funds.

Six-Month Review of Executive Director. President Carlson reported he, Linda Kacher and Denis Anderson met with Backman for his six-month review. Carlson noted board members felt

Backman meets or exceeds expectations in most areas. Holding board meetings outside Willmar was brought up during the review. Kacher noted the following were discussed during the review: a refocus of the Business Retention and Expansion/Recruitment Committee; board members were pleased to have Backman onboard; compliments were given on obtaining Shovel-Ready certification for the Willmar Industrial Park; Backman should develop personal goals; the review was overall positive; and the 2017 budget includes a salary increase. Backman stated it has been a pleasure working for the EDC.

[Carlson was excused from the meeting.]

REPORTS CONTINUED

West Central Angel Fund I. Schmoll reported there are currently 28 members in the new angel investment fund. It has been a learning process for some of the investors. The fund is in the process of developing its legal documents. Schmoll stated she has received calls from businesses interested in presenting to the fund.

Business Visits and Meetings. Backman reported he gave a tour of Willmar to IAG, a Minneapolis commercial real estate agency; met with an individual, who is interested in starting a new business and toured all of the vacant Mills properties in Willmar. Backman has interacted with Commonwealth Development, a Wisconsin company that does housing projects, which presented a proposal to Bethesda to purchase its Heritage Center. Backman complimented Schmoll on the manufacturer tours co-hosted with Vision 2040 and attended by Willmar High School teachers. Schmoll reported the teachers toured Chappell Central, RELCO, West Central Steel, Central Minnesota Fabricating, EpiTopix, Nova-Tech Engineering, Lange Ag Systems and Jennie-O Turkey Store. Backman toured the former Northland/Kandiyohi Power Cooperative building. He and Schmoll attended the Minnesota Marketing Partnership meeting. Backman met with Charly Leuze of the Willmar Area Multicultural Business Center about applying to be a local loan administrator of the state's Emerging Entrepreneurial Program, which must be under a nonprofit agency. Backman reported yesterday, seven state commissioners were in Willmar for the Economy in Motion Commissioners on Wheels tour.

[Kacher was excused from the meeting.]

Backman announced Bethesda will have an open house this Friday from 1-6 p.m.; a Job Fair will be held September 13 from 2-6 p.m. at the Willmar Conference Center; the Social Media Rockstar Event will be held September 14 at the Willmar Conference Center; and a grand opening of the Minnesota Poultry Testing Laboratory will be September 22 from 2-5 p.m. Schmoll reported she and Donna Boonstra will attend the state broadband conference in Duluth September 14.

Schmoll showed the video of local manufacturers that was created and shown to the Willmar High School teachers after their tours. The teachers were very excited about the tours and plans are for it to be done annually. Schmoll noted Willmar students will tour the manufacturers in October.

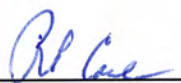
NEXT MEETING—The next board meeting is **11:00 a.m., Thursday, October 13, 2016**, in the EDC's Board Room, 222 20th Street SE, Willmar.

ADJOURNMENT—There being no further business, the meeting was adjourned at approximately 1:24 p.m.



Gary Gilman, Secretary

APPROVED: 10/13/2016:



Robert Carlson, President

**KANDIYOHI COUNTY AND CITY OF WILLMAR
ECONOMIC DEVELOPMENT COMMISSION**

ANNUAL FINANCIAL REPORT

December 31, 2015

**JAMES M. RUFF, INC.
Certified Public Accountant and Consultants
Willmar, Minnesota**

**KANDIYOHI COUNTY AND CITY OF WILLMAR
ECONOMIC DEVELOPMENT COMMISSION
WILLMAR, MINNESOTA**

ANNUAL FINANCIAL REPORT

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**KANDIYOHI COUNTY AND CITY OF WILLMAR
ECONOMIC DEVELOPMENT COMMISSION**

BOARD OF DIRECTORS

December 31, 2015

	<u>Name</u>	<u>Term Expires</u>	<u>Representing</u>
Board of Directors - Joint Powers Board			
Chair	Harlan Madsen	12/31/15	Kandiyohi Co.
Vice Chair & EDCOB Liaison	Ron Christianson	12/31/15	City of Willmar
Secretary	Doug Reese	12/31/15	Kandiyohi Co.
Treasurer	Denis Anderson	12/31/15	City of Willmar
Board Members:	Marv Calvin	12/31/15	City of Willmar
	Roger Imdieke	12/31/15	Kandiyohi Co.
 Board of Directors - Operations Board			
Voting			
President	Robert P. Carlson	12/31/18	
Vice President	Linda Kacher	12/31/16	
Secretary	Gary Gilman	12/31/17	
Treasurer	Rollie Boll	12/31/18	
Board Member	Art Benson	12/31/18	
Board Member	Donna Boonstra	12/31/16	
Board Member	Kelly Terwisscha	12/31/17	
 Non-voting (Ex-Officio)			
Board Member	Bruce Peterson	Annually	
 Staff			
Executive Director	Aaron Backman		
Business Development Director	Connie Schmoll		

**JAMES M.
RUFF, INC.**

CERTIFIED PUBLIC ACCOUNTANT & CONSULTANTS

JAMES M. RUFF, CPA

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Kandiyohi County and City of Willmar
Economic Development Commission

We have audited the accompanying financial statements of the governmental activities and the General Fund of the Kandiyohi County and City of Willmar Economic Development Commission (EDC) as of and for the year ended December 31, 2015, which collectively comprise the EDC's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the EDC's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of the Kandiyohi County and City of Willmar Economic Development Commission as of December 31, 2015, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 27, 2016 on our consideration of the Kandiyohi County and City of Willmar Economic Development Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Kandiyohi County and City of Willmar Economic Development Commission has omitted a Management's Discussion and Analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of the basic financial statements. Such information, although not part of the basic financial statements, is considered by GASB to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our report on the basic financial statements is not affected by this missing information.

James M. Ruff, CPA

JAMES M. RUFF, INC.

July 27, 2016

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◆ Accounting & Auditing ◆ Tax Planning & Preparation ◆ Retirement, Financial, & Estate Planning ◆
◆ Estates & Trusts ◆ QuickBooks ◆ Payroll & Employee Benefits ◆ Agribusiness & Farm ◆ Business Consulting ◆

◆ P.O. Box 1056 ◆ 2015 1st Street S. ◆ Willmar, Minnesota 56201 ◆ Phone: (320) 235-1002 ◆
◆ Fax: (320) 235-3809 ◆ Email: ruffcpas@en-tel.net ◆

**KANDIYOHI COUNTY AND CITY OF WILLMAR ECONOMIC DEVELOPMENT COMMISSION
WILLMAR, MINNESOTA**

**GENERAL FUND BALANCE SHEET AND
GOVERNMENTAL ACTIVITIES - STATEMENT OF NET ASSETS
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL**

December 31, 2015

	General Fund	Adjustments	Governmental Activities
ASSETS			
Cash	\$ 223,124	\$ -	\$ 223,124
Certificates of deposit	361,243	-	361,243
Taxes receivable	17,500	-	17,500
Prepaid expenses	-	-	-
Rent deposits	3,600	-	3,600
Loans receivable, net of \$0 allowance	145,027	-	145,027
Capital assets, net of depreciation		12,452	12,452
Total Assets	\$ 750,494	\$ 12,452	\$ 762,946
 LIABILITIES			
Accounts payable	\$ 593	\$ -	\$ 593
Vacation and sick leave benefits payable	1,812	-	1,812
PERA and payroll taxes payable	15,686	-	15,686
Deferred revenue - tax levy income	-	17,500	17,500
Deferred revenue - grants	-	15,560	15,560
Total Liabilities	18,091	33,060	51,151
 FUND BALANCE			
Reserved for			
Revolving loan fund - County (\$114,825 loans outstanding)	224,052	(224,052)	
Loan receivable - HRA of Willmar	25,750	(25,750)	
Tourism development	18,262	(18,262)	
KCEO program	5,570	(5,570)	
	273,634	(273,634)	
Unreserved - Designated			
Entrepreneur's loan fund guarantees (50% reserve)	80,367	(80,367)	
Undesignated	378,402	(378,402)	
Total Fund Balance	732,403	(732,403)	
Total Liabilities and Fund Balance	\$ 750,494		
 NET ASSETS			
Invested in capital assets		12,452	12,452
Restricted for economic development		273,634	273,634
Unrestricted		425,709	425,709
Total Net Assets		711,795	711,795
Total Liabilities and Net Assets		\$ 12,452	\$ 762,946

The adjustments to convert from modified to full accrual include the addition of capital assets and reporting earned but deferred revenue.

**KANDIYOHI COUNTY AND CITY OF WILLMAR ECONOMIC DEVELOPMENT COMMISSION
WILLMAR, MINNESOTA**

**GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE AND GOVERNMENTAL ACTIVITIES-STATEMENT OF ACTIVITIES
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL**

For The Year Ended December 31, 2015

	General Fund	Adjustments	Governmental Activities
REVENUES			
Taxes	\$ 458,547	\$ (2,611)	\$ 455,936
Interest on investments and loans	7,449	-	7,449
Charges for services	500	-	500
Grants and miscellaneous	29,680	(15,560)	14,120
Events and programs	11,488	-	11,488
Refunds and reimbursements	1,043	-	1,043
Total Revenues	508,707	(18,171)	490,536
EXPENDITURES			
Administration	383,662	-	383,662
Committees and special projects	43,318	-	43,318
Events and programs	8,493	-	8,493
Capital outlays	-	-	-
Depreciation	-	2,876	2,876
Grants and donations	60,669	-	60,669
Total Expenditures / Expenses	496,142	2,876	499,018
Net Change in Fund Balance / Net Assets	12,565	(21,047)	(8,482)
Fund Balance / Net Assets, Beginning	719,838	439	720,277
Fund Balance / Net Assets, Ending	\$ 732,403	\$ (20,608)	\$ 711,795

Adjustments to convert modified accrual to full accrual basis of accounting:

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

\$ 2,611

The fund does not report depreciation expense as an expenditure, but expenses capital outlays as incurred.

2,876

The fund reports capital outlays as an expenditure. In the statement of activities, the cost of capital assets is allocated over their useful lives as depreciation expense.

-

The fund records grant revenue when received. In the statement of activities, grant revenue is recorded as income when earned.

15,560

Total adjustment between change in fund balance and change in net assets

\$ 21,047

**KANDIYOHI COUNTY AND CITY OF WILLMAR ECONOMIC DEVELOPMENT COMMISSION
WILLMAR, MINNESOTA**

**STATEMENT OF GENERAL FUND REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGETARY COMPARISON**

For The Year Ended December 31, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 465,000	\$ 455,000	\$ 455,936	\$ (936)
Interest on investments and loans	11,157	11,157	7,449	3,708
Charges for services	450	450	500	(50)
Grants and miscellaneous	-	38,980	14,120	24,860
Events and programs	-	-	11,488	(11,488)
Refunds and reimbursements	2,600	1,600	1,043	557
Total Revenues	<u>479,207</u>	<u>507,187</u>	<u>490,536</u>	<u>16,651</u>
EXPENDITURES / EXPENSES				
Administration	412,381	439,281	383,662	55,619
Committees and special projects	54,100	54,100	43,318	10,782
Events and programs	-	7,000	8,493	(1,493)
Capital outlays	-	-	-	-
Depreciation	-	-	2,876	(2,876)
Grants and donations	77,500	92,480	60,669	31,811
Total Expenditures / Expenses	<u>543,981</u>	<u>592,861</u>	<u>499,018</u>	<u>93,843</u>
Net Change in Fund Balance / Net Assets	(64,774)	(85,674)	(8,482)	(77,192)
Fund Balance / Net Assets, Beginning	<u>720,277</u>	<u>720,277</u>	<u>720,277</u>	<u>-</u>
Fund Balance / Net Assets, Ending	<u>\$ 655,503</u>	<u>\$ 634,603</u>	<u>\$ 711,795</u>	<u>\$ (77,192)</u>

See Notes to the Financial Statements

**KANDIYOHI COUNTY AND CITY OF WILLMAR
ECONOMIC DEVELOPMENT COMMISSION
NOTES TO FINANCIAL STATEMENTS
December 31, 2015**

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial reporting policies of the Kandiyohi County and City of Willmar Economic Development Commission (EDC) conform to generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the Kandiyohi County and City of Willmar EDC are discussed below.

A. Financial Reporting Entity

The Kandiyohi County and City of Willmar EDC was established by resolution on July 1, 2003, by a joint-powers agreement between Kandiyohi County and the City of Willmar pursuant to Minn. Laws 2003, ch. 127, art.12, § 30, subd.1. The Kandiyohi County and City of Willmar EDC has all of the powers of an economic development authority under Minn. Stat. §§ 469.090 to 469.107.

The Kandiyohi County and City of Willmar EDC is governed by a six-member Board. The Kandiyohi County Board of Commissioners appoints three members and the Willmar City Council appoints three members. Each member is appointed to serve three years. The Kandiyohi County and City of Willmar EDC elects a chair, vice-chair, secretary, and a treasurer from its members. These officers serve a one-year term of office.

Property taxes represent a substantial portion of the Kandiyohi County and City of Willmar EDC's revenue. The Kandiyohi County and City of Willmar EDC is a political subdivision of the State and a special taxing district as defined by Minn. Stat. § 275.066, clause (25), with the power to adopt and certify a property tax levy to the Kandiyohi County Auditor.

The Kandiyohi County and City of Willmar EDC is a separate entity independent of the city and the county which formed it. In accordance with generally accepted accounting principles, the Kandiyohi County and City of Willmar EDC's financial statements are not included in either the City of Willmar's or Kandiyohi County's financial statements. Neither Kandiyohi County nor the City of Willmar retain control over the operations, has oversight responsibility, or is financially accountable for the Kandiyohi County and City of Willmar EDC.

Effective January 1, 2008, Kandiyohi County acted as the fiscal agent and reported the activity of the Kandiyohi County and City of Willmar EDC independently of the County's other funds and operations. The County ceased to act as fiscal agent of the EDC during August 2012 with the functions of accounting and payroll contracted to an outside independent service provider.

**KANDIYOHI COUNTY AND CITY OF WILLMAR
ECONOMIC DEVELOPMENT COMMISSION
NOTES TO FINANCIAL STATEMENTS
December 31, 2015**

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basic Financial Statements

The financial statements combine fund level financial statements (General Fund column) and government-wide financial statements (Governmental Activities column). These statements include the financial activities of the Kandiyohi County and City of Willmar EDC overall.

The government-wide columns are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Kandiyohi County and City of Willmar EDC's net assets are reported in three parts: (1) invested in capital assets; (2) restricted net assets; and (3) unrestricted net assets. The Kandiyohi County and City of Willmar EDC first utilizes restricted resources to finance qualifying activities.

The Kandiyohi County and City of Willmar EDC reports one governmental fund. The General Fund is the Kandiyohi County and City of Willmar EDC's primary operating fund. It accounts for all financial resources of Kandiyohi County and City of Willmar EDC.

C. Measurement Focus and Basis of Accounting

The governmental activities columns are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund columns (General Fund) are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available if collected within 60 days after the end of the current period. Interest is considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred. When both restricted and unrestricted resources are available for use, it is the Kandiyohi County and City of Willmar EDC's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Reconciliation of Government-Wide and Fund Financial Statements

The financial statements include an adjustment column to reconcile the General Fund to the governmental activities. The details of the adjustments are:

Balance Sheet to Statement of Net Assets

Amounts reported for governmental activities are different from those reported in General Fund because capital assets, net of depreciation, of \$12,452, and deferred revenue of \$33,060 are not considered financial resources and, therefore, are not reported in the General Fund.

Statement of Activities

Amounts reported for governmental activities in the Statement of Activities differ from the General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance because of the differences in reporting capital assets and unavailable revenues.

**KANDIYOHI COUNTY AND CITY OF WILLMAR
ECONOMIC DEVELOPMENT COMMISSION
NOTES TO FINANCIAL STATEMENTS
December 31, 2015**

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Reconciliation of Government-Wide and Fund Financial Statements (Continued)

Statements of Activities (continued)

General Fund reports capital asset purchases as expenditures while governmental activities reports depreciation expense, which allocates the cost of capital assets over their estimated useful lives. The difference, if any, is reported as an adjustment to expenditures.

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the General Fund. An increase in revenues of \$2,611 is shown for the decrease in the long-term tax levy receivable.

E. Assets, Liabilities and Net Assets or Equity

Deposits and Investments

The Kandiyohi County and City of Willmar EDC's deposits and investments include demand deposits, savings, and certificates of deposit.

Capital Assets

Capital assets, which consist of equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the Kandiyohi County and City of Willmar EDC as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's lives are not capitalized.

Equipment of the Kandiyohi County and City of Willmar EDC is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Machinery, furniture, and equipment	5 to 7
Leasehold improvements	10

Deferred Revenue

The Kandiyohi County and City of Willmar EDC's General Fund and the government-wide financial statements defer revenue for resources that have been received, but not yet earned. Governmental funds also report deferred revenue in connection with receivables for revenues not considered to be available to liquidate liabilities of the current period.

Fund Equity

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

**KANDIYOHI COUNTY AND CITY OF WILLMAR
ECONOMIC DEVELOPMENT COMMISSION
NOTES TO FINANCIAL STATEMENTS
December 31, 2015**

F. Budget

The EDC is required to annually send its budget to the Kandiyohi County Board of Commissioners and City of Willmar Council for review and approval.

NOTE B: DETAILED NOTES ON ALL FUNDS

Assets

1. Cash and Investments

The EDC's cash and investments as of December 31, 2015 and 2014 are summarized as follows:

Restricted:	2015	2014
Cash on Deposit	\$ 147,949	\$ 142,310
Investments, certificates of deposit	18,262	18,056
	<u>166,211</u>	<u>160,366</u>
Unrestricted: (Designated and Undesignated)		
Cash on Deposit	418,156	469,496
	<u>\$ 584,367</u>	<u>\$ 629,862</u>

Deposits - Cash

In accordance with Minnesota statutes, the EDC is authorized to designate a depository for public funds and to invest in certificates of deposits. The Minnesota statutes require that all EDC deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by insurance or bonds.

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

At December 31, 2015, the EDC's deposits had a carrying amount of \$584,367 and bank balances of \$603,078. Of the bank balances, \$603,078 was covered by federal depository insurance and no deposits were required to be collateralized by standby letters of credit.

Investments

Minnesota statutes generally authorize the following types of investments as available to the EDC:

1. Securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minnesota Statute.

**KANDIYOHI COUNTY AND CITY OF WILLMAR
ECONOMIC DEVELOPMENT COMMISSION
NOTES TO FINANCIAL STATEMENTS
December 31, 2015**

NOTE B: DETAILED NOTES ON ALL FUNDS (Continued)

Assets (continued)

1. Cash and Investments (continued)

Investments (continued)

2. Mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments.
3. General obligations of the State of Minnesota and its municipalities, and certain state agencies and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service.
4. Bankers' acceptances of United States banks.
5. Commercial paper issued by the United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less.
6. Repurchase agreements, securities lending agreements, joint powers in investment trusts and guaranteed investment contracts, with certain restrictions.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

Concentration of Credit Risk

As of and during the year ended, December 31, 2015 the EDC was not subject to custodial credit risk due to cash and certificates of deposits held in excess of federal depository insurance limits and related collateral pledged.

**KANDIYOHI COUNTY AND CITY OF WILLMAR
ECONOMIC DEVELOPMENT COMMISSION
NOTES TO FINANCIAL STATEMENTS
December 31, 2015**

NOTE B: DETAILED NOTES ON ALL FUNDS (Continued)

Assets (continued)

2. Taxes Receivable

Taxes receivable consist of uncollected taxes payable by property owners. On the Kandiyohi County and City of Willmar EDC's governmental fund balance sheet, taxes receivable are offset by deferred revenue to indicate they are not available for spending in the current period. No provision has been made for estimated uncollectible amounts because such amounts are not expected to be material. Property taxes are collected by Kandiyohi County and distributed to the Kandiyohi County and City of Willmar EDC three times a year.

Kandiyohi County collected \$8,193 and \$7,431 from taxpayers for tax years December 31, 2015 and 2014 respectively, related to the Kandiyohi County and City of Willmar EDC's tax levy, which was not remitted to the Kandiyohi County and City of Willmar EDC until 2016 and 2015, respectively.

3. Accounts Receivable - Accrued Interest

Interest earned on Certificates of Deposit and loans receivable but not collected until the following year.

4. Loans Receivable

HRA of Willmar

The loan receivable from the HRA of Willmar is a term note dated June 1, 1998 for \$25,750. The note has no stated interest rate, is unsecured, non-guaranteed, and is due in full on June 1, 2028.

	2015
\$	25,750

Revolving Loan Fund

Various Term notes in the initial amounts of \$25,000 to \$50,000 each (\$162,500 total), dated December 2011, December 2013, March 2014, and December 2015, requiring 60 monthly payments of \$475 to \$950 including interest at 5.25%. Matures December 2016 through December 2020.

114,825

KCEO Student Loans

Loans to student entrepreneurs in amounts of \$250 to \$600 for small business development payable within one year, non interest bearing.

4,452

TOTAL LOANS RECEIVABLE

\$ 145,027

**KANDIYOHI COUNTY AND CITY OF WILLMAR
ECONOMIC DEVELOPMENT COMMISSION
NOTES TO FINANCIAL STATEMENTS
December 31, 2015**

NOTE B: DETAILED NOTES ON ALL FUNDS (Continued)

Assets (continued)

5. Capital Assets

Capital assets activity for the year ended December 31, 2015 was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Leasehold improvements, furniture, and equipment	\$ 37,342	\$ -	\$ -	\$ 37,342
Less: accumulated depreciation for Leasehold improvements, furniture, and equipment	(22,014)	(2,876)		(24,890)
Total Capital Assets, Net	<u>\$ 15,328</u>	<u>\$ (2,876)</u>	<u>\$ -</u>	<u>\$ 12,452</u>

Depreciation expense of \$2,876 was charged to the Kandiyohi County and City of Willmar EDC's economic development function.

Liabilities

1. Operating Lease

Effective December 2014, the EDC relocated to new facilities with \$1,800 payable monthly for 60 months, maturing December 2019. Included in this lease are real estate taxes, building insurance, maintenance, and utilities. The lease is renewable for an additional 36 months. The future minimum lease payments are as follows:

Year Ending December 31	Amount
2015	\$ 21,600
2016	21,600
2017	21,600
2018	21,600
2019	19,800

2. Risk Management

The Kandiyohi County and City of Willmar EDC is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Kandiyohi County and City of Willmar EDC is a member of the Minnesota Counties Insurance Trust. The Kandiyohi County and City of Willmar EDC retains risk for the deductible portions of the insurance. The amounts of these deductibles are considered immaterial to the financial statements.

There were no significant reductions in insurance from the prior year. There was a \$1,043 and \$1,318 refund for 2015 and 2014 premiums in excess of insurance coverage for past fiscal years.

**KANDIYOHI COUNTY AND CITY OF WILLMAR
ECONOMIC DEVELOPMENT COMMISSION
NOTES TO FINANCIAL STATEMENTS
December 31, 2015**

NOTE B: DETAILED NOTES ON ALL FUNDS (Continued)

Liabilities (continued)

3. Pension Plans

All full-time and certain part-time employees of the Commission are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund (PERF), the Public Employees Police and Fire Fund (PEPFF), and the Local Government Correctional Service Retirement Fund (LGCSRF) which are cost-sharing, multiple employer retirement plans. These plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

PERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by State Statute, and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age and years of credit at termination of service.

Two methods are used to compute benefits for PERF's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0 percent for each year of service. For all PEPFF members and for PERF members whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A normal annuity is a lifetime annuity that ceases upon death of the retiree -- no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will reduce the monthly normal annuity amount, because the annuity is payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

**KANDIYOHI COUNTY AND CITY OF WILLMAR
ECONOMIC DEVELOPMENT COMMISSION
NOTES TO FINANCIAL STATEMENTS
December 31, 2015**

NOTE B: DETAILED NOTES ON ALL FUNDS (Continued)

Liabilities (continued)

3. Pension Plans (continued)

PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERF and PEPFF. That report may be obtained by writing to PERA, 60 Empire Drive, Suite 200, St. Paul, MN 55103-2088 or by calling 651-296-7460 or 800-652-9026.

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established by the State Legislature. The Kandiyohi County and City of Willmar EDC makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.0 percent, respectively, of their annual covered salary. The Kandiyohi County and City of Willmar EDC is required to contribute the following percentages of annual covered payroll:

Public Employees Retirement Fund	
Basic Plan Members	11.78 %
Coordinated Plan Members	7.25 %

The Kandiyohi County and City of Willmar EDC's contributions for the years ended December 31, 2015 and 2014 were \$12,979 and \$13,374 respectively.

4. Contingent Liabilities

The Kandiyohi County and City of Willmar EDC has entered into seven loan guarantee agreements in relation to its Partial Loan Guarantee Program. Under the terms of the agreement, the EDC has guaranteed 80% of these \$25,000 (\$50,000 for 2013 and following years) loans to private businesses. Total outstanding loan balances under this loan program are \$160,732 at December 31, 2015 with the EDC establishing a reserve of 50% of the guarantee amount, or \$80,366.

5. Compensated Absences

The EDC allows certain full-time employees to accumulate and carryover vacation and sick leave into the next year. The policy establishes rates of pay and limits amounts allowed for carryover.

6. Future Commitments

The EDC approved during 2012 a three-year partnership agreement for \$34,000 annually to fund the Willmar Lakes Area Convention and Visitors Bureau for tourism-related services.

NOTE C: EVALUATION OF SUBSEQUENT EVENTS

The Kandiyohi County and City of Willmar EDC has evaluated subsequent events through July 27, 2016, the date the financial statements were available to be issued.

**JAMES M.
RUFF, INC.**

CERTIFIED PUBLIC ACCOUNTANT & CONSULTANTS

JAMES M. RUFF, CPA

**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**

Joint Powers Board and Operations Board
Kandiyohi County and City of Willmar
Economic Development Commission

We have audited the financial statements of Kandiyohi County and City of Willmar Economic Development Commission as of and for the year ended December 31, 2015, and have issued our report thereon dated July 27, 2016.

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 Comptroller General of the United States and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Kandiyohi County and City of Willmar Economic Development Commission's internal control over financial reporting as a basis for designing our auditing procedures 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 Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

However, we identified certain deficiencies in internal control over financial reporting described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting which are not considered material weaknesses. *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.

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◆ P.O. Box 1056 ◆ 2015 1st Street S. ◆ Willmar, Minnesota 56201 ◆ Phone: (320) 235-1002 ◆
◆ Fax: (320) 235-3809 ◆ Email: ruffcpas@en-tel.net ◆

Compliance and Other Matters

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

Minnesota Legal Compliance

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

The *Minnesota Legal Compliance Audit Guide for Local Government* contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories, except that we did no tests of compliance in: 1) contracting and bidding because the EDC did not enter into any contract or make any purchases requiring bids; 2) public indebtedness, because the EDC had no bonded debt transactions; and 3) tax increment financing.

The results of our tests indicate that, for the items tested, Kandiyohi County and City of Willmar Economic Development Commission complied with the material terms and conditions of the applicable legal provisions.

Kandiyohi County and City of Willmar Economic Development Commission's written responses to the significant deficiencies, material weaknesses and legal compliance findings identified in our audit have not been subjected to any auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This report is intended solely for the use of management and State Agencies, and is not intended to be and should not be used by anyone other than these specified parties.



JAMES M. RUFF, INC.

July 27, 2016

**KANDIYOHI COUNTY AND CITY OF WILLMAR
ECONOMIC DEVELOPMENT COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES**

YEAR ENDED DECEMBER 31, 2015

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

Criteria:

A control deficiency 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 misstatements of the financial statements on a timely basis. A control deficiency that typically is considered significant is the identification by the auditor of a material misstatement in the financial statements that was not initially identified by the entity's internal control.

Finding 2015-1, 2014-1 and 2013-1

Condition:

Non-budgeted expenses, commitments, and recurring revenues - for 2015 and prior budget years the EDC has not budgeted for all significant anticipated revenues and expenses.

Questioned Costs:

None

Context:

Budgeted revenues did not include the receipt of anticipated grants, interest income, and program income. Budgeted expenses failed to include all expected grant disbursements. Total revenues and expenses from actual to budget are misrepresented.

Effect:

Budgeted revenues and expenses are understated as compared to anticipated actual revenues and expenses.

Cause:

Budgeted revenues and expenses include basic operations only.

Recommendation:

We recommend that staff spend additional efforts in ensuring budgeted information is as complete and accurate as possible.

CORRECTIVE ACTION PLAN (CAP)

Finding 2015-1, 2014-1 and 2013-1

Explanation of Disagreement with Audit Finding:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

During 2016 the budget will be revised to ensure completeness.

Officer Responsible for Ensuring CAP:

Executive Director, Assistant Director, Treasurer, and fiscal host.

Planned Completion Date:

Monthly during 2016.

Plan to Monitor Completion of CAP:

Responsible officers to report to JOINT BOARD.

**KANDIYOHI COUNTY AND CITY OF WILLMAR
ECONOMIC DEVELOPMENT COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES**

YEAR ENDED DECEMBER 31, 2015

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

Finding 2015-2 and 2014-2

Condition:

During our audit, we proposed numerous adjustments that resulted in significant changes to the Commission's financial statements.

Questioned Costs:

None

Context:

As examples during 2015, 2014, and prior years, certain expenditures (e.g. accrued sick and vacation for 2015 and 2014) were posted directly to fund balance or reserve accounts. During 2015, 2014, and prior years, certain receipts or transfers from Kandiyohi County were not reported as revenues in the statement of activities.

Effect:

The commission had numerous unrecorded transactions or untimely accounting adjustments that caused the interim and year end financial statements to be materially misstated.

Cause:

Lack of communication between fiscal host and management. Misinterpretation of generally accepted accounting policies.

Recommendation:

We recommend that the Commission insure the completeness of records and supporting documentation for the new fiscal host and that accounting adjustments be made on a regular and recurring basis. All revenues and expenditures should be posted to the statement of activities.

CORRECTIVE ACTION PLAN (CAP)

Finding 2015-2 and 2014-2

Explanation of Disagreement with Audit Finding:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

Monthly balance sheets and income statements will be reviewed by the Joint Operations Board. All revenues and expenditures will be posted directly to the Statement of Activities. During 2012 an outside independent contractor (LAA) was hired to act as fiscal host. Auditor will work with new fiscal host (LAA) to ensure completeness and accuracy of year end statements for 2016 and future years.

**KANDIYOHI COUNTY AND CITY OF WILLMAR
ECONOMIC DEVELOPMENT COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES**

YEAR ENDED DECEMBER 31, 2015

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

Finding 2015-2 and 2014-2 (continued)

Officer Responsible for Ensuring CAP:

Executive Director, Assistant Director, Treasurer, and fiscal host (LAA).

Planned Completion Date:

Monthly during 2016.

Plan to Monitor Completion of CAP:

Balance Sheets and the Statement of Activities will be monitored monthly by the Executive Director, Treasurer, and fiscal host to encourage adjustments during the year to fully conform to fund accounting.

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

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 2000-2 -- Internal Control/Segregation of Duties

Management is responsible for establishing and maintaining internal control. This responsibility includes the internal control over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information. Adequate segregation of duties is a key internal control in an organization's accounting system. The size of the Kandiyohi County and City of Willmar Economic Development Commission and its staffing, limits the internal control that management can design and implement into the EDC. Management should be aware that segregation of duties is not adequate from an internal control point of view.

Management is responsible for the accuracy and completeness of all financial records and related information. Also, management is responsible for controls over the year-end financial reporting process, including controls over procedures used to enter transaction totals into the general ledger; initiate, authorize, record, and process journal entries into the general ledger; and record recurring and nonrecurring adjustments to the financial statements.

Management has requested that we prepare the annual financial statements and related notes. This arrangement is not unusual for an organization the size of the EDC. These decisions were based on the availability of the EDC's staff and the cost/benefit of using our expertise.

During our audit, we proposed numerous adjustments to convert the EDC's financial records to the financial statements as reported. Those adjustments were made to report receivables and revenue (deferred revenue in the fund) for interest and to reclassify various revenues.

**JAMES M.
RUFF, INC.**

CERTIFIED PUBLIC ACCOUNTANT & CONSULTANTS

JAMES M. RUFF, CPA

July 27, 2016

The Joint Powers Board and
The Operations Committee
Kandiyohi County and the City of Willmar
Economic Development Commission

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Kandiyohi County and the City of Willmar Economic Development Commission (EDC) for the year ended December 31, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 27, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the EDC are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2015. We noted no transactions entered into by the Kandiyohi County & City of Willmar EDC during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the EDC's financial statements was (were):

- a) useful lives of equipment for computing depreciation expense and
- b) the loan reserve for the loan guarantee program.

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◆ P.O. Box 1056 ◆ 2015 1st Street S. ◆ Willmar, Minnesota 56201 ◆ Phone: (320) 235-1002 ◆
◆ Fax: (320) 235-3809 ◆ Email: ruffcpas@en-tel.net ◆

Management's estimate of the useful lives of property and equipment is based on estimated economic or useful life. We evaluated the key factors and assumptions used to develop the determination of useful life in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the loan loss reserve is based on historical experience. We evaluated the key factors and assumptions used to develop the loss reserve in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure(s) affecting the financial statements was (were):

The disclosure of FDIC insurance and collateral in Note B to the financial statements regarding credit risk associated with cash funds at financial institutions. The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated July 27, 2016.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the EDC's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the EDC's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Restriction on Use

This information is intended solely for the use of The Joint Powers Board, The Operations Committee and management of the Kandiyohi County and the City of Willmar Economic Development Commission and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

James M Ruff, CPA

James M. Ruff, Inc.