

MAGIC Fund Screening Committee

Annual Compliance Report

2022

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Report from the Chair:

MAGIC FUND BALANCE AND FUNDS SPENT

The MAGIC Fund Screening committee held two meetings during 2022. In the April meeting, we acted on the Souris Basin Planning Council request for \$2 million to fund their Business Accelerator Fund (BAF) which provides the local match for the Bank of North Dakota Flex PACE program. Due to statutory limitations the committee approved \$780,000 for the request, as that was the maximum amount of funding that could be provided under the current MAGIC Fund guidelines. As interest rates stay high, we will likely see continued robust use of the PACE programs to lower interest rates for commercial projects in town. These are great programs for borrowers that ANY business in our trade area can take advantage of, either through direct MAGIC Fund requests or through the BAF with the Souris Basin Planning Council. The BAF funding that was approved in April, 2022 was completely utilized through loans to approximately 30 local businesses in our trade area and resulted in Bank of North Dakota injecting just over \$2.2 million in our community through their 65% funding level. This is a great deal for our local small business community, and I think it is a very good use of MAGIC Fund dollars.

In October, we acted upon two requests. The first request was for a PACE buydown funding for AGT foods, which was approved in the amount of \$269,230.71. The second request was for a forgivable \$3 million loan to Trinity Heath for funding towards their new Emergency Trauma Center. This was approved by the committee but was ultimately amended by the Council. The amended proposal was eventually declined by Trinity Health.

I feel that there have been positive developments in our local economy during 2022 and into 2023. The new hospital campus represents a significant investment in our community and has spurred outside development interest in projects such as “The Tracks” by EPIC. Other areas of the community have seen significant positive development, specifically downtown. Sales tax collections are up by approximately 10% YoY through November, and sales tax collections into the Special Revenue Fund were up over budget by approximately 28%. In addition, other local economic metrics have showed strength over the course of the year as well (hotel occupancy, real estate prices, airport boardings).

That being said, there are significant headwinds of recession nationally, and some of these will undoubtedly make their way to the Magic City in 2023 (if not already in 2022). How much and how severe remains to be seen, but there’s no doubt that it will have an impact on our local economy at some level. Inflation has remained stubbornly significant, and this (as well as the efforts undertaken to contain it) will continue to put pressure on local businesses and development efforts within our community. Our committee and the City Finance Department will need to stay on top of this, as prolonged economic stress could lead to issues with compliance any outstanding Business Incentive Agreements and/or solvency issues for these entities.

PERFORMANCE of JOB DEVELOPMENT AGREEMENTS

Brady Martz and Associates, P.C. was retained to independently verify the performance criteria required of Fund participants. The agreed-upon procedures report focused on the development agreement with Kalix. As a result of the procedures performed, it was determined that Kalix fell short of the minimum hour agreement, which resulted in a required payment of \$11,119.92 to the City of Minot. This is the second year in a row that a payment of this approximate amount has been required due to the findings reported by Brady Martz. None of the other loans made by the MAGIC Fund were required to be reviewed in the agreed-upon procedures report by Brady Martz.

SUPPORTING SERVICE CONTRACTS

The Minot Area Chamber EDC is a non-profit organization engaged by the City of Minot to assist with economic development. Its board of directors consists of volunteers from the local business community, representatives from the City of Minot, Ward County, Minot State University, Minot Air Force Base, and other public agencies with an interest in economic development.

The MAGIC Fund supported Chamber EDC through direct payments again in 2022 as it has for many years. The total amount of this support was \$435,000 in direct payments from the MAGIC Fund for economic development. In addition to this support, the MAGIC Fund also has a smaller service agreement with the Souris Basin Planning Council in the amount of \$15,000.

DENIED APPLICATIONS

The MAGIC Fund screening committee did not deny any applications in 2022. As stated previously, the Trinity Health request was amended by the Council into a loan, which Trinity Health ultimately declined to take.

FINANCIAL and MANAGEMENT HEALTH OF THE MAGIC FUND

The “Sales Tax Economic Development” Fund (of which the MAGIC Fund is a subsector) has an end of year unrestricted cash position of \$8,736,242, and a total fund balance of \$10,941,904. In 2021 these numbers totaled \$7,824,125 and \$10,041,177 respectively. Those numbers have continued to trend in the right direction, and will leave the fund with a healthy “war chest” to use to fund future economic development projects in our community.

One item I’d call your attention to is the allowance for loans receivable line item on the balance sheet. This balance has increased by approximately \$1.5 million. This is due to the loans for Cypress Development now being fully reserved for by the city finance department. The expense for the increase in the reserve balance is being shown netted against the miscellaneous revenue in the income statement. As the chair of the committee, it is my goal to ensure that all funds appropriated out of the MAGIC Fund are either paid back or forgiven as agreed at the time that these requests are formally approved. These dollars came into the fund courtesy of the taxpayers of our local trade area, and we need to ensure that we are good and trustworthy stewards of their dollars.

Lastly I want to make note that the guidelines governing the MAGIC Fund are changing imminently. It will be a challenge for our board to ensure that we have a working understanding of the expectations and goals that those guidelines are striving for. It is also a great opportunity for our group to really zero in and target approved contributions toward the types of projects that net the best possible "wins" for our community.

Respectfully submitted on behalf of the MAGIC Fund Screening Committee,



Jordan Nelson, Chairman

MAGIC Fund Screening Committee Members as of December 2022

Professional	Employment	Original Appointment	Expiration of Term
Jordan Nelson, Chairman	Peoples State Bank of Velva	October 2021	June 2023
Labor			
Todd Harris	Logical Control Systems, LLC	June 2022	June 2025
Kevin Seehafer	Minot Plumbing & Heating	May 2022	April 2025
Business			
Todd Telin	KMOT/Fox TV	June 2022	June 2025
Trade Area			
Travis Mowbray	Mowbray & Son, Inc	December 2020	December 2023
Finance			
Dan Ternes	Sign D'zyn	September 2022	June 2025
Kelly Perrin	United Community Bank of ND	June 2021	June 2024

City of Minot, North Dakota
Balance Sheet
Sales Tax Economic Development
December 31, 2022
With Comparative Totals for December 31, 2021
(Preliminary & Unaudited)

	Dec 31, 2022	Dec 31, 2021
ASSETS		
Current Assets		
Cash and Investments	\$ 8,736,242	\$ 7,824,125
Restricted Cash and Investments		
SBPC PACE Revolving Loan Fund for Interest Buydowns	\$ 593,022	
Visit Minot Tourism Recovery & Resilience	<u>142,468</u>	
Total Restricted Cash and Investments	735,489	709,226
Intergovernmental Receivable	155,387	134,108
Current Loans Receivable		
Cypress Development	539,850	750,000
Kalix	12,600	37,800
LPND1	313,000	-
Stevens Welding	25,714	-
Allowance for Loans Receivable @ 20%	<u>(1,896,404)</u>	<u>(357,560)</u>
Total Current Assets	8,621,878	9,097,699
Noncurrent Assets		
Loans Receivable		
Cypress Development	1,000,000	1,000,000
Kalix	12,600	-
LPND1	1,252,000	-
Mouse River Players	63,998	-
Stevens Welding	102,857	-
Total Noncurrent Assets	2,431,455	1,000,000
Total Assets	<u>\$ 11,053,333</u>	<u>\$ 10,097,699</u>
LIABILITIES		
Accounts Payable	\$ 111,429	\$ 56,522
Total Liabilities	<u>111,429</u>	<u>56,522</u>
FUND BALANCE		
Committed for MAGIC Fund	\$ 8,053,115	\$ 8,181,687
Committed for City Economic Development	2,888,789	1,859,490
Total Fund Balance	<u>10,941,904</u>	<u>10,041,177</u>
Total Liabilities and Fund Balance	<u>\$ 11,053,333</u>	<u>\$ 10,097,699</u>

City of Minot, North Dakota
Schedule of Revenues, Expenditures and Changes in Fund Balance, Budget to Actual
Special Revenue Fund
December 31, 2022
With Comparative Totals for December 31, 2021
(Preliminary & Unaudited)

Sales Tax Economic Development						
	Original Budgeted Amounts	Final Budgeted Amounts	Dec 31, 2022 Actual Amounts	Variance with Final Budget	Dec 31, 2021 Actual Amounts	
REVENUES						
Sales tax collections	\$ 1,500,000	\$ 1,500,000	\$ 1,919,126	\$ 419,126	\$ 1,735,576	
Interest income	-	-	78,671	78,671	17,772	
Miscellaneous	-	-	720,545	720,545	13,916	
Total revenues	<u>1,500,000</u>	<u>1,500,000</u>	<u>2,718,342</u>	<u>1,218,342</u>	<u>1,767,264</u>	
EXPENDITURES						
Current						
Auditors	-	-	1,500	(1,500)	-	
Consultants	572,500	572,500	554,898	17,602	412,996	
Travel	1,000	1,000	-	1,000	-	
Banking and credit card fees	-	-	50	(50)	40	
Department supplies and materials	-	-	8	(8)	-	
Books and subscriptions	-	-	4,500	(4,500)	4,500	
Community contributions	108,041	1,336,007	1,028,119	307,888	1,332,555	
Total expenditures	<u>108,041</u>	<u>1,336,007</u>	<u>1,028,119</u>	<u>307,888</u>	<u>1,332,555</u>	
Excess (deficiency) of revenues over (under) expenditures	<u>681,541</u>	<u>1,909,507</u>	<u>1,589,075</u>	<u>320,432</u>	<u>1,750,091</u>	
	818,459	(409,507)	1,129,267	1,538,774	17,173	
OTHER FINANCING SOURCES (USES)						
Transfers out	(206,528)	(223,985)	(228,540)	(4,555)	(97,374)	
Total other financing sources (uses)	<u>(206,528)</u>	<u>(223,985)</u>	<u>(228,540)</u>	<u>(4,555)</u>	<u>(97,374)</u>	
Net change in fund balance	<u>\$ 611,931</u>	<u>\$ (633,492)</u>	<u>900,727</u>	<u>\$ 1,534,219</u>	<u>(80,201)</u>	
Fund balance, January 1			10,041,177		10,121,378	
Fund balance, December 31			<u>\$ 10,941,904</u>		<u>\$ 10,041,177</u>	

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

City of Minot
515 2nd Ave SW
Minot, ND 58701-3854

Minot Vocational Adjustment Workshop, Inc. dba Kalix
P.O. Box 1030
Minot, ND 58702-1030

We have performed the procedures enumerated below on the accounting records and transactions, in accordance with the Development Agreement between Minot Vocational Adjustment Workshop, Inc. dba Kalix and the City of Minot, dated June 3, 2014, for the period of June 1, 2021 to May 31, 2022. Kalix's management is responsible for the accounting records and transactions.

The City of Minot has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose with respect to the accounting records and transactions. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures and associated findings are as follows:

- From the payroll summary report and review of employee timecards for all employees who coded time to the recycling department from June 1, 2021 to May 31, 2022, we determined if:
 - The employees' I-9 was properly completed.
 - The employees' W-4 was properly completed.
 - Payroll data existed to support hours worked per employee.

No exceptions were noted as a result of the procedures performed.

- We performed verification testing to determine if Minot Vocational Adjustment Workshop, Inc. dba Kalix met the minimum hour commitment (30,000) from June 1, 2021 to May 31, 2022 as specified in the Development Agreement by:
 - Reviewing timecard detail and payroll reports generated from Kalix's payroll software for employees who coded time to the recycling department to determine the number of hours worked in the recycling department for the year.
 - Tracing timecard detail to hours reported on actual paystubs for ten percent of employees who coded time to recycling for six pay periods.
 - Reviewing hour allocations made by management for those employees who work in multiple departments to determine if the allocations were performed properly.

We calculated total hours worked in the recycling department to be 3,524. This results in a required payment of \$11,119.92 (\$0.42 per hour under the 30,000 requirement), to be paid by Minot Vocational Adjustment Workshop, Inc. dba Kalix, to the City of Minot.

We were engaged by the City of Minot to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an audit or review, the objective of which would be the expression of an opinion or conclusion. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of the City of Minot and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

This report is intended solely for the use of the City of Minot and Minot Vocational's management and Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.



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

October 3, 2022