

MAGIC Fund Screening Committee

Annual Compliance Report

2023

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Report from the Chair:

MAGIC FUND BALANCE AND FUNDS SPENT

The MAGIC Fund Screening committee held two meetings during 2023. In the February meeting, the committee approved the Souris Basin Planning Council request for \$805,300 to fund their Business Accelerator Fund (BAF) which provides the local match for the Bank of North Dakota Flex PACE program. Under the guidelines for the fund in place at the time of the request, this request level was the maximum amount of funding that could be provided. As "higher for longer" continues to be a theme in the world of interest rates, we will likely see continued 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 has been approved to date has been utilized to help 34 businesses (primarily in Minot) with projects that fit the parameters for the BND Flex PACE program, resulting in just over \$24 million in BND investment in our community through their match. 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 September the committee approved a request from Hot Switch Heating Systems LLC for a forgivable loan in the amount of \$215,384.65 to take advantage of a BND PACE loan (BND's share was \$400,000). This is a pretty common type of request for the MAGIC fund and will create 3 jobs within the first two years.

There have been several continuing economic "trends of encouragement" in our community that continued to play out in 2023. Sales tax collections YoY were up approximately 3.33% for the year, and sales tax collections into the Special Revenue Fund were up over budget by approximately 20.18%. In addition, other local economic metrics have showed strength over the course of the year as well (hotel occupancy, real estate prices, airport boardings). My biggest worries both in my day job as a banker and as a concerned community member center around the impacts of prolonged inflation and a workforce shortage. It's undoubtedly true that the average citizen of this community (and many communities across the country) is feeling the impacts of inflation. A recent reading of the Gallup Economic Confidence Index showed that nationally confidence has been slowly rising but remains quite pessimistic.¹ This can be concerning to our business community, who faces rising costs of goods and labor (our unemployment numbers would indicate a shortage), and if consumer spending slows down it'll be a very tough environment to thrive in (a problem that would not be unique to Minot). Our committee and the City Finance Department will need to stay on top of things, as prolonged economic stress could lead to issues with compliance with 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 \$11,084.22 to the City of Minot. This is the third year in a row that a payment of this approximate amount has been required due to the findings reported by Brady Martz. Brady Martz has also been engaged to perform AUPs on development agreements with LPND1 and United Pulse Trading for 2023. The results of those procedures were not available at the time of this report.

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 2023 as it has for many years. The total amount of this support was \$608,770 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 2023. Note that going forward under the new guidelines the lead agency must believe an application "has merit" to move said application along.ⁱⁱ Because of this, there may be applications that are denied before getting to the screening committee. Accordingly, we will only be able to report on applications that are denied at the screening committee level.

FINANCIAL AND MANAGEMENT HEALTH OF THE MAGIC FUND

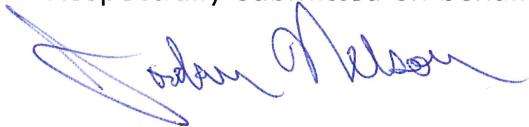
The "Sales Tax Economic Development" Fund (of which the MAGIC Fund is a subsect) has an end of year unrestricted cash position of \$7,937,221, and a total fund balance of \$10,644,260. In 2022 these numbers totaled \$8,736,242 and \$10,941,904 respectively. The slight decreases in both are largely due to increases in the reserve for loan losses, in which façade improvement loans were fully

reserved for during the year. The special revenue fund that houses the MAGIC fund has other activities flowing through it, and as such I cannot comment on those actions, however the MAGIC fund maintains a healthy cash position going into 2024.

I said this in my 2023 report, and I want to emphasize it again in 2024, as the chair of the committee, it is my foremost 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 these dollars. At the same time, as community leaders I'd like to challenge everyone to work towards utilizing these dollars for the economic benefit of our community. Outside of the funds being utilized by Souris Basin, we only had one request for all of 2023. While there may be several reasons for this that have nothing to do with the MAGIC fund, the community doesn't really benefit from the funds sitting in the bank and not being deployed in ways that promote a healthy local economy. As much as I am not a morning person, I hope that we have a need for more than two meetings for 2024.

Lastly, I wanted to take a moment to discuss the guidelines that I believe have changed recently. Our board will need to get up to speed with these guidelines 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

ⁱ Economic Mood Improves, but Inflation Still Vexing Americans (gallup.com)

ⁱⁱ Minot Area Growth By Investment And Cooperation Fund Guidelines as amended Dec. 18, 2023.

"If the lead agency believes that the application has merit, it may negotiate financial terms with the applicant to include performance and measurable benchmark standards."

MAGIC Fund Screening Committee Members as of December 2023

Professional	Employment	Original Appointment	Expiration of Term
Jordan Nelson, Chairman	Peoples State Bank of Velva	October 2021	June 2026
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, 2023
With Comparative Totals for December 31, 2022
(Preliminary & Unaudited)

	Dec 31, 2023	Dec 31, 2022
ASSETS		
Current Assets		
Cash and Investments	\$ 7,937,221	\$ 8,736,242
Restricted Cash and Investments		
SBPC PACE Revolving Loan Fund for Interest Buydowns	\$ 733,153	
Visit Minot Tourism Recovery & Resilience	94,968	
Total Restricted Cash and Investments	828,121	735,489
Intergovernmental Receivable	116,208	155,387
Current Loans Receivable		
Cypress Development	539,850	539,850
Kalix	25,200	12,600
LPND1	626,000	313,000
Stevens Welding	25,714	25,714
United Pulse Trading	53,846	-
Hot Switch Heating Systems, LLC	71,795	-
Allowance for Loans Receivable @ 20%	(2,655,075)	(1,896,404)
Total Current Assets	7,568,880	8,621,878
Noncurrent Assets		
Loans Receivable		
Cypress Development	1,000,000	1,000,000
Kalix	-	12,600
LPND1	939,000	1,252,000
Mouse River Players	63,998	63,998
Bradley 5 Properties, LLC	100,000	-
Stevens Welding	102,857	102,857
United Pulse Trading	215,385	-
Hot Switch Heating Systems, LLC	143,590	-
JK Hurt Rentals, LLC	100,000	-
Auslander, LLC	180,000	-
S-J One Eleven, LLC	145,987	-
Margie's Art Glass Studio	84,563	-
Total Noncurrent Assets	3,075,380	2,431,455
Total Assets	<u>\$ 10,644,260</u>	<u>\$ 11,053,333</u>
LIABILITIES		
Accounts Payable	\$ -	\$ 111,429
Total Liabilities	<u>-</u>	<u>111,429</u>
FUND BALANCE		
Committed for MAGIC Fund	\$ 6,763,200	\$ 8,053,115
Committed for City Economic Development	3,881,060	2,888,789
Total Fund Balance	10,644,260	10,941,904
Total Liabilities and Fund Balance	<u>\$ 10,644,260</u>	<u>\$ 11,053,333</u>

City of Minot, North Dakota
Schedule of Revenues, Expenditures and Changes in Fund Balance, Budget to Actual
Special Revenue Fund
December 31, 2023
With Comparative Totals for December 31, 2022
(Preliminary & Unaudited)

Sales Tax Economic Development						
	Original Budgeted Amounts	Final Budgeted Amounts	Dec 31, 2023 Actual Amounts	Variance with Final Budget	Dec 31, 2022 Actual Amounts	
REVENUES						
Sales tax collections	\$ 1,650,000	\$ 1,650,000	\$ 1,983,048	\$ 333,048	\$ 1,919,126	
Intergovernmental	-	55,350	-	(55,350)	-	
Interest income	-	-	382,422	382,422	78,671	
Rents and royalties	-	-	1,000	1,000	-	
Miscellaneous	-	-	336,494	336,494	720,545	
Total revenues	<u>1,650,000</u>	<u>1,705,350</u>	<u>2,702,964</u>	<u>997,614</u>	<u>2,718,342</u>	
EXPENDITURES						
Current						
Auditors	-	-	950	(950)	1,500	
Consultants	1,426,583	1,194,583	652,791	541,792	554,898	
Banking and credit card fees	-	-	60	(60)	50	
Department supplies and materials	-	-	-	-	8	
Books and subscriptions	-	-	4,500	(4,500)	4,500	
Community contributions	-	2,451,501	1,705,186	746,315	1,028,119	
Total expenditures	<u>1,426,583</u>	<u>3,646,084</u>	<u>2,363,487</u>	<u>1,282,597</u>	<u>1,589,075</u>	
Excess (deficiency) of revenues over (under) expenditures	<u>223,417</u>	<u>(1,940,734)</u>	<u>339,477</u>	<u>2,280,211</u>	<u>1,129,267</u>	
OTHER FINANCING SOURCES (USES)						
Transfers out	(223,417)	(590,836)	(637,121)	(46,285)	(228,540)	
Total other financing sources (uses)	<u>(223,417)</u>	<u>(590,836)</u>	<u>(637,121)</u>	<u>(46,285)</u>	<u>(228,540)</u>	
Net change in fund balance	<u>\$ -</u>	<u>\$ (2,531,570)</u>	<u>(297,644)</u>	<u>\$ 2,233,926</u>	<u>900,727</u>	
Fund balance, January 1			10,941,904		10,041,177	
Fund balance, December 31			<u>\$ 10,644,260</u>		<u>\$ 10,941,904</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, 2022 to May 31, 2023. 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, 2022 to May 31, 2023, 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, 2022 to May 31, 2023 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 (two selected).
 - 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 3,609. This results in a required payment of \$11,084.22 (\$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 Kalix 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 Adjustment Workshop'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**

January 25, 2024