

STATE OF MINNESOTA

Office of the State Auditor



Julie Blaha
State Auditor

**LAKE COUNTY HOUSING AND
REDEVELOPMENT AUTHORITY
(A COMPONENT UNIT OF LAKE COUNTY)
TWO HARBORS, MINNESOTA**

YEAR ENDED DECEMBER 31, 2018

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 100 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 600 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.

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**LAKE COUNTY HOUSING AND
REDEVELOPMENT AUTHORITY
(A COMPONENT UNIT OF LAKE COUNTY)
TWO HARBORS, MINNESOTA**

Year Ended December 31, 2018



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

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

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

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

ORGANIZATION
DECEMBER 31, 2018

<u>Commissioners</u>	<u>Term Expires</u>
Richard DeRosier	May 30, 2020
Bob Entzion	May 30, 2020
Paul Iverson	May 30, 2021
Susan Rosette	May 30, 2023
Tom Lovdahl	May 30, 2021

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JULIE BLAHA
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Lake County Housing and Redevelopment Authority
Two Harbors, Minnesota

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, Minnesota, as of and for the year ended December 31, 2018, 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 opinions.

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, 2018, 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.

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 Governmental Accounting Standards Board, 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 10, 2019, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Lake County Housing and Redevelopment Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Lake County Housing and Redevelopment Authority's internal control over financial reporting and compliance.

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 10, 2019

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2018**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Assets</u>			
Cash and cash equivalents	\$ 782,668	\$ 92,098	\$ 874,766
Taxes receivable	2,790	-	2,790
Internal balances	5,615	(5,615)	-
Restricted assets			
Security deposits	-	17,842	17,842
Capital assets			
Depreciable – net of accumulated depreciation	-	892,103	892,103
Total Assets	\$ 791,073	\$ 996,428	\$ 1,787,501
<u>Liabilities</u>			
Accounts payable	\$ -	\$ 16,811	\$ 16,811
Unearned revenue	-	2,616	2,616
Liabilities payable from restricted assets			
Security deposits payable	-	17,842	17,842
Long-term liabilities			
Due within one year	-	55,000	55,000
Due in more than one year	-	453,581	453,581
Total Liabilities	\$ -	\$ 545,850	\$ 545,850
<u>Net Position</u>			
Net investment in capital assets	\$ -	\$ 383,522	\$ 383,522
Unrestricted	791,073	67,056	858,129
Total Net Position	\$ 791,073	\$ 450,578	\$ 1,241,651

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

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<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	\$ 135,218	\$ -	\$ (135,218)	\$ -	\$ (135,218)
Business-type activities					
Housing	268,963	277,509	-	8,546	8,546
Total	\$ 404,181	\$ 277,509	\$ (135,218)	\$ 8,546	\$ (126,672)
General Revenues					
Property taxes			\$ 114,114	\$ -	\$ 114,114
Intergovernmental			6,991	-	6,991
Investment earnings			10,133	146	10,279
Miscellaneous			3,861	16,272	20,133
Transfers			13,000	(13,000)	-
Total general revenues and transfers			\$ 148,099	\$ 3,418	\$ 151,517
Change in net position			\$ 12,881	\$ 11,964	\$ 24,845
Net Position – Beginning			778,192	438,614	1,216,806
Net Position – Ending			\$ 791,073	\$ 450,578	\$ 1,241,651

FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUND

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

EXHIBIT 3

**BALANCE SHEET
GENERAL FUND
DECEMBER 31, 2018**

<u>Assets</u>	
Cash	\$ 724,323
Undistributed cash with primary government	58,345
Taxes receivable	2,790
Due from Lakeview Apartments Enterprise Fund	1,977
Due from Silverpointe Apartments Enterprise Fund	<u>11,195</u>
Total Assets	<u><u>\$ 798,630</u></u>
 <u>Liabilities</u>	
Due to Silverpointe Apartments Enterprise Fund	<u>\$ 7,557</u>
 <u>Deferred Inflows of Resources</u>	
Unavailable revenue – taxes	<u>\$ 1,882</u>
 <u>Fund Balance</u>	
Unassigned	<u>\$ 789,191</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u><u>\$ 798,630</u></u>

**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, 2018**

Fund balance – governmental fund (Exhibit 3)	\$ 789,191
Amounts reported for governmental activities in the statement of net position are different because:	
Long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	<u>1,882</u>
Net Position of Governmental Activities (Exhibit 1)	<u><u>\$ 791,073</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, 2018**

Revenues	
Property taxes	\$ 114,378
Intergovernmental	6,991
Investment earnings	10,133
Miscellaneous	<u>3,861</u>
Total Revenues	\$ <u>135,363</u>
Expenditures	
Current	
Urban and economic development	
Meetings	\$ 8,278
Administrative services	10,800
Accounting and auditing	15,223
Housing rehabilitation	99,894
Other	<u>1,023</u>
Total Expenditures	\$ <u>135,218</u>
Excess of Revenues Over (Under) Expenditures	\$ 145
Other Financing Sources (Uses)	
Transfers in	<u>13,000</u>
Net Change in Fund Balance	\$ 13,145
Fund Balance – January 1	<u>776,046</u>
Fund Balance – December 31	<u><u>\$ 789,191</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, 2018**

Net change in fund balance – governmental fund (Exhibit 5)	\$	13,145
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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	\$	1,882	
Deferred inflows of resources – January 1		<u>(2,146)</u>	<u>(264)</u>
Change in Net Position of Governmental Activities (Exhibit 2)			<u><u>12,881</u></u>

PROPRIETARY FUNDS

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

EXHIBIT 7

**STATEMENT OF FUND NET POSITION
ENTERPRISE FUNDS
DECEMBER 31, 2018**

	<u>Silverpointe Apartments</u>	<u>Lakeview Apartments</u>	<u>Total Enterprise Funds</u>
<u>Assets</u>			
Current assets			
Cash	\$ 77,268	\$ 14,830	\$ 92,098
Due from General Fund	<u>7,557</u>	<u>-</u>	<u>7,557</u>
Total current assets	\$ 84,825	\$ 14,830	\$ 99,655
Restricted assets			
Cash			
Cash with management company for security deposits	17,842	-	17,842
Noncurrent assets			
Capital assets			
Depreciable – net of accumulated depreciation	<u>892,103</u>	<u>-</u>	<u>892,103</u>
Total Assets	\$ 994,770	\$ 14,830	\$ 1,009,600
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 11,937	\$ 4,874	\$ 16,811
Due to General Fund	11,195	1,977	13,172
Unearned revenue	2,616	-	2,616
General obligation bonds payable – current	<u>55,000</u>	<u>-</u>	<u>55,000</u>
Total current liabilities	\$ 80,748	\$ 6,851	\$ 87,599
Current liabilities payable from restricted assets			
Security deposits payable	<u>\$ 17,842</u>	<u>\$ -</u>	<u>\$ 17,842</u>
Noncurrent liabilities			
General obligation bonds payable – long-term	\$ 460,000	\$ -	\$ 460,000
Less: unamortized bond premium (discount)	<u>(6,419)</u>	<u>-</u>	<u>(6,419)</u>
Total noncurrent liabilities	\$ 453,581	\$ -	\$ 453,581
Total Liabilities	\$ 552,171	\$ 6,851	\$ 559,022
<u>Net Position</u>			
Net investment in capital assets	\$ 383,522	\$ -	\$ 383,522
Unrestricted	<u>59,077</u>	<u>7,979</u>	<u>67,056</u>
Total Net Position	\$ 442,599	\$ 7,979	\$ 450,578

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

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

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
ENTERPRISE FUNDS
YEAR ENDED DECEMBER 31, 2018**

	Silverpointe Apartments	Lakeview Apartments	Total Enterprise Funds
Operating Revenues			
Rental	\$ 217,436	\$ 53,639	\$ 271,075
Parking	6,434	-	6,434
Miscellaneous	6,272	10,000	16,272
	\$ 230,142	\$ 63,639	\$ 293,781
Operating Expenses			
Other services and charges			
Contracted services	\$ 17,765	\$ -	\$ 17,765
Management fees	13,678	8,088	21,766
Professional fees	927	2,554	3,481
Real estate taxes	9,106	-	9,106
Telephone	1,709	-	1,709
Utilities	33,858	11,715	45,573
Advertising	1,065	-	1,065
Insurance	4,832	-	4,832
Repairs and maintenance	21,492	45,591	67,083
Sanitation	11,084	4,654	15,738
Miscellaneous	6,171	2,755	8,926
Supplies	851	-	851
Depreciation expense	54,052	-	54,052
	\$ 176,590	\$ 75,357	\$ 251,947
Operating Income (Loss)	\$ 53,552	\$ (11,718)	\$ 41,834
Nonoperating Revenues (Expenses)			
Investment earnings	\$ 146	\$ -	\$ 146
Discount on issuance of bonds	(803)	-	(803)
Interest expense	(16,213)	-	(16,213)
	\$ (16,870)	\$ -	\$ (16,870)
Income (Loss) Before Transfers	\$ 36,682	\$ (11,718)	\$ 24,964
Transfers out	(13,000)	-	(13,000)
Change in Net Position	\$ 23,682	\$ (11,718)	\$ 11,964
Net Position – January 1	418,917	19,697	438,614
Net Position – December 31	\$ 442,599	\$ 7,979	\$ 450,578

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

EXHIBIT 9

**STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
YEAR ENDED DECEMBER 31, 2018**

	Silverpointe Apartments	Lakeview Apartments	Total Enterprise Funds
Cash Flows from Operating Activities			
Cash received from customers	\$ 230,814	\$ 63,639	\$ 294,453
Cash paid to suppliers	<u>(112,919)</u>	<u>(73,049)</u>	<u>(185,968)</u>
Net cash provided by (used in) operating activities	<u>\$ 117,895</u>	<u>\$ (9,410)</u>	<u>\$ 108,485</u>
Cash Flows to Noncapital Financing Activities			
Transfers to General Fund	<u>\$ (13,000)</u>	<u>\$ -</u>	<u>\$ (13,000)</u>
Cash Flows to Capital and Related Financing Activities			
Capital asset additions	\$ (10,687)	\$ -	\$ (10,687)
Principal paid on long-term debt	(55,000)	-	(55,000)
Interest paid on long-term debt	<u>(16,213)</u>	<u>-</u>	<u>(16,213)</u>
Net cash provided by (used in) capital and related financing activities	<u>\$ (81,900)</u>	<u>\$ -</u>	<u>\$ (81,900)</u>
Cash Flows from Investing Activities			
Investment earnings	<u>\$ 146</u>	<u>\$ -</u>	<u>\$ 146</u>
Net Increase (Decrease) in Cash	\$ 23,141	\$ (9,410)	\$ 13,731
Cash and Cash Equivalents – January 1	<u>71,969</u>	<u>24,240</u>	<u>96,209</u>
Cash and Cash Equivalents – December 31	<u><u>\$ 95,110</u></u>	<u><u>\$ 14,830</u></u>	<u><u>\$ 109,940</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities			
Net operating income (loss)	<u>\$ 53,552</u>	<u>\$ (11,718)</u>	<u>\$ 41,834</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation expense	\$ 54,052	\$ -	\$ 54,052
(Increase) decrease in receivables	672	-	672
Increase (decrease) in accounts payable	8,280	2,308	10,588
Increase (decrease) in unearned revenue	<u>1,339</u>	<u>-</u>	<u>1,339</u>
Total adjustments	<u>\$ 64,343</u>	<u>\$ 2,308</u>	<u>\$ 66,651</u>
Net Cash Provided by (Used in) Operating Activities	<u><u>\$ 117,895</u></u>	<u><u>\$ (9,410)</u></u>	<u><u>\$ 108,485</u></u>
Noncash Investing, Capital, and Financing Activities			
Decrease in cash with management company for security deposits	\$ 584	\$ -	\$ 584

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

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

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2018**

1. Summary of Significant Accounting Policies

The Lake County Housing and Redevelopment Authority's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as of and for the year ended December 31, 2018. 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 the GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements. The accounting policies of the Authority conform with generally accepted accounting principles. 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.

The Lake County Housing and Redevelopment Authority is considered to be a component unit of Lake County and is included in Lake County's financial statements as a discretely presented component unit.

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 Lake County Housing and Redevelopment Authority. These statements include the financial activities of the overall Authority government.

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

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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 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 category—governmental and proprietary—are presented. The emphasis of governmental and proprietary fund financial statements is on major individual governmental and enterprise funds, with each displayed separately as separate columns in the fund financial statements.

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

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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 funds:

The Silverpointe Apartments Enterprise Fund is used to account for the operations of a 25-unit 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 similarly 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.

The Lakeview Apartments Enterprise Fund is used to account for the operations of a 13-unit housing facility in Two Harbors, Minnesota. The facility was tax forfeit, and the County established an agreement with the Authority to manage the property beginning in July 2017. Lakeview is operated in a similar fashion to Silverpointe.

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 full 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.

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

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

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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 long-term debt and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of 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. An estimated operating budget is prepared by the management company for the Silverpointe Apartments Enterprise Fund. The budget is prepared on an accrual basis. The budget is approved and can be adjusted by the Board. An estimated operating budget is prepared for the Lakeview Apartments Enterprise Fund. The budget is approved and can be adjusted by the Board.

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. Restricted cash is shown separately from cash and cash equivalents.

**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)

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.

No allowance for uncollectible receivables has been provided because such amounts are not expected to be material.

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 Authority 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. Donated capital assets are recorded at acquisition value.

**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. Unearned Revenue

Proprietary funds, governmental funds, and the government-wide statements report unearned revenue in connection with resources that have been received but not yet earned.

6. 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 Authority has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position reports 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)

7. Long-Term Obligations

In the government-wide financial statements and the proprietary 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. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of applicable bond premiums or discounts.

8. Classification of Net Position

Net position in the government-wide and proprietary fund financial 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.

**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. 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, or are legally or contractually required to be maintained intact, such as fund balance associated with inventories, prepaids, or permanent funds.

Restricted – amounts of fund balance subject to external constraints imposed by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.

Committed – amounts that can be used only for the specific purposes determined by a formal action (resolution) 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 Authority for specific purposes that do not meet the criteria to be classified as restricted or committed.

Unassigned – the residual classification for the General Fund; it includes all spendable amounts not contained in the other fund balance classifications.

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)

10. 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, deferred outflows of resources, liabilities, and deferred inflows of resources; 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. Budgetary Information

The Authority did not approve a General Fund budget for fiscal year 2018 and, therefore, a budgetary comparison schedule is not presented.

3. Detailed Notes on All Funds

A. Assets

1. Deposits

The Authority's total deposits are reported as follows:

Government-wide statement of net position		
Governmental activities		
Cash	\$	782,668
Business-type activities		
Cash		92,098
Restricted assets		
Security deposits		<u>17,842</u>
Total Cash	\$	<u><u>892,608</u></u>

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

3. Detailed Notes on All Funds

A. Assets

1. Deposits (Continued)

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.

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, 2018, the Authority's deposits were not exposed to custodial credit risk.

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

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Capital Assets

Capital asset activity for the year ended December 31, 2018, 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>1,866</u>	<u>-</u>	<u>-</u>	<u>1,866</u>
Governmental Activities Capital Assets, Net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Business-Type Activities

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets depreciated Buildings and structures	\$ 1,886,572	\$ 2,160	\$ -	\$ 1,888,732
Equipment	<u>42,978</u>	<u>8,527</u>	<u>-</u>	<u>51,505</u>
Total capital assets depreciated	<u>\$ 1,929,550</u>	<u>\$ 10,687</u>	<u>\$ -</u>	<u>\$ 1,940,237</u>
Less: accumulated depreciation for Buildings and structures	\$ 972,918	\$ 48,469	\$ -	\$ 1,021,387
Equipment	<u>21,164</u>	<u>5,583</u>	<u>-</u>	<u>26,747</u>
Total accumulated depreciation	<u>\$ 994,082</u>	<u>\$ 54,052</u>	<u>\$ -</u>	<u>\$ 1,048,134</u>
Business-Type Activities Capital Assets, Net	<u>\$ 935,468</u>	<u>\$ (43,365)</u>	<u>\$ -</u>	<u>\$ 892,103</u>

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

3. Detailed Notes on All Funds

A. Assets

2. Capital Assets (Continued)

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

Business-Type Activities	
Senior housing	<u>\$ 54,052</u>

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds

The composition of interfund balances as of December 31, 2018, is as follows:

Receivable Fund	Payable Fund	Amount	Purpose
General	Silverpointe Apartments	\$ 11,195	Reimbursement for services
Silverpointe Apartments	General	7,557	2012 bond proceeds
General	Lakeview Apartments	1,977	Reimbursement for services
Total Due To/From Other Funds		<u>\$ 20,729</u>	

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2018, consisted of the following:

Transfer to General Fund from Silverpointe Apartments Fund	<u>\$ 13,000</u>	To finance programs of the general government
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**LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. 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, 2018</u>
2012 General Obligation Senior Housing Bonds	2027	Varies	1.0 – 3.5	\$ 860,000	\$ 515,000

2. Debt Service Requirements

Debt service requirements at December 31, 2018, were as follows:

Business-Type Activities

<u>Year Ending December 31</u>	<u>Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2019	\$ 55,000	\$ 15,594
2020	55,000	14,356
2021	60,000	13,050
2022	60,000	11,613
2023	60,000	10,038
2024 – 2027	225,000	22,506
Total	\$ 515,000	\$ 87,157

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

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Changes in Long-Term Liabilities

Business-Type Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds Payable					
2012 General Obligation Senior Housing Bonds	\$ 570,000	\$ -	\$ 55,000	\$ 515,000	\$ 55,000
Bond discount	(7,222)	-	(803)	(6,419)	-
Total	<u>\$ 562,778</u>	<u>\$ -</u>	<u>\$ 54,197</u>	<u>\$ 508,581</u>	<u>\$ 55,000</u>

4. Summary of Significant Contingencies and Other Items

A. 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.

B. Conduit Debt

Health Care Facility Projects

In 2000, the Authority issued a fixed-rate Health Care Facilities Revenue Bond, Series 2000, in the amount 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.

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

4. Summary of Significant Contingencies and Other Items

B. Conduit Debt

Health Care Facility Projects (Continued)

The Authority 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, 2018, is \$1,048,368.

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

In 2012, the Authority issued Revenue Refunding Bonds, Series 2012, in the amount of \$9,140,000 to refinance and renovate the Scenic Shores Facility in the City of 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 Authority 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, 2018, is \$7,488,820.

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JULIE BLAHA
STATE AUDITOR

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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
Two Harbors, Minnesota

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, Minnesota, as of and for the year ended December 31, 2018, 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 10, 2019.

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 did identify a deficiency in internal control over financial reporting that we consider to be a material weakness and deficiencies that we consider to be significant deficiencies.

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. 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 2011-002 to be a material weakness and items 1998-001 and 2018-001 to be significant deficiencies.

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 Counties*, 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 tax increment financing because the Authority administers no tax increment financing districts.

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 Counties*, except as described in the Schedule of Findings and Recommendations as item 2017-001. 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.

Lake County Housing and Redevelopment Authority's Response to Findings

The Lake County Housing and Redevelopment Authority's responses to the internal control and legal compliance findings identified in our audit are described in the Corrective Action Plan. 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 Counties* 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/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 10, 2019

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

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2018**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding Number 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.

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

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2018**

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.

View of Responsible Official: Concur

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

Condition: Material audit adjustments were identified that resulted in significant changes to the Authority's financial statements. The adjustments were reviewed and approved by the Authority and are properly reflected in the 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. These adjustments were found in the audit; however, independent external auditors cannot be considered part of the Authority's internal control.

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

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2018**

Effect: The following material audit adjustments were necessary to be recorded in the financial statements for the year ended December 31, 2018:

- General Fund
 - Assets increased by a net of \$436,787, liabilities increased by \$44,759, deferred inflows of resources increased by \$2,146, and fund balance increased by a net of \$389,882 for prior year book entries not made.
 - Assets increased by a net of \$79,726, expenditures decreased by a net of \$272,171, revenues increased by \$7,911, and fund balance decreased by \$200,356 to properly record the savings account and the purchase of certificates of deposit.
- Silverpointe Apartments Enterprise Fund
 - Assets decreased by a net of \$342,203, liabilities increased by a net of \$47,258, and net position decreased by a net of \$389,461 for prior year book entries not made.
 - Assets decreased by \$43,365 and expenses increased by \$43,365 to record current year depreciation.
- Lakeview Apartments Enterprise Fund
 - Liabilities increased by \$4,543 and net position decreased by \$4,543 to record the prior year book entry.
 - Liabilities and expenses increased by \$2,308 for unrecorded payables.

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, Authority personnel do not have the time nor the technical expertise to ensure that all material adjustments have been made. Bank reconciliations for the general checking account were not completed timely, which lead to unrecorded deposits in the General Fund.

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

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2018**

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

View of Responsible Official: Concur

ITEM ARISING THIS YEAR

Finding Number 2018-001

Disbursements Review and Approval

Criteria: Management is responsible for establishing and maintaining internal control over the various accounting cycles, including the processing of disbursements. Management is also responsible for the accuracy and completeness of all financial records and related information including, but not limited to, the controls over initiating, authorizing, recording, and processing claims in the general ledger system. The Authority's procedures indicate that disbursements are to be properly supported, reviewed, and approved by a designated individual with oversight responsibility before payment.

Condition: Nineteen of 43 disbursements tested were not properly supported, reviewed, and/or approved.

- One disbursement paid did not have any support other than the claim being discussed at a Board meeting.
- Five disbursements contained payments for hours worked to remodel the Lakeview Apartments. There was no recalculation of the total hours claimed prior to payment, which resulted in overpayments totaling \$277.50.
- Of the 37 Lakeview Apartment-related disbursements reviewed, 13 were not brought to the Board for review and approval prior or subsequent to their payment.

Context: Proper review and approval by a designated individual with oversight responsibility is an important function to ensuring amounts are accurate and proper.

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

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2018**

Effect: When the review and approval of disbursements is not done or not documented, that oversight control cannot be verified, and errors and irregularities may not be detected timely. This also increases the risk that an improper payment will be made with Authority funds.

Cause: The Authority has not yet made a final determination on who should handle Lakeview Apartment disbursements, and a review for accuracy was not done.

Recommendation: We recommend the Board establish internal control procedures to ensure the proper oversight for disbursements are performed and documented.

View of Responsible Official: Concur

II. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 2017-001

Commissioner Compensation

Criteria: Compensation as established in the Authority bylaws states members will receive compensation as allowed by state law. Minnesota Statute § 469.011, subd. 4, states, “each commissioner may be paid up to \$75 for attending each regular and special meeting of the authority.”

Condition: Thirty instances were identified in which Authority Board members requested and were paid the \$75 meeting compensation for business other than regular or special meetings.

Context: With the acquisition of the Lakeview building in July 2017, Board members claimed meeting fees for Authority business related to the management of the Lakeview Building. This trend continued in 2018.

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

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2018**

Effect: The Authority is not in compliance with Minn. Stat. § 469.011.

Cause: The Authority was unaware that the compensation was limited to only regular or special meetings of the Board.

Recommendation: We recommend the Authority Board members only receive compensation as allowed per Minn. Stat. § 469.011.

View of Responsible Official: Acknowledged



LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY

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Board Members:

Richard DeRosier
Robert Entzion
Paul Iversen
Susan Rosette
Tom Lovdahl, Chair

Lisa DeRosier, Executive Director

REPRESENTATION OF LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY TWO HARBORS, MINNESOTA

CORRECTIVE ACTION PLAN FOR THE YEAR ENDED DECEMBER 31, 2018

Finding Number: 1998-001

Finding Title: Internal Controls/Segregation of Duties

Name of Contact Person Responsible for Corrective Action:

Tom Lovdahl, Board Chair

Corrective Action Planned:

Due to the size of the Authority and limited personnel, segregation of accounting duties necessary is not possible. A Board Member will review the trial balance and journal entries as provided by the Executive Director on a quarterly basis.

Anticipated Completion Date:

Ongoing

Finding Number: 2011-002

Finding Title: Audit Adjustments

Name of Contact Person Responsible for Corrective Action:

Tom Lovdahl, Board Chair



Corrective Action Planned:

Detailed monthly reconciliations will take place. A Board Member will review the trial balance and journal entries as provided by the Executive Director on a quarterly basis.

Anticipated Completion Date:

Ongoing

Finding Number: 2018-001

Finding Title: Disbursements Review and Approval

Name of Contact Person Responsible for Corrective Action:

Tom Lovdahl, Board Chair

Corrective Action Planned:

The claims will be reviewed before payment.

Anticipated Completion Date:

Ongoing

Finding Number: 2017-001

Finding Title: Commissioner Compensation

Name of Contact Person Responsible for Corrective Action:

Tom Lovdahl, Board Chair

Corrective Action Planned:

Members will begin adding board meeting dates on claims for reimbursement. The claims for Lakeview will be discussed and reviewed by County Commissioner on the board.

Anticipated Completion Date:

Ongoing



LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY

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Board Members:

Richard DeRosier
Robert Entzion
Paul Iversen
Susan Rosette
Tom Lovdahl, Chair

Lisa DeRosier, Executive Director

REPRESENTATION OF LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY TWO HARBORS, MINNESOTA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED DECEMBER 31, 2018

Finding Number: 1998-001

Finding Title: Internal Controls/Segregation of Duties

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

Summary of Corrective Action Previously Reported: The cost of adding additional staff outweighs the benefit. The Lake County Housing and Redevelopment Authority understands the risk and is willing to assume the responsibility.

Status: Not Corrected. The Lake County Housing and Redevelopment Authority understands the risk and is willing to assume the responsibility.

Was corrective action taken significantly different than the action previously reported?

Yes _____ No X

Finding Number: 2011-002

Finding Title: Audit Adjustments

Summary of Condition: During the audit, several material adjustments were identified which resulted in significant changes to our financial statements.

Summary of Corrective Action Previously Reported: Reconciliations will be completed on a monthly basis. A Board Member will review on a quarterly basis.

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Status: Not Corrected. Due to the size of the Authority and limited personnel, errors are not always identified timely. A Lake County Housing and Redevelopment Authority Board Member will continue to monitor trial balances and journal entries as provided by the Executive Director on a quarterly basis. Member Entzion reviews this.

Was corrective action taken significantly different than the action previously reported?
Yes _____ No X

Finding Number: 2017-001
Finding Title: Commissioner Compensation

Summary of Condition: Ten instances were noted in which Authority Board members had requested and been paid the \$75 meeting compensation for business other than regular or special meetings. In two of these instances, there were two meeting reimbursements claimed on the same day.

Summary of Corrective Action Previously Reported: Members will begin adding board meeting dates on claims for reimbursement. The claims for Lakeview will be discussed and reviewed by County Commissioner on the board.

Status: Not Corrected. All claims for Lakeview are claimed through and paid through Lakeview Apartments account.

Was corrective action taken significantly different than the action previously reported?
Yes _____ No X