

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, 2010

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.

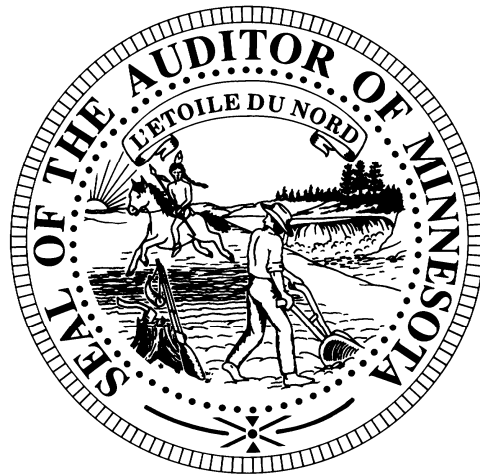
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@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, 2010



**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 Assets	1	4
Statement of Activities	2	5
Fund Financial Statements		
Governmental Fund		
Balance Sheet - General Fund	3	6
Reconciliation of Governmental Fund Balance Sheet to the Government-Wide Statement of Net Assets--Governmental Activities	4	7
Statement of Revenues, Expenditures, and Changes in Fund Balance - General Fund	5	8
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	9
Proprietary Fund		
Silverpointe Enterprise Fund		
Statement of Fund Net Assets	7	10
Statement of Revenues, Expenses, and Changes in Fund Net Assets	8	11
Statement of Cash Flows	9	12
Notes to the Financial Statements		13
Management and Compliance Section		
Schedule of Findings and Recommendations		29
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>		35

This page was left blank intentionally.

This page was left blank intentionally.

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

ORGANIZATION
DECEMBER 31, 2010

<u>Commissioners</u>	<u>Term Expires</u>
Richard DeRosier	May 30, 2015
Bob Entzion	May 30, 2015
Gordon Klein	May 30, 2013
Tom Lovdahl	May 30, 2011
Laurel Udenberg	May 30, 2011

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

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, 2010, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Lake County Housing and Redevelopment Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Lake County Housing and Redevelopment Authority as of December 31, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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 a part of the basic financial statements is required by the Governmental Accounting Standards Board, who consider 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 29, 2011, 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* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 29, 2011

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 ASSETS
DECEMBER 31, 2010**

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Cash	\$ 274,700	\$ 83,115	\$ 357,815
Taxes receivable	14,791	-	14,791
Accounts receivable	123,253	-	123,253
Loans receivable	12,000	-	12,000
Restricted assets - cash			
Debt service	-	69,198	69,198
Customer deposits	-	14,207	14,207
Capital assets			
Depreciable - net of accumulated depreciation	1,332	1,241,000	1,242,332
	\$ 426,076	\$ 1,407,520	\$ 1,833,596
<u>Liabilities</u>			
Accounts payable	\$ 2,955	\$ 4,620	\$ 7,575
Contracts payable	10,097	-	10,097
Due to Lake County	596,232	-	596,232
Accrued interest payable	-	3,200	3,200
Unearned revenue	-	202	202
Liabilities payable from restricted assets			
Customer deposits payable	-	14,207	14,207
Long-term liabilities			
Due within one year	-	32,350	32,350
Due in more than one year	-	822,670	822,670
	\$ 609,284	\$ 877,249	\$ 1,486,533
<u>Net Assets</u>			
Investment in capital assets - net of related debt	\$ 1,332	\$ 385,980	\$ 387,312
Restricted for debt service	-	69,198	69,198
Unrestricted	(184,540)	75,093	(109,447)
	\$ (183,208)	\$ 530,271	\$ 347,063

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

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Expenses</u>	<u>Program Revenues Charges for Services</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>		
			<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Functions/Programs</u>					
Governmental activities					
Urban and economic development	\$ 124,055	\$ 8,086	\$ (115,969)	\$ -	\$ (115,969)
Business-type activities					
Senior housing	175,429	183,257	-	7,828	7,828
Total	\$ 299,484	\$ 191,343	\$ (115,969)	\$ 7,828	\$ (108,141)
General Revenues					
Property taxes			\$ 102,634	\$ -	\$ 102,634
Tax increments			214,679	-	214,679
Intergovernmental			30,606	-	30,606
Investment earnings			3,681	98	3,779
Miscellaneous			10,374	1,257	11,631
Total general revenues			\$ 361,974	\$ 1,355	\$ 363,329
Change in net assets			\$ 246,005	\$ 9,183	\$ 255,188
Net Assets - Beginning			(429,213)	521,088	91,875
Net Assets - Ending			\$ (183,208)	\$ 530,271	\$ 347,063

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, 2010**

Assets

Cash	\$	264,800
Undistributed cash with Lake County		9,900
Taxes receivable		14,791
Accounts receivable		123,253
Loans receivable		12,000
		<hr/>
Total Assets	\$	424,744
		<hr/> <hr/>

Liabilities and Fund Balance

Liabilities

Accounts payable	\$	2,955
Contracts payable		10,097
Due to Lake County		596,232
Deferred revenue - unavailable		131,184
		<hr/>
Total Liabilities	\$	740,468
		<hr/> <hr/>

Fund Balance

Reserved for loans receivable	\$	12,000
Unreserved - undesignated		(327,724)
		<hr/>
Total Fund Balance	\$	(315,724)
		<hr/> <hr/>
Total Liabilities and Fund Balance	\$	424,744
		<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 ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2010**

Fund balance - governmental fund (Exhibit 3)	\$ (315,724)
Amounts reported for governmental activities in the statement of net assets 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.	1,332
Long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	<u>131,184</u>
Net Assets of Governmental Activities (Exhibit 1)	<u><u>\$ (183,208)</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, 2010**

Revenues	
Property taxes	\$ 102,634
Tax increments	209,544
Intergovernmental	30,606
Charges for services	8,086
Investment earnings	3,681
Miscellaneous	<u>10,374</u>
Total Revenues	<u>\$ 364,925</u>
Expenditures	
Current	
Urban and economic development	
Meetings	\$ 10,020
Legal	3,751
Administrative services	8,700
Counseling	3,970
Accounting and auditing	10,710
Tax increment distributions	1,500
Housing rehabilitation	26,647
Housing coordinator	45,088
Other	<u>13,402</u>
Total Expenditures	<u>\$ 123,788</u>
Change in Fund Balance	\$ 241,137
Fund Balance - January 1	<u>(556,861)</u>
Fund Balance - December 31	<u><u>\$ (315,724)</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, 2010**

Net change in fund balance - total governmental fund (Exhibit 5)	\$	241,137
---	-----------	----------------

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 revenue - December 31	\$	131,184	
Deferred revenue - January 1		<u>(126,049)</u>	5,135

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 Assets of Governmental Activities (Exhibit 2)	\$	<u>246,005</u>
--	-----------	-----------------------

PROPRIETARY FUND

This page was left blank intentionally.

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

EXHIBIT 7

**STATEMENT OF FUND NET ASSETS
SILVERPOINTE ENTERPRISE FUND
DECEMBER 31, 2010**

Assets

Current assets

Cash and cash equivalents	\$	<u>83,115</u>
---------------------------	----	---------------

Restricted assets

Cash		
Debt service	\$	69,198
Customer deposits		<u>14,207</u>

Total restricted assets	\$	<u>83,405</u>
--------------------------------	-----------	----------------------

Noncurrent assets

Capital assets		
Depreciable capital assets - net of accumulated depreciation	\$	<u>1,241,000</u>

Total Assets	\$	<u>1,407,520</u>
---------------------	-----------	-------------------------

Liabilities

Current liabilities

Accounts payable	\$	4,620
Interest payable		3,200
Unearned revenue		202
General obligation bonds payable - current		<u>32,350</u>

Total current liabilities	\$	40,372
----------------------------------	-----------	---------------

Current liabilities payable from restricted assets

Customer deposits payable		14,207
---------------------------	--	--------

Noncurrent liabilities

General obligation bonds payable - long-term		<u>822,670</u>
--	--	----------------

Total Liabilities	\$	<u>877,249</u>
--------------------------	-----------	-----------------------

Net Assets

Invested in capital assets - net of related debt	\$	385,980
Restricted debt service		69,198
Unrestricted		<u>75,093</u>

Total Net Assets	\$	<u>530,271</u>
-------------------------	-----------	-----------------------

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

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
SILVERPOINTE ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

Operating Revenues	
Rental	\$ 178,297
Parking	4,960
Miscellaneous	1,257
	<hr/>
Total Operating Revenues	\$ 184,514
Operating Expenses	
Other services and charges	
Human resources	\$ 16,182
Management fees	12,917
Real estate taxes	7,442
Travel	160
Telephone	2,463
Utilities	13,981
Advertising	2,138
Insurance	5,537
Repairs and maintenance	17,361
Sanitation	3,003
Miscellaneous	206
Supplies	1,576
Depreciation expense	48,445
	<hr/>
Total Operating Expenses	\$ 131,411
Operating Income (Loss)	\$ 53,103
Nonoperating Revenues (Expenses)	
Interest expense	\$ (44,018)
Interest income	98
	<hr/>
Total Nonoperating Revenues (Expenses)	\$ (43,920)
Change in Net Assets	\$ 9,183
Net Assets - January 1	521,088
	<hr/>
Net Assets - December 31	\$ 530,271
	<hr/> <hr/>

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

EXHIBIT 9

**STATEMENT OF CASH FLOWS
SILVERPOINTE ENTERPRISE FUND
YEAR ENDED DECEMBER 31, 2010**

Cash Flows from Operating Activities	
Cash received from customers	\$ 184,514
Cash paid to suppliers	<u>(84,048)</u>
Net cash provided by (used for) operating activities	<u>\$ 100,466</u>
Cash Flows from Capital and Related Financing Activities	
Acquisition of capital assets	\$ (1,467)
Principal paid on long-term debt	(30,572)
Interest paid on long-term debt	<u>(43,707)</u>
Net cash provided by (used for) capital and related financing activities	<u>\$ (75,746)</u>
Cash Flows from Investing Activities	
Interest income	<u>\$ 98</u>
Net Increase (Decrease) in Cash	\$ 24,818
Cash and Cash Equivalents - January 1	<u>58,297</u>
Cash and Cash Equivalents - December 31	<u>\$ 83,115</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities	
Net operating income (loss)	<u>\$ 53,103</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities	
Depreciation expense	\$ 48,445
Increase (decrease) in accounts payable	(1,000)
Increase (decrease) in unearned revenue	<u>(82)</u>
Net Cash Provided by (Used for) Operating Activities	<u>\$ 100,466</u>
Noncash Investing, Capital, and Financing Activities	
Increase in cash held for security deposits	\$ 1,277

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

Page 12

This page was left blank intentionally.

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

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2010**

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, 2010. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the Authority has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the Authority has chosen not to do so. 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.

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.

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.

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

1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets 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 assets, 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 assets are reported in three parts: (1) invested in capital assets, net of related debt; (2) restricted net assets; and (3) unrestricted net assets.

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--governmental and proprietary--are presented.

**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 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.

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.

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

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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.

E. Assets, Liabilities, and Net Assets 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.

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

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, and Net Assets 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.

3. Restricted Assets

Certain funds of the Authority are classified as restricted assets on the statement of net assets 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.

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.

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

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, and Net Assets or Equity

4. Capital Assets (Continued)

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 Revenue

All funds and the government-wide financial statements defer revenue for resources that have been received, but not yet earned. Governmental funds also report deferred revenue in connection with receivables for revenues not considered to be available to liquidate liabilities of the current period.

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 assets.

7. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts not available for appropriation or legally restricted by outside parties for use for a specific purpose.

8. 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.

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

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 assets	
Governmental activities	
Cash	\$ 274,700
Business-type activities	
Cash	83,115
Restricted assets	
Cash	
Debt service	69,198
Customer deposits	14,207
	<hr/>
Total Cash	<u>\$ 441,220</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.

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.

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

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

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, 2010, \$81,046 of the Authority's book balance of \$441,220 was exposed to custodial credit risk. These deposits are held in a trust account by the property manager of the Authority's rental units. The trust accounts are in the property manager's name and hold funds for multiple properties managed by the company. The account balances of each property are tracked internally by the property manager. Although the accounts are covered by FDIC insurance, it is not possible to determine the amount of FDIC coverage available to cover each property's individual balance.

Uninsured and uncollateralized	<u>\$ 81,046</u>
--------------------------------	------------------

b. Investments

The Authority may invest in the following type 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, 2010, 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. Receivables

Receivables as of December 31, 2010, for the Authority's governmental activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 14,791	\$ -
Accounts receivable	123,253	-
Loans receivable	12,000	11,000
Total Governmental Activities	\$ 150,044	\$ 11,000

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

2. Detailed Notes on All Funds

A. Assets (Continued)

3. Loan Receivable

The Authority has a \$12,000 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.

4. Capital Assets

Capital asset activity for the year ended December 31, 2010, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated Equipment	\$ 1,866	\$ -	\$ -	\$ 1,866
Less: accumulated depreciation for Equipment	267	267	-	534
Governmental Activities Capital Assets, Net	<u>\$ 1,599</u>	<u>\$ (267)</u>	<u>\$ -</u>	<u>\$ 1,332</u>

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated Buildings and structures Equipment	\$ 1,879,117 3,911	\$ - 1,467	\$ - -	\$ 1,879,117 5,378
Total capital assets depreciated	<u>\$ 1,883,028</u>	<u>\$ 1,467</u>	<u>\$ -</u>	<u>\$ 1,884,495</u>
Less: accumulated depreciation for Buildings and structures Equipment	\$ 591,139 3,911	\$ 46,978 1,467	\$ - -	\$ 638,117 5,378
Total accumulated depreciation	<u>\$ 595,050</u>	<u>\$ 48,445</u>	<u>\$ -</u>	<u>\$ 643,495</u>
Business-Type Activities Capital Assets, Net	<u>\$ 1,287,978</u>	<u>\$ (46,978)</u>	<u>\$ -</u>	<u>\$ 1,241,000</u>

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

2. Detailed Notes on All Funds

A. Assets

4. 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>\$ 48,445</u>

B. Liabilities

1. Due to Lake County

Due to Lake County was comprised of these amounts at December 31, 2010:

District Number 2	Blue Water/Superior Shores	
	Project	\$ 338,917
District Number 3	Cove Point Project	<u>257,315</u>
	Total Due to Lake County	<u>\$ 596,232</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, 2010</u>
1996 General Obligation Senior Housing Bonds	2026	Varies	5.00	\$ 1,160,642	\$ 855,020

3. Debt Service Requirements

Debt service requirements at December 31, 2010, were as follows:

Business-Type Activities

<u>Year Ending December 31</u>	<u>Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$ 32,350	\$ 41,940
2012	33,218	41,071
2013	35,060	39,230
2014	36,879	37,411
2015	38,793	35,497
2016 - 2020	226,141	145,309
2021 - 2025	291,973	80,077
2026	161,206	3,158
Total	\$ 855,020	\$ 423,693

**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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable General Obligation Senior Housing Bonds	\$ 885,592	\$ -	\$ 30,572	\$ 855,020	\$ 32,350

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.

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.

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

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

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, 2010, 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 \$596,232.

D. Financial Condition

The Authority's expenses, including required payments to Lake County pursuant to bond obligations, exceed current tax increment financing and other revenues. This has resulted in a deficit fund balance of \$315,724 as of December 31, 2010, for the General Fund. This continuing condition has also resulted in a deficit balance of net assets. The Authority's Board is looking into ways to improve its financial condition, including working with other similarly situated parties and the Minnesota Legislature to amend tax increment laws. The Authority is also in discussion with Lake County regarding its current obligations and the availability of alternative revenue sources.

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

3. Summary of Significant Contingencies and Other Items

D. Financial Condition (Continued)

The ability of the Authority to continue as a going concern is dependent on its ability to generate additional revenues and/or limit its current debt obligations to provide sufficient net cash flow to fund its daily and long-term obligations. The financial statements do not include any adjustments that might be necessary if the Authority is unable to continue as a going concern.

4. Joint Ventures

In 2008, the Lake County Housing and Redevelopment Authority entered into a joint powers agreement with the Cook County/Grand Marais Joint Economic Development Authority, pursuant to Minn. Stat. § 471.59, for the purpose of preserving the existing housing market, encouraging new housing construction, and providing housing opportunities to the residents of Lake and Cook Counties. The power of each party will be exercised jointly under this agreement with the assistance of a housing coordinator to be retained by both parties. The Lake County Housing and Redevelopment Authority is the fiscal agent, and all the financial information is included as part of the Lake County Housing and Redevelopment Authority's 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, 2010**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

98-1 Internal Control/Segregation of Duties

Management is responsible for establishing and maintaining internal control. This responsibility includes the internal control over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information. Adequate segregation of duties is a key internal control in an organization's accounting system. The Lake County Housing and Redevelopment Authority has no employees. Operations are handled by the governing board and a rental manager, housing coordinator, and Executive Director. The size of the Authority and its structure limits the internal control that management can design and implement into the organization. Management should be aware that segregation of duties is not adequate from an internal control point of view.

Management is responsible for the accuracy and completeness of all financial records and related information. Also, management is responsible for controls over the 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.

Management has requested that we prepare the annual financial statements and related notes. This arrangement is not unusual for an organization the size of the 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.

During our audit, we proposed material adjustments to convert the Authority's financial records to the financial statements as reported. These included adjustments to correct cash, record debt service and tax increment collection transactions, adjust other receivables, and adjust modified accrual basis financial statements to the accrual basis for the government-wide financial statements.

We recommend the Lake County Housing and Redevelopment Authority Board 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 continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls.

Client's Response:

The Lake County HRA will continue to monitor and improve oversight procedures.

08-1 Board Approval of Invoices/Expenditures - Internal Controls

During expenditure testing, we noted the Authority was not properly following its internal controls. First, the Board was not documenting in the Board minutes the approval of all claims to be paid. The Authority's internal controls require all claims be approved.

Secondly, we noted that an expenditure was recorded as an offset to fund balance. This expenditure should have been recorded in an expenditure account.

We recommend the Board review internal controls relating to expenditures, implement oversight procedures, and monitor these procedures to make sure that the internal controls relating to expenditures are properly followed.

Client's Response:

The Lake County HRA will implement oversight procedures for monitoring purposes.

ITEMS ARISING THIS YEAR

10-1 Timely Deposits

Two receivables were identified that were not deposited in a timely manner upon receipt. A Minnesota Counties Intergovernmental Trust check for \$4,402 dated November 15, 2010, was not deposited by the Authority until January 7, 2011. A Lake County check for \$47,912.92 dated December 1, 2010, was not deposited by the Authority until January 7, 2011.

All deposits should be made in a timely manner to prevent the risk of misplacement or possible theft of receipts.

We recommend the Authority implement a policy to ensure receipts are deposited within a reasonable time period after receipt.

Client's Response:

The Lake County HRA will develop a policy for monitoring purposes.

10-2 Backup Policy and Procedure

In July 2011, the Lake County Housing and Redevelopments Authority's QuickBooks program, which included the 2010 and 2011 general ledger, crashed. The Authority was unable to recover the lost information. The Authority also did not have an electronic backup of the 2010 and 2011 general ledger to restore the information lost when QuickBooks crashed. The Authority had to re-enter the 2010 and 2011 general ledger information into QuickBooks.

We recommend the Lake County Housing and Redevelopment Authority develop and implement a backup policy and procedures to prevent any future loss of financial information.

Client's Response:

The Lake County HRA intends to purchase the advanced version of QuickBooks software to prevent this from occurring in the future.

II. OTHER FINDINGS AND RECOMMENDATIONS

A. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

03-1 Financial Condition

The Authority's financial statements are prepared based on the assumption that the Authority will continue as a going concern in the future. As a result of the Authority's current financial condition, it is questionable how long the Authority will continue to be a going concern because of its inability to meet its obligations as they come due.

The General Fund's fund balance has steadily decreased from a positive \$829,048 at December 31, 1997, to a negative \$315,724 at December 31, 2010. This is a result of tax increment revenues decreasing from \$501,092 in 1998 to \$209,544 in 2010. Class rate changes and the fiscal disparity tax have decreased the amount of tax increments collected.

We recommend the Authority develop a formal plan that would outline how the Authority intends to improve its current financial condition. The Authority may wish to consider liquidating certain assets, restructuring existing debt, reducing expenditures, and obtaining other sources of revenue.

Client's Response:

The Lake County HRA is developing a plan to increase revenue and restructure existing debt.

06-2

Collection of Accounts Receivable

The Authority has an \$118,851 outstanding receivable from a developer who has not made any payments to date.

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 HRA has appointed new Board members to pursue the collection of this receivable.

B. OTHER ITEM FOR CONSIDERATION

GASB Statement 54

The Governmental Accounting Standards Board's (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, is effective for the Lake County Housing and Redevelopment Authority for the year ending December 31, 2011. The standard's objectives are to enhance the usefulness of fund balance information included in the financial report through clearer fund balance classifications that can be consistently applied and to clarify existing governmental fund type definitions.

Fund Balance Reporting

Statement 54 establishes new fund balance classifications based on constraints imposed on how resources can be spent. The existing components of fund balance reserved, unreserved - designated, and unreserved - undesignated. Statement 54 replaces these components with nonspendable, restricted, committed, assigned, and unassigned as defined below:

- *Nonspendable* - amounts that cannot be spent because they are either not in spendable form (for example, inventory or prepaid items) or legally or contractually required to be maintained intact (such as the corpus of a permanent fund).
- *Restricted* - amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- *Committed* - amounts that can be used only for specific purposes determined by a formal action of a government's highest level of decision-making authority.
- *Assigned* - amounts a government intends to use for a specific purpose that do not meet the criteria to be classified as restricted or committed.
- *Unassigned* - spendable amounts not contained in the other classifications.

The Lake County Housing and Development Authority should begin the process for implementing the new fund balance classifications. A key step in successfully implementing the new fund balance requirements is to plan ahead. The Authority can start with the following steps:

- review the requirements of GASB Statement 54;
- review current fund balances and compare to the new classifications;
- reclassify January 1, 2011, fund balance using the new classifications;
- review/update/prepare a comprehensive fund balance policy;
- prepare appropriate Board resolutions to commit fund balance; and
- if the Board intends to delegate authority to assign fund balance, prepare the resolutions delegating that authority.

Additional implementation steps could include: informing any component units that they also will need to meet the requirements; deciding on how fund balance will be presented in the financials, such as detailed vs. aggregate methods; and developing the potential note disclosures. Additional guidance on GASB Statement 54 can be found on the Office of the State Auditor's website at: http://www.auditor.state.mn.us/other/Statements/fundbalances_postGASB54_1012_statement.pdf.



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*

Board of Commissioners
Lake County Housing and
Redevelopment Authority

We have audited 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, 2010, and have issued our report thereon dated September 29, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lake County Housing and Redevelopment Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been 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 other 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. We consider the deficiency described in the accompanying Schedule of Findings and Recommendations as item 98-1 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 deficiencies described in the accompanying Schedule of Findings and Recommendations as item 08-1, 10-1, and 10-2 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 of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

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

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories, except that we did not test for compliance in contracting and bidding because the Lake County Housing and Redevelopment Authority did not enter into any applicable contracts.

The results of our tests indicate that for the items tested, the Lake County Housing and Redevelopment Authority complied with the material terms and conditions of applicable legal provisions.

Also included in the Schedule of Findings and Recommendations are management practices comments and an other item for consideration. We believe these recommendations and information to be of benefit to the Authority, and they are reported for that purpose.

The Lake County Housing and Redevelopment Authority's written responses to the internal control and management practices findings identified in our audit have been included in the Schedule of Findings and Recommendations. We did not audit the Authority's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Commissioners, management, and others within the Lake County Housing and Redevelopment Authority and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 29, 2011