

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

**LAKE COUNTY HOUSING AND
REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA**

FOR THE YEAR ENDED DECEMBER 31, 2013

Description of the Office of the State Auditor

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

Tax Increment Financing - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@osa.state.mn.us
www.auditor.state.mn.us

This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the Office of the State Auditor's web site: www.auditor.state.mn.us.

**LAKE COUNTY HOUSING AND
REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA**

For the Year Ended December 31, 2013



**Audit Practice Division
Office of the State Auditor
State of Minnesota**

This page was left blank intentionally.

**LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA**

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
Introductory Section		
Organization		1
Financial Section		
Independent Auditor's Report		2
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Position	1	5
Statement of Activities	2	6
Fund Financial Statements		
Governmental Fund		
Balance Sheet - General Fund	3	7
Reconciliation of Governmental Fund Balance Sheet to the Government-Wide Statement of Net Position--Governmental Activities	4	8
Statement of Revenues, Expenditures, and Changes in Fund Balance - General Fund	5	9
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of the Governmental Fund to the Government-Wide Statement of Activities--Governmental Activities	6	10
Proprietary Fund		
Silverpointe Enterprise Fund		
Statement of Fund Net Position	7	11
Statement of Revenues, Expenses, and Changes in Fund Net Position	8	13
Statement of Cash Flows	9	14
Notes to the Financial Statements		15
Management and Compliance Section		
Schedule of Findings and Recommendations		33
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		38

This page was left blank intentionally.

This page was left blank intentionally.

**LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2013

<u>Commissioners</u>	<u>Term Expires</u>
Richard DeRosier	May 30, 2015
Bob Entzion	May 30, 2015
Paul Iverson	May 30, 2016
Gordon Klein	May 30, 2018
Tom Lovdahl	May 30, 2016

This page was left blank intentionally.

This page was left blank intentionally.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Lake County Housing and
Redevelopment Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Lake County Housing and Redevelopment Authority, a component unit of Lake County, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Lake County Housing and Redevelopment Authority as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2013 the Authority adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which represent changes in accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2014, on our consideration of the Lake County Housing and Redevelopment Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Lake County Housing and Redevelopment Authority's internal control over financial reporting and compliance.

/s/Rebecca Otto

/s/Greg Hierlinger

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 25, 2014

This page was left blank intentionally.

BASIC FINANCIAL STATEMENTS

This page was left blank intentionally.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

This page was left blank intentionally.

**LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2013**

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Cash	\$ 540,246	\$ 137,931	\$ 678,177
Cash with management company for operations	-	16,547	16,547
Taxes receivable	16,141	-	16,141
Accounts receivable	118,851	47,456	166,307
Internal balances	3,638	(3,638)	-
Loans receivable - current	707	-	707
Loans receivable - long-term	9,321	-	9,321
Restricted assets			
Security deposits	-	14,689	14,689
Capital assets			
Depreciable - net of accumulated depreciation	531	1,109,333	1,109,864
Total Assets	\$ 689,435	\$ 1,322,318	\$ 2,011,753
<u>Liabilities</u>			
Accounts payable	\$ -	\$ 66,676	\$ 66,676
Due to Lake County	196,189	-	196,189
Unearned revenue	-	2,226	2,226
Liabilities payable from restricted assets			
Security deposits payable	-	14,689	14,689
Long-term liabilities			
Due in more than one year	-	769,566	769,566
Total Liabilities	\$ 196,189	\$ 853,157	\$ 1,049,346
<u>Net Position</u>			
Net investment in capital assets	\$ 531	\$ 339,767	\$ 340,298
Restricted for operations	-	16,547	16,547
Unrestricted	492,715	112,847	605,562
Total Net Position	\$ 493,246	\$ 469,161	\$ 962,407

**LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Expenses</u>	<u>Program Revenues Charges for Services</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>		
			<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Functions/Programs</u>					
Governmental activities					
Urban and economic development	\$ 82,695	\$ -	\$ (82,695)	\$ -	\$ (82,695)
Business-type activities					
Senior housing	161,359	178,882	-	17,523	17,523
Total	\$ 244,054	\$ 178,882	\$ (82,695)	\$ 17,523	\$ (65,172)
General Revenues					
Property taxes			\$ 118,034	\$ -	\$ 118,034
Intergovernmental			8,130	-	8,130
Investment earnings			572	153	725
Miscellaneous			18,192	1,727	19,919
Transfers			5,000	(5,000)	-
Total general revenues and transfers			\$ 149,928	\$ (3,120)	\$ 146,808
Change in net position			\$ 67,233	\$ 14,403	\$ 81,636
Net Position - Beginning, as restated (Note 1)			426,013	454,758	880,771
Net Position - Ending			\$ 493,246	\$ 469,161	\$ 962,407

FUND FINANCIAL STATEMENTS

This page was left blank intentionally.

GOVERNMENTAL FUND

This page was left blank intentionally.

**LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GENERAL FUND
DECEMBER 31, 2013**

<u>Assets</u>	
Cash	\$ 533,182
Undistributed cash with primary government	7,064
Taxes receivable	16,141
Accounts receivable	118,851
Due from other fund	11,195
Loans receivable - current	707
Loans receivable - long-term	9,321
	<hr/>
Total Assets	\$ 696,461
	<hr/> <hr/>
<u>Liabilities</u>	
Due to other fund	\$ 7,557
Due to primary government	196,189
	<hr/>
Total Liabilities	\$ 203,746
	<hr/>
<u>Deferred Inflows of Resources</u>	
Unavailable revenue - taxes	\$ 15,208
Unavailable revenue - long-term receivables	118,851
	<hr/>
Total Deferred Inflows of Resources	\$ 134,059
	<hr/>
<u>Fund Balances</u>	
Nonspendable for long-term loans	\$ 9,321
Unassigned	349,335
	<hr/>
Total Fund Balance	\$ 358,656
	<hr/>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 696,461
	<hr/> <hr/>

**LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUND BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2013**

Fund balance - governmental fund (Exhibit 3)	\$ 358,656
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	531
Long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	<u>134,059</u>
Net Position of Governmental Activities (Exhibit 1)	<u><u>\$ 493,246</u></u>

**LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

Revenues	
Property taxes	\$ 113,946
Intergovernmental	8,130
Investment earnings	572
Miscellaneous	<u>18,192</u>
Total Revenues	<u>\$ 140,840</u>
Expenditures	
Current	
Urban and economic development	
Meetings	\$ 6,968
Administrative services	9,600
Accounting and auditing	11,200
Housing rehabilitation	45,487
Other	<u>9,173</u>
Total Expenditures	<u>\$ 82,428</u>
Excess of Revenues Over (Under) Expenditures	\$ 58,412
Other Financing Sources (Uses)	
Transfers in	<u>5,000</u>
Net Change in Fund Balance	\$ 63,412
Fund Balance - January 1	<u>295,244</u>
Fund Balance - December 31	<u><u>\$ 358,656</u></u>

**LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013**

Net change in fund balance - total governmental fund (Exhibit 5)	\$	63,412
---	-----------	---------------

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

In the funds, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenues between the fund statement and the statement of activities is the increase or decrease in revenue deferred as unavailable.

Deferred inflows of resources - December 31	\$	134,059	
Deferred inflows of resources - January 1		<u>(129,971)</u>	4,088

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Current year depreciation		<u>(267)</u>
---------------------------	--	--------------

Change in Net Position of Governmental Activities (Exhibit 2)	\$	<u>67,233</u>
--	-----------	----------------------

PROPRIETARY FUND

This page was left blank intentionally.

**LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FUND NET POSITION
SILVERPOINTE ENTERPRISE FUND
DECEMBER 31, 2013**

Assets

Current assets

Cash	\$	137,931
Cash with management company for operations		16,547
Accounts receivable		47,456
Due from other fund		7,557
		137,931

Total current assets **\$ 209,491**

Restricted assets

Cash		
Cash with management company for security deposits		14,689

Noncurrent assets

Capital assets		
Depreciable capital assets - net of accumulated depreciation		1,109,333
		1,109,333

Total Assets **\$ 1,333,513**

Liabilities

Current liabilities

Accounts payable	\$	66,676
Due to other fund		11,195
Unearned revenue		2,226
		80,097

Total current liabilities **\$ 80,097**

Current liabilities payable from restricted assets

Security deposits payable	\$	14,689
		14,689

Noncurrent liabilities

General obligation bonds payable - long-term	\$	780,000
Less: unamortized bond premium (discount)		(10,434)
		769,566

Total noncurrent liabilities **\$ 769,566**

Total Liabilities **\$ 864,352**

**LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA**

***EXHIBIT 7
(Continued)***

**STATEMENT OF FUND NET POSITION
SILVERPOINTE ENTERPRISE FUND
DECEMBER 31, 2013**

Net Position

Net investment in capital assets	\$	339,767
Restricted for operations		16,547
Unrestricted		<u>112,847</u>
Total Net Position	\$	<u><u>469,161</u></u>

**LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
SILVERPOINTE ENTERPRISE FUND
YEAR ENDED DECEMBER 31, 2013**

Operating Revenues	
Rental	\$ 173,167
Parking	5,715
Miscellaneous	1,727
	<hr/>
Total Operating Revenues	\$ 180,609
Operating Expenses	
Other services and charges	
Human resources	\$ 16,639
Management fees	11,066
Real estate taxes	7,771
Telephone	899
Utilities	14,950
Advertising	5,540
Insurance	5,961
Repairs and maintenance	19,315
Sanitation	7,688
Miscellaneous	2,413
Supplies	925
Depreciation expense	46,975
	<hr/>
Total Operating Expenses	\$ 140,142
Operating Income (Loss)	\$ 40,467
Nonoperating Revenues (Expenses)	
Interest income	\$ 153
Discount on issuance of bonds	(803)
Interest expense	(20,414)
	<hr/>
Total Nonoperating Revenues (Expenses)	\$ (21,064)
Income (Loss) Before Transfers	\$ 19,403
Transfers out	<hr/> (5,000)
Change in Net Position	\$ 14,403
Net Position - January 1, as restated (Note 1)	<hr/> 454,758
Net Position - December 31	<hr/> \$ 469,161

The notes to the financial statements are an integral part of this statement.

Page 13

**LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
SILVERPOINTE ENTERPRISE FUND
YEAR ENDED DECEMBER 30, 2013**

Cash Flows from Operating Activities	
Cash received from customers	\$ 133,708
Cash paid to suppliers	<u>(24,711)</u>
Net cash provided by (used in) operating activities	<u>\$ 108,997</u>
Cash Flows to Capital and Related Financing Activities	
Transfers to other funds	\$ (5,000)
Capital asset additions	(9,261)
Principal paid on long-term debt	(80,000)
Interest paid on long-term debt	<u>(34,970)</u>
Net cash provided by (used in) capital and related financing activities	<u>\$ (129,231)</u>
Cash Flows from Investing Activities	
Interest Income	<u>\$ 153</u>
Net Increase (Decrease) in Cash	\$ (20,081)
Cash and Cash Equivalents - January 1	<u>189,248</u>
Cash and Cash Equivalents - December 31	<u><u>\$ 169,167</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities	
Net operating income (loss)	<u>\$ 40,467</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	\$ 46,975
(Increase) decrease in receivables	(46,901)
Increase (decrease) in accounts payable	60,509
Increase (decrease) in due to other fund	5,961
Increase (decrease) in unearned revenue	<u>1,986</u>
Total adjustments	<u>\$ 68,530</u>
Net Cash Provided by (Used in) Operating Activities	<u><u>\$ 108,997</u></u>
Noncash Investing, Capital, and Financing Activities	
Decrease in cash with management company for security deposits	\$ 443

The notes to the financial statements are an integral part of this statement.

Page 14

**LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013**

1. Summary of Significant Accounting Policies

The Lake County Housing and Redevelopment Authority's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2013. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The Authority has not presented in the financial statements a Management's Discussion and Analysis that GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements. The more significant accounting policies established in GAAP and used by the Authority are discussed below.

The accounting policies of the Authority conform to generally accepted accounting principles. In 2013, the Authority adopted new accounting guidance by implementing the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which represents a change in accounting principle. Implementation of this new accounting standard required a restatement of beginning net position for bond issuance costs. Previously, bond issuance costs were reported as an asset. GASB Statement 65 requires bond issuance costs to be expensed as incurred. On the Statement of Activities, the prior year's net position for the business-type activities has been restated as follows:

Net Position, January 1, 2013, as previously reported	\$ 482,758
Restatement for bond issuance costs	<u>(28,000)</u>
Net Position, January 1, 2013, restated	<u>\$ 454,758</u>

The more significant accounting policies established by GAAP and used by the Authority are discussed below.

A. Financial Reporting Entity

The Lake County Housing and Redevelopment Authority was established June 13, 1984, and became active in 1986, having all the powers and duties of a county housing and redevelopment authority under the provisions of Minn. Stat. §§ 469.001-.047. The Authority is governed by a five-member Board appointed by the Lake County Board of Commissioners. The Board is organized with a chair, vice chair, secretary, and treasurer, elected annually.

**LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Component Unit

The Lake County Housing and Redevelopment Authority is considered to be a component unit of Lake County and is included in Lake County's annual financial report.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net position and the statement of activities) display information about the government. These statements include the financial activities of the overall Authority government.

Eliminations have been made to minimize the double counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support.

In the government-wide statement of net position, both the governmental and business-type activities columns: (a) are presented on a consolidated basis by column; and (b) 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 Authority's net position is reported in three parts: (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position.

The statement of activities demonstrates the degree to which the direct expenses of each function of the Authority's governmental activities and business-type activities are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges

**LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues, including all taxes, are presented as general revenues.

2. Fund Financial Statements

The fund financial statements provide information about the Authority's funds. Separate statements for each fund--governmental and proprietary--are presented.

The Authority reports the following major governmental fund:

The General Fund is the Authority's primary operating fund. It accounts for all financial resources of the general government not accounted for in other funds.

The Authority reports the following major enterprise fund:

The Silverpointe Enterprise Fund is used to account for the operations of a 25-unit senior housing facility in Silver Bay, Minnesota. The facility is owned by the Authority and was built to provide quality and affordable housing for senior citizens in Lake County. Silverpointe is operated similar to a business enterprise. The intent of the Authority is that the cost of providing housing services to the general public, on a continuing basis, is financed or recovered primarily through user charges.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements 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. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

Governmental fund financial statements 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. The Lake County Housing and Redevelopment Authority considers all revenues as available if collected within 90 days after the end of the current period, except for taxes, which have a 60-day accrual period. Property and other taxes, licenses, and interest are all considered susceptible to accrual.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first and then unrestricted resources as needed.

D. Budget

The Authority does not prepare budgets for the General Fund operations. Expenditures are made in accordance with the tax increment financing plans for the tax increment financing districts. An estimated operating budget is prepared by the management company for the Silverpointe Enterprise Fund. The budget is prepared on an accrual basis. The budget is approved and can be adjusted by the Board.

**LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

1. Cash and Cash Equivalents

The Authority's cash and cash equivalents consist of savings and checking accounts, cash on hand, and certificates of deposit, and do not include restricted accounts.

2. Receivables and Payables

All outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Property taxes, including property taxes captured as tax increment, are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed in March with the first half payment due May 15 and the second half payment due October 15. The Authority approved an annual levy for operating purposes. Property taxes, including tax increment, are collected by Lake County. Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as taxes receivable.

3. Restricted Assets

Certain funds of the Authority are classified as restricted assets on the statement of net position because the restriction is either imposed by law through constitutional provisions or enabling legislation or imposed externally by creditors, grantors, contributors, or laws or regulations of other governments. Therefore, their use is limited by applicable laws and regulations.

4. Capital Assets

Capital assets, which include land, buildings and structures, and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and have an expected life of at least five years. Such assets are recorded at historical cost.

**LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

4. Capital Assets (Continued)

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

Buildings and structures and equipment of the Authority are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and structures	25 - 40
Equipment	7

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. Currently, the County has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has only one type of item that qualifies for reporting in this category, unavailable revenue, which is reported only in the governmental funds balance sheet. These amounts are recognized as an inflow of resources in the period that the amounts become available.

**LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

6. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

7. Classification of Net Position

Net position in government-wide statements is classified in the following categories:

Net investment in capital assets - the amount of net position representing capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

Restricted net position - the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position - the amount of net position that does not meet the definition of restricted or net investment in capital assets.

8. Classification of Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which the Authority is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - amounts that cannot be spent because they are not in spendable form, such as fund balance associated with inventories, prepaids, or permanent funds.

Restricted - amounts that are restricted by external parties such as creditors or imposed by grants, law, or legislation.

**LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

8. Classification of Fund Balances (Continued)

Committed - amounts that can be used only for the specific purposes determined by a formal action of the Authority's highest level of decision-making authority, which is the Authority's Board of Commissioners. Fund balance commitments are established, modified, or rescinded by Board action through a Board resolution.

Assigned - amounts intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount of fund balance that is not restricted or committed.

Unassigned - the residual classification for the General Fund and includes all spendable amounts not contained in the other fund balance classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted or committed.

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted, committed, and then assigned, unless the specific items have been identified in another classification.

The Authority applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

9. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits

The Authority's total deposits are reported as follows:

Government-wide statement of net position		
Governmental activities		
Cash	\$	540,246
Business-type activities		
Cash		137,931
Cash with management company for operations		16,547
Restricted assets		
Customer deposits		<u>14,689</u>
Total Cash	\$	<u>709,413</u>

The Authority is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. The Authority is required by Minn. Stat. § 118A.03 to protect Authority deposits with insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit at the close of the financial institution's banking day, not covered by insurance or bonds.

**LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated “A” or better and revenue obligations rated “AA” or better; irrevocable standby 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.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the Authority’s deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. As of December 31, 2013, the Authority’s deposits were not exposed to custodial credit risk.

b. Investments

The Authority may invest in the following types of investments as authorized by Minn. Stat. §§ 118A.04 and 118A.05:

- (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 Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

**LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency 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 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; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

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.

**LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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 in the possession of an outside party.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the Authority's investment in a single issuer.

As of and during the year ended December 31, 2013, the Authority did not own any investments that required disclosure regarding interest rate risk, credit risk, custodial credit risk, or concentration of credit risk.

2. Loan Receivable

The Authority has a \$10,028 loan receivable from the Town of Crystal Bay for the Finland Coop Roofing Project, an unrelated organization. The loan has an interest rate of three percent with annual payments of \$1,007 due on January 10 of each year.

**LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2013, was as follows:

Governmental Activities

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets depreciated Equipment	\$ 1,866	\$ -	\$ -	\$ 1,866
Less: accumulated depreciation for Equipment	<u>1,068</u>	<u>267</u>	<u>-</u>	<u>1,335</u>
Governmental Activities Capital Assets, Net	<u>\$ 798</u>	<u>\$ (267)</u>	<u>\$ -</u>	<u>\$ 531</u>

Business-Type Activities

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets depreciated Buildings and structures	\$ 1,879,117	\$ -	\$ -	\$ 1,879,117
Equipment	<u>5,378</u>	<u>9,261</u>	<u>-</u>	<u>14,639</u>
Total capital assets depreciated	<u>\$ 1,884,495</u>	<u>\$ 9,261</u>	<u>\$ -</u>	<u>\$ 1,893,756</u>
Less: accumulated depreciation for Buildings and structures	\$ 732,070	\$ 46,975	\$ -	\$ 779,045
Equipment	<u>5,378</u>	<u>-</u>	<u>-</u>	<u>5,378</u>
Total accumulated depreciation	<u>\$ 737,448</u>	<u>\$ 46,975</u>	<u>\$ -</u>	<u>\$ 784,423</u>
Business-Type Activities Capital Assets, Net	<u>\$ 1,147,047</u>	<u>\$ (37,714)</u>	<u>\$ -</u>	<u>\$ 1,109,333</u>

**LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities	
Urban and economic development	<u>\$ 267</u>
Business-Type Activities	
Senior housing	<u>\$ 46,975</u>

B. Liabilities

1. Due to Lake County

Due to Lake County was comprised of these amounts at December 31, 2013:

District Number 2	Blue Water/Superior Shores Project	\$ 106,088
District Number 3	Cove Point Project	<u>90,101</u>
Total Due to Lake County		<u>\$ 196,189</u>

Lake County has aided the Lake County Housing and Redevelopment Authority in making the bond payments on the Superior Shores and Cove Point tax increment bonds. For more information regarding the repayment of these bonds by Lake County, see Notes 3.A. and 3.C.

**LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA**

2. Detailed Notes on All Funds

B. Liabilities (Continued)

2. Long-Term Debt

Business-Type Activities

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2013</u>
2012 General Obligation Senior Housing Bonds	2028	Varies	1.0 - 3.5	\$ 860,000	\$ 780,000

3. Debt Service Requirements

Debt service requirements at December 31, 2013, were as follows:

Business-Type Activities

<u>Year Ending December 31</u>	<u>Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2014	\$ -	\$ 9,956
2015	50,000	19,538
2016	50,000	18,788
2017	55,000	17,863
2018	55,000	16,763
2019 - 2023	285,000	64,650
2024 - 2028	285,000	22,506
Total	\$ 780,000	\$ 170,064

**LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA**

2. Detailed Notes on All Funds

B. Liabilities (Continued)

4. Changes in Long-Term Liabilities

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds Payable					
General Obligation Senior	\$ 860,000	\$ -	\$ 80,000	\$ 780,000	\$ -
Housing Bonds - 2012					
Bond discount	(11,237)	-	(803)	(10,434)	-
Total	<u>\$ 848,763</u>	<u>\$ -</u>	<u>\$ 79,197</u>	<u>\$ 769,566</u>	<u>\$ -</u>

3. Summary of Significant Contingencies and Other Items

A. Tax Increment Financing Districts

The Authority administers the following tax increment financing district established pursuant to Minn. Stat. §§ 469.174-.1791.

District Number 2

Blue Water/Superior Shores Project

The bonds for District Number 2 were general obligation bonds issued by Lake County and paid off in 2009. The County is holding the tax increment district open in order to recover some of the shortfall between tax increment collections and debt service payments that accumulated over the years. The County collects and pays the debt service payments pursuant to the amended Tax Increment Pledge Agreement, and the Authority recognizes the tax increment revenues and tax increment distributions to Lake County in its financial statements.

**LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA**

3. Summary of Significant Contingencies and Other Items (Continued)

B. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; or natural disasters. To manage these risks, the Authority has joined the Minnesota Counties Intergovernmental Trust (MCIT). The Authority retains risk for the deductible portions of the insurance policies. The amounts of these deductibles are considered immaterial to the financial statements. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

C. Related-Party Transactions - Lake County

The Lake County Housing and Redevelopment Authority is a discretely presented component unit of Lake County. The following are related-party transactions:

SEGOG Property

In June 2005, the Authority's Board passed a resolution authorizing the Authority to enter into an agreement to purchase 70 acres of land from Lake County for \$250,000. The property will be used for a housing development to meet the County's housing needs and to assist in fostering economic development in the County. The purchase price of \$250,000 will be paid to the County as individual lots are sold in the development. This agreement has not been finalized as of December 31, 2013, and no cash payments have been made.

Tax Increment Shortfalls

Tax increment revenues have not been sufficient to cover bond payments on the Cove Point and Superior Shores tax increment bonds. Lake County has made the bond payments on these bond issues; however, the Lake County Housing and Redevelopment Authority remains obligated to Lake County for these shortfalls. A liability has been set up on the Authority's financial statements in the amount of \$196,189.

**LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA**

3. Summary of Significant Contingencies and Other Items (Continued)

D. Conduit Debt

Health Care Facility Projects

In 2000, the Authority issued a fixed rate Health Care Facilities Revenue Bond, Series 2000, of \$5,000,000 to finance the construction of medical clinic facilities near the City of Proctor and the City of Two Harbors. The bond is secured by, among other things, a Pledge Agreement between the Authority and The Lake Bank, National Association (Holder), and by a Mortgage, Security Agreement and Fixture Financing Statement granted by First Plan of Minnesota (the Obligor) to the Authority and assigned to the Holder.

The County is not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the financial statements. The outstanding balance at December 31, 2013, is \$2,714,330.

Lakeshore, Inc., and Ecumen Sunrise, LLC, Project

In 2012, the Authority issued Revenue Refunding Bonds, Series 2012, of \$9,140,000 to refinance and renovate the Scenic Shores Facility in Two Harbors which is owned by Ecumen Sunrise, LLC. In exchange for the issuance of the bonds, Ecumen Sunrise, LLC, agreed to pay the Authority an administrative fee of \$91,400, one percent of the stated principal amount of the Series 2012 Bonds.

The County is not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the financial statements.

This page was left blank intentionally.

**LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2013**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 1998-001

Internal Controls/Segregation of Duties

Criteria: 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. Also, management is responsible for controls over the period-end financial reporting process, including controls over procedures used to enter transaction totals in the general ledger; initiate, authorize, record, and process journal entries into the general ledger; and record recurring and nonrecurring adjustments to the financial statements. Adequate segregation of duties is a key internal control in an organization's accounting system.

Condition: Due to the limited number of personnel, segregation of accounting duties necessary to ensure adequate internal accounting control is not possible.

Context: The size of the Lake County Housing and Redevelopment Authority and its structure limits the internal control that management can design and implement into the organization. Without proper segregation of duties, errors or irregularities may not be detected timely.

Effect: Inadequate segregation of duties could adversely affect the Authority's ability to detect misstatements in a timely manner by personnel in the normal course of performing their assigned functions.

Cause: The size of the Authority and its staffing limits the internal control that management can design and implement into the organization. Management has also requested that we prepare the annual financial statements and related notes. This arrangement is not unusual for an organization the size of the Lake County Housing and Redevelopment Authority. This decision was based on the availability of the Authority's contracted staff and the cost benefit of using our expertise.

Recommendation: Management should be aware that segregation of duties is not adequate from an internal control point of view. We recommend the Board of Commissioners and management be mindful that limited staffing causes inherent risks in safeguarding the Authority's assets and the proper reporting of its financial activity. We recommend the Board of Commissioners and management continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls.

Client's Response:

A Lake County Housing and Redevelopment Authority Board Member will review the trial balance and journal entries as provided by the Executive Director on a quarterly basis.

Finding 2011-002

Audit Adjustments

Criteria: A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or personnel in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Auditing standards define a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected, on a timely basis.

Condition: During our audit, we identified several material adjustments that resulted in significant changes to the Authority's financial statements. These audit adjustments were necessary to record prior year book entries not made, reduce expenditures that were paid in the current year but related to prior year, reduce tax increments for 2012 revenue that were received and recorded in 2013, and make reclassification entries to revenues and expenditures as necessary. Audit adjustments were also necessary to adjust modified accrual financial statements to the accrual basis for the government-wide financial statements.

Context: The inability to make accrual adjustments or to detect significant misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

Effect: The following audit adjustments were reviewed and approved by the appropriate Lake County Housing and Redevelopment Authority Staff and are reflected in the financial statements:

- General Fund
 - Assets increased by \$154,329, liabilities increased by \$248,973, deferred inflows increased by \$129,971, and fund balance decreased by \$224,615 for prior year book entries not made.
 - Liabilities and expenditures were decreased by \$29,403 for payments that were recorded as current year expenditures rather than as a reduction to prior year liabilities.
 - Assets decreased by \$36,344, liabilities decreased by \$11,120, and revenues decreased by \$25,224 to reverse prior year undistributed cash with Lake County.
 - Cash and revenues decreased by \$50,291 for 2012 receipts that were deposited and recorded as tax apportionment in 2013.
- Silverpointe Enterprise Fund
 - Assets decreased by \$39,358, liabilities increased by \$50,917, and net position increased by \$90,275 to record a prior year book entry.
 - Assets decreased by \$46,975 and expenses increased by \$46,975 to record current year depreciation.
 - Liabilities and mortgage interest expense decreased by \$14,555 for a payment made in 2013 that related to 2012 expenses.
 - Assets increased by \$47,456, liabilities decreased by \$46,134, and revenues increased by \$1,322 to record the 2013 insurance claim paid and received after year-end.
- Government-Wide Financial Statement
 - Audit adjustments were made to adjust the modified accrual financial statements to the accrual basis for the government-wide financial statements. The total effects of all the adjustments on the government-wide financial statements caused total assets to decrease by \$7,026, liabilities to decrease by \$7,557, deferred inflows to decrease by \$134,059, revenues to increase by \$4,088, expenses to increase by \$267, and net position to increase by \$130,769.

Cause: The Authority provides cash basis financial statements and prepares some of the modified accrual information necessary to adjust the cash basis financial statements to the modified accrual basis. However, the Authority personnel do not have the time nor the technical expertise to ensure that all material adjustments have been made.

Recommendation: We recommend that Authority personnel review the trial balances and journal entries in detail to ensure all transactions have been properly recorded to be presented in the financial statements.

Client's Response:

A Lake County Housing and Redevelopment Authority Board Member will review the trial balance and journal entries as provided by the Executive Director on a quarterly basis.

PREVIOUSLY REPORTED ITEM RESOLVED

Bank Reconciliations (2011-001)

The client did not have year-end bank reconciliations available for us to review during the course of the audit.

Resolution

During our testing of the December 31, 2013, cash balances, we noted that all year-end bank reconciliations were available and were reconciled to the book balances.

II. OTHER FINDINGS AND RECOMMENDATIONS

MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2006-002

Collection of Accounts Receivable

Criteria: Receivables should be presented only if it is reasonably certain that they will be collected in the future.

Condition: The Authority has an outstanding receivable from a developer who has not made any payments to date.

Context: The receivable from the developer is for \$118,851.

Effect: The Authority may have a receivable on its financial statements that is not collectible and may have to be written off.

Cause: Delay in collecting this receivable has made it more difficult to pursue collection in the current year.

Recommendation: We recommend the Board make attempts to collect this receivable. A bill should be sent out for this receivable that has not yet been billed. If it is determined by the Board that this receivable is not collectible, the receivable should be written off.

Client's Response:

The Lake County Board of Commissioners has taken on the responsibility of this collection. The Lake County HRA will state this officially in the minutes at the next meeting.

This page was left blank intentionally.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

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*

Independent Auditor's Report

Board of Commissioners
Lake County Housing and
Redevelopment Authority

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the Lake County Housing and Redevelopment Authority, a component unit of Lake County, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 25, 2014.

Internal Control Over Financial Reporting

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

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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Recommendations, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and an item that we consider to be a significant deficiency.

A deficiency in internal control over financial reporting 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 combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Recommendations as item 2011-002 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Recommendations as item 1998-001 to be a significant deficiency.

Compliance and Other Matters

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

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested in connection with the audit of the Authority's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for contracting and bidding because there were no new contracts for 2013.

In connection with our audit, nothing came to our attention that caused us to believe that the Lake County Housing and Redevelopment Authority failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Authority's noncompliance with the above referenced provisions.

Other Matters

Also included in the Schedule of Findings and Recommendations is a management practices comment. We believe this recommendation to be of benefit to the Authority, and it is reported for that purpose.

Lake County Housing and Redevelopment Authority's Response to Findings

Lake County Housing and Redevelopment Authority's responses to the internal control and management practices findings identified in our audit have been included in the Schedule of Findings and Recommendations. The Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 25, 2014